

ANNUAL REPORT

2021



Croatian Financial Services Supervisory Agency

Franje Račkoga 6, 10000 Zagreb

www.hanfa.hr

Telephone: +385 1 6173 200

Fax: +385 1 4811 406

ISSN 1846-6370

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



| | |
|--|------------|
| Foreword | 5 |
| 1 Hanfa in figures | 11 |
| 2 Trends in the financial services sector | 15 |
| 2.1 Macroeconomic developments and capital market..... | 15 |
| 2.2 Investment services | 19 |
| 2.3 Pension system | 25 |
| 2.4 Insurance | 32 |
| 2.5 Non-bank financing | 35 |
| 3 Supervisory activities | 38 |
| 3.1 Microprudential supervision..... | 38 |
| 3.2 Macroprudential supervision..... | 68 |
| 4 Normative activities | 72 |
| 4.1 Capital market and investment services..... | 72 |
| 4.3 Pension system | 80 |
| 4.4 Insurance | 81 |
| 4.5 Other normative activities..... | 82 |
| 5 Licensing and training | 86 |
| 5.1 Licensing..... | 86 |
| 5.2 Examinations and professional training..... | 91 |
| 6 Consumer protection and improvement of financial literacy | 96 |
| 6.1 Consumer protection | 96 |
| 6.2 Educational activities | 101 |
| 7 Communication activities | 109 |
| 7.1 Communication activities in 2021 | 109 |
| 7.2 Access to information | 111 |
| 8 International cooperation | 113 |
| 8.1 Participation in the work of supervisory authorities and organisations | 114 |
| 8.2 Technical international cooperation, bilateral international cooperation and exchange of information | 121 |



| | |
|---|------------|
| 8.3 Enhancing Hanfa's capacities via EU Technical Support Instrument (TSI)..... | 121 |
| 8.4 Innovation Hub | 122 |
| 9 Judicial proceedings | 128 |
| 9.1 Misdemeanour proceedings | 128 |
| 9.2 Administrative disputes | 131 |
| 9.3 Criminal charges | 131 |
| 9.4 Debt recovery actions | 132 |
| 10 Hanfa's business operations..... | 134 |
| 10.1 Internal organisational structure and human resources | 134 |
| 10.2 Internal audit | 137 |
| 10.3 Information security at Hanfa | 137 |
| 10.4 Hanfa's information systems | 137 |
| 10.5 Hanfa's financial operations | 138 |
| 11 Statistical overview of industries..... | 145 |
| 11.1 Investment funds | 145 |
| 11.2 Pension funds | 147 |
| 11.3 Insurance companies | 150 |
| 11.4 Leasing companies | 151 |
| 11.5 Factoring companies..... | 152 |
| 12 Appendices..... | 154 |
| Appendix 1 List of ordinances adopted in 2021 | 154 |
| Appendix 2 Hanfa's financial reports..... | 157 |



Foreword

The recovery of economic activity in 2021 resulted in two-digit growth, which, however, does not mean that this growth was easy and painless. This year was still marked by a health crisis that engulfed the entire world, while Croatia was also hit by a crisis caused by natural disasters. The price growth that started in 2021 with economic recovery will prove to be one of the main economic challenges in the coming period.

Since trends in the global and domestic capital market in 2020 were marked by the pandemic, with its de-escalation in 2021 the markets started to come alive again, and on the wings of the food, oil and tourism industries the main domestic stock index CROBEX increased by 19.6%. Nevertheless, the trading volume continued to decrease, as well as the number of listed shares, and the already high concentration of trading on the domestic market increased further. The listing of a share that came from the IT sector after 18 years and had a very successful IPO brought optimism to the domestic capital market. This showed that the stock exchange remains recognised as a place to successfully find alternative financing to be used by companies that are in the growth and development stages and can be accessed by investors, both retail and institutional. What marked the domestic capital market in 2021 was the upgrade of infrastructure support in the form of the completion of a project to establish a central counterparty, SKDD-CCP Smart Clear, which takes over clearing operations and ensures a successful settlement of transaction liabilities.

A developed capital market cannot exist without developed corporate governance. The quality of corporate governance was first presented in 2021 on the basis of new standards set out in the Corporate Governance Code.



Companies whose shares are admitted to the regulated capital market now have an additional non-financial reporting obligation in order to increase transparency, establish optimal dialogue between issuers and markets and develop awareness of the importance of environmental, social and governance standards.

The largest players in the domestic capital market are most certainly pension funds with assets of over HRK 141bn. Pension reform in Croatia has stood the test of time, and legal limits gradually change and allow pension funds to allocate funds to asset classes that can provide higher returns in the long run. Pension insurance companies are, naturally, an extended arm of the pension system. There are two of them at the moment, which is clearly important because members have a choice and a possibility to compare which one should be in charge of their savings. All holders of the pension system reform are well aware of the fact that the pension system is complex, therefore they enabled the work of pension information centres, where citizens can get answers to questions about their pension in one place.

The recovery of economic activity in 2021 also affected the results of leasing companies – selling recommenced, the number of newly concluded contracts grew, consumption increased. There was also a visible recovery of investment activities through UCITS and alternative investment funds, and this part of the financial services sector was also affected by amendments to legislation aimed at aligning the regulatory framework with the *acquis communautaire* and further liberalisation of the operations of alternative investment funds, which is expected to bring life into the capital market and further stimulate the economy.

Croatian citizens understood the importance of insurance literally overnight; the dust from the earthquake was still settling when the questions started to arise: “Am I insured?” and “Should I insure myself?”. This is evident in the growth of the gross written premium by 11.7% on an annual basis.



Although the existing regulatory framework is oriented towards reducing the level of capital requirements due to support for the green transition and introducing relief and elimination of unnecessary costs, we nonetheless assessed that insurance companies should be extremely cautious when distributing profits in order not to jeopardise the stability of the system, so we issued Guidelines on the criteria for dividend payment in 2021. With this macroprudential measure, we wanted to absorb market instability and strengthen the capital reserves of the insurance sector, which will be required due to the engagement of funds directed towards the introduction of the euro and the beginning of the application of the new accounting standard IFRS 17, the adjustment of which will enable greater comparability, consistency and transparency of data for analysts and investors.

Financial markets are a living organism, which is also confirmed by the fact that last year we were part of several working groups for drafting legislative proposals in the field of financial services markets, which are particularly focused on strengthening climate transition, strong protection of small shareholders and regulatory unburdening.

Speaking of consumer protection and raising the level of financial literacy, we can proudly say that our vision, mission and goals have evidently become part of our daily projects. We paid special attention to consumer complaints and on the basis of related findings we published several educational texts in order to further educate consumers. At the same time, aware of the importance of financial literacy, in 2021 we managed to, directly or through digital technology, include more than 3,200 citizens in some form of education. In order to achieve this and activate primarily the younger population, we invited secondary school students to design a video dealing with the topic of pension savings, and university students to send their scientific and professional papers, some of which were eventually rewarded.



We decided not to leave some events and forecasts for the future, but instead we carried out various types of exercises and tests ourselves, apart from already established off-site and onsite preventive and corrective supervisory activities, in order to actively monitor the markets of our supervised entities. We tested the resilience of UCITS and alternative investment funds to liquidity disturbances, the resilience of insurance companies to adverse market shocks and the impact of euro introduction, and the resilience of the entire financial services sector to adverse macroeconomic and financial trends in order to identify and remedy possible weaknesses in a timely manner.

What we started in 2021 and are intensively finishing in 2022 is the preparation of the financial services sector, as well as all users of these services, for the introduction of the euro. It is certain that the introduction of the euro will contribute to economic stability and integration of financial markets, and the entire financial sector will have to develop and optimize business models, implement technical innovations, use economies of scale and create strategies to deal with previously unrecognised ESG risks, cyber risks and risks of digital assets, in order to operate successfully in upcoming inflationary times.



Ante Žigman

President of Hanfa Board





Members of Hanfa Board (from left to right):

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



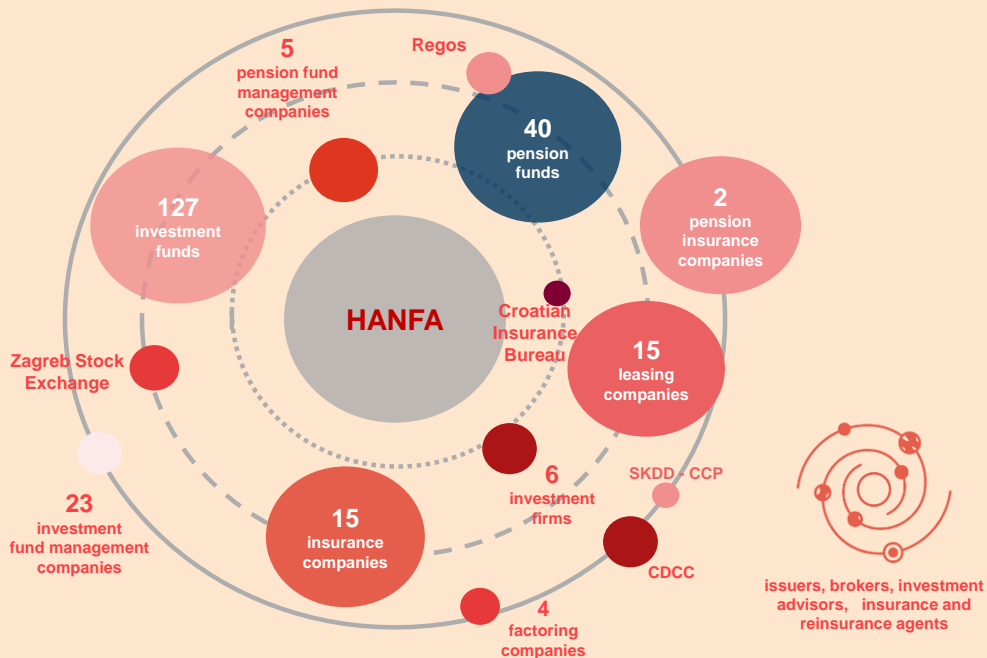


Hanfa in figures

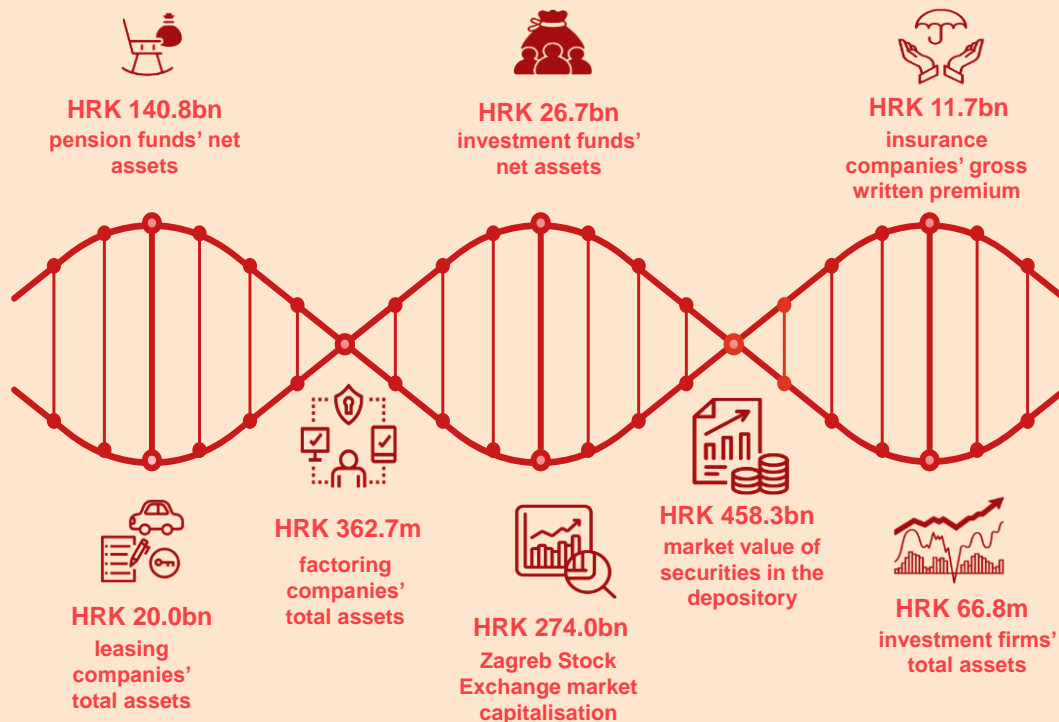


1 Hanfa in figures

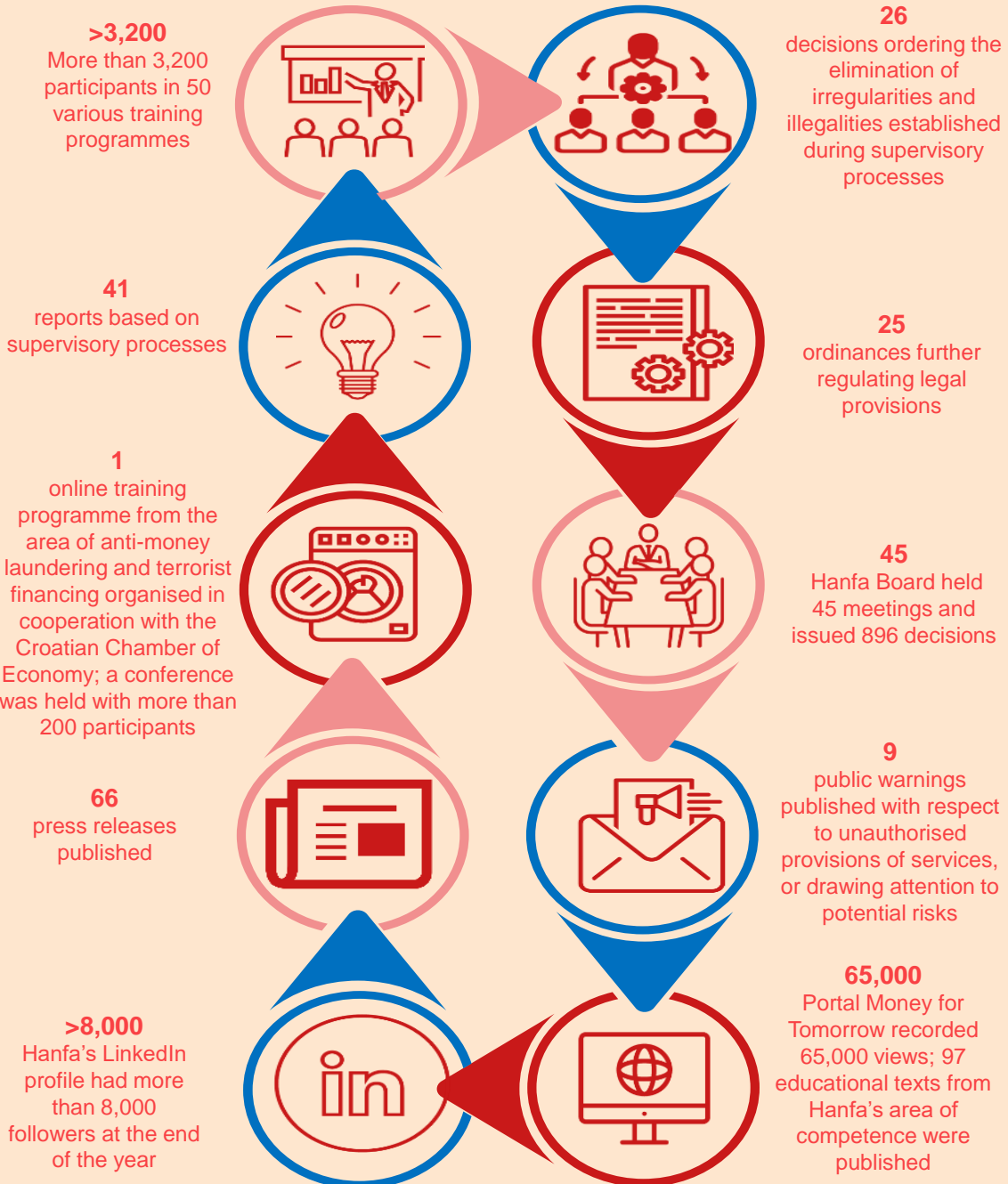
Supervised entities



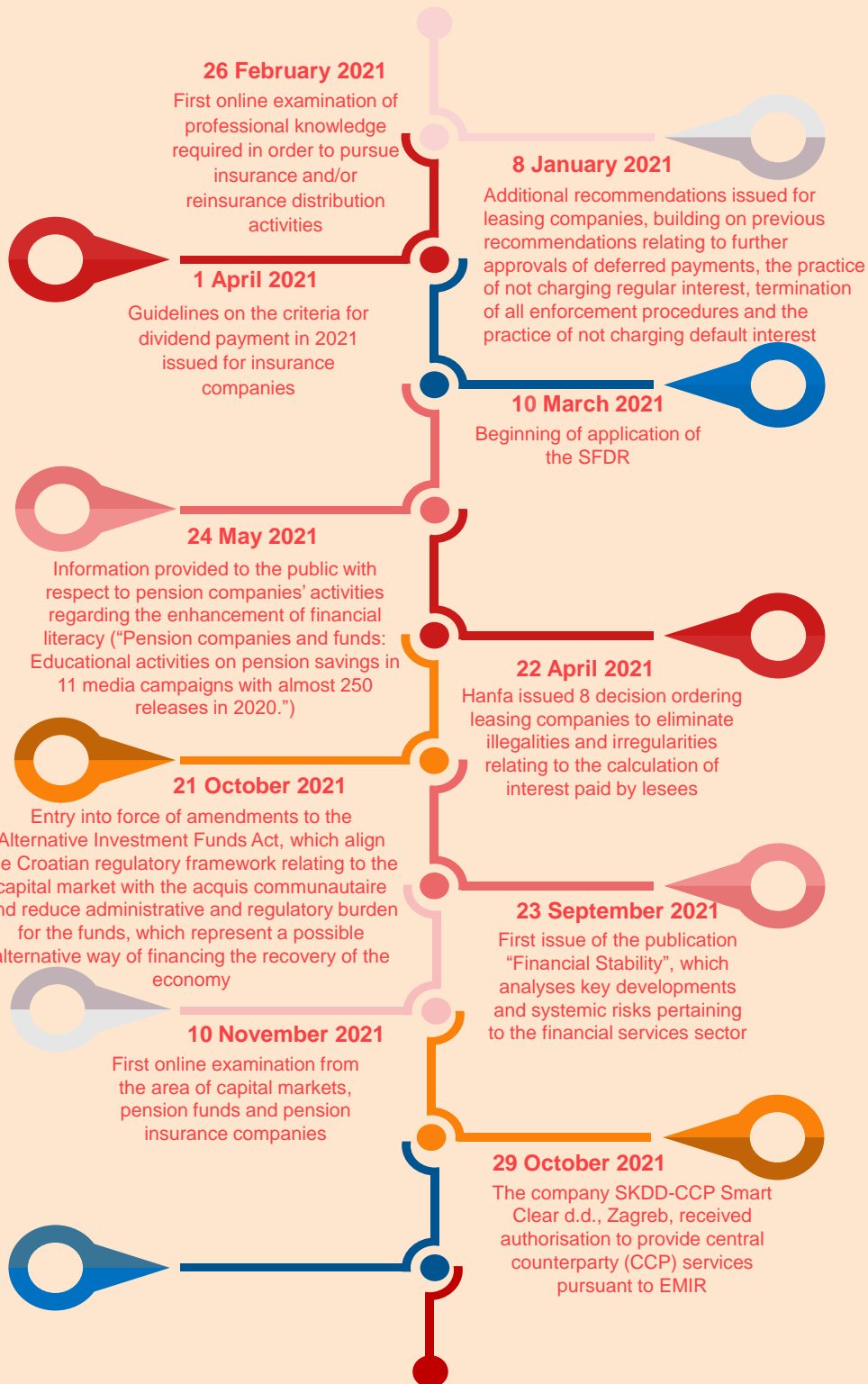
Financial overview



Hanfa's activities



Important dates





Trends in the financial services sector



2 Trends in the financial services sector

After the very challenging 2020, marked by the coronavirus pandemic and turbulent macroeconomic environment, the year 2021 saw stabilisation and recovery of financial services sector trends. The relatively favourable epidemiological situation in the second and third quarter led to a strong recovery of economic activity, consequently positively affecting the labour market and relative fiscal indicators. The recovery of macroeconomic indicators had a stimulative effect on investor confidence in financial markets, making the total assets of the financial services sector grow by 9.3% at an annual level, continuing the several-year long growing trend in the importance of the financial sector, temporarily halted in 2020. This was also contributed by a rise in financial market values, encouraged by the recovery of sentiment and extremely accommodative monetary circumstances, as testified by a 19.6% increase in the CROBEX stock index recorded during 2021. A significant growth in the value of their units (7.0%) was recorded by mandatory pension funds, making the value of assets of the financial services sector reach HRK 240.2bn or 55.8% of the GDP in 2021.

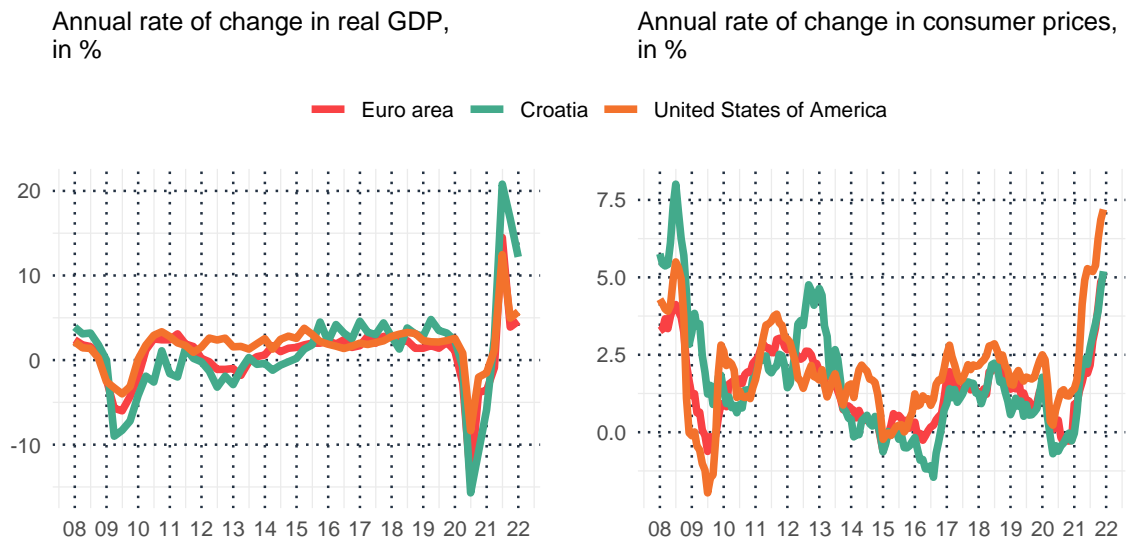
2.1 Macroeconomic developments and capital market

The initial shock caused by the coronavirus pandemic that marked 2020 was followed by a rise in the global economic activity in 2021. Timely reactions by economic policymakers, preservation of liquidity and solvency of the financial and real sector, including the adaptation to newly arisen circumstances, contributed to the normalisation of economic processes and led to a more favourable global economic and financial developments in 2021. The domestic economy saw a record-high, 10.2% growth on an annual basis, primarily driven by an increase in personal consumption and net exports, that more than compensated for a decrease in gross investments. The global economic recovery took place faster than expected, but not without impediments: a sudden rise in demand and disturbances in global supply channels, accompanied by rising energy prices, led to an unexpectedly strong price growth in 2021. The consumer price index in Croatia grew therefore by as much as 5.5% during 2021, the highest price growth rate recorded since October 2008, when the annual inflation reached 5.9%. Inflationary trends in Croatia are no exception, but a reflection of global developments such as the spillover of commodity market prices, in particular oil prices, to the increase in the prices of production factors, while in the second half of the year they also started gradually affecting final consumer goods prices. Even though favourable labour market conditions prevailed through the entire 2021 (wage growth totalling 4.0% and unemployment rate reaching 7.3% at the end of the year), the accelerated price increase is reducing purchasing power and indirectly slowing spending down. Strong monetary reactions by leading central banks were successful at stabilising the initial systemic shock on financial markets at the beginning of



the coronavirus crisis, keeping interest rates at historically low levels, which had an impact on long-term sovereign bond investment yields, that ended the year at the level reaching 0.3%.

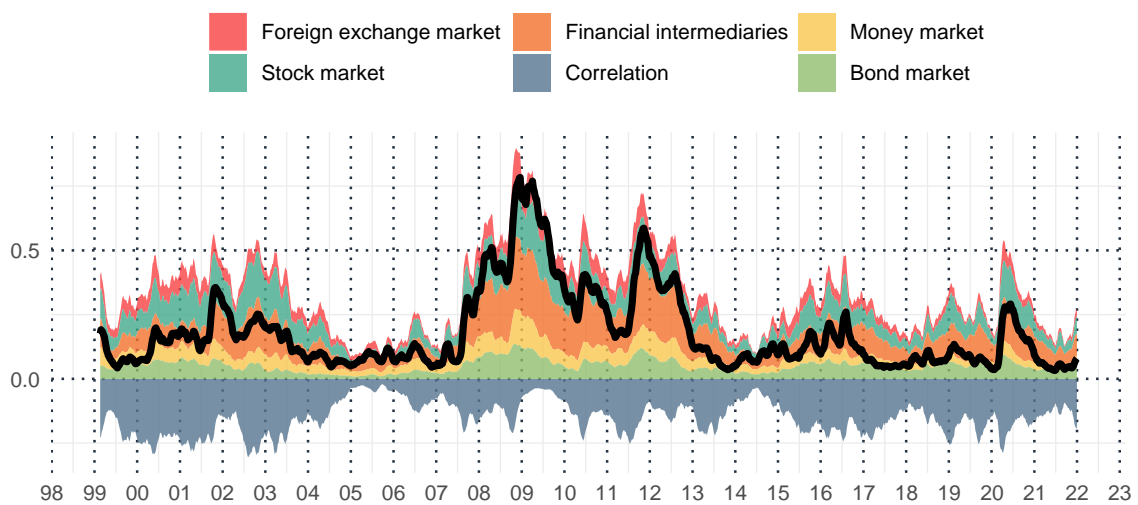
Figure 2.1.1 Annual rates of change in real GDP and inflation



Sources: Eurostat, St. Louis Fed

Partial adaptation of the economy to the coronavirus pandemic in 2021, considering strong reactions by economic policymakers, created a stabilisation impact on financial markets. In the second half of the year, the systemic stress of the euro area (measured by CISS - a composite indicator of systemic stress in the euro area) fell to pre-pandemic levels. However, the end of the year was nevertheless marked by a rise in the number of new coronavirus infections, growing geopolitical risks and indication of tightening general financing conditions, which eventually led to a rise in systemic stress on financial markets.

Figure 2.1.2 Composite Indicator of Systemic Stress (CISS) of the euro area

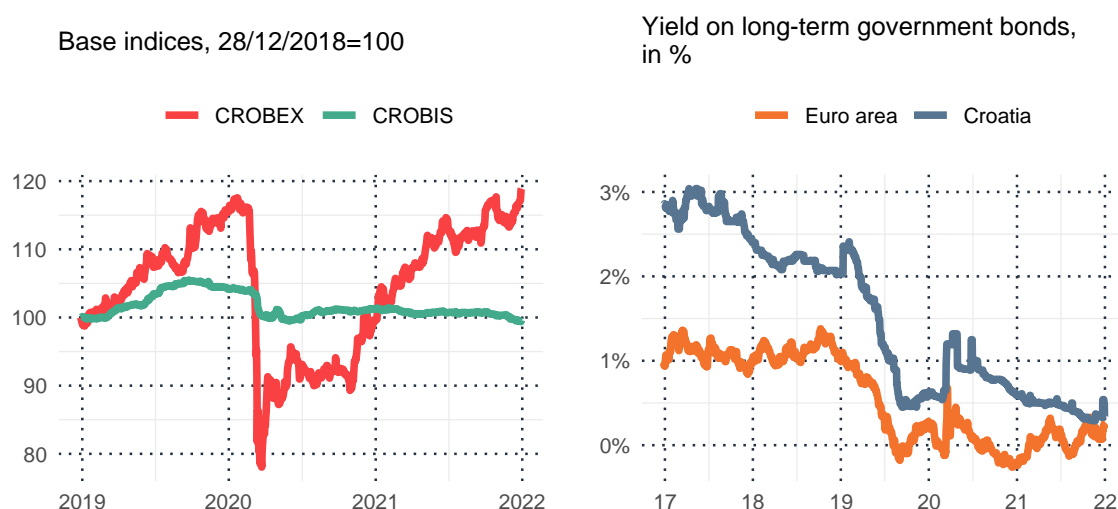


Note: The chart shows the seven-day moving average of the value of the index and its components.
Source: ECB



The strong recovery of the Croatian economy was also reflected in the increase in the value of stocks on the Zagreb Stock Exchange (hereinafter: ZSE), with the CROBEX stock index reaching 2,079.4 points¹ at end-2021 and growing by 19.6% relative to end-2020. The loss of value recorded at the beginning of the coronavirus crisis was thus fully compensated for, as the value of CROBEX rose by 3.1% at end-2021 compared with end-2019. At the same time, the value of the CROBIS bond index fell by 1.6% at an annual level, with CROBIS concluding the year 2021 at the level reaching 110.6 points, partly reflecting investor expectations as regards the likely growth in the interest rate level considering inflationary pressures.

Figure 2.1.3 Movements in the ZSE stock and bond index and in yields on long-term government bonds



Sources: Eurostat, ZSE

In 2021, there was a slowdown in the ZSE trading, with its total turnover decreasing by 18.8% compared with the previous year and totalling HRK 2.5bn. The largest part of the turnover was accounted for by stock turnover, that amounted to HRK 2.3bn in 2021, declining by 20.5% relative to the previous year. At the same time, the domestic bond market recorded a turnover reaching HRK 0.2bn and decreasing by 11.0% compared with the end of the previous year. The domestic capital market therefore continued recording turnover levels below the average of comparable countries, along with a high turnover concentration rate, taking account of the fact that a half of the 2021 ZSE stock turnover was related to turnover in stocks issued by five issuers only.

At the end of the year, there were 98 stocks listed on the ZSE, six stocks fewer than in the previous year. The reduction in the number of listed stocks led to a further decrease in already relatively low liquidity on the domestic capital market. During the year, nine stocks were removed from trading on the Regular Market, and their market capitalisation totalled HRK 19.0bn at end-2020 (13.8% of total market

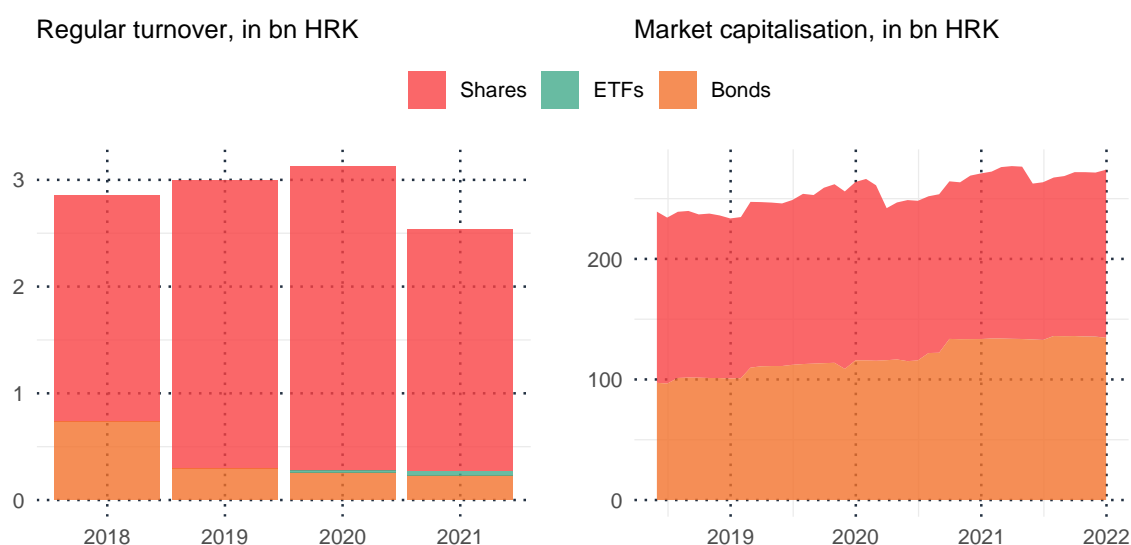
¹The end of 2021 saw the highest CROBEX level since end-March 2017.

capitalisation), while three new stocks² with market capitalisation reaching HRK 951.3m (0.7% of total market capitalisation) at the end of 2021 were admitted to trading. As a consequence, market capitalisation of equity securities on the ZSE amounted to HRK 139.4bn at end-2021, rising by 1.5% relative to the end of 2020.

In 2021, the Ministry of Finance of the Republic of Croatia successfully refinanced a matured sovereign bond with a HRK 6.0bn nominal value, issued in 2016 with a 2.8% interest rate, by issuing a bond on the domestic market with a HRK 9.0bn nominal value, 0.5% annual interest rate and seven-year maturity date. In addition to historically low interest rate levels, favourable financing conditions were also caused by positive perception of the stability of Croatia's public finance and the maintenance of its investment grade rating. Out of 32 bond issues listed at end-2021, there were 15 corporate bonds, 16 sovereign bonds, and one municipal bond. At end-2021, the market capitalisation of bonds amounted to HRK 134.6bn, increasing by 0.8% relative to the end of 2020.

The total turnover of two listed ETFs³ reached HRK 45.4m during 2021, while their market capitalisation amounted to HRK 63.2m at the end of the year. Even though ETF market capitalisation accounted for only 0.02% of the total ZSE market capitalisation at end-2021, ETF turnover during the year was relatively more intense, and made up 1.8% of the total ZSE turnover, which places additional emphasis on the importance of these funds as an important liquidity source for the domestic capital market.

Figure 2.1.4 Turnover and market capitalisation on the ZSE



Source: ZSE

²Stocks issued by the company SPAN d.d. were admitted to trading on the Official Market, while stock issued by the companies Primo Real Estate d.d. and VILLA DUBROVNIK d.d. were admitted to trading on the Regular Market.

³An exchange-traded fund (ETF) is an investment fund whose units are traded on a stock exchange. On 17 November 2020, two such funds were admitted to trading on the ZSE.

2.2 Investment services

Investment services providers

At the end of 2021, investment services were provided and related activities were performed by 25 financial institutions (one institution fewer than in the previous year⁴), of which there were six investment firms, 13 credit institutions and six investment fund management companies. The total value of investment services providers' asset under management reached HRK 5.3bn, a 1.2% decrease on an annual basis. The value of investment fund management companies' assets fell by 1.6% (HRK 4.8bn), while the value of assets of investment firms and credit institutions rose by 25.6% (HRK 33.1m) and 1.0% (HRK 500.3m) respectively. Other than by companies registered in Croatia and licensed by Hanfa, investment services in Croatia may also directly be provided by companies from EU Member States⁵. At end-2020 there were 587 companies that had notified Hanfa of their intention to provide investment services directly in Croatia. A significant decrease in the number of companies providing investment services in Croatia directly on the basis of their notification to Hanfa in comparison with the previous year (when there were 974 such companies) was a result of the withdrawal of the United Kingdom from the European Union (hereinafter: EU) on 31 January 2020.

Figure 2.2.1 Value of investment services providers' asset under management
In HRK m



Source: Hanfa

In 2021, investment services providers recorded total net income amounting to HRK 2.5bn and rising by 95.1% relative to the previous year. Considering their size, the major part of the income was, as

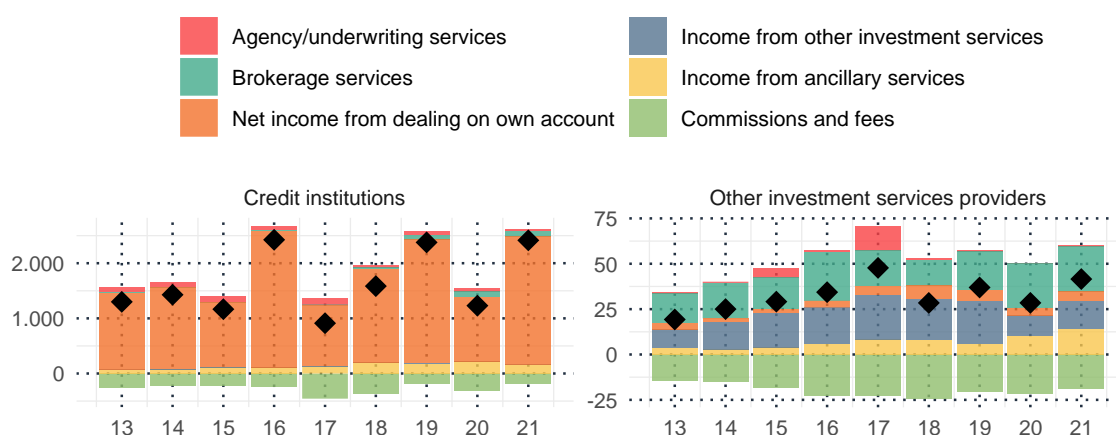
⁴The company RBI ceased to provide investment services.

⁵These companies are not subject to Hanfa's supervision; the legality and regularity of their operation in accordance with the legal framework of the country of their origin are supervised by competent supervisory authorities of respective EU Member States.

expected, recorded by credit institutions (HRK 2.4bn or 98.6% of total income), the largest share of which was related to dealing on own account, that accounted for 96.3% of total credit institutions' income in 2021. Credit institutions were followed by investment firms and investment funds management companies with their total net income reaching HRK 32.5m (a 49.2% increase) and HRK 9.1m (a 34.9% rise) on an annual basis respectively. The most significant part in the structure of net income of non-bank investment services providers was related to brokerage services, that amounted to HRK 25.7m or 60.9% of total net income. Investment firms' profits were fourfold higher compared with the previous year, and totalled HRK 11.0m.

Figure 2.2.2 Investment services providers' income and expenditure by type of service

In HRK m



Note: The highligthed dots indicate investment services providers' net income in the year observed.
Source: Hanfa

Investment funds

Open-ended investment funds with public offering

At the end of 2021, there were 93 open-ended investment funds with public offering (hereinafter: UCITS) operating on the domestic market and managing net assets amounting to HRK 21.5bn and rising by 18.1% at an annual level, thus almost reaching the pre-pandemic, 2019 level. The sharpest increase in net assets (HRK 0.9bn or 6.4%) on an annual basis was recorded by the largest, bond UCITS. At the same time, equity UCITS assets grew by HRK 0.8bn (46.0%); assets of other funds and balanced funds rose by HRK 0.8bn (60.5%) and HRK

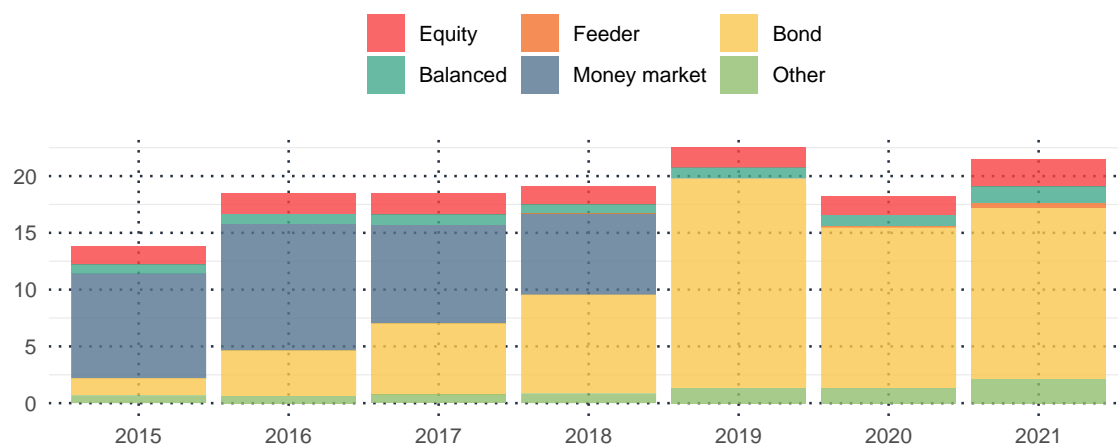
Feeder fund

A feeder fund is a fund that invests at least 85% of its assets in units of the master fund; therefore, it has the same investment goal and strategy as the master fund.

0.5bn (53.0%) respectively, while the slowest growth was recorded by feeder funds' assets (HRK 0.4bn or 276.8%). This growth was mostly due to favourable market developments, but also to the recovery of investor confidence, which was reflected in positive net inflow of investor funds into UCITS during 2021, that partly compensated for significant fund outflows in the previous year.

Figure 2.2.3 Net assets of UCITS

In HRK bn

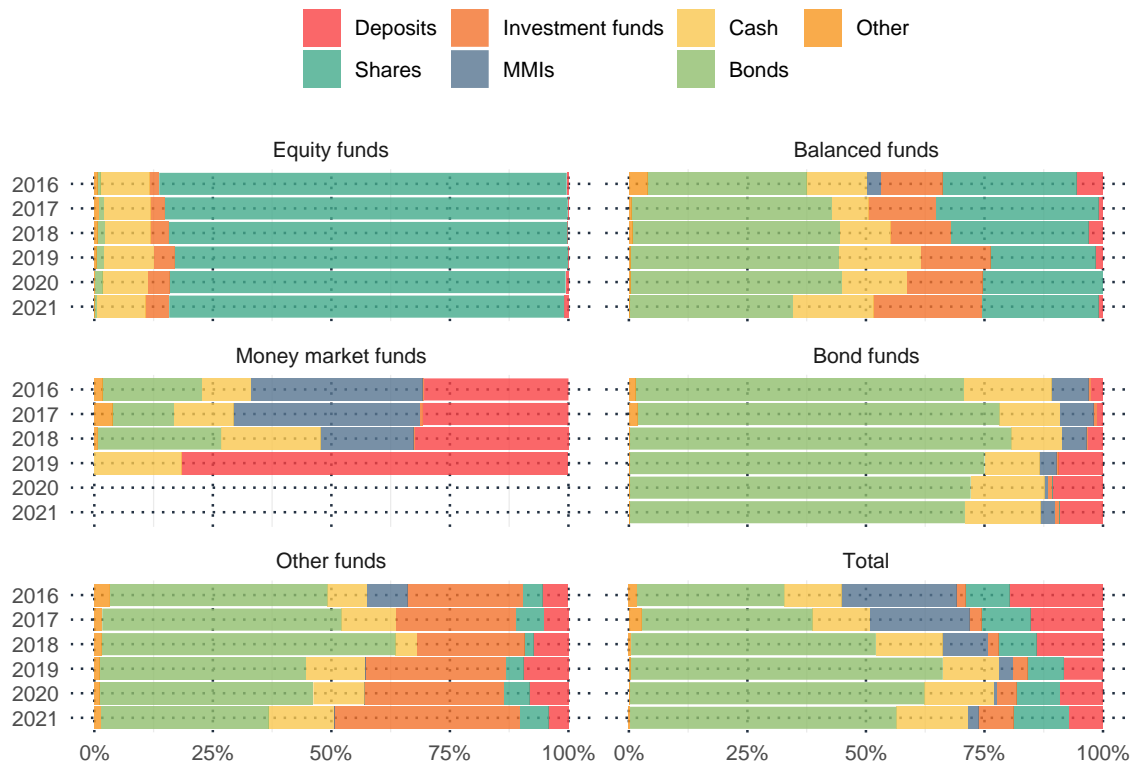


Note: Due to the entry into force of the Money Market Funds Regulation, the majority of money market funds reregistered in early 2019 and continued operating as short-term bond funds.
Source: Hanfa

The investment structure remained relatively unchanged: at end-2021 UCITS assets were mostly invested in bonds (56.2%), followed by cash (15.1%), shares (11.8%), investment funds (7.4%) and deposits (7.1%). The low interest rate environment and lasting low returns on debt securities made investments in bonds and deposits decrease by 6.0 p.p. and 1.9 p.p. respectively compared with the previous year, while investments in investment funds, shares and money market instruments rose (by 3.2 p.p., 2.6 p.p. and 1.6 p.p. respectively). The several-year long growing trend in foreign investments also continued, in almost all UCITS categories. The largest portion of foreign assets was thus held by equity funds (64.3% of total assets, with a 2.6 p.p. growth), followed by other funds (58.8% of total assets, with an 8.6 p.p. growth) and balanced funds (57.5% of total assets, with an 8.8 p.p. growth). The diversification of UCITS portfolios through increased foreign investments decreases their exposure to concentration risk and liquidity risk; however, there is a certain rise in exposure to disturbances on foreign markets (primarily on stock markets).

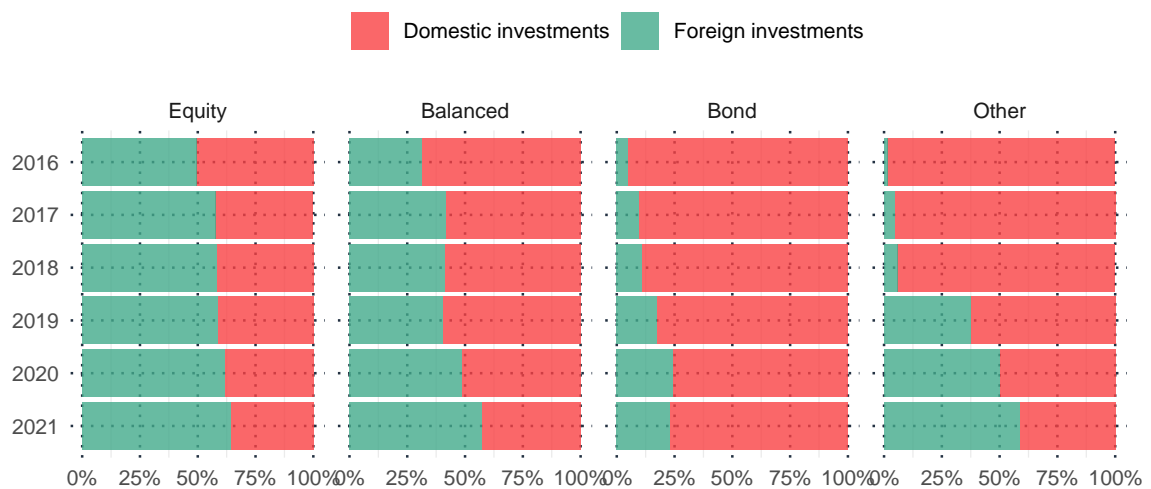


Figure 2.2.4 Asset structure of UCITS by investments type
In % of total assets



Note: MMIs - money market instruments. Following the entry into force of the Money Market Funds Regulation, in 2020, all of the 21 money market funds operating in the Republic of Croatia operated as short-term bond funds or were classified into the "other" category.
Source: Hanfa

Figure 2.2.5 Asset structure of UCITS by domicile
In %

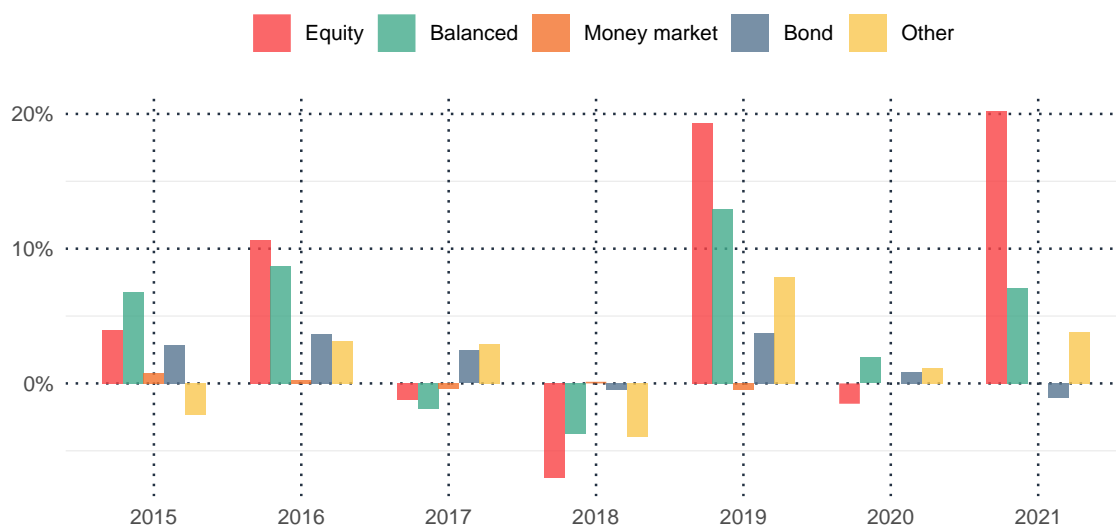


Source: Hanfa



Almost all UCITS categories ended the year 2021 with positive returns, reflecting positive valuations on financial markets in the environment where systemic stress is stabilising and financing conditions are still favourable. The average annual return recorded by equity funds, balanced funds and other funds reached 20.2%, 7.1% and 3.8% respectively. Due to the expected growth in interest rates caused by inflation and a consequent decline in the value of securities, bond UCITS recorded negative returns, generating a -1.1% average return in 2021, with a slowdown in results expected in the upcoming period.

Figure 2.2.6 Average annual returns by fund type weighted by the share in assets



Source: Hanfa

Alternative investment funds

At end-2021, there were 34 active alternative investment funds (hereinafter: AIFs), of which 29 AIFs with private, and five AIFs with public offering. Four AIFs were undergoing winding-up proceedings. The assets of AIFs with private offering grew by 11.1%, with their portion in AIFs' total assets reaching 96.7% at the end of the year. The remaining 3.3% of net assets were linked to AIFs with public offering, whose assets increased by 4.7% relative to end-2020.

Fund for Croatian Homeland War Veterans and Members of their Families

Net assets of the Fund for Croatian Homeland War Veterans and Members of their Families amounted to HRK 989.7m at end-2021, rising by 2.5% relative to the previous year. The price of its units went up by 3.6% at an annual level, amounting to HRK 548.2 as at 31 December 2021.



Table 2.2.7 AIF assets by type

In HRK thousand

| Alternative investment funds | 2020 | Share | 2021 | Share | Absolute change | Relative change |
|--------------------------------|------------------|---------------|------------------|---------------|-----------------|-----------------|
| Public offering | 154,397 | 3.3% | 161,621 | 3.1% | 7,224 | 4.7% |
| Open-ended | 25,360 | 0.5% | 23,137 | 0.4% | -2,223 | -8.8% |
| Closed-ended | 129,037 | 2.7% | 138,485 | 2.7% | 9,447 | 7.3% |
| Basic (non-real estate) | 129,037 | 2.7% | 138,485 | 2.7% | 9,447 | 7.3% |
| Private offering | 4,555,167 | 96.7% | 5,061,262 | 96.9% | 506,095 | 11.1% |
| Open-ended | 3,247,672 | 69.0% | 3,283,524 | 62.9% | 35,852 | 1.1% |
| Basic | 2,021,509 | 42.9% | 2,186,222 | 41.9% | 164,713 | 8.1% |
| Special | 1,226,163 | 26.0% | 1,097,302 | 21.0% | -128,861 | -10.5% |
| Hedge fund | 732,565 | 15.6% | 964,334 | 18.5% | 231,768 | 31.6% |
| Multi asset | 45,502 | 1.0% | 0 | 0.0% | -45,502 | -100.0% |
| Venture capital | 0 | 0.0% | 33,544 | 0.6% | 33,544 | - |
| Risk capital | 426,901 | 9.1% | 30,260 | 0.6% | -396,641 | -92.9% |
| Specialised AIF | 20,994 | 0.4% | 29,116 | 0.6% | 8,123 | 38.7% |
| For sovereign debt investments | 200 | 0.0% | 40,048 | 0.8% | 39,847 | 19883.8% |
| Closed-ended | 1,307,495 | 27.8% | 1,777,738 | 34.0% | 470,243 | 36.0% |
| Basic | 1,307,495 | 27.8% | 1,710,013 | 32.7% | 402,519 | 30.8% |
| Special (risk capital) | 0 | 0.0% | 67,725 | 1.3% | 67,725 | - |
| Total | 4,709,564 | 100.0% | 5,222,883 | 100.0% | 513,319 | 10.9% |

Source: Hanfa

Investment fund management companies

During 2021, the total number of investment fund management companies remained unchanged, with 23 companies managing 127 investment funds. Four of these companies managed UCITS only (one company more compared with the previous year), 12 companies managed AIFs only (one company more compared with the previous year), while seven companies managed both AIFs and UCITS (two companies fewer than in the previous year).

In 2021, investment fund management companies recorded pre-tax profit amounting to HRK 89.1m and increasing by 31.3% compared with the previous year, primarily due to a rise in income from AIF management (a 33.3% rise on an annual basis). Their total assets reached HRK 260.7m, declining by 5.7% relative to 2020.



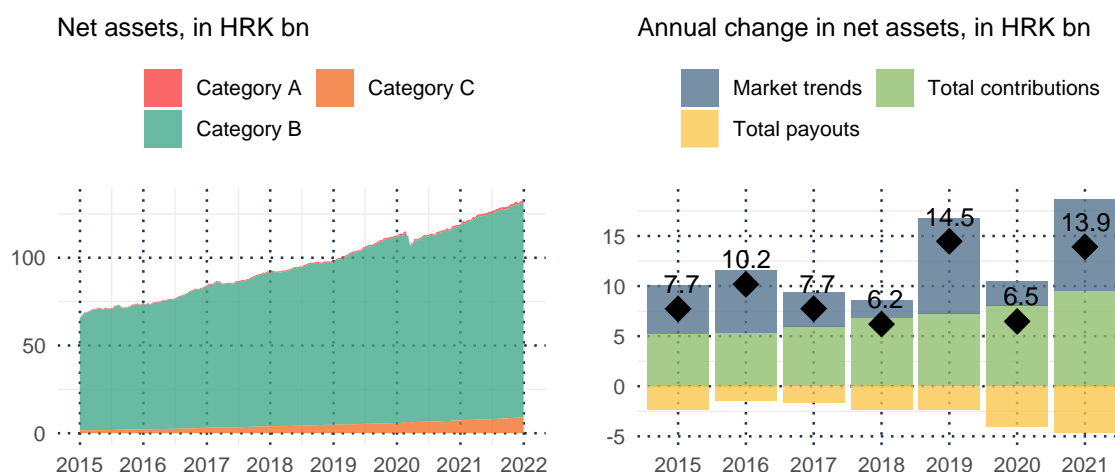
2.3 Pension system

Mandatory pension funds (MPFs)

At the end of 2021, net assets of 12 mandatory pension funds (hereinafter: MPFs) reached HRK 133.0bn (30.9% of the GDP), growing by 11.7% at an annual level. The steady inflow of contributions by their members and favourable market developments had a positive impact on the value of their assets under management. The largest MPF category (category B) recorded a rise in its net assets reaching 10.6%, with its value amounting to HRK 122.6bn, while category A and category C recorded the value of their net assets amounting to HRK 1.4bn (a 45.6% rise) and HRK 8.9bn (a 23.0% rise) respectively. Total net contributions paid to MPFs in 2021 amounted to HRK 7.5bn, increasing by 9.2% relative to the previous year, while total payments from all MPFs due to personal account closures rose by 23.3%, amounting to HRK 1.9bn.

Figure 2.3.1 Net assets, total contributions, payments and market trends recorded by MPFs

In HRK bn



Source: Hanfa

The total number of MPF members reached 2.1 million, rising by 53.8 thousand compared with the previous year, of which 1.9 million members belonged to category B, 150.3 thousand members belonged to category A, and 61.3 thousand members belonged to category C pension funds. The number of category A members rose most sharply, by 66.8 thousand, category B recorded a decline of 25.7 thousand members, while the number of category C members grew by 12.7 thousand. The rise in the number of category A members was a result of a certain lack of initiative by members in the process of selecting the fund for the first time, and of amendments to the Mandatory Pension Funds Act⁶ that

⁶ Legislative changes provide for the procedure according to which any new members who fail to select their pension fund on their own within 30 days following their employment are allocated automatically to one of the four category A funds ([Official Gazette, No 115/18](#)).

entered into force in 2019, and according to which any members who fail to select their fund category themselves are allocated automatically to one of the category A funds.

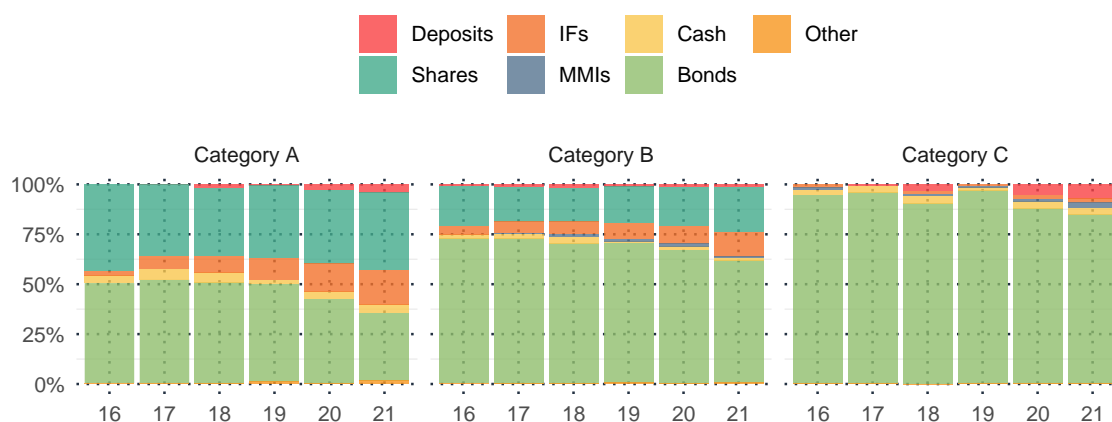
Given that legal restrictions define pension funds' investment structure to a significant extent, it remained relatively unchanged and predominantly allocated to domestic sovereign bonds (57.5% of all MPF investments at end-2021). Extremely low interest rates made the search for satisfactory yields slightly intensify through increased allocation of funds of pension funds to other

MIREX

Mirex indices, calculated by Hanfa and published on its website on a daily basis, represent the net asset-weighted average value of accounting units of individual categories (A, B and C) of mandatory pension funds.

financial instruments. All MPFs recorded a slowdown in bond investments at an annual level, with a concurrent rise in investments in investment funds and shares. Category A funds recorded a decline totalling 8.4 p.p., category B funds recorded a fall amounting to 5.6 p.p., while the most conservative category C funds recorded a 2.7 p.p. decrease in bond investments. At the same time, all categories of funds recorded a rise in investments in investment funds (a 3.0 p.p., 3.7 p.p. and 0.2 p.p. rise recorded by category A, B and C respectively).

Figure 2.3.2 Mandatory pension funds' asset structure by investment type
In % of total assets

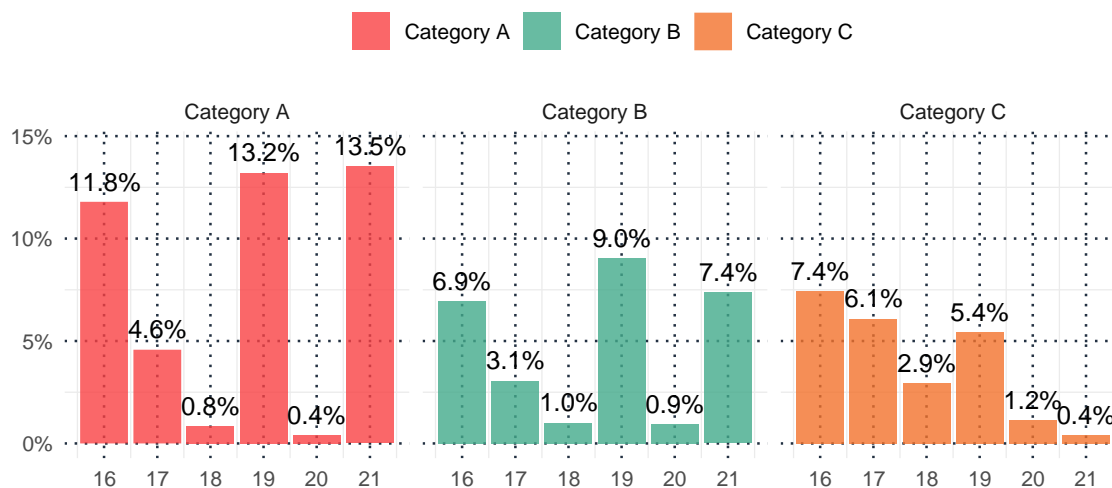


Note: IFs - investment funds, MMIs - money market instruments. Following the entry into force of the Money Market Funds Regulation, in 2020, all of the 21 money market funds operating in the Republic of Croatia operated as short-term bond funds or were classified into the "other" category.
Source: Hanfa

All the three MPF categories ended the year with positive annual returns, proportional to the level of risk of their portfolios. In line with developments on domestic and foreign financial markets, the highest returns in 2021 were generated by category A MPFs, exposed to riskier investments (a 13.5% average return), while the lowest returns were generated by category C MPFs, the most conservative category considering its focus on sovereign bonds (a 0.4% average return). Category B, characterised by a balanced investment strategy, recorded a 7.4% average return. After having preserved their value and

following the stagnation in the challenging 2020, pension funds generated relatively high nominal return rates as early as in the following year.

Figure 2.3.3 Mandatory pension funds' rates of return
In %



Source: Hanfa

Voluntary pension funds (VPFs)

At end-2021, there were 28 voluntary pension funds (hereinafter: VPFs) operating within the third (voluntary) pillar of pension insurance in Croatia, of which 20 funds were of a closed-ended type (hereinafter: CVPFs), and eight funds were of an open-ended type (hereinafter: OVPFs). The total number of VPF members grew by 4.4% compared to the previous year. The number of OVPF members and CVPF members rose by 4.8% and 1.7% (to 351.3 thousand and 46.0 thousand) respectively, thus continuing the several-year long trend of recognising the third pillar as an efficient form of long-term savings.



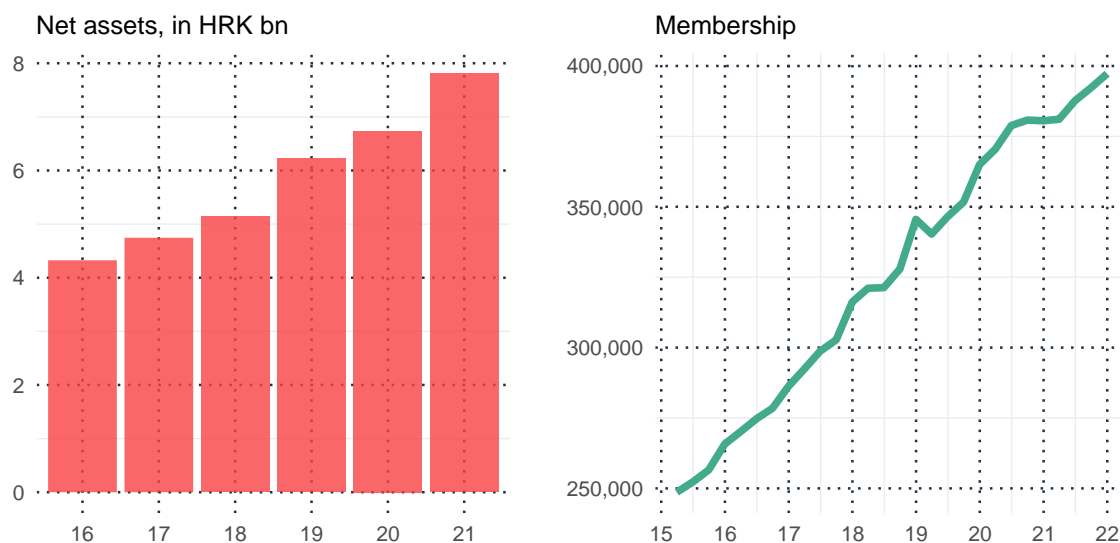
Total net assets of the third pension pillar increased by 15.8% at an annual level, reaching HRK 7.8bn at the end of the year. Total payments made to VPFs in 2021 rose by 9.8% relative to the previous year (HRK 934.0m), while total annual payments from VPFs rose by 6.9% (HRK 306.8m).

VPFs' returns recovered in 2021, ranging between 0.3% and 13.5%, while the average return stood at 7.1%. The VPF investment structure was dominated by bonds (52.4%), followed by shares (25.1%) and investment funds (12.6%). As with MPFs, the portion of bond investments fell relative to the previous year (by 6.6 p.p), while share investments and investments in investment funds rose (by 1.1 p.p. and 2.6 p.p. respectively).

Open-ended and closed-ended VPFs

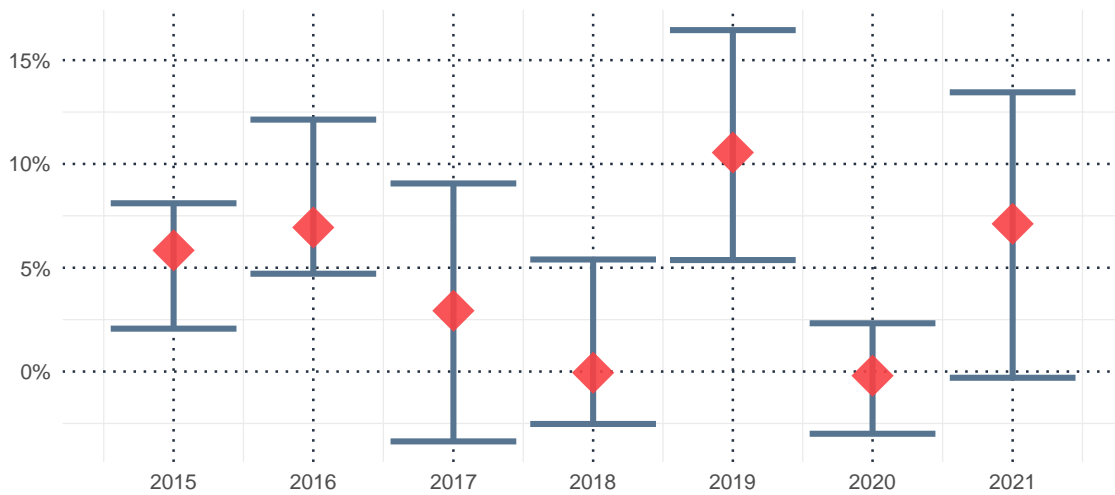
A voluntary pension fund may be a fund of an open-ended type, with its membership open to any person with its residence in the Republic of Croatia. It may also be a fund of a closed-ended type, established for the purposes of employers, for the purposes of members of trade unions or for the purposes of members of associations of the self-employed. Closed VPFs are established by sponsors, i.e. employers, trade unions and associations of the self-employed, which pay funds into personal accounts of pension fund members. These funds are accompanied by government incentives, used by the Government to encourage voluntary pension savings. A person may be a member of several VPFs at the same time; however, government incentives may be obtained within one VPF only, in the amount of up to 15% of total funds paid during the year, i.e. up to a maximum of HRK 750.

Figure 2.3.4 Voluntary pension funds' net assets and membership



Source: Hanfa

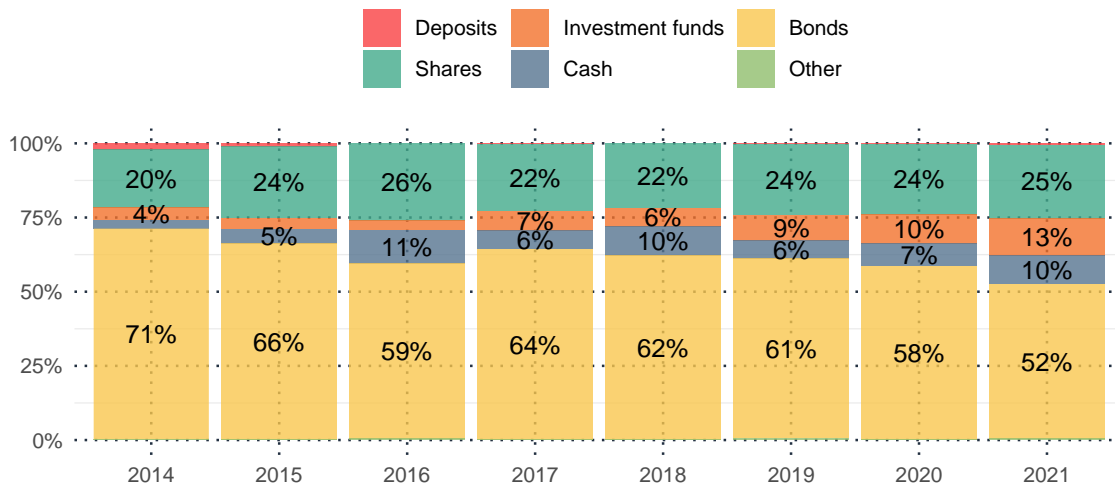
Figure 2.3.5 Voluntary pension funds' annual rates of return



Note: The chart shows average annual rates of return and the range of rates of return of voluntary pension funds in the year observed.
Source: Hanfa

Figure 2.3.6 Voluntary pension funds' investment structure

In % of total assets



Source: Hanfa

Pension companies

In 2021, voluntary and mandatory pension funds were managed by five companies, as in the previous year. Their 2021 after-tax profit totalled HRK 155.8m, rising by 8.4% at an annual level. This increase was primarily related to the growth in pension funds' net assets under management, which generate



income from management fees, that grew in 2021, even though MPF management fee rates continued to decline due to legislative changes⁷.

Pension insurance companies

In 2021, there were two pension insurance companies operating in Croatia, as in the previous year. At the end of the year, their total assets reached HRK 2.1bn, rising by 44.0% relative to end-2020. This rise was due to a larger transfer of funds from pension funds caused by an increase in the number of new beneficiaries, i.e. new pension insurance contracts, primarily from the second pillar pension funds. At end-2021, pension insurance companies had 13.5 thousand members, a 26.1% rise relative to the previous year. The number of voluntary pension insurance beneficiaries declined by 9.5%, while the number of mandatory pension insurance beneficiaries rose by 76.6%. At the end of the year, the total number of pension insurance companies' contracts amounted to 13.6 thousand. The growing number of mandatory pension insurance beneficiaries and the simultaneous fall in the number of voluntary pension insurance beneficiaries were partly a result of legislative changes introduced in 2019⁸, which extended voluntary pension savings payout options to pension funds and life insurance companies, but also to combined pension payouts, which were used by a significant part of the members. The 2019 legislative changes, which provided for the payment of a pension supplement for pensions paid from the first and second pillar, made combined pensions significantly more attractive and competitive, which resulted in a larger number of beneficiaries of such pensions and a faster flow of insured persons' funds from pension funds to pension insurance companies. In 2021, pension insurance companies' technical provisions rose therefore by 54.2%, reaching HRK 1.7bn at the end of the year. Combined old-age pensions accounted at end-2021 for 14.6% of total pension insurance companies' technical provisions, while the pension structure was still dominated by individual lifetime old-age pensions, which made up 59.2% of all pensions.

Total pension insurance companies' investments, that accounted for 93.3% of their total assets (HRK 1.9bn) at end-2021, grew by 46.4% at an annual level. In line with the relevant legislation, the largest portion of assets covering technical provisions was invested in government bonds (86.8%), followed by investment fund units (5.9%), corporate bonds (3.5%) and cash (3.5%). Compared to the previous year, bond investments recorded the largest growth (8.9 p.p.), while deposits showed the sharpest decline (12.1 p.p.). Technical provisions, which accounted for 86.8% of total assets (HRK 1.8bn) at end-2021,

⁷ Article 63 of the Mandatory Pension Funds Act ([Official Gazette, No 115/18](#)) sets the management fee to a maximum of 0.338% annually of total assets reduced by the pension fund's financial liabilities in 2019, a maximum of 0.3% in 2020, while in every following year the management fee rate is reduced by 5.5% relative to the management fee rate applied in the previous year, rounded to three decimal places, with the lowest rate possible being 0.27%.

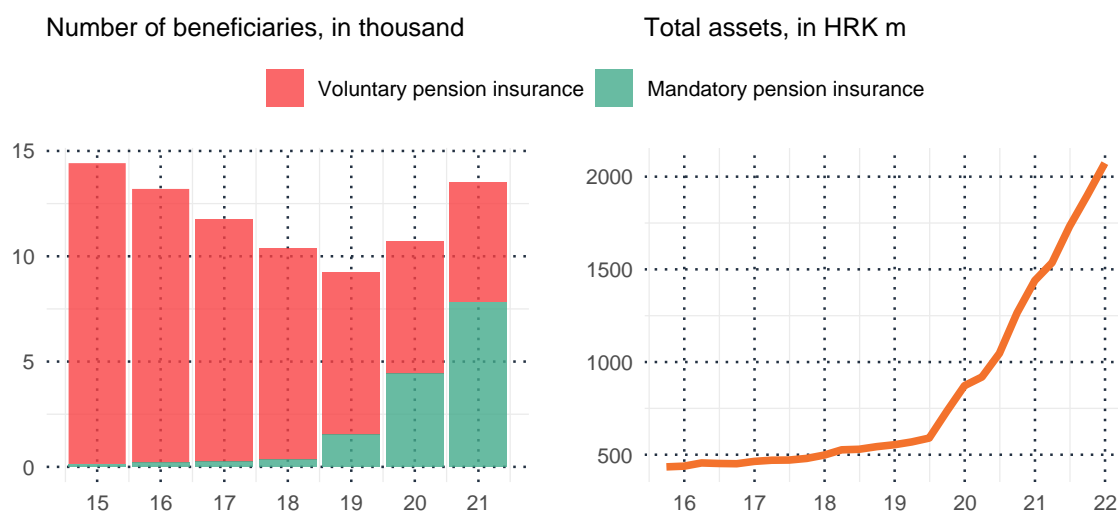
⁸ Act Amending the Voluntary Pension Funds Act ([Official Gazette, No 115/18](#))



increased by 51.1% at an annual level, mostly due to the inflow of new members' funds, but also due to inflationary trends that affect value adjustments of technical provisions⁹.

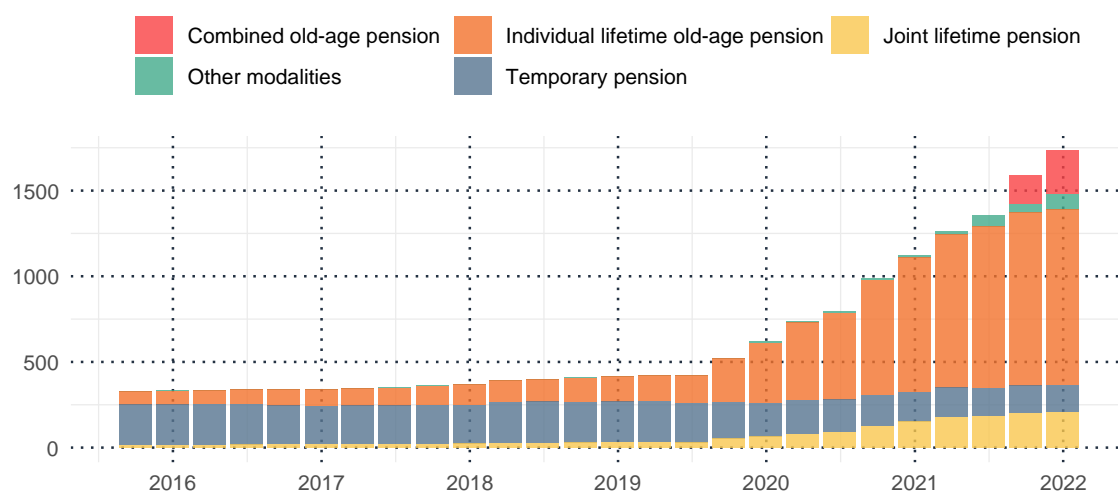
In 2021, pension insurance companies recorded a net profit of HRK 4.4m, or 50.3% less compared to the previous year, which made their return on average assets reach 0.3%. In spite of the reduced profitability, their capitalisation at end-2021 was well above the regulatory requirements.

Figure 2.3.7 Number of pension insurance beneficiaries and pension insurance companies' assets



Source: Hanfa

Figure 2.3.8 Technical provisions by type of pension scheme
In HRK m



Source: Hanfa

⁹ Pursuant to the Act on Pension Insurance Companies ([Official Gazette, No 115/18](#)), pension insurance companies are obliged to adjust pensions on a six-month basis in line with the consumer price index change rate.

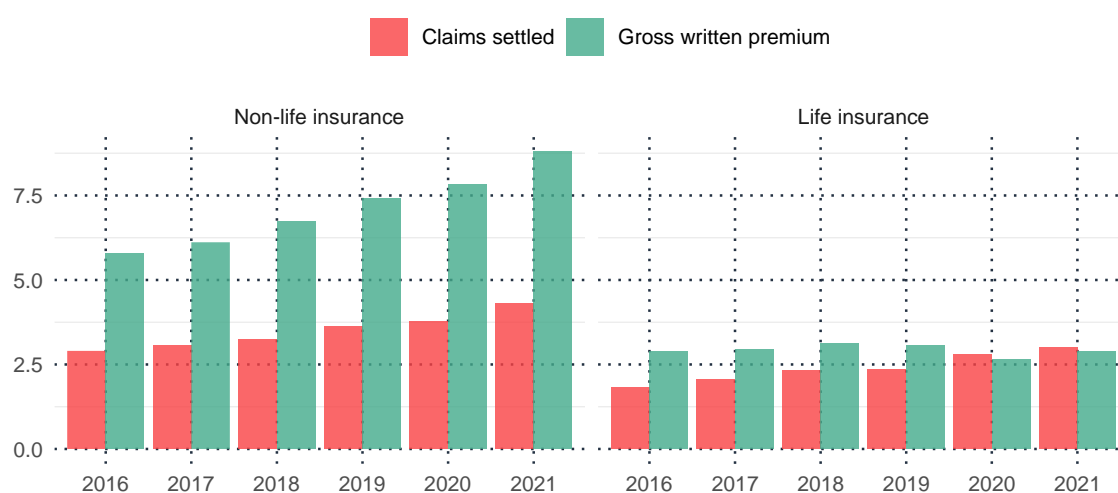
2.4 Insurance

The number of insurance companies did not change during 2021; therefore, there were 15 insurance companies operating in Croatia at the end of the year: three life insurance companies, four non-life insurance companies and eight composite insurance companies. The recovery of economic activity spilled over to a rise in the gross written premium of insurance companies, which reached HRK 11.7bn at end-2021 (an 11.7% rise at an annual level). The gross written premium relating to life insurance business totalled HRK 2.9bn, increasing by 9.4% at an annual level and recording a partial recovery after the contraction in the previous year, marked by the coronavirus crisis. This increase was mostly due to a rise in life insurance premium (6.0%) and unit-linked insurance premium (4.0%). The gross written premium relating to non-life insurance business amounted to HRK 8.8bn, growing by 12.4% at an annual level, primarily due to liability insurance (a 5.4% rise), property insurance (a 2.4% rise) and credit insurance and insurance against financial losses (a 2.3% rise).

Unit-linked insurance

In unit-linked life insurance policies, the risk is borne by the policyholder. These policies have an investment component, where each premium payment implies purchase of a fund unit. The insurer bears only the insurance risk, i.e. makes a payment in the case of the occurrence of the insured event.

Figure 2.4.1 Gross written premium and claims settled
In HRK bn



Source: Hanfa

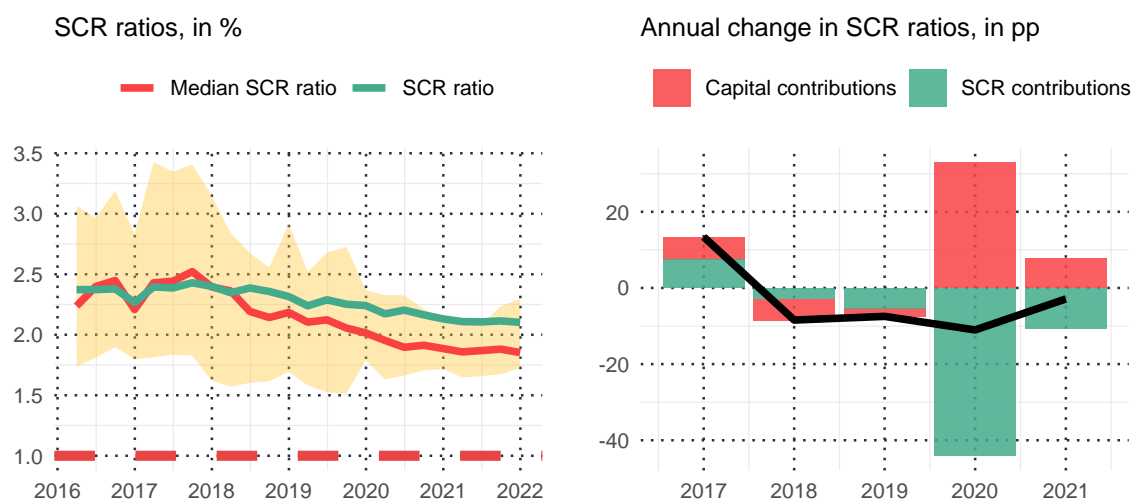
Total claims settled amounted to HRK 7.3bn at end-2021, increasing by 11.7% at an annual level. Within this amount, life insurance claims settled totalled HRK 3.0bn (a 7.7% growth at an annual level, as a

result of the aging and maturity of life insurance portfolio), while non-life insurance claims settled reached HRK 4.3bn (a 14.6% growth at an annual level). The rise in payments of non-life insurance claims was primarily caused by liability insurance (a 4.0% rise) and property insurance, considering the continued claim payment following the earthquake at the end of 2020 (a 2.0% rise).

In 2021, the capitalisation of insurance companies continued its slight downward trend, measured by the solvency ratio (hereinafter: SCR ratio). This was primarily a result of an increase in capital requirements due to growing market risks. However, at end-2021, insurance companies' SCR ratio was twice as high as the regulatory prescribed minimum (210.2% compared to the prescribed minimum of 100%). The satisfactory capitalisation level in 2020 and 2021 was preserved, among other things, due to Hanfa's Decision on a dividend payment ban adopted in 2020 and accompanied in 2021 by guidelines¹⁰ requiring the companies to act prudently when managing capitalisation, which is one of the preconditions for preserving financial stability.

High capital stocks of the domestic insurance sector are particularly important in view of the upcoming structural changes expected at the beginning of 2023: the introduction of the new International Financial Reporting Standard for Insurance Contracts (hereinafter: IFRS 17)¹¹ and the introduction of the euro as the official currency in the Republic of Croatia, which will, among other things, have an impact on insurance companies' capitalisation.

Figure 2.4.2 Solvency of insurance companies



Note: The highlighted area denotes the interquartile range of the SCR ratio by companies. The dotted horizontal line denotes the regulatory limit reaching 100%.
Source: Hanfa

¹⁰ At the beginning of April 2021, Hanfa issued guidelines asking the companies to refrain from dividend payment at least until the end of September 2021, i.e. to apply conservative prudential criteria when making payments, as regards profitability, asset structure and own funds.

¹¹ More information on the introduction of the new international accounting standard can be found in the publication [Macroprudential Risk Scanner No 6, Box 2: The new IFRS 17 - Insurance contracts](#).

Croatian Insurance Bureau

The Croatian Insurance Bureau (hereinafter: the Bureau) operates as an association of insurance companies, financed by its members. Financial operations of the Bureau, as a non-profit organisation, comprise the Guarantee Fund (the non-profit segment of its operations) and Regular Business Operations (the profit-making segment), which include Taxable Activity. Membership of the Bureau is mandatory for all insurance companies offering compulsory motor vehicle liability insurance to their policyholders, while other companies may join the Bureau on a voluntary basis¹². According to the balance sheet of the Regular Business Operations, as at 31 December 2021, total assets of the Bureau amounted to HRK 10.6m. At the same time, total liabilities stood at HRK 3.7m and sources of financing at HRK 6.9m. The Bureau's income totalled HRK 8.6m, increasing by 2.3% relative to the previous year, and was primarily made up of income from its members. The expenditure recorded by the Bureau amounted to HRK 8.6m, falling by 3.5% relative to 2020, and was dominated by expenses for regular business activities. As at 31 December 2021, total assets of the Guarantee Fund amounted to HRK 19.5m, rising by 29.1% compared to the previous year.

Croatian Nuclear Insurance and Reinsurance Pool, EIG

Pursuant to Article 351 of the Insurance Act¹³, insurance or reinsurance companies may establish an insurance pool for the purpose of covering risks of liability claims for great damage arising from nuclear energy. The Croatian Nuclear Insurance and Reinsurance Pool, EIG (hereinafter: Croatian Nuclear POOL), that operates in the Republic of Croatia, pursues co-insurance business along with the Slovenian Krško Nuclear Power Plant with respect to fire and nuclear risks, machinery breakdown risk, and the risk of third party liability during the transport of nuclear fuel. The Croatian Nuclear POOL carries out the following activities:

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

¹² The list of Bureau members can be found on its website at the following [link](#).

¹³ Insurance Act ([Official Gazette, No 30/15, 112/18, 63/20, 133/20](#))

2.5 Non-bank financing

Leasing companies

A strong economic recovery and a good tourist season in 2021 were reflected in the recovery of business operation of 15 leasing companies that operated on the domestic market. At end-2021, leasing companies' total assets reached HRK 20.0bn, rising by 1.4% relative to the previous year. Their primary source of financing were still loans and credits from foreign institutions, which amounted to HRK 14.2bn at the end of the year, declining by 0.5% at an annual level and making total liabilities reach HRK 17.3bn.

The value of newly concluded contracts in finance and operating lease rose by 30.3% and 5.7% respectively relative to the previous year. The structure of leased assets was still dominated by vehicles (passenger cars and commercial vehicles), financed by an amount of HRK 10.6bn or 73.7% of the value of all active contracts (a 6.7% rise at an annual level). As regards the sectoral exposure, in 2021 leasing companies remained primarily exposed to business entities, which accounted for 73.0% (HRK 10.5bn) of the value of all active contracts, declining by 1.7 p.p. at an annual level.

The value of active contracts relating to households increased by 13.7% at an annual level, with their share in the value of all active contracts reaching 23.7% (a 2.2. p.p rise at an annual level).

Figure 2.5.1 Leasing companies' assets and profitability



Source: Hanfa

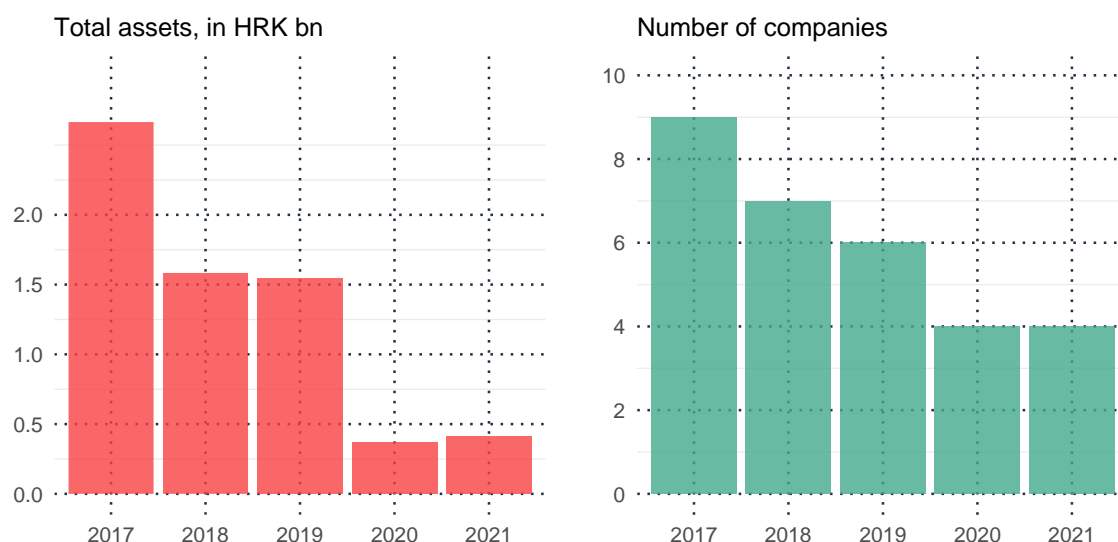
The recovery of business operations and a growing number of newly concluded contracts had a positive impact on leasing companies' profit, which amounted to HRK 384.6m in 2021, growing by 122.5% compared to the previous year. In spite of the strong recovery of profitability following the year 2020, marked by the coronavirus crisis, the return to leasing companies' average assets reached 2.1% at end-2021 and was below the pre-crisis level. The total regulatory capital of leasing companies amounted to HRK 2.4bn, growing by 9.2% relative to 2020.

Factoring companies

At the end of 2021, there were four factoring companies operating in Croatia, as in the previous year. Their total assets reached HRK 362.7m, rising by 12.0% compared to the previous year.

The volume of transactions in all segments of factoring operations decreased, amounting to HRK 933.7m at the end of the year. The most significant part in this volume was accounted for by regular factoring operations with a 79.3% share, followed by reverse factoring with an 11.8% share and factoring including the discounting of bills of exchange with an 8.9% share. At the end of the year, factoring companies' receivables amounted to HRK 195.1m, of which 144.2m related to regular factoring operations, HRK 14.1m to factoring including the discounting of bills of exchange, and HRK 36.8m to reverse factoring operations. Factoring companies' profit totalled HRK 6.2m, decreasing by 11.0% compared to the end of the previous year.

Figure 2.5.2 Number of factoring companies and their assets



Source: Hanfa



Supervisory activities



3 Supervisory activities

The Act on the Croatian Financial Services Supervisory Agency (hereinafter: Act on Hanfa)¹⁴ prescribes Hanfa's objectives, principles, scope and competence. Hanfa's principal objectives comprise fostering and safeguarding the stability of the financial system and supervising the legitimacy of supervised entities' operations. Hanfa's supervised entities comprise the capital market infrastructure (ZSE, CDCC, SKDD-CCP), investment and pension funds, investment and pension fund management companies, funds established under special acts such as the Fund of Croatian Homeland War Veterans and members of their families, pension insurance companies, Regos, investment firms, brokers and investment advisers, tied agents, securities issuers, insurance and reinsurance companies, insurance agents and insurance intermediaries and legal persons carrying out leasing and factoring activities, unless these activities are carried out by banks within the scope of their registered activities. In achieving its fundamental objectives, Hanfa cooperates with the Government of the Republic of Croatia and other governmental bodies, as well as domestic and international organisations with the aim of exchanging information from the supervision of supervised entities' operation and supervision of financial markets

3.1 Microprudential supervision

Capital market

The year 2021 was marked by changes in the capital market infrastructure in the Republic of Croatia because, at the end of October 2021, Hanfa granted authorisation to the company SKDD-CCP Smart Clear d.d., Zagreb (hereinafter: SKDD-CCP) to provide CCP services in accordance with the European Market Infrastructure Regulation (hereinafter: EMIR¹⁵). In accordance with the authorisation, SKDD-CCP provides clearing services with respect to securities transactions executed on the regulated market and multilateral trading facility operated by the ZSE. In this way, in addition to the Central Depository and Clearing Company (hereinafter: CDCC), the ZSE became part of the Croatian capital market infrastructure by linking trading with clearing as a CCP. By introducing such a clearing model in accordance with EMIR, the Republic of Croatia has joined the EU countries providing best practices with regard to market infrastructures.

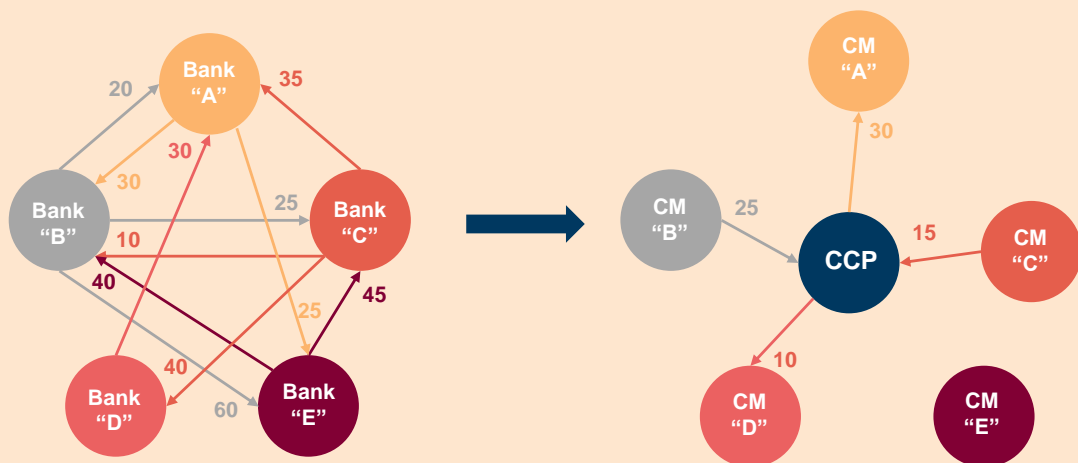
¹⁴ [Official Gazette, No 140/05](#)

¹⁵ [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

Central counterparty

A central counterparty (hereinafter: CCP) is a legal person interposing itself between counterparties in financial transactions by becoming the buyer to each seller and the seller to each buyer. In this way, the CCP assumes credit and market risks connected with the execution of transactions and minimises the overall level of risk in the financial system. In order to assume that function, the CCP requires its members, namely firms authorised to provide investment services and carry out investment activities, to deposit the cash collateral from which possible losses are financed in the event of failure to perform the settlement procedure. This ensures a successful settlement of transaction liabilities, which is why the CCP represents a factor of stability and reduction of systemic risk in financial markets. Through its function, CCPs also open up market development possibilities by introducing new products, which can positively influence the overall activity and efficiency of the financial system of Croatia.

Central counterparty

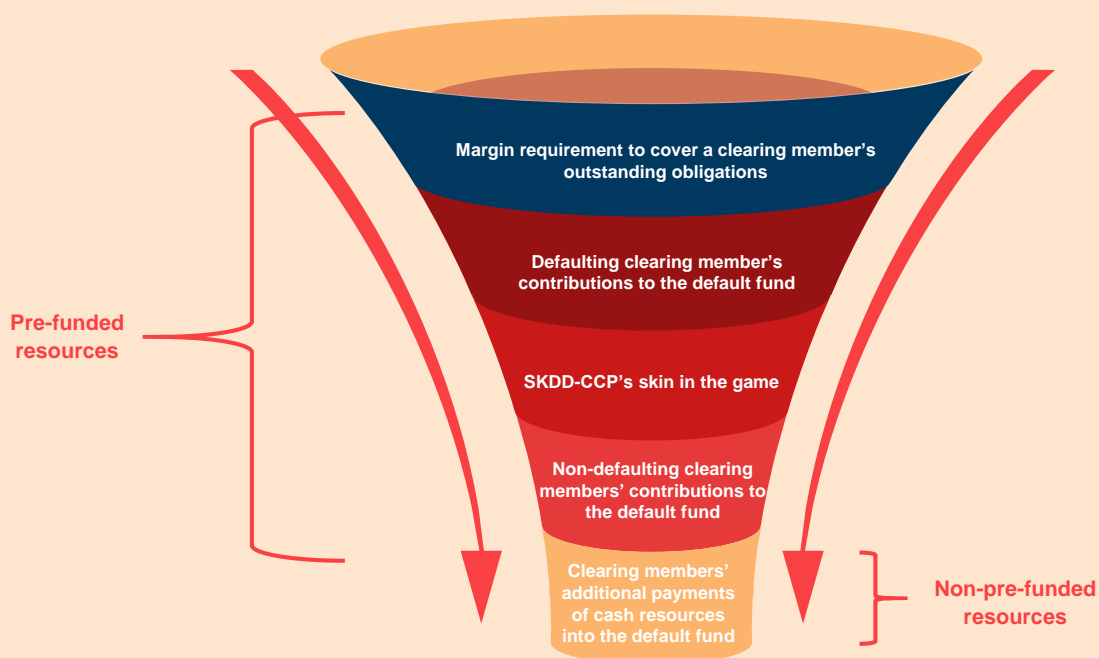


Note: CM stands for "clearing member".

Prior to granting authorisation to SKDD-CCP, the clearing and settlement of transactions in the Republic of Croatia were executed under national legislation by the CDCC, which established SKDD-CCP in 2013, with the intention of transferring the clearing of transactions in financial instruments to it. The reason for the transfer of operations was the entry into force of EMIR, which, among other things, defines the conditions under which CCPs must operate within the EU.



Default Waterfall



Before the CDCC transferred clearing operations to SKDD-CCP, the settlement had been guaranteed only by the funds of the members participating in the guarantee fund, while SKDD-CCP, among other things, guarantees the settlement with its own assets. For its interposing between the parties to transactions and taking risks of their failure to execute, SKDD-CCP requires its members to deposit cash collateral from which the potential losses are financed. The collateral system consists of a collateral pool that protects each of the members of SKDD-CCP against the default of the other party (margin) and a collateral pool that protects all members severally in the event of systemic market failures (the Guarantee Fund). In case of a default by a member of SKDD-CCP, the collateral is used in a particular order. Firstly, the collateral in the form of collected margins to cover the defaults of that member is used, and, if not sufficient, funds in the form of contributions paid by that member to the default fund are used. If they are still not sufficient, dedicated own resources of the SKDD-CCP's will be activated up to the required amount. Finally, the collateral of all other non-defaulting members, paid to the default fund in proportion to their contributions, is used as the final protective layer ensuring the execution of obligations in the prescribed manner. If all the collateral levels listed above are insufficient for meeting a member's obligations in default, SKDD-CCP will issue a call to other members to make additional cash payments into the default fund collateral, proportionally to their contributions to the default fund. The maximum amount of the additional payment called by SKDD-CCP may not exceed 200% of the size of the default fund at the time assets from the default fund are used. All of the above allows the fulfilment of settlement obligations through the intermediation of SKDD-CCP and the contribution to improving the stability of the financial system.

Once the transaction is executed on the regulated market or the multilateral trading facility (MTF), the clearing and settlement process is carried out, i.e. the process of comparing all data and calculating the obligations necessary for the payment and transfer of financial instruments and the procedure of payment and transfer (settlement) of financial instruments. The purchase or sale of a financial instrument on the market will classify transactions by ISIN as being adequate or non-adequate for clearing. If the transaction is adequate, it will be cleared through SKDD-CCP. SKDD-CCP will then initiate a process in which it will become a CCP by becoming a buyer to each seller and seller to each buyer, followed by netting, calculation and collection of collateral from members, i.e. clearing of the transaction. After clearing, SKDD-CCP sends an instruction for settlement to the CDCC, where the transaction adequate for clearing is settled through the net settlement. Where the transaction is not adequate for clearing, SKDD-CCP is not to become the CCP to the transaction, but the transaction shall be settled on a trade-to-trade basis with the other participant in the transaction (gross settlement). The list of financial instruments adequate for clearing is published on the website of SKDD-CCP, on each working day prior to the beginning of trading. Block trades and OTC transactions are not included in the clearing system.

In parallel with the work on the authorisation procedure for the SKDD-CCP pursuant to EMIR, the year 2021 was marked by the continuation of intensive work on the issuing of authorisation to the CDCC pursuant to the CSDR¹⁶. In May 2021, Hanfa reached a conclusion assessing the CDCC's application for authorisation to operate as a central securities depository as fully compliant with the provisions of the CSDR. Pursuant to Article 17(4) of the CSDR, Hanfa is obliged to transmit to the Croatian National Bank (hereinafter: CNB), as the relevant authority, all information included in the application of the CDCC, which Hanfa did, after which the CNB should inform Hanfa of its opinion within three months from the receipt of information. In September 2021, opinion of the CNB was received stating that it had no objections to the characteristics of the settlement system operated by the CDCC, so Hanfa continued reviewing the documentation submitted with the CDCC's application.

Supervision of capital market infrastructure

Since market infrastructure entities – the CDCC, SKDD-CCP and ZSE – are of systemic importance as the sole providers of central securities depository services, central counterparty services in accordance with EMIR, i.e. as the sole operator of the regulated market and the multilateral trading facility in the Republic of Croatia, the operation and functioning of these entities is of paramount importance for the stability and integrity of the capital market. By exercising continuous off-site supervision of market

¹⁶ [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

infrastructure entities, Hanfa can prevent potential irregularities and illegalities in their business operations.

During 2021, Hanfa carried off-site supervision of the ZSE operations by collecting and analysing the notifications and business reports that the ZSE is obliged to deliver in accordance with the Capital Market Act¹⁷ (hereinafter: CMA). In addition to continuous off-site supervision in 2021, Hanfa completed an off-site examination of the ZSE that had started in 2020 by adopting a decision ordering the implementation of measures to achieve a high level of cyber security, reporting to Hanfa on the conclusion of new contract annexes and measures to improve the process of updating internal regulations. The ZSE acted in accordance with the above-mentioned decision within the given deadline.

Moreover, during the last year, Hanfa continuously monitored and supervised trading in financial instruments admitted to the regulated market and MTF. Pursuant to the Ordinance on reporting actual or potential infringements of the Market Abuse Regulation¹⁸, the ZSE and investment firms submitted to Hanfa ten reports related to suspicions of market abuse and three reports related to suspicions of insider dealing. With regard to the Market Abuse Regulation¹⁹, off-site supervision of trading identified one case of suspected market abuse and one case of suspected insider dealing, which were forwarded to other competent authorities for further action. One decision was issued warning an investor due to suspected market manipulation and ordering the prohibition of further illegal actions.

During 2021, Hanfa regularly provided the European Securities and Markets Authority (hereinafter: ESMA) with notifications of temporary suspension of trading and/or removal from trading of financial instruments admitted to the regulated market, data on settlement fails²⁰, information on net short positions and data on the duration-adjusted amount of sovereign debt instruments issued by the Republic of Croatia, as well as information on other supervisory activities.

Until SKDD-CDCC was authorised to provide CCP services, the CDCC was the only clearing and settlement service provider in the Republic of Croatia, whose operations were continuously supervised through analysis of financial and supervisory reports and notifications. This includes an analysis of the financial statements of the Investor Protection Scheme operated by the CDCC. Furthermore, an on-site examination of the CDCC was initiated in June 2021, which focused on the operation of the CDCC and the activities referred to in Article 629 of the CMA in the period from 1 January 2019 to the date of completion of the procedure, which was still being carried out actively at the end of 2021.

¹⁷ [Official Gazette, No 65/18, 17/20 and 83/21](#)

¹⁸ [Official Gazette, No 60/16](#)

¹⁹ [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

²⁰ On the basis of the [Decision on reporting on settlement fails](#) of 1 July 2016

Supervision of issuers

As a capital market regulator, in addition to supervising the market infrastructure, Hanfa also conducts off-site supervision of issuers regarding the handling of regulated and other information and their financial statements. In this regard, Hanfa also carries out regular educational activities, organising workshops and presentations and directly communicating with issuers. The timeliness of the publication of regulated and other information and their scope, content and compliance with the relevant legal framework enables the establishment of an effective process of managing regulated information, thus achieving greater transparency of issuers towards the investment public so that investors can make an informed decision on investing in securities.

As part of its supervisory activities in 2021, Hanfa continuously monitored the disclosure of regulated information by issuers on the ZSE, OAM and other public platforms in terms of their completeness and timely disclosure, as well as adequate marking and signing²¹. In this context, 218 off-site examinations of issuers were carried out throughout the year. Almost half of them (112) were focused on the disclosure of regulated information, 29 examinations were related to the acquisition and/or disposal of issuers' shares by persons with managerial responsibilities in accordance with the Market Abuse Regulation, 40 examinations were related to the acquisition and/or disposal of own shares of issuers, and 37 to notifications on changes in voting rights. Following the examinations carried out, one decision was issued regarding the handling of inside information in accordance with the Market Abuse Regulation.

During 2021, nine applications for prospectus approval were approved. All applications referred to single prospectuses, five of which related to applications for admission and four to applications for the issue and admission of securities to the regulated market. In 2021, five new issuers were admitted to the regulated market (two bond issuers and three share issuers). In addition, Hanfa received 147 notifications relating to prospectuses, mostly to base prospectuses and their final terms, from competent authorities of other Member States.

The CMA sets out special cases where legal persons proposing to offer securities to the public or admit them to trading on a regulated market are not obliged to publish a prospectus. In this respect, a total of 68 notifications were received about the use of exemption from the obligation to publish a prospectus (issuance/admission to the regulated market). The exemptions from the obligation to publish a prospectus were most often used in the cases of offers of securities addressed to fewer than 150 natural or legal persons per Member State, other than qualified investors (28), followed by offers to investors who are to pay at least EUR 100,000 per investor (7), offers addressed solely to qualified investors (3) and offers of securities to existing or former board members or employees by their employer or by an affiliated undertaking (12). The notifications relating to the use of exemption from the obligation to

²¹ Pursuant to the Ordinance on the contents, form and manner of submitting regulated information to the Croatian Financial Services Supervisory Agency and the Official Appointed Mechanism for the central storage of regulated information ([Official Gazette, No 114/18](#))

publish a prospectus in the case of issuance predominantly concerned shares (37), and somewhat less bonds (13) and structured products (18).

In addition, in the framework of the supervision of the application of the provisions of the Act on the Takeover of Joint-Stock Companies²², in 2021 Hanfa adopted two decisions establishing the existence of an obligation to publish a takeover bid and ordering the elimination of illegalities.

Hanfa is authorised to collect, process and publicly disclose issuers' data relating to corporate governance, the application of the Corporate Governance Code (hereinafter: the Code) and compliance with the Code. Reporting on the implementation of the Code consists of completing two questionnaires: one stating whether or not the company has complied with each Code provision (compliance questionnaire), and the other providing more detailed information about its governance practices (governance practices questionnaire). In the compliance questionnaire, issuers provide answers as to whether they comply with each of the recommendation of the Code fully or partially or whether they fail to comply. If they are not fully compliant with the recommendation, issuers should explain the reasons behind this. Through the governance practices questionnaire, issuers provide data describing and confirming their compliance with good corporate governance practice, per individual corporate governance areas (leadership, duties of board members, appointment of board members, supervisory board and its committees, management board, remuneration of board members, risks, internal control and audit, disclosure and transparency, shareholders and the general meeting, as well as stakeholders and corporate social responsibility). In 2021, data on compliance with the Code (via the compliance questionnaire), as well as data on governance practices (via the governance practices questionnaire) for 2020 were submitted for the first time by all of the companies obliged to submit such data to Hanfa.

The 2020 Annual Report on Corporate Governance²³, other than statistical overviews per corporate governance area, shows compliance by chapters and with the Code as a whole, for companies whose shares are admitted to the regulated market. Apart from this, it also presents compliance with the new provisions and recommendations of the Code (independence of supervisory board members, independence of audit committee members, management and supervisory board evaluation, conflicts of interest, internal control system, gender diversity, and environmental, social and governance (hereinafter: ESG) policies).

Within its powers, Hanfa also supervised the application of the appropriate financial reporting framework, i.e. the relevance, timeliness and reliability of information in the financial statements of issuers. In addition to continuous monitoring of issuers' public disclosures, the impact of public disclosures of issuers on their financial statements was also assessed, and financial statements were analysed and compared with disclosure obligations prescribed by the financial reporting framework.

²² [Official Gazette, No 109/07, 36/09, 108/12 and 148/13](#)

²³ [Link](#)

Corporate governance assessment



Hanfa regularly includes in its supervisory practices ESMA Guidelines on enforcement of financial information²⁴, which define supervisory priorities for a given financial year. The supervisory priorities set for 2020 annual financial statements were the implementation of the provisions of IAS 1 – Presentation of Financial Statements (going concern), IAS 36 – Impairment of Assets, IFRS 16 – Leases and IFRS 9 – Financial Instruments. In 2021, Hanfa carried out two full-scope examinations and nine targeted examinations²⁵, and the recommendations based on supervisory activities performed were mostly related to the publication of financial statements prepared for semi-annual and quarterly periods (IAS 34 – Interim Financial Reporting). Moreover, it carried out the supervision of the implementation of the Guidelines on Alternative Performance Measures²⁶, checking the disclosure of alternative performance measures that

Alternative performance measure

Alternative performance measure is a financial measure of historical or future financial performance, financial position or cash flows, other than financial measure defined in the relevant financial reporting framework.

²⁴ [Link](#)

²⁵ Full-scope supervision includes an unlimited scope examination of financial information, i.e., it implies an assessment whether the entire content of financial information complies with the relevant financial reporting framework, while targeted supervision implies an assessment of previously defined issues concerning financial information.

²⁶ [Link](#)

are included in the prospectus by issuers or responsible persons. The aim of these guidelines is to promote usefulness and transparency of alternative performance measures. In the course of 2021, nine issuers were analysed for the application of the guidelines in prospectuses and other disclosures in 2021. Based on these analyses, recommendations were given aimed at preventing the misleading of users. The recommendations mainly concerned the clear definition and determination of the names of alternative performance measures and the reconciliation of alternative performance measures, published in prospectuses or included in the disclosure of regulated information, with line items, subtotals or totals presented in financial statements for the relevant reporting period.

Investment services

Corrective supervisory activities

On-site supervision of investment fund management companies

In 2021, Hanfa carried out and ended two on-site examinations of investment fund management companies. In the supervisory procedure that started in 2020, it verified the independence, autonomy and effectiveness of the company's control functions, liquidity risk management control, control of delegated activities and related risks, the handling of investor complaints and the activities related to the prevention of money laundering and terrorist financing and international restrictive measures. The supervision of the other investment fund management company focused on the verification of the investment process, efficiency of control functions, provision of investment portfolio management services, management of the umbrella UCITS ETF fund and prevention of money laundering and terrorist financing and international restrictive measures. Both companies were ordered to improve internal regulations and internal audit systems, as well as to monitor compliance with relevant regulations, i.e. to improve the risk management system. Both companies were required by special supervisory measures to provide a report of the compliance function and internal audit function in relation to the subject matter of the supervision.

Off-site supervision of the compliance of UCITS and AIFs with the Guidelines on liquidity stress testing

In 2021, Hanfa carried out off-site supervision of the compliance of UCITS and AIFs with the Guidelines on liquidity stress testing in UCITS and AIFs²⁷, checking the implementation of these guidelines in the risk management system of funds. It was established that, in formal terms, all companies had implemented guidelines in the risk management system, although there were some minor deficiencies

²⁷ [Link](#)

in relation to the minimally prescribed content of relevant internal policies in accordance with the guidelines and differences in the quality level and scope of formal implementation of the guidelines.

Off-site supervision of advertising for UCITS and AIFs with public offering

As part of the supervision of compliance of investment funds' marketing content with legal provisions, which started in 2020 and was completed in 2021, Hanfa checked the activities carried out by AIF management companies in marketing communication through their advertising channels, as well as the amount of funds invested in this type of activity. The analysis of the fund industry advertising was carried out in order to determine the situation before the entry into force of the new Guidelines on marketing communications under the Regulation on cross-border distribution of funds²⁸, in order to check whether it was necessary to update the national legislation. The results of this off-site supervision were used to provide information to ESMA in accordance with the Regulation on facilitating cross-border distribution of collective investment undertakings²⁹. After completing this supervision, Hanfa assessed the overall status of the companies' promotional activities as satisfactory, with several separate examples where some companies needed to improve the way information is presented in order to avoid overemphasising some activities. Due to the observed deficiencies and irregularities, additional clarifications were requested from companies and clear instructions were issued for their removal. In addition, as regards several UCITS fund management companies and AIFMs, individual potentially misleading disclosures were observed, but since these were isolated cases, Hanfa communicated this issue to the Association of Investment Funds Management Companies at the Croatian Chamber of Economy.

Off-site supervision of the depositary of investment funds

In 2021, Hanfa initiated and completed an on-site examination of one credit institution with regard to the activities of the depositary of investment funds. The supervision focused on monitoring the cash flow of UCITS and AIFs, safekeeping and recording the assets of the funds, obligations relating to the issue and redeeming of units, obligations relating to the control of the calculation of net asset value of investment funds, obligations relating to the execution of the management company's order, verification of the funds' investment control and behaviour of the depositary in cases where an irregularity in the management company's business operations is detected. Certain deficiencies in internal acts and internal records, as well as contractual documentation, were observed by this supervision. The credit institution was issued recommendations to remedy the deficiencies, and it acted upon them.

²⁸ [Link](#)

²⁹ [Regulation \(EU\) 2019/1156](#) of the European Parliament and of the Council of 20 June 2019 on facilitating cross-border distribution of collective investment undertakings and amending Regulations (EU) No 345/2013, (EU) No 346/2013 and (EU) No 1286/2014, OJ L 188

Common supervisory actions

In 2021, ESMA launched a common supervisory action, in which Hanfa participated as an EU national competent authority. The aim of this supervisory action was to assess the compliance of supervised entities with the relevant cost-related provisions in the UCITS framework, with a primary focus on potentially charging investors with undue costs. The supervisory action was intended to provide a greater degree of convergence as a basis for the growth of investor confidence in financial markets, thus reducing space for regulatory arbitrage and the risk of distortion of competition at the international level, and consequently leading to a balanced level of investor protection, regardless of the fund's domicile. Costs and fees charged by UCITS management companies to retail investors were identified as one of the strategic priorities.

Regulatory arbitrage

The practice in which companies exploit regulatory differences between various markets to avoid regulations that are unfavourable for them. This can be achieved by doing business and managing products and services at locations that have lower regulatory standards than those where the company is domiciled.

The supervisory action in question took the form of off-site supervision on a sample of four out of 11 UCITS fund management companies. The results of the exercise showed certain deficiencies in some companies related to the documentation of the process of determining fees and costs, which also include management fees (in practice, the highest remuneration paid by retail investors). Deficiencies were also identified as regards the regular revision of the levels of fees and the lack of analyses of the sustainability of such costs, as well as the criteria and circumstances taken into account when deciding on the amount of fees and the procedures that define the actions taken by the company in the materialisation of excessive, i.e. unnecessary costs. Consequently, through amendments to the regulations and the development of guidelines on the costs and fees of investment fund management companies, Hanfa will further prescribe a framework for the process of determining fees and costs for funds offered to retail investors, which would establish effective control over the prevention of excess or unjustified costs that can be transferred to retail investors.



Off-site supervision of ex-post reports on costs and charges in the distribution of UCITS funds

As part of its regular activities, in analysing ex-post reports³⁰ on costs and charges prepared for investors by credit institutions – distributors of UCITS, Hanfa found that these reports contained certain deficiencies in the presentation of costs, which was not fully compliant with the relevant regulations³¹. In order to eliminate the identified deficiencies, all credit institutions were informed about them and feedback was requested through the continuous supervisory procedure.

Off-site supervision of inducements for the distribution of UCITS and AIFs with selected credit institutions

In 2021, Hanfa conducted off-site supervision of compliance and behaviour of credit institutions when receiving inducements, with regard to meeting the prescribed conditions for receiving inducements, keeping records of received additional incentives, keeping records and proportionality of the level of received inducements, proportionality of the inducement to the additional service or higher-level service provided and reporting on inducements to clients, pursuant to provisions of the CMA.

Inducements

Inducements are fees, commissions, monetary or non-monetary benefits related to the services provided to the client, which are not charged directly from the client, but from third parties (most often manufacturers of products) and which thus encourage distributors to distribute their products.

The results of the supervision showed a number of irregularities and illegalities in the conduct of credit institutions when receiving inducements, in relation to inappropriate record keeping on taking measures in order not to impair the company's duty to act honestly, fairly, professionally and in accordance with the best interests of its client, as well as keeping a register of inducements in the form prescribed by its own internal procedure, inclusion of certain items in the list of quality improvements of the relevant service that are not in accordance with the regulations, unsegmented recording and monitoring of the proportionality of received inducements to the higher level of services provided, as well as failure to comply with internal procedures. In addition, it was established that for some credit institutions the illustration of incentives in the ex-ante report on costs and charges did not comply with the provisions

³⁰ An ex-post report contains information on costs provided to the client after carrying out the transaction, while an ex-ante report contains information on costs provided to the client prior to carrying out the transaction.

³¹ Regulatory provisions on customer reporting are contained in the [act governing the capital market](#), while [Delegated Regulation No 2017/565](#) of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive prescribes in greater detail the obligation of ex-post disclosure of information on costs and charges to clients, as well as the obligation to provide clients with an illustration showing the cumulative effect of costs on return.

of Delegated Regulation No 2017/565. Reports containing identified illegalities and irregularities will be sent to the credit institutions in 2022.

Off-site supervision of credit institutions' treasury operations

The supervision of credit institutions' treasury operations carried out in 2021 focused on the legal compliance and conduct of the credit institution when providing services of dealing on own account by executing OTC orders of retail clients. The supervision checked the compliance of supervised entities' behaviour towards retail clients in trading OTC derivatives with the relevant regulations, in particular as regards the prescribed conduct

Over-the-counter (OTC) market

An over-the-counter (OTC) market is a decentralized market in which market participants trade financial instruments directly between two parties, without a central regulated market (exchange) or broker. OTC markets are usually less transparent than stock exchanges and are subject to a lower level of regulation.

of business rules towards clients and obligation to act in the best interests of clients, in order to protect retail investors. The results of the supervision indicated some shortcomings in assessing the suitability of the investment service or product for the client and in communication of ex-ante costs to clients. In addition, it was established that for several credit institutions ex-ante and ex-post reports on costs and charges per transaction did not present all the required elements, i.e. did not comply with the provisions of Delegated Regulation No 2017/565. Reports containing identified illegalities and irregularities will be sent to the credit institutions in 2022.

Economic cooperation funds

ECFs were established in 2010 to overcome economic difficulties and eliminate the negative effects of the global crisis on the Croatian economy, while creating conditions for long-term sustainable economic growth, as one of the measures for economic recovery and development that stimulate credit activity³². The aim of their establishment was to promote the development of the economy, preserve existing and create new jobs and strengthen existing and start-up new business entities by means of ownership restructuring through the investment of additional capital, with the cooperation of the Government of the Republic of Croatia and interested private investors.

ECFs had to invest in companies with registered offices in the Republic of Croatia and which are exclusively or principally engaged in their activities in the territory of the Republic of Croatia, with above average growth and development potential, competitive advantages, expert and motivated

³² Decision on measures for economic recovery and development ([Official Gazette, No 8/10](#))

management team, and technology or rights to generate strong business results, including companies in the early stage of business operations.

The size of the share to be acquired by an ECF in companies was not decisive, provided that ECFs are guaranteed control over the adoption of all strategic decisions via the fund representative in companies or through the relevant provisions of the Articles of Association.

Table 1: Management companies and ECFs

| ECF | Management companies ¹ | Beginning of operation of the ECF | End of operation of the ECF |
|------------------|---|-----------------------------------|------------------------------------|
| Honestas FGS | FARVE PRO INVEST d.o.o. ² | 20/04/2011 | 20/04/2021 |
| Inspirio FGS | Inspire Investments d.o.o. | 2/02/2011 | Undergoing winding-up proceedings☒ |
| Prosperus FGS | Prosperus Invest d.o.o. | 9/02/2011 | Undergoing winding-up proceedings☒ |
| Prosperus FGS II | Prosperus Invest d.o.o. | 1/03/2011 | 1/03/2023 |
| QPEK II FGS | Quaestus Private Equity d.o.o. ³ | 23/02/2011 | 3/02/2022 |

Note: ¹ In 2011, the company Alternative Private Equity Partneri d.o.o. established the fund Alternative Private Equity FGS II. In 2014, the company o Nexus Private Equity Partneri d.o.o. took over the management of the fund Alternative Private Equity FGS II from the company Alternative Private Equity Partneri d.o.o. and changed its name into Nexus FGS II. By virtue of Hanfa's decision Class: UP/I 972-05/17-01/04, RegNo: 326-01-440-441-18-52, of 11 January 2018, the company Nexus Private Equity Partneri d.o.o. lost its authorisation to manage open-ended risk capital alternative investment funds with private offering. As a result, on 21 March 2018, the company Inspire Investments d.o.o. took over the management of the fund Nexus FGS, and on 29 March 2018, the company Prosperus Invest d.o.o. took over the management of the fund Nexus FGS II. By virtue of the ruling by the Administrative Court in Zagreb business number: Usl-436/18-15 of 18 July 2018, Hanfa's decision in question was subsequently annulled. ²In March 2020, the company Honestas Private Equity Partneri d.o.o. changed its name into Fima Invest d.o.o., and on 14 January 2022, it changed its name into FARVE PRO INVEST d.o.o. ³By virtue of Hanfa's decision Class: UP/I 992-02/22- 01/09, RegNo: 326-01-22-22-5, of 24 March 2022, the company Quaestus Private Equity d.o.o. lost its authorisation to manage alternative investment funds.

Source: Hanfa

Establishing and managing ECFs

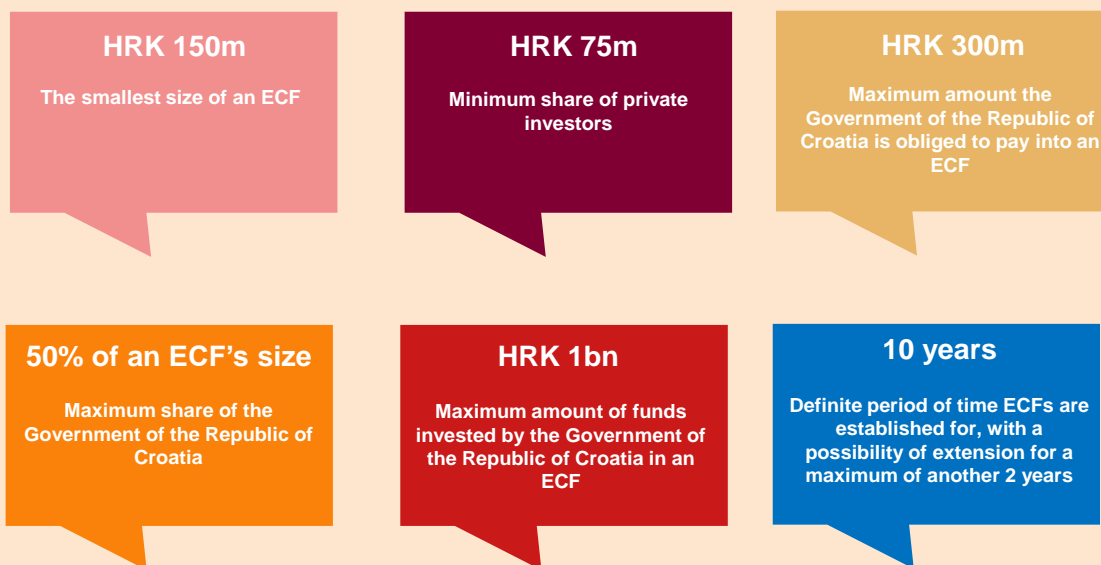
With regard to the legislative framework governing ECFs, the Government of the Republic of Croatia issued special decisions, and the Minister responsible for economy and entrepreneurship issued special ordinances, and thus set out the procedure for the establishment of ECFs, conditions for the participation of the Government of the Republic of Croatia in ECFs and detailed conditions and manner of their work regarding their duration, areas of investment, depositary, management fees, profit allocation³³, obligation to form a board of trustees, modes and deadlines of calls for payments, accession of new investors, etc.³⁴

³³ Including the internal rate of return and the formula for its calculation

³⁴ The Government of the Republic of Croatia first adopted the Decision on the intention to participate in the establishment of economic cooperation funds ([Official Gazette, No 8/10](#)), followed by the Ordinance on the conditions and procedure for the participation of the Government of the Republic of Croatia in economic cooperation funds ([Official Gazette, No 21/10](#)) and the Decision on the appointment of a qualified investor to participate in the establishment of economic cooperation funds ([Official Gazette, No 96/10](#)). Later on, the Ordinance on the participation of the Government of the Republic of Croatia in economic cooperation funds ([Official Gazette, No 42/12, 138/12 and 18/13](#)) was issued, and finally the Ordinance on the participation of the Government of the Republic of Croatia in economic cooperation funds ([Official Gazette, No 47/13](#)) and the Decision on the participation in economic cooperation funds ([Official Gazette, No 40/13](#)), which are still in force.

ECFs are established as open-end alternative private equity investment funds, so their operations are regulated by the Investment Funds Act³⁵ and later by the Alternative Investment Funds Act³⁶ (hereinafter: AIFA), which is supervised by Hanfa as the regulator in charge of supervising the operations of investment funds and companies managing them.³⁷

Provisions regulating ECFs



The Board of Trustees of an ECF is a body consisting of representatives of investors in that fund. It represents investors in the fund in relation to the management company and performs other activities³⁸:

- confirms a decision on the selection of an auditor for an ECF's operations
- decides on changing the principles, limitations and sectors of investment, which form an integral part of the ECF's rules
- adopts financial reports on business operations of an ECF

³⁵ [Official Gazette, No 150/05](#)

³⁶ [Official Gazette, No 21/18, 126/19 and 110/21](#)

³⁷ The additional regulations, whose application is supervised by Hanfa, and which apply to ECFs are the Ordinance on determination of the net asset value and unit price of alternative investment funds ([Official Gazette, No 114/18, 124/19, 2/20](#)), Ordinance on the structure and contents of annual and semi-annual reports and other reports of alternative investment funds ([Official Gazette, No 16/19, 82/19, 31/20, 98/20](#)), [Commission Delegated Regulation \(EU\) No 231/2013](#) of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision, OJ L 83, and any other relevant regulations applicable to ECFs as alternative investment funds with private offering.

³⁸ Pursuant to Article 12 of the Ordinance on the participation of the Government of the Republic of Croatia in economic cooperation funds ([Official Gazette, No 47/13](#))

- decides on the termination of contract with the management company in accordance with the provisions of the ECF rules
- provides binding opinion on the proposal for the decision on investment and asset disposal
- gives prior consent to amendments to the ECF rules and changes of management board members of the management company
- gives prior consent to the admission of new investors to the ECF, in accordance with the ECF rules
- decides on the liquidation of an ECF
- decided to extend the duration of the ECF beyond the 10-year period
- gives other approvals and consent to the management company in accordance with the provisions of the ECF rules.

Each investor in an ECF had the right to appoint one representative to the Board of Trustees, and the mandate of that representative equals the duration of that ECF. The particularity of ECFs with regard to other private equity funds is reflected in the strong influence of investors on the work of ECFs through the powers of the Board of Trustees, primarily through the impact on investment or disinvestment decisions, which can ultimately be crucial for making a particular decision. Each participation in the work of the Board of Trustees is a choice of individual investors, and the Board of Trustees meets at least once a year³⁹. In addition to investors, the meetings of the Board of Trustees must also be attended by the ECF management company in order to provide additional information on decisions falling within its competence. The management company shall not take part in providing an opinion if it does not have the investor status.

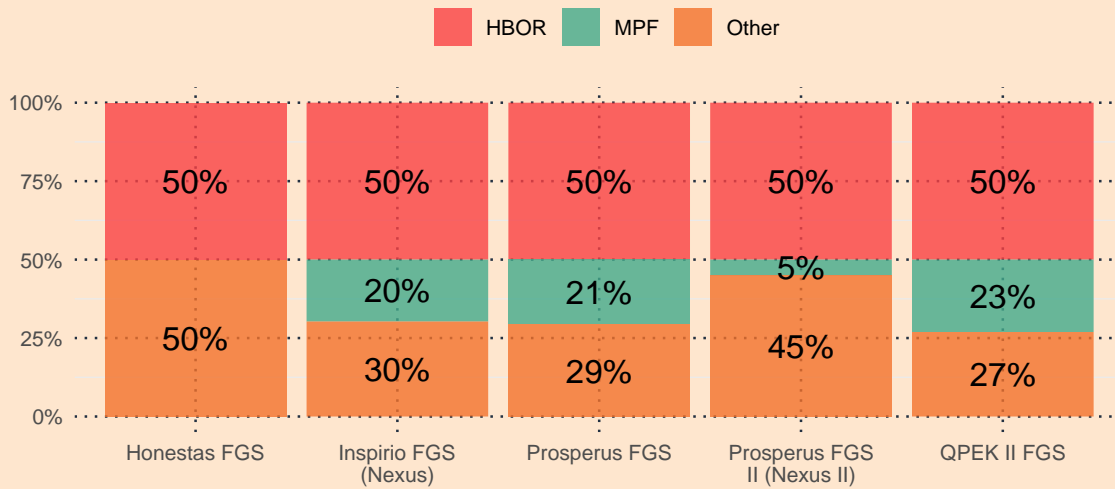
All the essential characteristics, rights and obligations of the ECF and investors, as well as the trustee relationship between the management company and investors, and the ECF and investors, are governed primarily by the ECF rules. The provisions of the ECF rules constitute a contractual relationship between the management company and the investor in ECF, and are part of the private law relationships for which the court is competent to interpret in case of a dispute.

One of the investors in ECFs, in addition to the Croatian Bank for Reconstruction and Development (hereinafter: HBOR), which was appointed as a qualified investor by the Government of the Republic of Croatia to participate in the implementation of ECF activities together with private investors, are category B pension funds with individual shares in an ECF between 1% and 9%. In order to act in the best interest of members of pension funds they manage, representatives of pension companies participated in the work of the Boards of Trustees of ECFs.

³⁹ The meetings are convened by the Chairperson of the ECF Board of Trustees or by another member of the Board of Trustees upon the authorisation of the Chairperson of the Board of Trustees, or at the proposal of the management company where, in accordance with ECF rules, the management company is required to request the opinion of the Board of Trustees.



Figure 1 Cash invested
In % of cash invested

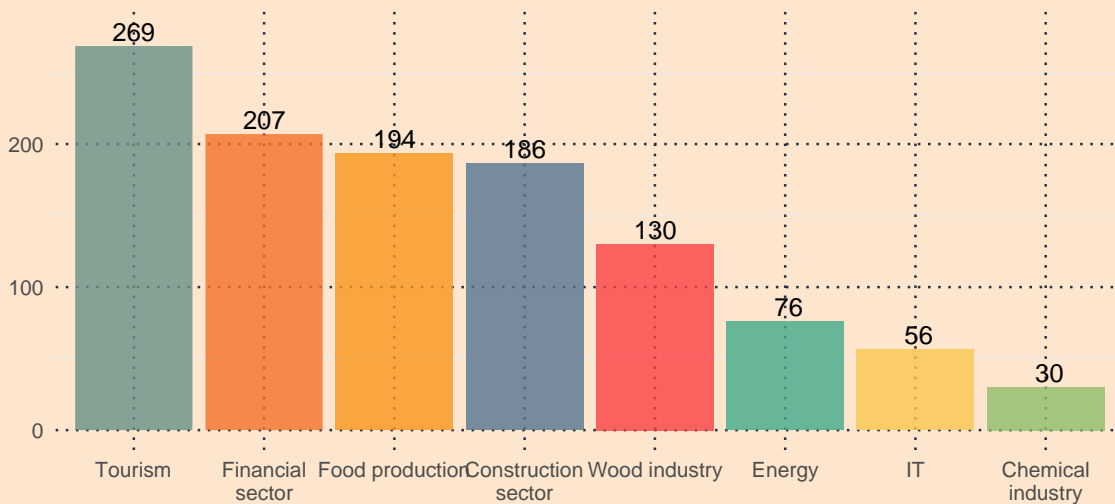


Source: Hanfa

Investments of ECFs

In the period since their establishment, ECFs have made a total of 22 investments. Most investments were made in the tourism sector, followed by financial sector, food industry, construction sector, wood industry, energy, IT sector and chemical industry.

Figure 2 Investments of ECFs by sectors
In HRK m



Source: Hanfa

ECFs are currently in the final phase of disinvestment, and no return has been achieved in most of the investments so far⁴⁰, however, since three ECFs have not yet ceased operations, we cannot yet speak about the final results of business performance.

Supervision of ECFs pursuant to the Alternative Investment Funds Act

In line with its statutory powers, Hanfa exercises supervision of the operation of investment funds and the companies managing them and, accordingly, of the legality of ECF operations in accordance with the AIFA.

In 2019, Hanfa initiated and undertook one ad hoc on-site examination of all ECF management companies and ECFs themselves. The aim of the examination was to verify the functional independence of the funds' asset valuation operations from asset management operations⁴¹ in the period from January 2017 to August 2020. It was found that in all AIFMs the asset valuation operations were not functionally independent from asset management operations, as they were performed by the same organisational unit. This was corrected by all companies, in accordance with Hanfa's decisions.

In addition, during 2019, 2020 and 2021, Hanfa exercised continuous intensified off-site supervision of all ECF management companies and ECFs themselves⁴², in particular from the aspect of their disinvestment (exit from investment) due to the imminent cessation of operations. During 2020 and 2021, Hanfa also conducted three administrative off-site supervisory procedures focusing on disinvestment of certain ECFs and prices achieved during disinvestment, as well as the legality of AIFMs' operations during disinvestment, in particular as regards whether management companies acted in the best interests of ECFs and their investors⁴³. It was concluded that the majority of business decisions to invest in certain companies did not end with a positive outcome for investors. However, in respect of the duty and responsibility of AIFMs to act in the best interests of the ECF and its investors, no illegalities or irregularities in the conduct of ECF management companies were identified.

⁴⁰ The success of investment is on the management company.

⁴¹ Article 153(2)(b) of the Alternative Investment Funds Act ([Official Gazette, No 21/18](#))

⁴² Pursuant to the provisions of Article 234(1)(2) and Article 236 of the Alternative Investment Funds Act ([Official Gazette, No 21/18, 126/19 and 110/21](#))

⁴³ Pursuant to Article 52(1)(3) of the Alternative Investment Funds Act

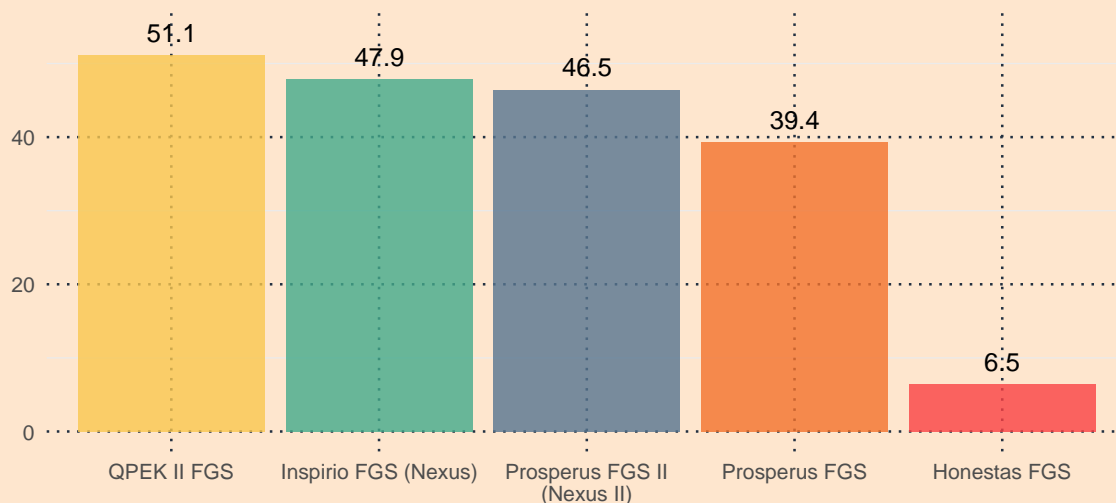
Table 2: Changes in the rate and basis for the calculation of annual management fee

| Year | Duration of the fund | Rate | Basis |
|------|----------------------|-------|---|
| 2010 | Up to 5 years | 2.00% | Fund size (investor commitment) |
| 2010 | After 5 years | 2.00% | Nominal investment value/acquisition cost |
| 2012 | Up to 1 year | 2.00% | Fund size (investor commitment) |
| 2012 | From 2 to 5 years | 1.38% | Fund size (investor commitment) |
| 2012 | After 5 years | 2.00% | Total investment value |
| 2013 | Up to 1 year | 2.00% | Fund size (investor commitment) |
| 2013 | From 1 to 2 years | 1.38% | Fund size (investor commitment) |
| 2013 | From 3 to 5 years | 1.60% | Funds invested (acquisition cost) |
| 2013 | After 5 years | 1.60% | Total investment value |

Note: The calculation of management fee is laid down by the Ordinance on the conditions and procedure for the participation of the Government of the Republic of Croatia in the establishment of economic cooperation funds (Official Gazette, No 21/10), by the Ordinance on the participation of the Government of the Republic of Croatia in economic cooperation funds (Official Gazette, No 42/12, 138/12 and 18/13) and, later on, by the Ordinance on the participation of the Government of the Republic of Croatia in economic cooperation funds (Official Gazette, No 47/13), as well as by the Decision on the participation in economic cooperation funds (Official Gazette, No 40/13). (Official Gazette, No 8/10, Official Gazette, No 25/12, Official Gazette, No 137/12 and Official Gazette, No 16/13) and the Decision on the participation in economic cooperation funds.

Source: Hanfa

Figure 3 Management fee charged since the beginning of operation
In HRK m



Source: Hanfa



Pension savings

Corrective supervisory activities

In 2021, Hanfa initiated three regular on-site examinations, in a pension company and two credit institutions. The subject of the examination of the pension company was the investment process and strategy relating to the investment of pension fund assets, the effectiveness of control functions, investor complaints handling and cyber security management for the purpose of ensuring business continuity. Following the examination, Hanfa issued a decision containing supervisory measures aimed at improving the company's process relating to the investment of pension fund assets. The improvements required included the necessity to reason and document the entire investment process in an adequate manner, encompassing the idea, detailed analyses, investment decision-making, definition of goals expected to be achieved and investment exit procedure.

The subject of the examination of the credit institutions covered activities of mandatory and voluntary pension funds' depositaries, monitoring mandatory and voluntary pension funds' cash flow, mandatory and voluntary pension fund's asset safekeeping and recording, obligations relating to payments to pension fund members' personal accounts and payments from funds based on the pension entitlement, obligations relating to the verification of the calculation of pension funds' net asset value, obligations relating to the execution of the pension company's orders, examination of the control of pension funds' investments and actions taken by depositaries in the case where they establish irregularities in the pension company's business operations. The on-site examination covering business operations of the depositary of one of the credit institutions established no illegalities, while the deficiencies relating to internal acts, internal records and contractual documentation were eliminated during the examination; therefore, there was no need to impose any supervisory measures. The on-site examination of the other depositary established certain deficiencies regarding the depositary's control activities, which were eliminated during the examination and were followed by no specific supervisory measures.

Following the on-site examinations of the business process relating to the provision of information to voluntary pension fund members on their retirement carried out in 2020, in 2021 Hanfa drew up a circular for the Association of Pension Companies and Pension Insurance Companies, providing a summary of significant findings and recommendations and explaining methods which may help improve the process. The circular also provided recommendations as regards the provision of comprehensive and full information to voluntary pension fund members on their retirement, drawing particular attention to the importance of establishing adequate sales representatives' work control mechanisms. Furthermore, as regards the process and modalities of handling voluntary pension fund members' complaints relating to sales representatives' work, recommendations were provided with respect to adequate recording of complaints received by telephone and reporting on complaints, their status and handling process. Recommendations relating to sales network training covered the drawing up of the training plan with a defined time frame, training topics and target group of intermediaries planned to receive the training, keeping of record on training carried out, and examination of intermediaries'

knowledge of pension schemes they offer, their key features and significance of all risks related to the pension schemes, and of relevant legislation and subordinate legislation.

Preventive supervisory activities

During 2021, Hanfa carried out on-going off-site examinations of pension companies and pension funds. The subjects of the examinations were the investment of pension funds' assets in non-listed securities, pension companies' activities aimed at strengthening financial literacy and review of mandatory pension funds' informative prospectuses, revised annual financial statements of pension companies and pension funds, work reports of mandatory pension funds and Regos report for the Croatian Parliament, and report on pension fund members' complaints.

No illegalities were established with respect to pension companies' business operations, and there was therefore no need to impose any supervisory measures.

In 2021, Hanfa continued with its preventive supervisory activities related to the COVID-19 pandemic and its impact on pension funds' business operations, continuously monitoring pension funds' investment structure, net asset value and currency exposure, and frequency of contribution payments to mandatory pension funds.

It also carried out an analysis of planned and realised asset investment strategies of voluntary pension funds in 2020. Its goal was to establish whether changes in funds' portfolios had been planned and documented in investment strategies, taking account of developments in financial markets in 2020 caused by the COVID-19 pandemic. The analysis found no irregularities, implying that the changes in the voluntary pension funds' portfolio structure had been planned, implemented and documented in an adequate manner.

As regards category A and category B mandatory pension funds, Hanfa conducted an analysis of their investments in shares and AIFs which generated losses in relation to the total acquisition cost, and monitored pension companies' actions aimed at preserving mandatory funds' assets and protecting fund members' interests. The analysis established that most of the realised losses were primarily made up of foreign investment losses, while unrealised losses were mostly due to investments in the Republic of Croatia.

In 2021, Hanfa terminated the off-site examination relating to the valuation of equity securities valued at fair value (on the basis of a sample) in mandatory pension fund portfolios. The aim of the examination was to determine valuation techniques used by pension companies, their methodologies, and similarities and differences in pension companies' valuation processes. The results of the examination showed that pension companies had different approaches to the asset valuation process, which also exhibited certain deficiencies. As a result, a circular was drawn up for the Association of Pension Companies and Pension Insurance Companies, listing the deficiencies established and providing recommendations for improving the valuation process and harmonising calculation methodologies.



Insurance

Corrective supervisory activities

In 2021, Hanfa carried out six on-site examinations, two of which were ad hoc and four regular examinations. One examination started in 2020, while five started in 2021, of which one ended in 2021. Subjects of the examinations covered the adequacy of the product oversight and governance system, adequacy of premium and provisioning process, adequacy of the anti-money laundering / terrorist financing system and of the cyber security management system, outsourcing and business continuity plans, adequacy of internal procedures, practices and activities that have an impact on the protection of interested parties, financial operations, organisation of insurance distribution business and risk management as regards the governance and distribution of products from life and non-life insurance portfolios. Within the framework of the examinations, Hanfa issued a decision ordering the company to eliminate illegalities relating to financial operations and the organisation of insurance distribution business, and a partial decision establishing that the company had not fully complied with the decision ordering the elimination of illegalities issued in 2019.

During the year, Hanfa also carried out four off-site examinations (three regular and one ad hoc), two of which started in 2020 and ended in 2021 and the other two started in 2021. Subjects of the examinations covered the manner of concluding insurance contracts, claims processing and settlement, adequacy of internal procedures, practices and activities that have an impact on the protection of interested parties, investment risk management and Group Solvency and Financial Condition Report (SFCR). Within the framework of the examinations, Hanfa issued two decisions ordering the companies to eliminate illegalities established, and three decisions on the elimination of illegalities and irregularities and on the termination of off-site examinations carried out in 2019 and 2020.

Preventive supervisory activities

Hanfa carried out five on-site examinations involving mystery shopping, four of which were initiated in 2020 and completed in 2021, while one was initiated in 2021. Four examinations covered business operations of insurance intermediaries (credit institutions, insurance agencies and other insurance intermediaries), and one was carried out in an insurance company. Aimed at protecting consumers, these examinations verified the compliance of services provision relating to the distribution of health insurance and life or annuity insurance where the policyholder bears the investment risk. Within the framework of these examinations, in 2021 Hanfa issued four decisions ordering the elimination of illegalities and irregularities established in the process of conducting insurance distribution business and provision of pre-contractual information, and one decision establishing that illegalities and irregularities had been eliminated, thus ending the examination. Following the examinations carried out in 2020 and 2021, Hanfa issued two decisions establishing that illegalities and irregularities had been eliminated, thus ending the examination.

Mystery shopping

Mystery shopping is an on-site supervision procedure used by national supervisory authorities to assess the quality of services provision, i.e. the quality of financial products and services distribution, for the purpose of preserving and improving consumer protection. It gives national supervisory authorities insight into market practices and enables them to monitor actual compliance with prescribed requirements, instead of relying completely on documentation and reports produced by supervised entities. The provisions of the Insurance Act regulating the manner of conducting supervision apply accordingly to examinations involving mystery shopping. In the case where mystery shopping is involved, notification of on-site examination may be submitted to the supervised entity following the examination.

In 2021, Hanfa continuously monitored and examined regular financial, supervisory and other reports required to be submitted by insurance companies, pension insurance companies, the Bureau, the Croatian Nuclear POOL, and persons who have a licence to perform insurance distribution business and/or reinsurance distribution business.

It also continued analysing performance scenarios and presentation of costs in key information documents (KIDs) for packaged retail and insurance-based investment products (hereinafter: PRIIPs). With the aim of protecting potential investors, it held meetings with insurance companies about key information documents, i.e. pre-contractual documents provided to a potential investor buying insurance-based investment products. The companies were asked to amend the documents in accordance with the PRIIP Delegated Regulation⁴⁴, which lays down regulatory technical standards with regard to the presentation, content, review and revision of key information documents.

⁴⁴ [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

For the purpose of contributing to the stability of insurance companies' business operations, mitigating consequences of extraordinary circumstances relating to the impact of the COVID-19 pandemic on their activities, and protecting interests of policyholders and the stability of the financial system in the Republic of Croatia, on 1 April 2021 Hanfa issued Guidelines on the criteria for dividend payment in 2021⁴⁵, inviting insurance companies to refrain from dividend payment until 30 September 2021. This was in line with recommendations of the European Systemic Risk Board, which urged financial institutions to exercise extreme caution as regards profit distribution in order to avoid jeopardising the stability of the financial system. As regards the companies which intended to pay their dividends, the Guidelines also pointed to criteria that needed to be met, in addition to legal requirements for dividend payments, prior to making a decision on such payments in 2021 in accordance with risk management rules. The criteria for dividend payment included profit realised in three previous years with no loss brought forward and/or subordinated liabilities. The criteria for determining the amount of dividend were defined by average dividend paid in the three years preceding the pandemic, and by the ratio between eligible own funds and solvency capital requirement.

On 26 April 2021, Hanfa adopted Reinsurance guidelines⁴⁶, providing more details on the manner of assessing and selecting reinsurers in order to preserve an adequate level of the stability of the insurance market. They were intended for insurers which conclude reinsurance contracts and reinsurers which transfer the excess risk to another reinsurer. The purpose of the Guidelines was to make insurers and reinsurers acquainted with Hanfa's expectations as regards their strategies, policies and procedures applied in governance and good insurance practices.

In 2020, Hanfa started monitoring insurance companies' liquidity on a monthly basis, continuing to monitor it on a quarterly basis in 2021, given that liquidity risk was no longer as high as in the previous year. It also continued placing emphasis on monitoring the share of companies' liquid assets in total investments and on the sustainability of cash flows.

For the purpose of preparations for the envisaged adoption of the euro as the official currency in the Republic of Croatia as of 1 January 2023, Hanfa carried out an analysis of the impact of euro adoption on the solvency position of insurance companies. The results of the exercise show that the euro introduction will slightly decrease insurance companies' solvency, but all the companies will remain capitalised to a significant

Euro introduction

The introduction of the euro as the official currency in the Republic of Croatia following the preparatory period (European Exchange Rate Mechanism - ERM II) will affect economic balance sheet and solvency position of insurance companies. Due to the euro adoption, while calculating their capitalisation, insurance companies will take account of the euro area assumptions, which differ greatly from the assumptions used by the insurance companies at the moment, and the very change in the assumptions will have an impact both on insurers' own funds and on their solvency capital requirements.

⁴⁵ [Link](#)

⁴⁶ [Link](#)

extent. Insurance companies offering exclusively or mostly life insurance products may expect a somewhat less favourable impact of the euro changeover, considering the long-term nature of their liabilities and the fact that amid the changeover, companies will be using the euro benchmark curve that will increase technical provisions, leading to reduced own funds. Non-life insurance companies and composite companies with higher shares of non-life portfolios will experience a less significant impact of the euro introduction. Based on the results of the market exercise, insurance companies' interest rate risk is expected to decline, while their currency risk is expected to decrease greatly, as the majority of their assets and liabilities are linked to euro.

In 2021 Hanfa initiated activities relating to the introduction of new IFRS 17 and the new International Financial Reporting Standard – Financial Instruments (hereinafter: IFRS 9), which will enter into force as regards insurance and reinsurance companies on 1 January 2023. It also participates actively in the project group comprising the Bureau, Hanfa and the Croatian Actuarial Association with respect to the introduction of the new standards at the market level. In 2021, these activities covered an analysis of data needed for reporting pursuant to the new standards and an analysis of changes required in reporting templates, ordinances and technical instructions, and technical conditions for data upload.

IFRS 17

IFRS 17 (Insurance Contracts) is a new accounting standard which sets out principles for the presentation of insurance contracts (and reinsurance contracts), replacing the interim IFRS 4 and providing for greater comparability, consistency and transparency of data used by analysts and investors. It presents a general model for calculating liabilities arising from insurance contracts based on the present value of future cash flows, applying the estimated interest rate, risk adjustment and recognition of the contractual service margin.

Supervisory activities in cooperation with EIOPA and other national supervisors

In 2021, Hanfa's employees took part in the work of 12 colleges of supervisors of insurance groups (eight groups) organised by competent supervisory authorities of Member States and aimed at exchanging information and data on insurance companies belonging to an insurance group and pursuing insurance business in other Member States. During the year, supervisory colleges for insurance groups held 11 regular meetings and one ad hoc meeting aimed at initiating group supervisors' joint supervisory inspections.

The European Insurance and Occupational Pensions Authority (hereinafter: EIOPA) continued collecting data, opinions and analyses for the purpose of revising the Solvency II Directive⁴⁷ and

⁴⁷ [Directive 2009/138/EC](#) of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), OJ L 335

Implementing Technical Standards. Furthermore, there was a rise in activities related to the application of the Commission Proposal for a Regulation of the European Parliament and of the Council on digital operational resilience for the financial sector (DORA)⁴⁸ and for a Regulation of the European Parliament and of the Council on pan-European Personal Pension Product (PEPP)⁴⁹. As the ESG criteria are becoming one of the key areas of regulators' interest, in 2021 Hanfa actively participated in and monitored the development of all regulatory activities in the financial sectors it supervises, including the insurance sector. Particular emphasis in this respect was placed on the Regulation of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (hereinafter: SFDR)⁵⁰.

In cooperation with the ESRB, EIOPA launched a stress test exercise (hereinafter: 2021 ST) for the entire EU, aiming to assess insurance companies' resilience to adverse market developments. The 2021 ST exercise started on 7 May and ended in mid-December 2021, with EIOPA publishing the results⁵¹. It targeted large European insurance and reinsurance groups, including, indirectly, some Croatian insurance companies. The exercise covered a Croatian insurance company as well, and the results showed no need for additional liquid assets or reactive management actions.

On 13 July 2021, EIOPA commenced an ad-hoc data collection market exercise titled "Ad hoc data collection for the physical risk study and the protection gap dashboard to selected groups or solo undertakings", relating to the impact of climate change on the European insurance sector. The aim of the exercise was to assess the relevance of the current European insurance sector's exposure to key climate relevant perils (e.g. storms, floods, wildfire) for the non-life insurance sector, in particular as regards property insurance, and the potential range of impact of climate change risks in mid- and long-term period (e.g. physical risk) on the insurance sector according to various climate change scenarios. A Croatian company too was selected by EIOPA to participate in the exercise.

Physical risk

Physical risk represents the financial risk of climate change. It includes both extreme weather conditions and events and gradual climate change, as well as environmental degradation such as the pollution of air, water and soil, biodiversity loss and deforestation. Acute physical risk arises from extreme events such as droughts, floods and storms, while chronic risk arises from progressive shifts such as rising temperatures and sea levels, water stress, biodiversity loss, land use change, habitat destruction and resource scarcity. It can directly lead to damage to property or reduced productivity, while indirectly, it can cause events such as supply chain disruptions.

⁴⁸ [Proposal for a Regulation of the European Parliament and of the Council on digital operational resilience for the financial sector](#) and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014 and (EU) No 909/2014

⁴⁹ [Regulation \(EU\) 2019/1238](#) of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP), OJ L 198

⁵⁰ [Regulation \(EU\) 2019/2088](#) of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, OJ L 317

⁵¹ [Link](#)

Non-bank financing

Corrective supervisory activities

Leasing

In 2021, Hanfa continued with its supervisory activities relating to the examination of leasing companies' practices as regards interest rate calculation in the 2008-2021 period. Taking account of illegalities and irregularities established in 2020, it decided to cover the entire leasing market by its supervisory activities in 2021. It initiated nine examinations, establishing illegalities and irregularities related to the calculation of interest rates under lease contracts and to the transparency of contractual provisions.

The examinations found that leasing companies had unilaterally and unduly changed interest rates in active lease contracts (margin as an integral part of the variable interest rate or the entire interest rate) to the detriment of lessees. Certain leasing companies had affected the interest rate level by failing to adjust variable interest rates with changes in market values of reference interest rates.

As regards the transparency of provisions governing interest rate calculation, Hanfa established that the majority of leasing companies provided their lessees with unclear and incomprehensible contractual provisions, making the calculation process unclear and non-transparent. Certain companies also failed to align some of their finance lease contract provisions with the Consumer Credit Act⁵².

As a result, in 2021 Hanfa issued 12 decisions ordering the companies to eliminate the irregularities established. All the companies having shown irregularities related to interest rate calculation were obliged to inform Hanfa of their actions taken with respect to all aggrieved lessees. Most of them submitted evidence showing that all aggrieved lessees had been notified of the examinations carried out by Hanfa and of the irregularities established, and that the companies had started the process of overpaid interest refund (including default interest).

In 2021, Hanfa issued six decisions determining that leasing companies had eliminated irregularities relating to interest rate calculation established during the examinations. In addition to ensuring overpaid interest refund and the provision of clear and transparent contractual provisions regarding interest rate calculation, Hanfa's supervisory activities also led to the full compliance of contractual provisions governing interest rate calculation with the Consumer Credit Act.

In order to ensure lawful treatment of lessees by leasing companies to the full extent, at end-2021 Hanfa commenced off-site examinations of all active leasing companies with respect to their method of calculating fees charged to lessees. The purpose of the examinations was to verify whether leasing companies' fees were calculated in accordance with contractual obligations, whether their fees price lists were aligned with regulations (in particular with the Consumer Credit Act and Consumer Protection

⁵² [Official Gazette, No 75/09](#)

Act⁵³) and whether fees price lists applied by leasing companies in their business operations were clear and transparent.

Factoring

During the year, Hanfa conducted ongoing off-site examinations of factoring companies, in particular those in respect of which there were grounds for suspicion that they had been pursuing factoring business without authorisation.

Preventive supervisory activities

In 2021, Hanfa issued additional recommendations to leasing companies, inviting them to contract special liability payment plans which include a moratorium on regular interest payment and to refrain from enforcement procedures.

On the basis of information about certain leasing companies charging contract rescheduling costs to lessees who faced difficulties in meeting their obligations due to the coronavirus pandemic, Hanfa issued a notification expressing its opinion that charging rescheduling costs to lessees does not represent acting in the lessees' best interest.

During 2021, Hanfa continued collecting data on the number and value of requested and approved rescheduled lease contracts, which declined significantly. At the end of the year, there were 141 active rescheduled lease contracts with their total value reaching HRK 100.5m, which is a considerable decrease compared to end-2020, when there were 6,212 active rescheduled lease contracts with their value totalling HRK 2.1bn. This was due to a lessening impact of the pandemic on lessees' business operations and in particular to the recovery of most affected activities (transport, charter, car rental).

Since leasing and factoring companies are required to submit regular reports, including financial, additional and audit reports, during 2021, Hanfa continuously carried out supervision and verification of all elements of their regular reporting, requesting numerous additional reports, information and documentation, which were also subject to analysis and off-site supervision.

⁵³ [Official Gazette, No 19/22](#)

Prevention of money laundering and terrorist financing

Pursuant to the Anti-Money Laundering and Terrorist Financing Act⁵⁴ and subordinate regulations adopted on the basis thereof, Hanfa supervises the implementation of anti-money laundering and terrorist financing (hereinafter: AMLTF) measures by some of its supervised entities (reporting entities referred to in Article 9 of the Anti-Money Laundering and Terrorist Financing Act). December 2021 saw the adoption of amendments to the Ordinance on the assessment of the money laundering and terrorist financing risk and on the manner of implementing simplified and enhanced customer due diligence measures⁵⁵. The key novelty as regards Hanfa's supervised entities is the obligation to apply the European Banking Authority's Guidelines on the ML/TF risk factors⁵⁶. Credit institutions and investment firms should consider the Guidelines when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions.

In 2021, Hanfa launched 15 examinations of entities obliged to implement measures, activities and procedures aimed at the prevention and detection of money laundering and terrorist financing, of which two on-site and 13 off-site examinations. Following on-site examinations carried out in 2020 and 2021, in 2021 Hanfa adopted two decisions ordering the companies to eliminate illegalities and irregularities established, and one decision ordering the company to submit evidence that it had acted in accordance with a decision issued previously. The amendments to the Anti-Money Laundering and Terrorist Financing Act expanded Hanfa's scope of competence to providers engaged in exchange services between virtual currencies and fiat currencies and custodian wallet providers. Even though Hanfa neither licenses nor registers such companies, in 2021 it conducted 12 off-site examinations, six of which established certain irregularities, eliminated during the process.

Intensive activities related to the 5th Round Evaluation of the Republic of Croatia by the Committee of Experts of the Council of Europe (hereinafter: MONEYVAL)⁵⁷ continued into 2021. The expert team visited

Customer due diligence

Customer due diligence relates to the legal obligation to determine and verify a customer's identity, collect data on the purpose of a business relationship and monitor the business relationship on an on-going basis, with the aim of assessing the level of the money laundering and terrorist financing risk.

FATF

The FATF (Financial Action Task Force) is an intergovernmental body established for the purpose of setting standards and promoting effective implementation of legal, regulatory and operational measures for combating money laundering and terrorist financing at the international level.

⁵⁴ [Official Gazette, No 108/17](#)

⁵⁵ [Official Gazette, No 59/18](#)

⁵⁶ [EBA/GL/2021/02](#)

⁵⁷ Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism

the Republic of Croatia in May 2021 for the purpose of evaluating the effectiveness of its AMLTF system. This process covered the compliance of the national legislation with the FATF⁵⁸ Recommendations (40 recommendations) and the effectiveness of the system with respect to the fulfilment of 11 objectives laid down in the Methodology for assessing technical compliance with the FATF Recommendations. During their stay in the Republic of Croatia, the MONEYVAL expert team held working meetings with Hanfa's representatives and representatives of supervised entities. For the purpose of preparation of preliminary reports, Hanfa provided the MONEYVAL experts with its internal procedures, documentation and statements from its scope of supervision. At its 62nd plenary meeting held in December 2021, MONEYVAL adopted a report on AMLTF measures for the Republic of Croatia, which represents a summary of AMLTF measures in force in Croatia. It also analyses the compliance of the Croatian AMLTF system with the FATF Recommendations and the assessment of system effectiveness, and offers recommendations for its improvement.

Hanfa continued its cooperation with other competent authorities within the AMLTF Inter-Institutional Working Group. In addition to achieving their common objectives, the cooperation was primarily focused on the preparation and carrying out of the evaluation by MONEYVAL.

During 2021, Hanfa monitored the development of new AMLTF regulations. In July, the European Commission published a package of legislative proposals, consisting of three directly applicable regulations and a directive, and aiming, among other things, at establishing a new Anti-Money Laundering Authority (AMLA). The new regulations were proposed on the basis of the European Commission's Action Plan of 7 May 2020,

which set out six priorities: ensuring the effective implementation of the existing EU AMLTF framework, establishing a single EU AMLTF rulebook, ensuring EU-level AMLTF supervision, establishing a support and cooperation mechanism for financial intelligence units, enforcing EU-level criminal law provisions and information exchange, and strengthening the international dimension of the EU AMLTF framework.

Hanfa's employees also participated in the work of several colleges of supervisors⁵⁹, whose purpose is to exchange experiences and knowledge in the AMLTF area, in particular as regards groups operating in different EU Member States. This enables monitoring the compliance of regulations and practices and communication with other EU Member States, which contributes to a better and more comprehensive approach to supervision.

Within the framework of the training organised for supervised entities by the Croatian Chamber of Economy, Hanfa held a lecture attended by more than 200 persons. During the lecture, supervised

AMLA

The Authority for Anti-Money Laundering and Countering the Financing of Terrorism aims at establishing an EU-level integrated AMLTF supervisory system, and at monitoring and coordinating national supervisory authorities.

⁵⁸ Financial Action Task Force

⁵⁹ A form of cooperation among EU Member States' supervisory authorities

entities were made acquainted with the new European Commission's AMLTF legislative proposals and with terrorist financing typologies. This was also an opportunity for supervised entities to learn that, given the role, competence and resources of AMLA, a stronger and more organised fight against money laundering and the financing of terrorism is expected in future. Hanfa placed particular emphasis on the prevention of terrorist financing in order to inform supervised entities of the importance of this risk, no less significant than other MLTF risks.

3.2 Macroprudential supervision

One of Hanfa's principal objectives is the fostering and safeguarding of the financial system's stability. In order to meet its objectives successfully, in particular under the circumstances of increased instability and uncertainty, Hanfa keeps developing tools and methods for the measurement and ex ante detection of systemic risks, thus broadening its macroprudential set of tools for systemic risk management in the Croatian financial services sector. In this context, following the macroeconomic stress testing exercises introduced in 2020, last year it introduced a new macroprudential policy analytical tool – a systemic risk dashboard.

It involves the systematic monitoring of a number of indicators that are used to measure systemic risk, that is, to identify its source, location and nature. Based on a wide set of data, this analytical approach identifies key vulnerabilities and potential transmission channels through which shocks may spread throughout the entire system.

The main purpose of the tool is not to predict

future events and/or form expectations about the forthcoming period, but to provide an overview of current risks in the entire system or some of its parts. Systematisation and mapping of systemic risks and potential vulnerabilities of the domestic financial services sector are essential for a timely response of macroprudential policy makers. Another important feature of such approach is the possibility to analyse and present risks according to their source and type, but also to monitor the evolution of risk over time by using a systemic risk heatmap. A well-developed analytical set of tools is a crucial precondition for the successful implementation of macroprudential policy, and the synthetic assessment of financial services systemic risks has made it significantly more powerful.

In addition to developing its macroprudential analytical set of tools, in 2021 Hanfa also broadened its set of publications used to regularly inform the public of major vulnerabilities and key risks to the stability of the financial services sector. In addition to the existing regular quarterly publication Macroprudential Risk Scanner, in September Hanfa launched a new publication – Financial Stability, which will be published on a yearly basis. The main difference between the two publication lies in the approach to systemic risk analysis. The Macroprudential Risk Scanner focuses on the holistic monitoring of the exposure of the financial services sector to individual risk types, such as market, interest rate or

Risk dashboard

A systemic risk dashboard involves the systematic monitoring of a number of indicators that are used to analyse the current stage of the real and financial cycle, aiming at measuring systemic risk in the entire system or some of its parts.

currency risk. On the other hand, the Financial Stability provides a detailed analysis of vertical developments and risks in individual segments of the financial services sector, that is, the industries of insurance, leasing, factoring, investment and pension funds, and other financial services providers (pension insurance companies, investment firms, factoring companies, pension and investment fund management companies, market infrastructure), as well as financial market risks. The analysis and assessment of risks pertaining to each of these financial sector segments are observed in the context of international and domestic macroeconomic, monetary and financial developments. The new publication also includes assessments of the overall exposure of the entire financial services sector to systemic risks, as well as assessments for each of the financial services sector segments, made within the framework of the systemic risk dashboard. It also presents, for the first time, results of stress testing of the financial services sector under highly unlikely, but plausible macroeconomic and financial shocks. In this way, the publication Financial Stability provides a comprehensive and systematic insight into systemic risks to which the domestic financial services sector is exposed, and analyses their nature and character for the purpose of taking timely and adequate macroprudential actions, strengthening the financial system's resistance to shocks and preventing the deterioration of its stability.

Last year, Hanfa also improved its internal coordination in managing systemic risks. In accordance with the Systemic Risk Guidelines, developed within the project “Systemic Risk Reporting for Hanfa, the Croatian financial services regulator”, Hanfa established its Risk Committee (hereinafter: Committee)

in order to ensure the sharing of risk management knowledge and best practices among sectors. Key tasks of the Committee are the analysis of sectoral and systemic risk reports, risk prioritisation, adjustment of supervisory plans in accordance with identified risks, definition and harmonisation of Hanfa's microprudential and macroprudential policy and action, and ensuring the consistent implementation and

Risk Committee

The Risk Committee is an internal working body falling within the framework of Hanfa's competence and tasks laid down by the Act on the Croatian Financial Services Supervisory Agency, established with the aim of ensuring the sharing of systemic risk management knowledge and best practices among sectors.

application of the risk-based supervisory system. Even though the identification and monitoring of risks to which the system and all its parts are exposed, as well as other tasks of the Committee, are carried out within the framework of Hanfa's regular operations irrespective of the Committee, by establishing the Committee, Hanfa ensured better alignment of microprudential and macroprudential approaches to risk monitoring. The Committee meets on a semi-annual basis, and its first two meetings were held in May and November 2021.

The cooperation with other regulatory bodies of the Republic of Croatia continued into 2021, with the aim of preserving the stability of the financial system as a whole. Pursuant to the Act on the Financial Stability Council⁶⁰, along with the CNB, the Ministry of Finance and the Croatian Deposit Insurance Agency,

LEI code

The LEI code is a 20-character alphanumeric code which identifies legal entities in a unique and unambiguous manner.

Hanfa participates in the work of the Croatian Financial Stability Council, which held two regular meetings in May and December 2021. The topics of the meetings were key risks to the stability of the entire domestic financial system and uncertainties related to the development of the epidemiological situation and its impact on economic trends and the financial sector. At the EU-level, similar issues were analysed at a number of meetings organised by bodies and groups of the ESRB⁶¹, in charge of conducting the EU-level macroprudential policy, with the participation of Hanfa's representatives. In addition to taking part in the ESRB meetings, Hanfa continuously monitored and conducted activities related to meeting requirements from ESRB recommendations. In 2021, in line with the ESRB Recommendations on identifying legal entities⁶² and taking account of the importance of establishing a global system that will enable identification of legal entities irrespective of their country of residence and contribute to the harmonisation of identifiers across different jurisdictions, Hanfa recommended its supervised entities to obtain a Legal Entity Identifier (LEI) and maintain it on an on-going basis. During the year, Hanfa continued acting in accordance with the Recommendation on monitoring the financial stability implications of debt moratoria, and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID- 19 pandemic⁶³, monitoring the impact of the measures taken on the financial stability and submitting regular quarterly reports to the ESRB on the measures and their impacts.

⁶⁰ [Official Gazette, No 159/13](#)

⁶¹ More details on the work of the ESRB in 2021 can be found in the chapter on international cooperation.

⁶² ESRB/2020/12, available at the following [link](#)

⁶³ ESRB/2020/8, available at the following [link](#)



Normative activities



4 Normative activities

Hanfa's normative activities go hand in hand with EU regulatory activities, ensuring the application of EU standards in the provision of financial services by service providers in the Republic of Croatia. In 2021, Hanfa was active in the working groups of the Ministry of Finance of the Republic of Croatia for drafting legislative proposals, particularly in the area of capital market and investment funds, aimed at strengthening climate transition, stronger protection of small shareholders and regulatory unbundling of investment service providers and entrepreneurs. Based on the new legislative proposals, in 2021 Hanfa acquired supervisory powers and duties in relation to the operation of crowdfunding service providers, the issue of covered bonds and the resolution of CCPs. In 2021, Hanfa Board adopted 25 ordinances from almost all areas of competence, while in order to harmonise supervisory practice, six publicly disclosed official positions of Hanfa were adopted. All of the by-laws were preceded by professional and public consultation process through the e-Consultation portal.

4.1 Capital market and investment services

Legislative activities

Due to the continued need to align the Croatian capital market regulatory framework with that of the EU, three amendments to the legislation governing the area of capital market and a new law governing the crowdfunding framework were adopted in 2021, and drafts of new legislation, giving Hanfa new duties and responsibilities, were intensively prepared during the year.

The Act Amending the Act Implementing Regulation (EU) 2016/1011 on indices used as benchmarks⁶⁴ ensures the direct application of Regulation (EU) 2019/2089⁶⁵. This Regulation provides for two new types of benchmarks aimed at encouraging the EU's transition towards sustainable finance, namely EU climate transition benchmarks and EU Paris-aligned benchmarks.

⁶⁴ [Official Gazette, No 46/21](#)

⁶⁵ [Regulation \(EU\) 2019/2089](#) of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks, OJ L 317

The Act Amending the Capital Market Act⁶⁶ ensures further harmonisation of the capital market in the Republic of Croatia with EU regulations, in particular as regards the transposition of Directive (EU) 2019/2034⁶⁷ laying down specific prudential requirements for the initial capital of investment firms, supervisory powers and instruments for the prudential supervision of investment firms carried out by Hanfa and disclosure requirements for competent authorities in the area of prudential regulations and supervision. This Act also transposes the

Synthetic securitisation

A synthetic securitisation includes the transfer of credit risk arising from a pool of loans through a credit protection agreement when the originator of the securitisation purchases credit protection from investors. Credit protection is obtained through the use of financial guarantees or credit derivatives, while the ownership of the assets remains with the originator and is not transferred to a securitisation special purpose entity, as is the case in traditional securitisations.

provisions of Directive (EU) 2021/338⁶⁸, which bring certain relief to investment service providers, in order to accelerate recovery from the crisis caused by the COVID-19 pandemic. Moreover, in order to encourage issuers to list a new issue of already listed shares, amendments are introduced enabling the stock exchange to impose, for higher quotations, the obligation to list a new issue and sanctions for breaches of these obligations, but also the obligation to provide timely and transparent information from which investors and potential investors will be able to easily and accurately determine the total amount of the issuer's share capital, the issuer's ownership structure, the total number of shares issued with voting rights, and, where applicable, the total number of shares issued without voting rights. In addition, in order to protect small shareholders, the procedure for removing shares from the regulated market is further regulated. The amount of fair compensation and a feasibility study on the assessment of the fair value, audited by an independent certified auditor, must be made fully available to all shareholders and published no later than five days before the date of the general meeting at which the removal of the shares from the admission to the regulated market is decided, in order for the shareholders to be able to take an informed decision.

The Act Amending the Capital Market Act introduced significant regulatory disburdening for entrepreneurs, i.e. non-financial counterparties, as regards their reporting obligations towards Hanfa, given that the amounts involved in trading OTC derivatives that they have to report are significantly increased, and issuers are relieved of the obligation to disclose data on the acquisition and holding of their own shares on an annual basis.

⁶⁶ [Official Gazette, No 83/21](#)

⁶⁷ [Directive \(EU\) 2019/2034](#) of the European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU, OJ L 314

⁶⁸ [Directive \(EU\) 2021/338](#) of the European Parliament and of the Council of 16 February 2021 amending Directive 2014/65/EU as regards information requirements, product governance and position limits, and Directives 2013/36/EU and (EU) 2019/878 as regards their application to investment firms, to help the recovery from the COVID-19 crisis, OJ L 68

The Act Amending the Act Implementing Regulation (EU) No 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation⁶⁹ provides for the additional competence of Hanfa and the CNB as regards the requirements for simple, transparent and standardised balance-sheet synthetic securitisation and as regards the requirements regarding the credit protection agreement, third-party authorised for check and synthetic excess spread. This has been introduced given the fact that the European legislative framework is extending to synthetic securitisations and provides for the removal of regulatory barriers to non-performing exposures securitisation to further increase lending capacity without lowering prudential standards for bank lending and the development of a sustainable securitisation framework.

The Crowdfunding Regulation⁷⁰, which as part of the CMU project represents for the first time a unified, directly applicable set of rules for providers of lending-based or equity-based crowdfunding services, has been integrated into the domestic legislative framework through the Act implementing it. This Regulation should benefit project owners who are thus financed through a substantially wider number of potential investors, as well as investors, because of the increase in the possibilities of placing funds with clear and transparent rules for all participants involved in these activities. The Crowdfunding Regulation regulates the issue of authorisations and supervision of the operation of such platforms, customer protection, transparency of marketing communications related to the provision of crowdfunding services, prudential requirements for service providers and the role of national supervisory authorities, including the power to impose administrative penalties and to take other appropriate administrative measures. These powers are conferred on Hanfa by way of the Act Implementing the Crowdfunding Regulation⁷¹, which includes the issue of authorisations to crowdfunding service providers, supervision of the operation of crowdfunding platforms and the authority to file indictments for infringements.

In 2021, the working group of the Ministry of Finance of the Republic of Croatia worked intensively on the preparation of two new legislative proposals in the field of capital markets, on the basis of which Hanfa will receive significant new powers and duties.

⁶⁹ [Official Gazette, No 126/21](#)

⁷⁰ [Regulation \(EU\) 2020/1503](#) of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937, OJ L 347

⁷¹ [Act Implementing Regulation \(EU\) 2020/1503](#) on European crowdfunding service providers (Official Gazette, No 144/21)

The draft proposal of the Act on the Issue of Covered Bonds and Covered Bond Public Supervision⁷² transposes Directive (EU) 2019/2162⁷³ into the Croatian legislative framework and for the first time regulates the legal framework for the issue of covered bonds and public supervision of covered bonds. Hanfa is given the authority to supervise the application of this act. Investors

Covered bonds

Covered bonds are debt securities with medium and long-term maturity, with a long history in Europe, issued by a credit institution and backed by a segregated collection of assets to which investors have a preferential claim in the event of default.

in covered bonds are at the same time entitled to claim from issuers as creditors in normal proceedings. Such dual claim relating to the cover pool and to the issuer is referred to as a dual recourse mechanism. Covered bonds enable credit institutions to grant larger and safer loans, which is one of the reasons why they performed well during the 2008 financial crisis compared to other financing instruments, and played a key role as they maintained a high level of security and liquidity. Loans secured by residential real estate or public sector debt are mainly used to secure covered bond issues.

Regulation (EU) No 2021/23 on a framework for the recovery and resolution of central counterparties⁷⁴ was also integrated in 2021 into the domestic legislative framework by a draft proposal for the act on its implementation. Central counterparties play a key role in ensuring the stability of financial markets as they assume counterparty risk by interposing between the seller and the buyer and providing guarantees that the transaction can be completed. This Regulation provides the national authorities with appropriate tools to manage crises and address situations in which central counterparties may experience difficulties as a result of significant market disruption, which may result in an inability to fulfil their essential functions. The rules are based on the same principles as the framework for the recovery and resolution of credit institutions, adapted to the specificities of central counterparties in relation to banks. The new rules reduce the likelihood of a central counterparty's failure by introducing effective incentives for proper risk management. In addition, in the event of financial difficulties, the Regulation creates preconditions for preserving the critical functions of central counterparties and, therefore, for preserving financial stability. It also contributes to preventing the emergence of circumstances in which it would be necessary for taxpayers to bear the costs of the central counterparty resolution. The proposed Act designates Hanfa as the resolution authority of central counterparties based in the Republic of Croatia, and enables and clarifies the national implementation of the provisions of Regulation (EU) 2021/23, in particular as regards the application of certain resolution tools and the powers and responsibilities of Hanfa and the Ministry of Finance of the Republic of Croatia, especially in relation to the use of government tools for financial stabilisation.

⁷² The Act is expected to be adopted in 2022.

⁷³ [Directive \(EU\) 2019/2162](#) of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU, OJ L 328

⁷⁴ [Regulation \(EU\) 2021/23](#) of the European Parliament and of the Council of 16 December 2020 on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, (EU) No 600/2014, (EU) No 806/2014 and (EU) 2015/2365 and Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/EU and (EU) 2017/1132, OJ L 22

By-laws

In 2021, pursuant to the provisions of the CMA, Hanfa adopted seven ordinances in the field of capital market, which mainly referred to amendments to the current and future reporting and supervisory obligations of capital market participants, in particular market infrastructure entities⁷⁵. A special ordinance⁷⁶ prescribes a decision-making process for Hanfa on a number of applications for authorisation to use the exemptions related to re-securitisation and disclosure of information on private securitisations, as well as the content of application for authorisation to third parties verifying securitisation compliance with the requirements for simple, transparent and standardised securitisation (STS compliance⁷⁷) and documentation to be submitted with such an application for authorisation.

In order to stimulate, organise and supervise measures for the efficient functioning of the financial market with a view to unifying the conduct of supervised entities, Hanfa adopted and published two official positions in the field of capital market.

In its Official position on the legal nature of the compensation paid by investment firms to tied agents for the activities performed⁷⁸ Hanfa's view is that this is an internal payment within a company that must be covered by the remuneration policy and not by an inadmissible additional incentive⁷⁹. In its Official position on the required level of the segregation of clients' accounts of members of the clearing system managed by the central counterparty⁸⁰ as regards the issues that arise in practice, Hanfa provided guidance on the circumstances to be taken into account by supervised entities when deciding on the level of segregation.

4.2 Investment funds

Legislative activities

2021 saw the adoption of the Act Amending the Act on Open-Ended Investment Funds with Public Offering⁸¹ and the Act Amending the Alternative Investment Funds Act (hereinafter: the Act Amending the AIFA)⁸².

⁷⁵ The list of ordinances adopted by Hanfa in 2021 is provided in the Appendix.

⁷⁶ Ordinance on re-securitisation, disclosure of information on private securitisations and websites, and issuing approval to third parties verifying STS compliance, [Official Gazette, No 88/21](#)

⁷⁷ Simple, transparent and standardised (STS) compliance

⁷⁸ [Link](#)

⁷⁹ Within the meaning of Article 91(1) of the [CMA](#)

⁸⁰ [Link](#)

⁸¹ [Official Gazette, No 110/21](#)

⁸² [Official Gazette, No 110/21](#)

The novelties introduced by the Act Amending the Act on Open-Ended Investment Funds with Public Offering are primarily linked to the further harmonisation of the Croatian capital market regulatory framework with the EU acquis⁸³, which aims to remove barriers to effective cross-border marketing of investment funds, align the notification process and harmonise various practices applied in the Member States in relation to cross-border marketing of investment funds. In addition, this Act contains amendments that represent harmonisation with other regulations under Hanfa's competence, thereby eliminating the shortcomings and inconsistencies observed through previous practice, which will contribute to the uniformity of conduct and legal certainty. One of the most significant novelties is the introduction of the term and the main determinant UCITS ETF, as a specific type of open-ended investment fund with public offering, with at least one class of unit traded during the day on the regulated market or a multilateral trading facility, with at least one market maker.

Act Amending the Alternative Investment Funds Act

The Act Amending the Alternative Investment Funds Act also removed barriers to cross-border marketing of investment funds and provided a framework for increasing transparency of national trade requirements, as well as for increasing investor protection.

However, it is important to point out that with these legislative amendments, alternative investment fund managers (hereinafter: AIFMs) have been disburdened administratively and in regulatory terms with a view to liberalising and facilitating the operation of AIFs, in order to increase their investment potential and development contribution to the domestic economy. Proposals for legislative amendments that were ultimately adopted were generated through the public consultation process in order to establish, in dialogue with market stakeholders, the actual existence of obstacles to the operations of AIFs and to formulate optimal proposals for increasing the efficiency of their operations. These were included in the Report on the conducted public consultation⁸⁴.

⁸³ As regards the transposition of [Directive \(EU\) 2019/1160](#) of the European Parliament and of the Council of 20 June 2019 amending Directives 2009/65/EC and 2011/61/EU with regard to cross-border distribution of collective investment undertakings, OJ L 188, and ensuring the implementation of [Regulation \(EU\) No 2019/1156](#) of the European Parliament and of the Council of 20 June 2019 on facilitating cross-border distribution of collective investment undertakings and amending Regulations (EU) No 345/2013, (EU) No 346/2013 and (EU) No 1286/2014, OJ L 188

⁸⁴ [Link](#)

Legal amendments relating to AIFs



The most important legislative amendments relating to the disburdening and liberalisation of the operations of AIFs are:

1. laying down new thresholds for small and medium-sized AIFMs by increasing them, allowing for the qualification of new small AIFMs currently classified as large or medium-sized, as well as new medium-sized AIFMs currently classified as large. This option also opens up more opportunities for the establishment of new AIFMs with a lower regulatory burden, appropriate to their (lower) risk profile.
2. additional regulatory disburdening for small and medium-sized AIFMs by reducing the minimum amount of share capital for small AIFMs, from the previous HRK 500 thousand when the AIFM is appointed as an external manager of the AIF to HRK 400 thousand, as well as some disburdening for appointing management board members
3. change in the concept of authorisation to establish AIFs with a private offering, through an accelerated authorisation procedure under which the regulator does not approve the rules of AIFs offered exclusively to professional and qualified investors
4. enabling the establishment of a closed-ended AIF with legal personality and in the form of a limited partnership, which follows the established foreign practice for individual types of AIFs
5. aligning the definition of a qualified investor in a private equity AIF with the single definition of a qualified investor, allowing a “regular” qualified investor to offer units in a private equity AIF.

6. enabling management board members and employees of an AIFM to invest in an AIF with a private offering managed by that AIFM, if these employees are directly involved in investment activities or are employees with senior functions experienced in the provision of asset management services

7. enabling investment firms to be depositaries of AIFs with private offering under the prescribed conditions of capital adequacy and authorisation to conduct custodianship and related services

8. replacing the obligation to obtain approval for the selection or change of the depositary by the obligation to notify Hanfa of the choice of the depositary (which, of course, must meet the legal requirements)

9. regulatory disburdening as regards reporting for small AIFMs: small AIFMs are relieved of the obligation to produce and submit reports relating to liquidity management, the obligation to submit semi-annual reports on unit holders of AIFs for AIFs with a private offering, the obligation to produce and submit semi-annual financial statements of the AIFM and of the AIF and semi-annual report of the AIFM on own funds, the obligation to produce and submit semi-annual and annual additional reports of AIFs and other reports, which are replaced by reporting as appropriate

10. fees and charges for AIFs with a private offering, which are now governed solely by the rules of the AIF, enabling the AIFM and investors to regulate their rights and obligations independently.

These regulatory amendments comply with the relevant provisions of EU regulations and their introduction into the domestic legislative environment allows AIFs, i.e. their managers, to operate in an orderly and competitive manner, taking into account the interests of investors and markets as a whole, as well as their potential for domestic economic growth and development.

By-laws

Alternative investment funds

In view of the amendments to the legislative regulation of AIFMs' operations made in 2021, Hanfa also amended three ordinances⁸⁵ which, based on the Act Amending the AIFA, implemented the already mentioned regulatory disburdening for small AIFMs by abolishing a number of reporting obligations for small and medium-sized AIFMs and the funds managed by them.

Open-ended investment funds with public offering

⁸⁵ The list of ordinances adopted by Hanfa in 2021 is provided in the Appendix.

The Ordinance amending the Ordinance on the form and amount of regulatory capital of UCITS management companies⁸⁶ ensured a more systematic monitoring of liquid assets held by the management company, which was necessary due to uncertain market circumstances.

4.3 Pension system

Legislative activities

In 2021, Hanfa continued to participate in the working group of the Ministry of Finance drafting the Proposal for the Act Implementing the Pan-European Personal Pension Product Regulation (hereinafter: PEPP)⁸⁷. This is a personal pension product of a long-term nature which will take into account environmental, social and management factors, as much as possible. The aim is to make the PEPP simple, safe, transparent, consumer-friendly and transferable across the EU. It should be reasonably priced, complementing the existing systems in the Member States. The Act is expected to be adopted in 2022.

By-laws

Last year, four ordinances⁸⁸ governing the operations of mandatory pension funds were amended, which improved reporting to Hanfa on the operations of pension companies and mandatory pension funds. The new Ordinance on reporting to the Croatian Financial Services Supervisory Agency on complaints of fund members to mandatory pension companies⁸⁹ was adopted. This Ordinance prescribes the manner of keeping records of complaints by members of mandatory pension funds and reporting them to Hanfa. The same manner of keeping records and reporting to Hanfa is prescribed for voluntary pension funds by the Ordinance on reporting to the Croatian Financial Services Supervisory Agency on complaints of fund members to voluntary pension companies⁹⁰. These Ordinances stipulate, inter alia, a more detailed reporting to Hanfa on the areas of operations complained of by users, in order to enable Hanfa to use this information for the purpose of planning further supervisory and normative activities.

⁸⁶ [Official Gazette, No 5/21](#)

⁸⁷ [Regulation \(EU\) 2019/1238](#) of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP), OJ L 198

⁸⁸ The list of ordinances adopted by Hanfa in 2021 is provided in the Appendix.

⁸⁹ [Official Gazette, No 144/21](#)

⁹⁰ [Official Gazette, No 144/21](#)

In order to encourage, organise and oversee measures for the efficient functioning of the financial market in the sense of harmonising the conduct of supervised entities, an official position⁹¹ was adopted regarding the interpretation of the provisions of the Voluntary Pension Funds Act⁹² as regards the delegation of tasks to third parties, whereby Hanfa took the view that the receipt of enquiries concerning the number of units in the pension fund, the value of units at the requested date, the total amount paid in the Croatian kuna and the transactions carried out during the requested period, as well as responding to such enquiries represent administrative activities of a pension company to which the rules on delegation apply.

4.4 Insurance

By-laws

In 2021, Hanfa adopted two new ordinances and three amendments to the existing ordinances governing the operations of insurance and insurance distribution companies in the Republic of Croatia⁹³.

Same as for pension funds and pension insurance companies, the Ordinance on reporting to the Croatian Financial Services Supervisory Agency on complaints and objections of interested persons to insurance companies⁹⁴ prescribes the manner of keeping records of complaints of interested persons and reporting them to Hanfa, in order to adequately monitor and improve the protection of insurance services users.

The most important normative activity regarding insurance was the adoption of the Ordinance on the minimum content of the recovery plan of insurance companies and reinsurance companies⁹⁵ on the basis of the Insurance Act and EIOPA's document *Supervisory statement on supervisory practices and expectations in case of breach of the Solvency Capital Requirement*. The Ordinance prescribes the minimum content of the recovery plan, which includes information on the causes of non-compliance with the solvency capital requirement, projections of the statement of financial position, the recovery measures the company intends to use, the plan for the implementation of the measures contained in the recovery plan, the procedure for its development as well as the implementation and supervision of the implementation of the recovery plan. In its Official position on the application of the Act on Compulsory Traffic Insurance⁹⁶, Hanfa adopted a legal position in accordance with the provisions of that Act currently in force concerning the liability of an insurance company for compensation for the amount of damage caused in a road traffic accident between vehicles owned by the same leasing company. According to the position, an insurance company is not required to compensate a leasing company directly as an insured person under the insurance contract, regardless of the fact that the

⁹¹ [Link](#)

⁹² [Official Gazette, No 19/14, 29/18, 115/18](#)

⁹³ The list of ordinances adopted by Hanfa in 2021 is provided in the Appendix.

⁹⁴ [Official Gazette, No 144/21](#)

⁹⁵ [Official Gazette, No 68/21](#)

⁹⁶ [Link](#)

lessee (the user of the vehicle) is not liable for a traffic accident in which the damage was caused by a vehicle owned by the same leasing company (the lessor).

4.5 Other normative activities

Legislative activities

The most significant legislation adopted in 2021, affecting the operations of all Hanfa's supervised entities is the Act Implementing Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector and Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (hereinafter: the Act on Sustainability-Related Disclosures)⁹⁷. This Act ensures the implementation of the EU regulations on sustainability, namely the SFDR and the Taxonomy Regulation⁹⁸, and confers supervisory powers under the Taxonomy Regulation on Hanfa.

The provisions of the SFDR, which are directly applicable, establish the general framework and obligations for sustainability-related disclosures in the financial sector and lay down harmonised rules for financial market participants and financial advisers on transparency with regard to the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and investment decision-making, and the provision of sustainability-related information with respect to financial products. The SFDR defines the meaning of key concepts of sustainable investment, major adverse impacts, sustainability factors and risks, and environmental objectives. Financial market participants and financial advisers subject to the application of this Regulation are also defined.

The Taxonomy Regulation complements the sustainability-related disclosures framework established by the SFDR. Financial market participants making financial products available are obliged to disclose how and to what extent they use the criteria for environmentally sustainable economic activities to determine the environmental sustainability of their investments. Environmentally sustainable investment means an investment in one or several economic activities that qualify as environmentally sustainable under the taxonomy established by the Taxonomy Regulation, and which are based on climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control and the protection and restoration of biodiversity and ecosystems.

Hanfa's supervised entities covered by these regulations include insurance companies offering insurance-based investment products in the insurance industry, and investment firms providing portfolio management services, AIFMs, companies managing open-ended investment funds with public offering and credit institutions providing portfolio management services in the investment services industry. In

⁹⁷ [Official Gazette, No 70/21](#)

⁹⁸ [Regulation \(EU\) 2020/852](#) of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, OJ L 198

the pension insurance segment, sustainability regulations apply to pension companies managing closed-ended voluntary pension funds, pension insurance companies when acting as institutions for occupational retirement provision carrying out the payment of pensions and in relation to pension payments within the framework of voluntary pension insurance and producers of pension products, which, in the Republic of Croatia, are pension companies managing open-ended voluntary pension funds.

With regard to the provisions of the SFDR, the Republic of Croatia made use of the possibility of extending the scope of the Regulation and prescribed its application to voluntary pension companies in respect of open-ended voluntary pension funds. Given that both open and closed-ended voluntary pension funds are intended to provide pension income to members, it is appropriate and proportionate for them to disclose to their members and potential members information related to the sustainability of the pension product they offer. This is how the asymmetry of information is mitigated at the same time.

Furthermore, due to their role, pension companies can contribute to creating the conditions for a broad acceptance of sustainable investments by encouraging capital shifting to more sustainable activities and businesses, and further from activities and companies considered less sustainable. They can also help ensure that companies and other entities in which they invest effectively respond to the opportunities and risks posed by trends, such as the transition to a low-carbon economy, the desire for safe and high-quality food and a growing standard of living. This is particularly important for the Croatian market, where pension companies are dominant actors.

By-laws

One of the most significant Hanfa's normative activities in 2021 was the adoption of the Ordinance amending the Ordinance on the procedure of assessing the risk of money laundering and terrorist financing and the manner of carrying out simplified and enhanced customer due diligence measures⁹⁹. This Ordinance requires Hanfa's supervised entities subject to the application of the Anti-Money Laundering and Terrorist Financing Act¹⁰⁰ to implement the EBA (European Banking Authority) Guidelines on customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions¹⁰¹.

Last year, Hanfa adopted two official positions concerning the regulation of leasing and factoring companies, with the aim of promoting, organising and supervising measures for the efficient functioning of the financial market in terms of harmonizing the conduct of supervised entities. In its official position on the activities of PlatiMe.hr digital platform¹⁰², Hanfa established the scope of obligations of the

⁹⁹ [Official Gazette, No 144/21](#)

¹⁰⁰ [Official Gazette, No 108/17](#) and [39/19](#)

¹⁰¹ [EBA/GL/2021/02](#)

¹⁰² [Link](#)

platform manager towards Hanfa in terms of the obligation to provide data on the legal factoring operations concluded via this platform. In its official position on the application of the Leasing Act¹⁰³, Hanfa took the view that a leasing company is not absolutely prohibited from granting loans to its employees if this does not fall within the business operations of the company.

¹⁰³ [službeno-stajalište leasing-davanje-zajmova-zaposlenicima.pdf \(hanfa.hr\)](#)



Licensing and training



5 Licensing and training

The first step in ensuring the legality of operation of Hanfa's supervised entities relates to the licensing procedure. On the basis of relevant regulations, Hanfa verifies the fulfilment of requirements and carries out licensing procedures for natural persons pursuing business which requires Hanfa's authorisation and for legal persons. The requirements that need to be met by holders of qualifying holdings in order to obtain Hanfa's positive opinion during a licensing procedure are good reputation, good financial standing and transparent origin of funds used to finance the proposed acquisition. Hanfa also verifies the fulfilment of requirements to be met by members of management and supervisory boards of companies under its supervision, such as the candidate's reputation and integrity, and adequate professional qualifications, knowledge and experience needed to perform these functions. In addition to issuing authorisations, Hanfa also organises professional training and examination procedures relating to the acquisition of appropriate knowledge and qualifications by natural persons conducting activities falling within Hanfa's competence.

5.1 Licensing

In 2021, Hanfa carried out 323 licensing procedures, 53% more than in 2020. Such a significant increase was a result of changes brought about by the Act Amending the Insurance Act¹⁰⁴, that is, by the obligation for the existing and new insurance companies' supervisory board members to undergo a licensing procedure. The licensing procedures involved the issuance of various approvals, such as approvals to acquire a qualifying holding, authorisations, approvals to perform the function of a management board member and supervisory board member, approvals for changes in status, approvals for outsourcing functions and activities, approvals to perform activities of a certified actuary, authorisations to pursue insurance and reinsurance distribution business, as well as procedures determining the termination of a licence.

The largest part of licensing applications in 2021 was related to applications for authorisation (68 authorisations) and to termination / revocation of authorisation to pursue insurance and reinsurance business (54 decisions), as well as to applications for approval to perform the function of a member of the supervisory board of an insurance company (85 approvals).

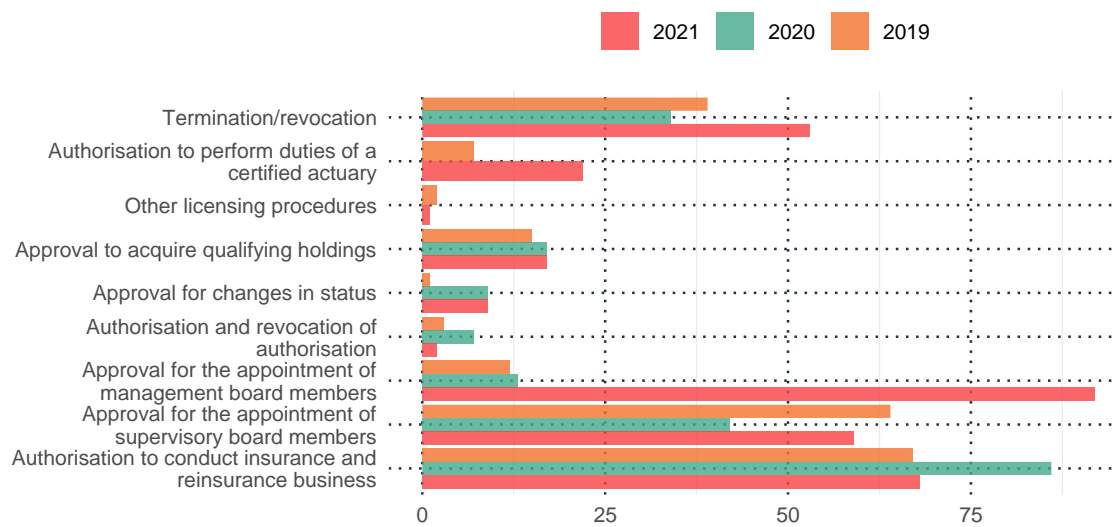
¹⁰⁴ [Official Gazette, No 63/20](#)

Capital market

In 2021, Hanfa issued four approvals to perform the function of a member of the management board of an investment firm, relating to the reappointment of the existing investment firms' management board members.

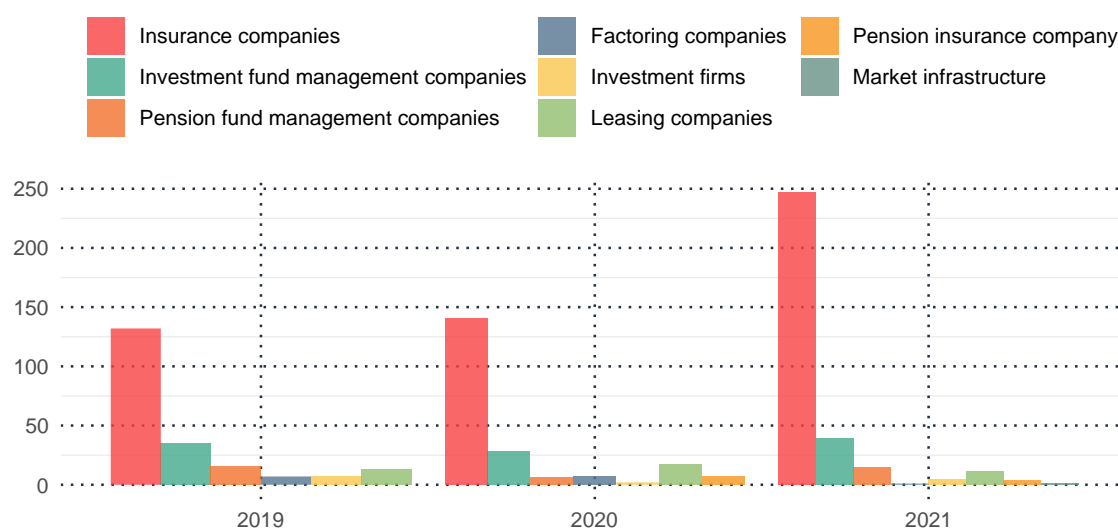
Following the issuance of authorisation to the company SKDD-CCP Smart Clear d.d. to provide central counterparty services, Hanfa issued an approval to perform the function of a member of the management board of that company.

Figure 5.1.1 Licensing procedures in 2021, by the type of procedure



Source: Hanfa

Figure 5.1.2 Licensing procedures in 2021, by industry



Source: Hanfa

Investments

During 2021, Hanfa issued two authorisations to alternative investment fund management companies, one in the medium-sized AIFM category, and the other in the large AIFM category. The authorisation in the large AIFM category was issued to an existing AIFM which had already possessed authorisation in the medium-sized AIFM category. One procedure relating to the issuance of authorisation to a small AIFM was terminated at the request of the applicant.

Hanfa also issued 23 approvals to perform the function of a member of the investment firm's management board, six of which were issued with respect to the performance of the function of a member of the UCITS management company's management board, nine with respect to the performance of the function of a management board of UCITS and AIF management companies, and eight with respect to the performance of the function of a member of the AIFM management board. In three cases, the procedure relating to the issuance of approval to perform the function of a member of the investment firm's management board was terminated at the request of the applicant.

An AIFM obtained Hanfa's approval to merge by acquisition another investment fund management company.

In 2021, Hanfa issued nine approvals to acquire qualifying holdings in investment fund management companies, five of which related to a direct and four to an indirect acquisition.

Investment fund management companies obtained four approvals to delegate their tasks to third parties, three of which were approvals to delegate internal audit tasks and one was an approval to delegate compliance function tasks.

Hanfa revoked an investment fund management company's authorisation to perform ancillary activities of portfolio management and investment advice pursuant to the company's own decision to cease its activities. An investment fund management company's authorisation to manage UCITS was revoked in the same way, after which the company was merged by acquisition with another investment fund management company.

Pension system

In 2021, a company from the Republic of Austria obtained Hanfa's approval to acquire holdings pursuant to the Mandatory Pension Funds Act and approval to directly acquire a qualifying holding pursuant to the Voluntary Pension Funds Act in a mandatory and voluntary pension fund management company, reaching 51% of the initial capital and voting rights of that company.

Six approvals were issued to perform the function of a member of the pension company's management board, as well as seven approvals to perform the function of a member of the pension company's supervisory board.

During the year, Hanfa also issued four approvals to the pension insurance company to outsource tasks, namely tasks related to website maintenance, administrative-technical tasks related to the exchange of document maps for clients of the company, tasks related to the maintenance of a specialised information system supporting business processes of the company and tasks related to the maintenance of the computer programme.

Insurance

In 2021, a company from the Republic of Austria obtained Hanfa's approval to directly acquire a qualifying holding in a Croatian insurance company, reaching 83.2% of the initial capital and voting rights of that company. It also issued approvals to acquire a qualifying holding in a Croatian insurance company: a Hungarian company obtained approval for a direct acquisition, and two French companies obtained approval for an indirect acquisition.

During the year, 85 approvals were issued as regards the performance of the function of a member of the insurance company's supervisory board, 55 of which related to compliance and 30 to new terms of office of supervisory board members, as a result of legislative changes imposing the obligation for members of insurance companies' supervisory boards to obtain a licence. Another 15 approvals were issued to members of insurance companies' management boards, as well as 22 approvals to perform activities of a certified actuary. In three cases, the procedures were terminated at the request of the applicant, namely as regards the issuance of approval to a management board member and supervisory board member of an insurance company, and a proposed acquisition in an insurance company.



In the area of insurance and reinsurance distribution, 68 authorisations to pursue insurance and reinsurance business were issued to insurance intermediaries, among which the majority of authorisations were issued to insurance representation crafts.

Non-bank financing

Leasing and factoring companies

In 2021, Hanfa adopted nine decisions on issuing approval to perform the function of a member of the leasing company's management board. In a joint administrative procedure, it adopted a decision granting approval to a company with its registered office in the Republic of Austria to indirectly acquire a qualifying holding reaching 100% of the initial capital and voting rights in two Croatian leasing companies. An approval was also issued to a member of the management board of a factoring company.

Within the framework of non-administrative proceedings, Hanfa verified the fulfilment of requirements for members of management boards of leasing and factoring companies, having confirmed the fulfilment of requirements by 15 members of leasing companies' supervisory boards and by two members of factoring companies' supervisory boards.



5.2 Examinations and professional training

Figure 5.2.1 Examination results, by type of examination



Source: Hanfa

Examinations in the area of capital market, pension funds and pension insurance companies

In 2021, Hanfa organised a professional training programme and five examination cycles related to the examination of knowledge and acquisition of qualifications needed to provide information on investment products and services, carry out brokerage activities and provide investment advice services, perform the function of a certified pension fund manager and manage pension insurance companies. The professional training programme, carried out by expert lecturers in the field of capital market, pension funds and pension insurance companies, including a number of Hanfa's employees, was held in October 2021 and attended by 10 persons. It covered the areas of actuarial services, legislative framework, foreign exchange and payment system, financial institutions and markets, market abuse, quantitative methods, risk management, financial reporting fundamentals, company law, corporate

finance, portfolio theory, Zagreb Stock Exchange Rules, ethical standards, economic policy, prevention of money laundering and terrorist financing, takeover of joint-stock companies, corporate governance code, licensing, accounting and financial reporting and insurance fundamentals. The examinations were held in May, June, November and December and were taken by 50 applicants, of whom 18 passed. In November 2021, examinations in the area of capital market, pension funds and pension insurance companies were held online for the first time.

Examinations of professional knowledge required in order to pursue insurance and/or reinsurance distribution activities and on-going professional training for distributors

Insurance and/or reinsurance distributors' expertise implies an adequate level of knowledge and competence, and involves passing the examination of professional knowledge required in order to pursue insurance and/or reinsurance distribution activities and maintaining an adequate level of knowledge and competence of distributors throughout the entire period of pursuing insurance and/or reinsurance business (on-going professional training).

The examinations is organised pursuant to the Ordinance on the fit and proper requirements for insurance distributors and reinsurance distributors and their entry in the register¹⁰⁵, and involves the examination of knowledge with respect to the selected insurance group, category of insurance intermediaries and ancillary intermediaries, and insurance or reinsurance products the intermediary intends to distribute. As of February 2021, following the transition to the online examination system, Hanfa organised examinations for insurance and/or reinsurance distributors on a weekly basis. The examinations were taken by a total of 896 candidates, with the pass levels similar to those in previous years.

Pursuant to the Ordinance, in order to pursue insurance and/or reinsurance business, distributors are obliged to maintain an appropriate level of expertise; therefore, in 2021 Hanfa continued monitoring the fulfilment of the requirement for distributors to undergo professional development and training on an on-going basis. The on-going training for distributors continued on the basis of newly submitted plans for a two-year period, ending on 31 December 2023. It included obligatory modules such as insurance market, financial competency, life insurance policies and savings products, conflicts of interest, consumers, complaints, etc.

Professional training for issuers

In 2021, Hanfa organised two training sessions for issuers on the regulated market. The May session presented global trends in the area of reporting on ESG factors as regards regulations and guidelines

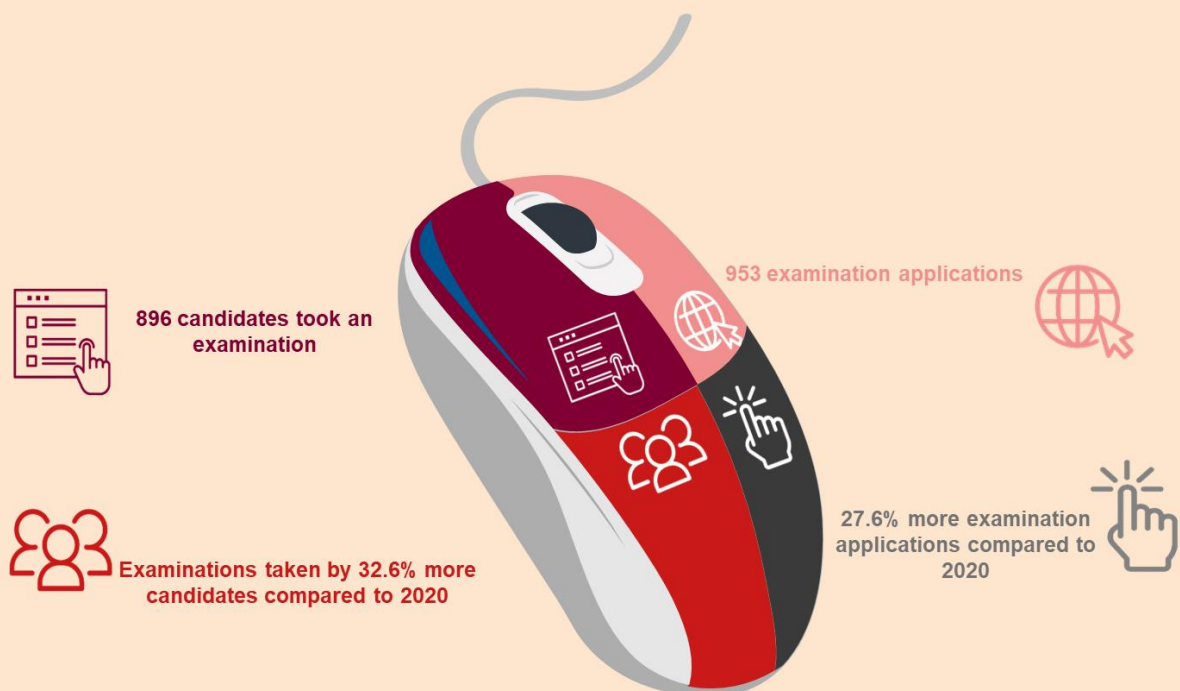
¹⁰⁵ [Official Gazette, No 16/19](#) and [9/21](#)

for preparing reports on these factors, EU legislative framework on sustainable financing and technical aspects of the European Single Electronic Format. The session organised in November described the proposal of EU regulations which will govern corporate sustainability reporting and the analysis of issuers' readiness relating to the preparation of annual reports pursuant to the European Single Electronic Format.

Furthermore, in June 2021, along with the ZSE and the CDCC, Hanfa organised the 12th professional gathering for issuers, presenting the analysis of data quality in the governance practices questionnaire and Code compliance questionnaire, novelties relating to non-financial reporting and regulations on shareholders' rights as regards the identification of securities holders and support services in holding the general assembly.

Digitalisation of examinations organised by Hanfa

Application for online examination applications developed



The beginning of February 2021 saw the entry into force of the Ordinance amending the Ordinance on the fit and proper requirements for insurance distributors and reinsurance distributors and their entry in the register¹⁰⁶, providing for the possibility to take online examinations. As early as end-February, online examinations were organised for the first time, while applications were received in writing, as in the previous years. The first online applications for insurance and/or reinsurance

¹⁰⁶ [Official Gazette, No 9/21](#)

distribution examinations were received in early August, with a total of 420 online applications having arrived until the end of 2021. During the year, online examinations were organised continuously on a weekly basis, in 46 examination terms (in 2020, only three examination terms were organised).

In July 2021, two ordinances regulating the capital market, pension funds and pension insurance companies¹⁰⁷ entered into force, also providing for the possibility to take online examinations, which were held in November 2021 for the first time. The first online applications for these examinations were received in September, while a total of 38 online applications arrived until end-2021.

Within the framework of its examination digitalisation procedure, in 2021 Hanfa also developed an application allowing candidates to submit online applications for examinations. Due to high examination frequency, 953 applications were received, 27.6% more than in 2020. The examinations were taken by 896 candidates, or 36.2% more than in the previous year.

No particular technical equipment was necessary for taking the examinations, except for a standard computer with a webcam, microphone, speaker and one of the common internet browsers (Google Chrome, Microsoft Edge, Safari or Mozilla Firefox). The examinations were accessed by Webex and done by means of the assessment tool Socrative.

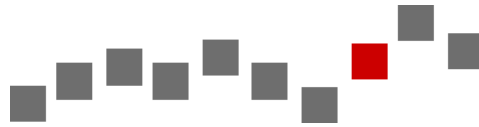
Online examinations were introduced as a result of the adjustment to the newly arisen situation relating to restrictions caused by the pandemic, and as a step taken towards a more modern approach which provided for flexibility with respect to the frequency of examinations, but also for significant savings, as they require no travel expenses. This enabled Hanfa to increase its efficiency, as it sped up its examination organisation process.

Other expenses borne by applicants were also reduced, primarily delivery costs and public notary costs, while the submission of documents was made more convenient and precise. When sending their applications by post, applicants used to omit some of the documents required, and were therefore asked to complete their applications, which is not often the case any more.

The benefits of the online application and examination procedure were also recognised by the market, so Hanfa received numerous compliments, primarily as regards the efficiency of the application procedure and lower examination expenses.

In 2021, Hanfa also started communication with the Central State Office for the Development of the Digital Society and the Croatian Academic and Research Network (CARNET) for the purpose of the transition of Hanfa's online examination system to the state information structure.

¹⁰⁷ Ordinance on the professional training and examinations taken in order to acquire qualifications to provide information on investment products and services, carry out brokerage activities and provide investment advice services ([Official Gazette, No 99/19 and 83/21](#)) and Ordinance on the educational programme and examination taken by candidates for certified pension fund managers and managers of pension insurance companies ([Official Gazette, No 99/19 and 83/21](#))



Consumer protection and improvement of financial literacy



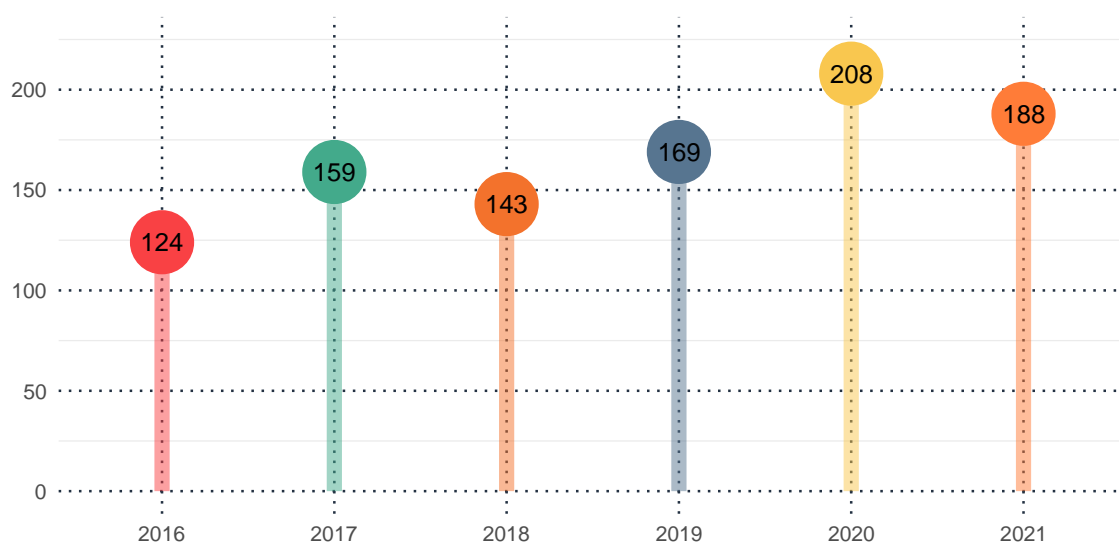
6 Consumer protection and improvement of financial literacy

Protecting the interests of participants in the financial services sector, building mutual trust among participants and educating consumers, financial services users, are key principles that guide Hanfa in carrying out its supervisory and regulatory activities. Hanfa communicates with consumers through numerous channels by regularly responding to enquiries and acting on complaints, but also preventively works towards reducing disputes between consumers and financial service providers through continuous education aimed at raising the level of financial literacy. In this regard, the need to warn consumers about the risks associated with various types of financial services and products, especially those that could be speculative, is increasing.

6.1 Consumer protection

Hanfa receives complaints from users of financial services and other interested persons within its area of competence and acts on any complaint received. Upon receiving a complaint, Hanfa verifies the indications made in the complaint, if necessary asks the supervised entity concerned by the complaint for relevant documentation and statements, and submits a reply to the complaint submitter within 30 days of its receipt.

Figure 6.1.1 Number of complaints received



Source: Hanfa

A total of 188 petitions were received in 2021, which is by 20 petitions, i.e. by 9.6% less than in 2020, but this number remains higher than in previous years.

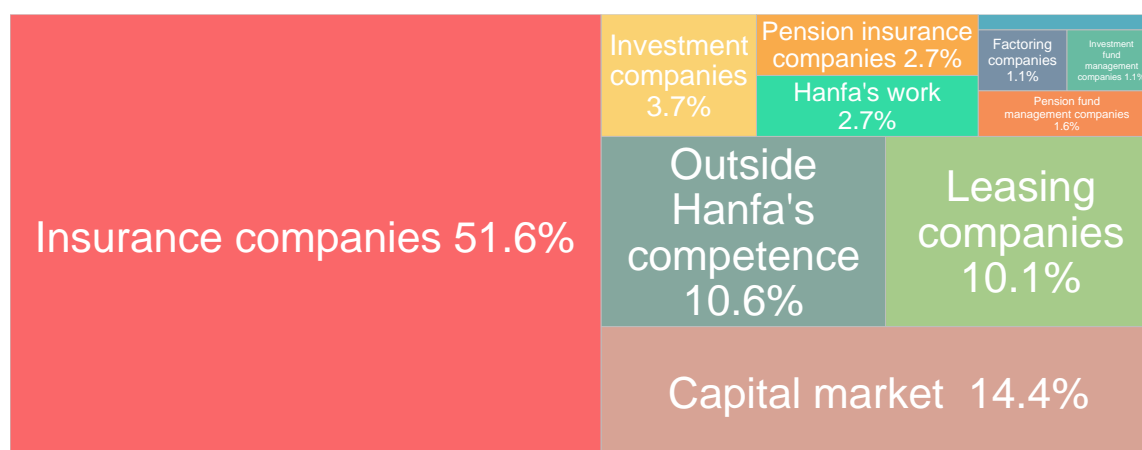
The largest number of complaints still refers to insurance, which is in line with expectations given the relatively large number of active insurance contracts (almost 12 million) at the end of 2021. While the share of complaints in the insurance market remains dominant, the share of such complaints in their total number is decreasing. 51.6% of all complaints (97 in total) in 2021 related to insurance, which is by 5.6 p.p. less than in 2020.

Compared to 2020, there was also a decrease in the number of complaints concerning leasing (by 14%), the management of investment funds (by 50%) and pension funds (by 25%) and complaints not falling within Hanfa's competence (by 33%). At the same time, there was an increase in the number of complaints concerning the capital market and the operation of investment firms and pension insurance companies, although their total number received remains relatively marginal. The number of complaints in relation to factoring remained unchanged relative to 2020.

The largest number of complaints received by Hanfa falling outside the area of its competence still concern the work of companies for the repurchase of due receivables and the banking operations. Unlike in 2020, when no complaints concerning Hanfa's work were received, in 2021 five such complaints were received. They were handled in accordance with the internal rules on the treatment of complaints regarding Hanfa's work, but their analysis showed no irregularities and the submitters were given replies within the legal deadline.

Figure 6.1.2 Structure of financial services users' complaints submitted to Hanfa in 2021

In % of the total number of complaints received in 2021



Note: The empty box in the upper right corner denotes all other complaints making 0.5% of total complaints received in 2021.
Source: Hanfa

The largest number of insurance-related complaints received by Hanfa concerned motor vehicle liability insurance and motor vehicle insurance; 38 such complaints (42%) were received in 2021. On the basis of these complaints, four misdemeanour proceedings were initiated against various companies for

breaches of the obligation to pay claims under compulsory motor vehicle liability insurance¹⁰⁸. The increase in the number and share of complaints related to property insurance recorded during 2020 due to earthquakes continued in the first half of 2021 (18 complaints related to property insurance contracts were received, of which 9 related to earthquake damage), but stopped in the second half of 2021. At the annual level, 26% of all complaints were related to asset insurance contracts, same as the year before. In 2021, there was a slight growing trend in the share of complaints related to liability insurance and credit insurance, which were more frequently activated in view of the difficulties experienced by users with the ability to repay loans due to pandemic-related circumstances. Although substantially complaints often concern the justification of a claim and the amount of damages, which does not fall within Hanfa's competence, they may indicate any irregularities in a company's conduct while handling claims.

In 2021, there was a slight decrease in the number of complaints relating to the issue of not receiving a response from insurance companies to complaints and objections from interested parties within the legal time limit¹⁰⁹, so the share of complaints with this issue as the main reason for submission decreased to 3.3% of all complaints in the field of insurance. Hanfa's recommendation regarding the issue of companies not responding to complaints/objections from interested parties, the issue of informing consumers about the possibility of terminating contracts and generally communicating with clients, which was addressed to all insurance companies in October 2020, also contributed

Companies' statements on acting upon Hanfa's recommendation

One third of companies took some additional actions based on the 2020 Hanfa recommendation on communication with clients, contractual provision of information and responding to complaints/objections.

to this. In 2021, companies were requested to provide statements on their follow-up on the basis of this recommendation. Based on the statements submitted, it was established that a third of companies had taken certain additional actions under the Recommendation to inform clients about the rights and obligations under insurance contracts and to communicate with clients when deciding on claims and responding to complaints/objections.

During 2021, on the basis of a complaint received, one ad hoc on-site supervisory procedure of an insurance company was initiated, as several potential illegalities and irregularities were observed while processing the complaint, as regards how the company handles claims. The supervisory procedure continued in 2022.

¹⁰⁸ Article 12 of the Act on Compulsory Traffic Insurance ([Official Gazette, No 151/05, 36/09, 75/09, 76/13 and 152/14](#))

¹⁰⁹ Article 378 of the [Insurance Act](#)

Informative texts for consumers

Inspired by the findings from complaints, Hanfa published four informative texts on its website in 2021. Following complaints related to the exercise of rights under compulsory motor vehicle liability insurance, the text titled [“Obligation to call the police in case of traffic accidents with material damage and exercise of insurance rights”](#) was published. In this text, insurance services users are explained their rights and obligations when exercising the rights from compulsory insurance and comprehensive insurance, in particular as regards the obligation to call the police after a traffic accident and the completion of the European accident report. The text titled [“Basic features of credit protection insurance”](#) was also published, explaining the purpose and nature of this insurance product, whose contracting is significantly increasing in line with the dynamics of granting loans to the population, and its activation in case of inability to regularly pay loan instalments raises doubts, such as those related to the insurance coverage. The text under the title [“The uncontested part of an insurance claim – how does it affect the rights of the insured person?”](#) explains to the insurance services users their rights in relation to the payment of the uncontested part of the claim, in accordance with the Civil Obligations Act¹¹⁰ and the Act on Compulsory Traffic Insurance¹¹¹.

Uncontested part of the insurance claim

Act on Compulsory Traffic Insurance

Article 12



In the case where it is impossible to determine the final amount of the claim, the insurer is obliged to pay the uncontested part of the claim as an advance within 60 days following the day of the reception of the claim

Civil Obligations Act

Article 943

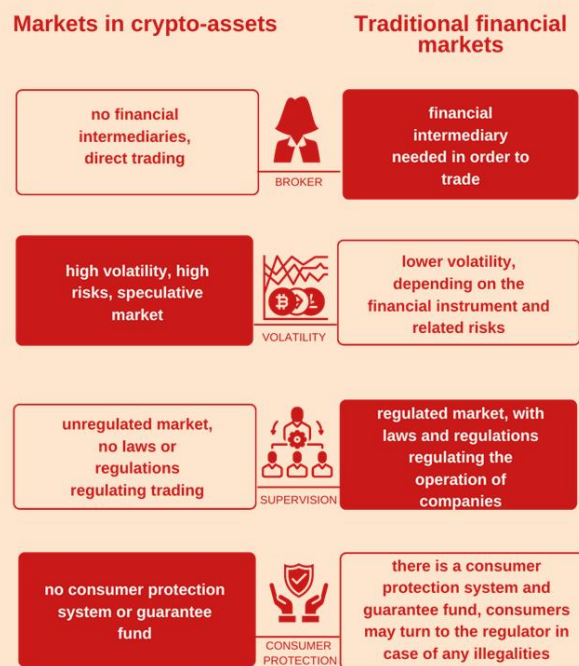
In the case where the amount to be paid by the insurer is not determined within a period between 14 and 30 days, the insurer is obliged to pay the uncontested part of its obligation as an advance

¹¹⁰ [Official Gazette, No 35/05](#)

¹¹¹ [Official Gazette, No151/05, 36/09, 75/09, 76/13 and 152/14](#)

At the end of 2021, informative material was published on the document that is normally delivered to injured parties in the claims handling process, which determines damage caused as a result of adverse events, i.e. [damage inspection report](#). Hanfa pointed out its opinion that insurance companies should be as transparent as possible during communication with claimants when providing information relating to the damage inspection procedure.

Difference between traditional financial markets and markets in crypto-assets



Another text published was the one in relation to the cryptomarket titled [“Cryptomarkets: what is consumer protection like?”](#), given the fact that citizens are increasingly using crypto-assets and investing in them, while at the same time the level of their protection is significantly lower than in the case of conventional financial services, which was, in addition to other differences between traditional finances and crypto-finances, emphasised in the publication.

The increase in the number of leasing-related complaints observed throughout 2020, due to the impact of the pandemic, was halted in 2021. However, a large number of citizen queries were received in connection with Hanfa’s decisions of April 2021, issued in supervisory procedures of leasing companies, which identified illegalities and irregularities related to the calculation of interest rates in leasing contracts. In this regard, Hanfa published on its website a [notice to lessees](#), providing useful information on what they can do next to protect their rights.



The increase in the number of complaints concerning pension insurance companies in 2021 is not surprising given the increasing number of retirements of insured persons from the second pillar, so it can be expected that the number of complaints will continue to rise in the coming period. For most of the complaints, no irregularities in the work of pension insurance companies were found. The reasons for filing complaints were mainly due to their submitters being insufficiently informed on the functioning of the pension system. Increasing the level of financial literacy of financial services users and their understanding of how the pension system operates is certainly one way of trying to prevent some of the complaints that might arise in this segment of financial services. Hanfa will therefore place additional emphasis on educating citizens on pension-related topics in the coming period.

In addition to the aforementioned activities regarding consumer protection, Hanfa actively cooperates with other domestic institutions, especially through membership of the National Consumer Protection Council and Coordination Committees in connection with the preparation for the introduction of the euro. In the framework of international cooperation with the ESAs with regard to consumer protection, Hanfa actively participates in the work of ESMA and EIOPA committees and, inter alia, reports to these authorities on consumer complaints and provides them with various quantitative and qualitative data. Participation in the work of ESMA and EIOPA Committees provides an opportunity to exchange knowledge and experience of other Member States, which is a valuable contribution to improving and advancing the level of consumer protection in the Republic of Croatia.

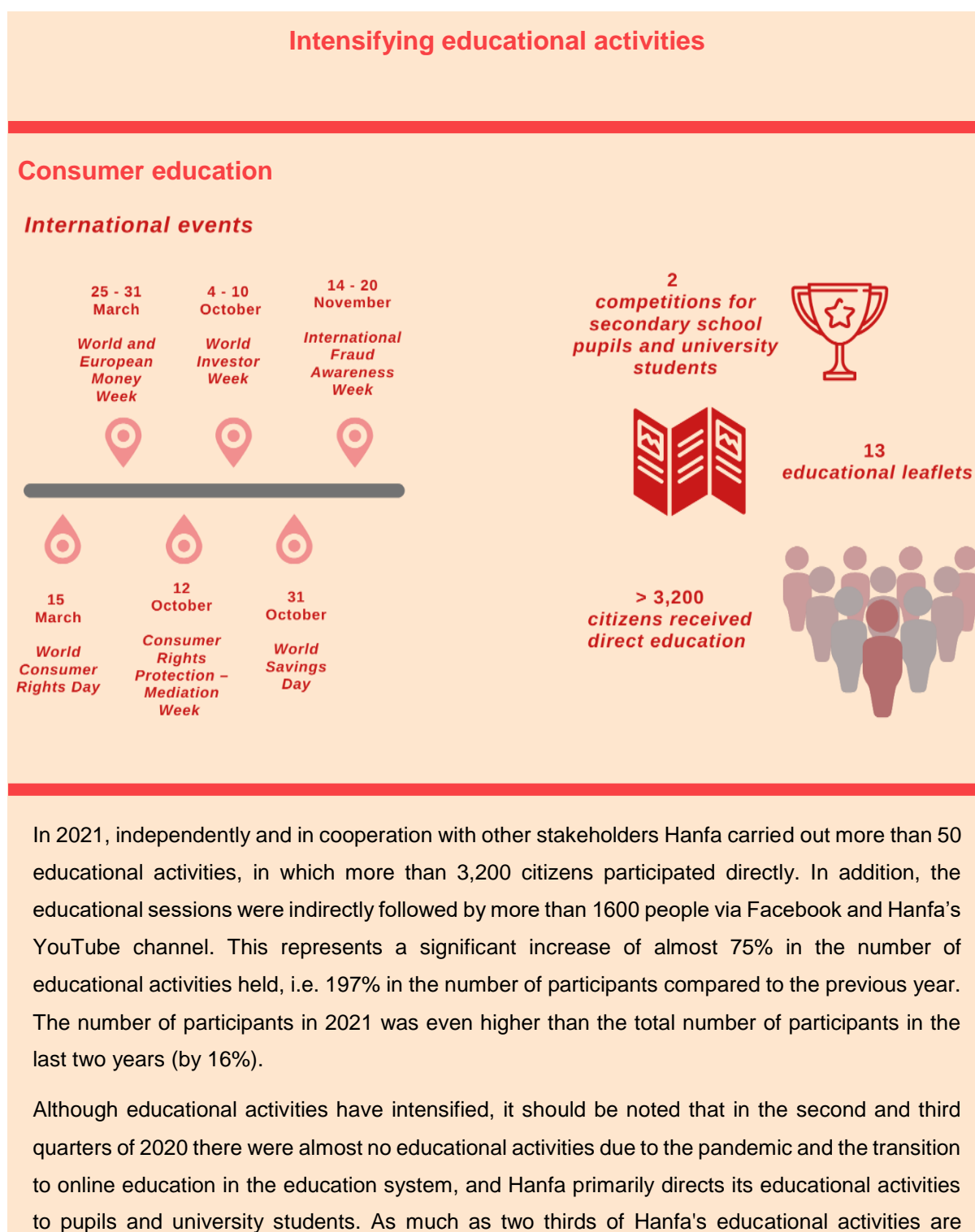
6.2 Educational activities

The coronavirus pandemic has further highlighted the importance of financial literacy of citizens, but also digital literacy that is connected with it. As early as 2020, in line with epidemiological situation, Hanfa adjusted channels of communication to digital channels and formats by holding online training sessions, and in 2021 it introduced new content that resulted in online debates, discussions and workshops.

In January 2021, Hanfa launched a public call for proposals for cooperation in educational activities, to which various stakeholders replied (such as consumer protection associations, schools, universities and others). The aim of this call is to intensify financial literacy through mutual cooperation between interested stakeholders. In addition, Hanfa cooperates with other institutions and organisations in the field of financial literacy as a member of the National Consumer Protection Council and a member of the Task Force for monitoring the implementation of measures and activities defined in the Action Plan for the Improvement of Financial Literacy, coordinated by the Ministry of Finance. The new 2021-2026 National Strategic Framework for Financial Literacy was adopted, and members of the Task Force jointly presented activities to mark the World and European Money Week. In addition to the domestic institutions, Hanfa also cooperates with G20-OECD Task Force on Financial Consumer Protection and the OECD International Network on Financial Education (OECD/INFE), within which it actively participated in workshops and online presentations organised by the OECD as part of the project.

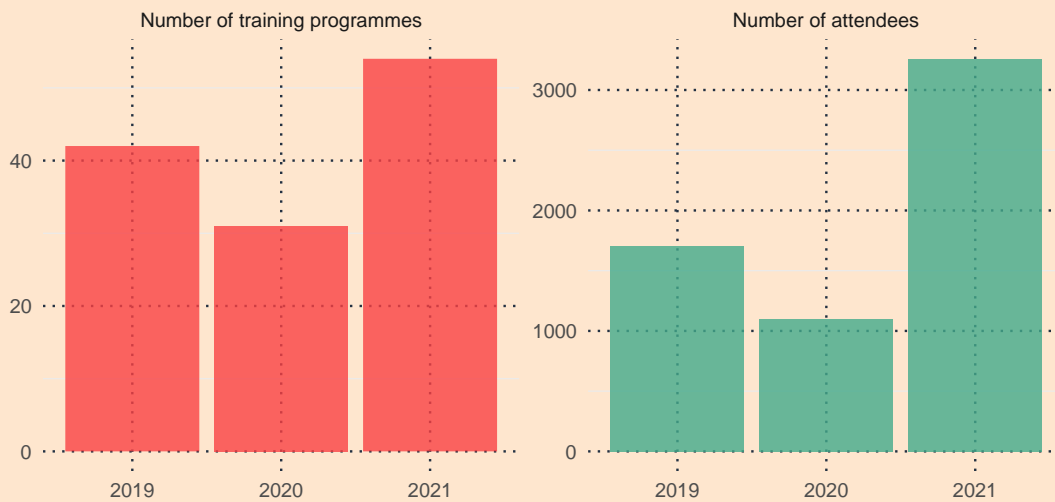


Hanfa most intensively cooperates with stakeholders within the education system, so in addition to the already mentioned training of pupils and university students through the education system, Hanfa supports the activities of student associations aimed at increasing financial literacy. Last year, Hanfa participated in the implementation of the project “LearnToInvest” of the student association Ekonomska klinika (Economics Clinic) and at the conference “Jednostavno o euru” (About the euro, in simple terms) organised by the student association Financial Club.



realised in cooperation with schools, universities and student associations. The fact that the largest number of educational activities are focused on young people stems from the research of the Organization for Economic Cooperation and Development (hereinafter: OECD) according to which young people achieved the lowest level of financial literacy. In addition to organising and holding lectures, workshops and debates whose content was adapted to the age of target groups, in 2021, Hanfa conducted two competitions for secondary school pupils and university students. In the framework of marking the World and European Money Week, a competition for high school pupils entitled “Ensure your future” was organised. The aim of the competition was to encourage young people to reflect on their future and to understand the importance of the pension system. According to the analysis of the survey of financial literacy of secondary school pupils conducted by Hanfa, only 25% of pupils in Croatia know that pension savings in third pillar are voluntary, and therefore it is important to bring the topic of pension savings closer to the pupils. Schools from all parts of Croatia joined the competition, and the award-winning video was published on Hanfa’s website and YouTube channel. The continuation of this educational activity is planned in the coming years, in order to actively involve pupils in research and processing of topics related to financial literacy.

Figure 6.2.1 Training programmes held by Hanfa and number of attendees

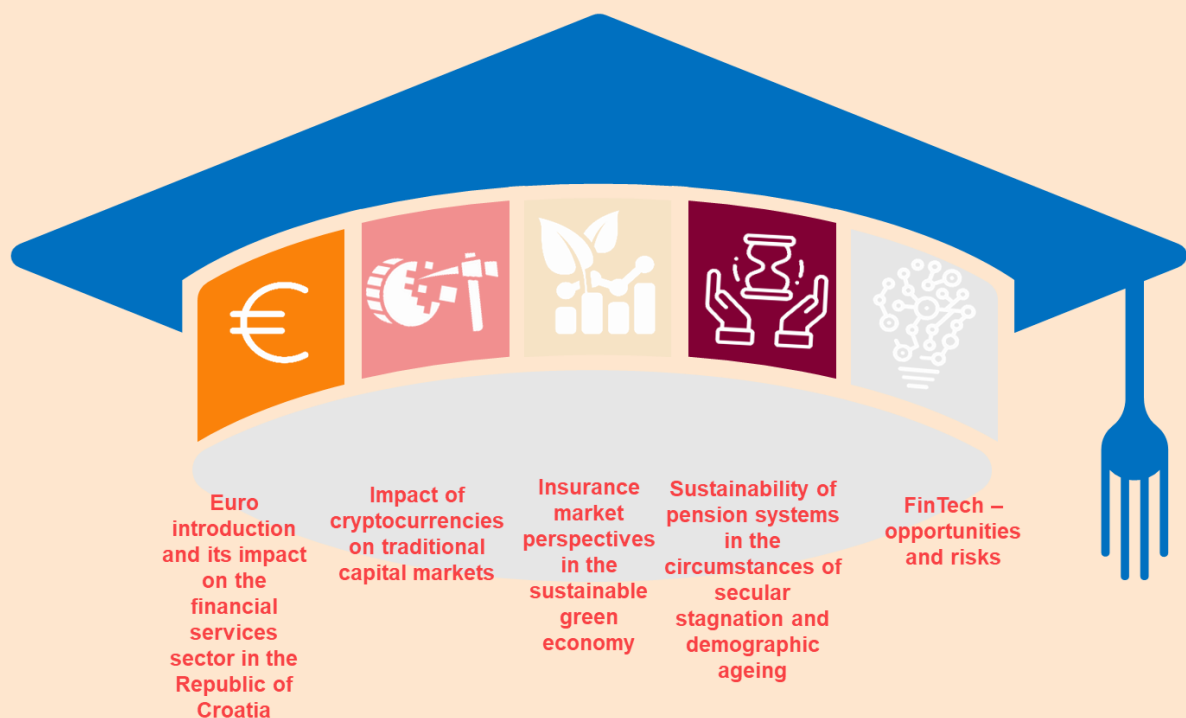


Source: Hanfa

After the first call for student scientific and expert papers carried out in 2020, Hanfa decided to continue promoting science among students and conducted the call “Hanfa Annual Award for students for best scientific and expert papers in 2021”. The awards were given to students of three faculties of economics in Croatia, and the ceremony was held in January 2022. The areas that the students had to cover included current topics related to the financial system under Hanfa’s competence.

Awards were given to three papers, which were the best according to the expert panel's assessment, and they covered the impact of cryptocurrencies on traditional capital markets, the sustainability of pension systems in the context of secular stagnation and demographic population ageing, and the prospects of the insurance market in a sustainable green economy. The awards given are proof of the excellence of students and the potential available to higher education institutions in Croatia. Therefore, Hanfa's goal is to use this competition to provide students with an enabling environment for further professional and scientific growth and development.

Topics of the 2021 competition



After successful occasional online lectures for the general public in 2020, in 2021 Hanfa started continuous education of the general public as part of regular monthly lectures on some of the topics in the field of financial services. The lectures were held on every 15th day of the month, and the recordings were subsequently uploaded Hanfa YouTube channel. In the second half of the year, three such lectures were held, in which more than 250 people participated. According to the satisfaction survey, 95% of participants were satisfied with the education session held, 88% of participants considered that the lecture had an impact on increasing their financial literacy, while 93% of participants would like to participate in other similar lectures. Given the positive feedback and significant interest, Hanfa plans to continue monthly online education sessions for the general public.

In 2021, Hanfa also held training sessions as part of teacher training in cooperation with the County Council for Civic Education for the City of Zagreb and Zagreb County, and it participated in the educational conference for teachers of legal subjects for the area of Dalmatia. In 2021, two national expert conferences for teachers were held (in February and June), and Hanfa gave lectures on pension system and fraud in financial markets. Teacher training is important both for the direct training of the teachers themselves and for the transfer of acquired knowledge to pupils.

During 2021, Hanfa also marked relevant international events concerning finance and consumer protection, such as World Consumer Rights Day, World and European Money Week, International Fraud Awareness Week, etc. On the occasion of the World and European Money Week, other than the already mentioned competition for secondary school pupils, Hanfa organised an online lecture for the general public and an online public discussion with students from the Faculty of Economics in Rijeka, in cooperation

Marking of relevant international events

In 2021, Hanfa marked six relevant international events related to financial literacy and consumer protection, involving more than 1,000 citizens.

with the CNB. Hanfa also participated in the presentation of activities on the occasion of marking the Money Week organised by the Ministry of Finance of the Republic of Croatia in cooperation with the Ministry of Science and Education of the Republic of Croatia. Numerous lectures for secondary school pupils were held in cooperation with the Croatian Chamber of Economy as part of the project "The more we know, the better we understand". As part of the events related to consumer protection, Hanfa published a special text on its website on the occasion of the World Consumer Rights Day. The protection of consumer rights in the week of out-of-court mediation for consumer disputes was highlighted by participation in a roundtable organised by the Croatian Mediation Association. The World Investor Week, promoted by the International Organization of Securities Commissions (hereinafter: IOSCO) was marked by a public online lecture, lecture for teachers as part of teacher training, lecture for secondary schools and lecture and workshop for students. The topics of lectures related to investment in the capital market as well as the cryptomarket and investor profiles. In 2021, the International Fraud Awareness Week was also marked, during which online training for the general public was held, focusing on fraud in financial markets, on how to recognize it and who to turn to in case of fraud. Hanfa also issued an educational brochure titled "Guide to Financial Fraud", which was published in print media. The World Savings Day was marked by an article on the Money for Tomorrow portal entitled "To save or to invest?". In the framework of marking international events, more than 1000 people participated in educational activities carried out by Hanfa on its own or in cooperation with other stakeholders, and such marking is an important channel of raising the consumer awareness on certain financial topics.

In addition to all mentioned forms of education and marking of relevant events, Hanfa regularly creates various educational content that is published both on its website and on the consumer pages of the specialized Internet portal Money for tomorrow. During the year, two educational brochures were published titled "Basic features of credit protection insurance" and "Obligation to call the police in case of traffic accidents with material damage and exercise of insurance rights". Two educational texts titled

“Consumer protection: damage inspection report” and “Cryptomarkets: what is consumer protection like?” were also published.

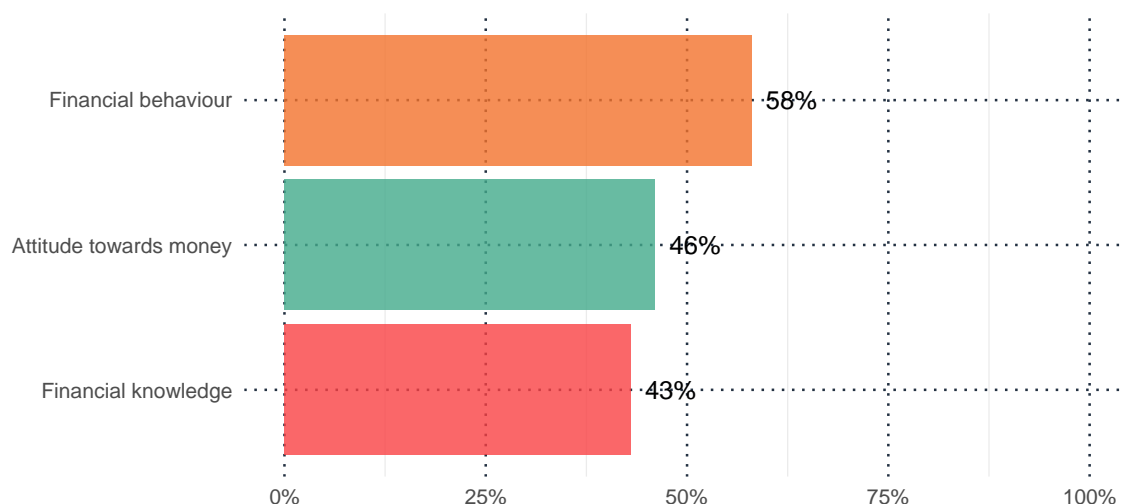
In order to concisely and clearly communicate basic information to consumers on all financial services falling under Hanfa's supervisory competence, 13 leaflets covering all segments of the financial services sector were produced and published in 2021. In addition, Hanfa published leaflets relating to certain curiosities or an increased interest of citizens, such as the leaflet “Cryptomarket” or “The uncontested part of an insurance claim – how does it affect the rights of the insured person?”. In 2021, four educational presentations were published, one of which was an audio presentation, while the rest were recordings of presentations and/or debates for the general public.

During the educational activities in cooperation with secondary schools, Hanfa surveys the financial literacy of secondary school pupils. More than 700 secondary school pupils across Croatia participated in the survey conducted from October 2020 to 31 December 2021. According to the survey results, pupils in Croatia possess a relatively low level of financial literacy, which, in accordance with the OECD financial literacy measurement methodology, is divided into three components: financial knowledge, financial behaviour and attitude towards money. Pupils achieved the lowest results in the financial knowledge category (43%), while financial behaviour was the best rated (58%), i.e. pupils had on average 43% of the correct answers to financial questions. The rating of financial behaviour refers to the average rated positive financial behaviour. Price comparison prior to purchase or regular monitoring of costs, for example, is considered to be positive financial behaviour.

Financial literacy of young people in Croatia

According to Hanfa's survey, the financial literacy of secondary school pupils is not at a satisfactory level. At the same time, pupils presented a better level of financial behaviour than financial knowledge.

Figure 6.2.2 Assessment of the financial literacy of secondary school students by components



Source: Hanfa

According to the survey, pupils are rarely informed about financial topics (51%), while only 10% are informed about these topics several times a week. The survey confirmed the results of the OECD financial literacy survey in Croatia, which identified young people as the most deficient in terms of financial knowledge. This confirmed the need for continued implementation and further intensification of educational activities directed towards this age group.





Communication activities



7 Communication activities

In 2021, the second pandemic year, Hanfa continued providing information to all categories of the public in a continuous, professional and timely manner, for the purpose of supporting sustainable development, protecting the financial system, its participants and users, and encouraging the long-term economic development of the Republic of Croatia. In addition to communicating with its supervised entities, Hanfa also continued devoting particular attention to the communication with consumers and the general public, aimed at providing financial education and raising the level of their financial literacy.

7.1 Communication activities in 2021

Given that financial market participants pay close attention to any disclosure and decision made by the regulator, this position gives Hanfa great significance on the financial services market as regards daily communication. In 2021, continued pandemic circumstances demanded efficient and swift communication towards all segments of the public, such as the general public and consumers, legislative authorities and other government and public institutions, Hanfa's supervised entities, professional associations and interest groups, academia and media representatives. Within this process, Hanfa adapted its communication activities and channels to the target category of the public and to specific events. Furthermore, it is important to highlight Hanfa's international role and its participation in the work of international institutions and authorities, which includes both communication between Hanfa and these institutions and the transfer of information published by these institutions to the domestic interested public.

Novac za sutra (Money for Tomorrow)

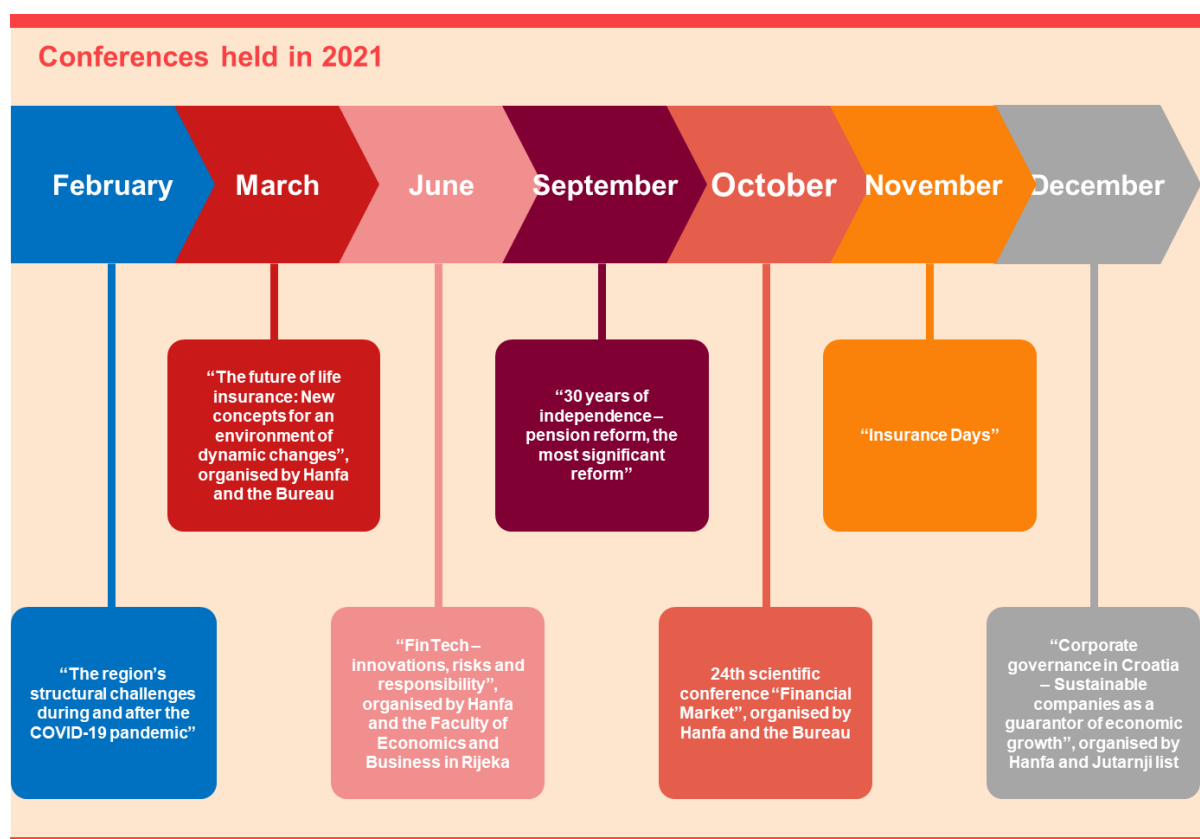
A specialised web portal launched by Hanfa whose purpose is financial education of the general public.

In 2021, a significant communication channel was a specialised web portal providing information from the area of financial services titled "Novac za sutra" (Money for Tomorrow), which came to life successfully with the purpose of providing financial education and increasing the level of financial literacy in the society. In 2021, the portal grew in comparison with 2020, developing in all segments, as regards the number of posts, visitors or views: there were as many as 97 educational texts falling within the area of Hanfa's competence, as well as six educational quizzes and 12 financial event announcements. The site had 64.6 thousand views and 37.7 thousand individual visitors. This shows clearly that the portal has attracted attention of the general public, enabling Hanfa to get closer to average financial services users, thus trying to raise the level of their financial awareness and knowledge, providing financial services users with better, long-term protection, and strengthening the financial system as a whole. The site is structured according to the main areas of potential visitors' interests, and covers pensions, investments, insurance and non-bank financing, including a financial

classroom as a special category which discusses topics relating to personal finance management on a regular basis. It provides Hanfa’s warnings about potential frauds and other fraudulent activities on the financial market, as well as invitations to participate in Hanfa’s activities aimed at improving financial literacy. It also offers educational video materials, quizzes and surveys which sometimes include research on relevant issues.

The site often describes practical examples and presents everyday situations occurring when contracting and using financial services. Consumers are informed of possible solutions of situations they may encounter when dealing with financial services providers, or of their legal rights and obligations, rules and procedures when contracting or using a financial service, which leads to a higher level of financial literacy of citizens in the long run.

Hanfa continued communicating with traditional media by responding to press inquiries on a regular basis. It also published 66 press releases and several interviews with the President and members of Hanfa Board. Members of the Board also participated in a number of conferences, presentations and panels, informing the professional and general public of novelties relating to Hanfa’s activities and functions.



7.2 Access to information

Given that Hanfa, as a public authority, provides regular and timely access to all information laid down in the Act on the Right to Access Information¹¹² in an easily searchable manner and in a machine readable format, the number of requests for access to information has been decreasing constantly.

In 2021, Hanfa received two requests for access to information and handled them within the legal deadline by providing the submitters with the requested information relating to the approval to publish a bid for the takeover of joint-stock companies subject to the supervision of Hanfa and its predecessor, and information on the rejection of a criminal charge against Hanfa in the form of an anonymised notification by the competent State Attorney's Office.

Hanfa's website still contains all relevant data regarding its activities and scope of competence. Particularly significant are decisions adopted at Board meetings important for the interested public, information on tasks carried out by Hanfa, and information on its internal structure with names and contact data of employees in managerial positions. Hanfa regularly publishes and updates regulations governing its scope of activity, registers, templates and data bases. It also continuously publishes information on all its vacancy notices and related recruitment procedure results. Furthermore, it provides access to various documents such as Hanfa's strategic plan, public procurement plan, revenue and expenditure plan, annual plan of normative activities, and data on Hanfa's donations and sponsorships. Finally, Hanfa publishes all the required information concerning the right to access information, along with relevant templates for submitting requests.

Taking account of its legal obligations referred to in the Act on the Right to Access Information, Hanfa submitted its 2021 Report on the implementation of the Act on the Right to Access Information to the Information Commissioner within the legal deadline, and the Report will form an integral part of the 2021 Annual Report of the Information Commissioner.

¹¹² [Official Gazette, No 25/13](#)



International cooperation



8 International cooperation

During 2021, Hanfa's activities related to international cooperation focused primarily on further strengthening of cooperation with international organisations in which Hanfa is a member. From a multitude of various activities, it can be pointed out that Hanfa became a member of ESMA's CCP Supervisory Committee (CCP SC); in the framework of the ESRB, analysed the issued Warning on medium-term vulnerabilities in the residential real-estate sector in Croatia, in order to be prepared for the expected development of macro-prudential measures to mitigate the identified risks; was selected by the IAIS to host the Committee meetings and Global Seminar to take place in June 2022 in Dubrovnik; achieved high compliance with the IAIS Insurance Core Principles 9 and 10, which relate to supervision and reporting and preventive and corrective measures and sanctions; strengthened its participation in the work of the IOPS and IOSCO through active participation in various activities of these international organisations, and took part in the activities related to Croatia's preparation for the OECD accession process. Technical and bilateral international cooperation was influenced by pandemic-related circumstances, thus the cooperation with other supervisory authorities during the year was essentially reduced to the exchange of information and data, depending on the needs and requirements. The cooperation is expected to intensify next year, with some study visits having already been agreed with other supervisory authorities. Hanfa signed an Agreement with the Albanian Financial Supervisory Authority, regulating the exchange of information necessary for the implementation of procedures under the competence of both regulators. It also signed the ESMA Memoranda of Understanding, relating to the provision of advice, cooperation and exchange of information regarding the supervision of entities under the Alternative Investment Fund Managers Directive with certain supervisory authorities from non-EU countries (Australia, Canada, Kazakhstan, Japan). Hanfa continued with the activities related to its capacity building through the EU Technical Support Instrument, under which one insurance-related project was finalised, the implementation of activities under a new project covering the area of anti-money laundering and terrorist financing started, while three new projects were approved and will start in the coming year (the projects will cover areas of market competition, sustainable finance and supervision of digital finance).



8.1 Participation in the work of supervisory authorities and organisations

ESMA – European Securities and Markets Authority

The core of ESMA's cooperation with NCAs in 2021 was the issue of raising the level of supervisory convergence in order to streamline the standard of NCAs' conduct and to develop and adopt draft texts of technical standards and guidelines, thus facilitating market participants to understand and apply the relevant provisions of primary rules, directives and regulations in their day-to-day business. Supervisory convergence was improved using various tools such as the launch of common supervisory actions (CSAs) and peer reviews. The focus was, among other things, on cross-border operations of investment firms, liquidity risks of investment funds, supervision of market infrastructure providers such as CCPs and central securities depositories (hereinafter: CSDs) and the means of verifying and approving the content of prospectuses.

In addition, various public and supervisory statements were published, aimed at directing market participants towards the practical application of certain provisions, regulations or deadlines for their implementation (such as clarifying the provisions and deadlines of the SFDR), or drawing the investment community's attention to the costs and complexity of investment products and ways in which investment firms assess their suitability when recommending them to their clients. Several reports were published aimed at informing and raising the awareness of the wider community, especially investors, regarding financial products and corporate reporting and supervisory activities carried out.

Hanfa was particularly engaged in the preparation of technical standards in relation to the regulations governing sustainable finance, the definition of the action plan in

relation to the preparation of technical standards under the Regulation on a framework for the recovery and resolution of CCPs¹¹³ (CCPRRR) as well as the development of technical standards (12 of them) in relation to the Crowdfunding Regulation. ESMA and NCAs, including Hanfa, were jointly actively involved in the preparation of letters and opinions on the revision of several legislative acts, and on proposals aimed at popularising capital markets and developing the capital market union, as well as on

Crowdfunding

The Crowdfunding Regulation, which regulates the operation of European crowdfunding service providers for businesses in the EU, is applicable as of 10 November 2021. Crowdfunding services have become an extremely popular alternative way of raising capital at an early stage of company development, especially for start-ups and small and medium-sized enterprises (SMEs). A crowdfunding service provider operates a digital platform open to the public and facilitates the matching of investors and lenders with companies seeking alternative sources of funding.

¹¹³ [Regulation \(EU\) 2021/23](#) of the European Parliament and of the Council of 16 December 2020 on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, (EU) No 600/2014, (EU) No 806/2014 and (EU) 2015/2365 and Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/EU and (EU) 2017/1132, OJ L 22

the Digital Finance legislative package issued by the European Commission in order to develop digital finance in the EU.

These activities are the result of a joint effort by ESMA and national supervisory authorities to protect investors and maintain the orderly functioning of financial markets. In order to be able to achieve this, given the large number of various regulations and financial market segments, these efforts were carried out through the work of a large number of ESMA's internal working bodies, composed of representatives of national supervisory authorities and ESMA staff. In 2021, Hanfa actively participated in the work of 33 ESMA working bodies. The President of Hanfa Board or his alternate participated in the work of ESMA Board of Supervisors, composed of the representatives of national supervisory authorities' management boards, where topics are addressed at a strategic level. In addition to active participation and voting in the meetings of the Board of Supervisors, Hanfa participated in 146 voting procedures (by written procedure) in the process of adopting various ESMA's decisions. In addition to this, Hanfa expressed its compliance with 12 ESMA guidelines.

The President of Hanfa Board actively participated in the work of the Advisory Proportionality Committee (ACP), which had an extremely complex task to implement the framework of operation of the Committee itself, as its role was to identify areas and regulations in which, in cooperation with other internal ESMA bodies, the possibility of applying the proportionality principle should be considered in order to, using possible changes to existing rules and guidelines, make it easier for market participants to operate without undermining the level of investor protection and the transparency of their operations.

At the end of 2021, Hanfa also became a member of ESMA CCP Supervisory Committee (CCP SC), as the company SKDD-CCP Smart Clear d.d. on 29 October 2021 received an authorisation from Hanfa to provide central counterparty services. This is a body composed of representatives of national supervisory authorities and central banks (central banks issuing the most important EU currencies in which the financial instruments are cleared) in whose jurisdictions the companies authorised to provide CCP services operate and representatives of ESMA¹¹⁴.

The greatest impact of new EU legislation on entities supervised by Hanfa will be by those in the area of sustainable finance: the SFDR and the Taxonomy Regulation. These Regulations affect the way in which companies have so far presented their business operations and the characteristics of the financial products they offer, with regard to sustainability. Hanfa actively participated in the work of ESMA's working bodies when drafting documents clarifying how the legislative framework on sustainable finance is implemented in the business operations of supervised entities, both when drawing up the Supervisory statement of the three European Supervisory Authorities regarding the clarification of the practical application of legal provisions, and when drafting SFDR technical standards. Hanfa also contributed to the preparation of various questionnaires and ESMA's Sustainable Finance Roadmap 2022-2024 Action Plan. It regularly informed supervised entities and the wider community about all these activities via e-mail and on a dedicated part of its website.

¹¹⁴ In accordance with [Regulation \(EU\) No 648/2012](#) on OTC derivatives, central counterparties and trade repositories

EIOPA – European Insurance and Occupational Pensions Authority

National supervisory authorities and EIOPA play a key role in the supervision of insurance and pensions in Europe. In 2021, EIOPA continued its work to monitor the impact of the COVID-19 pandemic on consumers, including further work on assessing the access to insurance and consumer trends, in particular with regard to digitalisation, which brings new opportunities but also concerns from a consumer protection perspective. In cooperation with national supervisory authorities, in 2021 EIOPA carried out a stress test to assess the resilience of the European insurance market in the event of adverse financial and economic conditions and to identify market vulnerability, which focused on the prolonged scenario of the COVID-19 pandemic in a low interest rate environment. Following the insurance stress test exercise in 2021, EIOPA issued six recommendations to address the problems identified in the stress test exercise carried out, which primarily relate to verifications whether the necessary measures and activities are implemented.

With regard to developing and strengthening the regulatory framework, EIOPA focused on developing draft technical standards related to the application of the provisions governing sustainable finance to address greenwashing, and draft regulatory technical standards related to the PRIIPs Regulation, which sought to address existing shortcomings related to the presentation and content of the key information document on PRIIPs (KID). In relation to the pan-European personal pension product, Guidelines on PEPP supervisory reporting were adopted, and reporting on the pan-European key information document on personal pension products was regulated. As regards occupational pension insurance, opinions were issued on the management of the risks and costs and fees of IORPs.

Greenwashing

Greenwashing is a marketing tactic aimed at convincing potential investors that a financial product being offered takes into account environmental factors more than it actually does, and that investing in this product supports environmental protection more than it really does.

In 2021, Hanfa actively participated as a member in the work of 18 EIOPA bodies and took part in 146 voting procedures via written procedure, six meetings of the Board of Supervisors attended by the President of Hanfa Board, Mr Žigman, and Member of the Board, Ms Jeleč, 10 meetings of the Policy Steering Committee (PSC) attended by Mr. Žigman, eight Supervisory Steering Committee (SSC) meetings attended by Ms Jeleč, eight meetings of the Committee on Consumer Protection and Financial Innovation (CCPFI) attended by designated Hanfa experts, five meetings of the Information Technology and data Committee (ITDC) attended by designated Hanfa experts and other numerous meetings of expert networks, working project groups, platforms and forums.

EBA – European Banking Authority

Within the EBA Investment Firms Subgroup, employees of Hanfa, as a national prudential supervisor, participated in the development of 18 regulatory technical standards, three implementing technical standards and six guidelines governing the internal organisation and operation of investment firms. Within the framework of the activities of the above-mentioned sub-group, Hanfa's employees, together with representatives of the CNB, participated in the preparation of material for the meetings of the EBA Board of Supervisors.

ESRB – European Systemic Risk Board

In 2021, the ESRB continued to identify, monitor and analyse systemic risks to which the European financial system is exposed. It carried out its regular biennial analysis of the real estate market in the European Economic Area with the aim of identifying the main vulnerabilities in this market. Based on this analysis, the ESRB issued Croatia with the Warning on medium-term vulnerabilities in the residential real-estate sector in Croatia¹¹⁵ at the end of last year, in which it assessed that

Warning on medium-term vulnerabilities in the residential real-estate sector in Croatia

Due to identified rising risks in the residential real-estate sector, the European Systemic Risk Board issued Croatia with the Warning on medium-term vulnerabilities in the residential real-estate sector, which expects Croatia to develop macroprudential measures to mitigate the identified risks.

identified medium-term weaknesses in the residential real-estate sector in Croatia could pose a source of systemic risk and affect financial stability. The warning highlights as the main vulnerabilities the rapid growth in household credit and possible signs of house price overvaluation with the absence of explicit borrower-based measures that could mitigate the build-up of risks. Other than Croatia, warnings were also issued to Bulgaria, Liechtenstein, Hungary and Slovakia, while recommendations were issued to Austria and Germany. While the warnings expect the development of macroprudential measures to mitigate the identified risks, recommendations, in addition to the identified vulnerabilities, contain the measures recommended to mitigate these vulnerabilities, on the basis of which the compliance of countries with the recommendations issued to them will be assessed.

Given the pandemic-driven new teleworking mode and the accelerated digitalisation associated with it, in 2021 the ESRB also focused on cyber risk. The Recommendation on a pan-European systemic cyber incident coordination framework for relevant authorities¹¹⁶ was adopted at end-2021, and published in early 2022. The main objective of the framework thus introduced is to strengthen the preparedness of financial authorities to respond more effectively to cyber incidents and to improve communication within

¹¹⁵ The text of the Warning is available [here](#).

¹¹⁶ The text of the Recommendation is available [here](#).

a Member State, as well as internationally. A representative of Hanfa, who is a member of the European Systemic Cyber group, participated in the preparation of a cyber-risk analysis¹¹⁷.

In the second year of the pandemic, the ESRB, in accordance with its mandate, continued to monitor the impact of the support measures adopted due to the pandemic on the financial stability of the Member States under the Recommendation on monitoring the financial stability implications of debt moratoria, and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID- 19 pandemic¹¹⁸. As part of this activity, Hanfa regularly provided information on measures with a potential impact on financial stability. In addition, it also actively complied with the obligations set out in the Recommendation on identifying legal entities¹¹⁹, in accordance with which it recommended to all its supervised entities at the end of 2021 to obtain and continuously maintain the LEI, stressing the importance of the LEI as a global standard that will facilitate the identification of potential risks to financial stability through enhanced stakeholder supervision and increased data availability.

In addition to strengthening the macroprudential framework through issuing warnings and recommendations and collecting related data, the ESRB continuously monitored and analysed developments in the macroeconomic and financial system through the work of its permanent bodies and temporary groups. In 2021, a member of Hanfa Board attended ESRB General Board meetings, while Hanfa's employees participated in meetings of its Advisory Technical Committee and Analysis Working Group.

IAIS – International Association of Insurance Supervisors

The International Association of Insurance Supervisors (hereinafter: IAIS) continued to focus its activities in 2021 on monitoring the COVID-19 pandemic and its impact on markets, regulators and supervised entities. During the second part of the year, the focus of the work was increasingly returning to regular activities and projects that nevertheless had to be adapted to the new environment under the influence of the pandemic.

In 2021, Hanfa's representatives participated in 39 IAIS meetings and events. The President of Hanfa Board or his alternate participated in the meetings of the IAIS Executive Committee, Macroprudential Committee, Selection Committee, the Global Seminar and the annual discussion of the Executive Committee with insurance market stakeholders, the General Meeting and the Annual Conference. Other than on the highest level, Hanfa employees were also active in the work of other expert bodies and working groups, such as the Fintech Forum, Macroprudential Supervision Working Group, Audit and Risk Committee and Budget Committee.

¹¹⁷ This is a report titled [Mitigating systemic cyber risk](#) published in January 2022.

¹¹⁸ The text of the Recommendation is available [here](#).

¹¹⁹ The text of the Recommendation is available [here](#).

Significant activities connected with the work of IAIS included regular participation in the meetings of the above-mentioned committees, preparation of IAIS materials and documents, discussion and exchange of information with other IAIS members, and participation in organised training for supervisory authorities. A noted example is Hanfa's participation in the assessment of the compliance of the Croatian regulations connected with insurance within Hanfa's competence with the IAIS Insurance Core Principles 9 and 10, relating to supervision and reporting, and preventive and corrective measures and sanctions. Hanfa provided the IAIS expert team with the required information to assess compliance. The results of the IAIS assessment are expected in 2022. During the year, Hanfa provided information on various topics within its competence for the preparation of IAIS materials, such as, for example, information on key indicators for assessing insurers' behavioural outcomes and information related to analyses of the scenarios of climate change risk impact on the insurance sector. It also continued to participate in the monitoring the impact of the pandemic on the global insurance market (Covid-19 Sector-Wide Monitoring – SWM) by providing the required data on the Croatian insurance market. Based on the collected data, the IAIS prepared an analysis and report on the impact of the pandemic on the global insurance market. Activities on the signing of the IAIS Multilateral Memorandum of Understanding, which regulates cooperation and data exchange between insurance supervisors, also commenced.

In December 2021, the IAIS selected Hanfa to be the host institution of the IAIS Committee Meetings and the Global Seminar, which will take place in June 2022 in Dubrovnik. The Global Seminar is one of the most important annual gatherings of insurance supervisors, insurance market representatives and other interested stakeholders, bringing together hundreds of participants from around the world, whose main topic in Dubrovnik will be the resilience of the insurance industry, including lessons learned during the coronavirus crisis, and the challenges that the insurance industry will face with respect to climate, cyber, operational and other risks, as well as the progress of key global reforms.

IOPS – International Organisation of Pension Supervisors

Hanfa participated in regular meetings of the Technical Committee of the International Organisation of Pension Supervisors (hereinafter: IOPS), joint meetings of the IOPS and the OECD Working Party on Private Pensions, as well as the IOPS Annual General Meeting. Hanfa employees also participated in IOPS workshops, while a member of Hanfa Board participated as a panellist in the workshop on risk-based supervision of pension funds and presented Hanfa's experience in the implementation of supervision. Hanfa also participated in IOPS activities aimed at drawing up documents on best practices and recommendations, and for that purpose, during 2021, Hanfa provided information concerning the ESG regulatory framework and supervisory practice.



IOSCO – International Organisation of Securities Commissions

Hanfa's participation in the work of IOSCO was realised throughout the year through the participation of Hanfa Board Members in the meetings of the Presidents Committee, the Growth and Emerging Markets Committee and the European Regional Committee, as well as through participation in written procedures of these committees. Hanfa's representatives were active in the Financial Innovation Network and in the Multilateral Memorandum of Understanding (hereinafter: IOSCO MMoU) Monitoring Group. The most important activities of IOSCO in which Hanfa participated during the year were the exchange of information with other supervisory authorities on the basis of IOSCO MMoU relating to consultation and cooperation and exchange of information, the continuation of participation in a technical assistance project related to the development of a manual for the supervision of financial services and participation in marking the World Investor Week. On the basis of IOSCO MMoU, Hanfa exchanged information with other regulators in order to assist in the implementation of supervisory activities. Hanfa continued its participation in the technical assistance programme related to the development of a financial services supervisory manual, that was initiated at the end of 2020. In addition to Hanfa, the programme involves competent regulators from other countries from the near and wider region. The purpose of the programme is to draw up a supervisory manual for the implementation of on-site examinations, which includes steps such as preparation for examination, carrying out examination, post-examination activities and drawing up templates to be used in such activities. Although Hanfa has internal regulations on carrying out on-site and off-site examinations, this opportunity was used to exchange experiences with other supervisory authorities, as well as to potentially improve existing regulations through good practices presented by IOSCO trainers via online seminars. More details on activities marking the World Investor Week can be found in Chapter 6 of this Report, which relates to consumer protection and financial literacy.

OECD – Organisation for Economic Cooperation and Development

As a member of the IOPS, throughout the year Hanfa participated in the OECD activities related to the collection of statistics and other data on capitalised pension savings, coordinated by the OECD Task Force on Pension Statistics. Such data include financial and other statistical indicators, as well as information on investment rules for pension funds and pension insurance companies. This information is included in official OECD publications, which, among other things, compare the indicators of capitalised pension savings of the OECD and IOPS Member States. Hanfa also participated in joint meetings of the OECD Working Party on Private Pensions and IOPS, and in the work of the OECD International Network on Financial Education (OECD/INFE).

In the context of Croatia's preparation for the OECD accession process, Hanfa participated in the preparation of the Roadmap for the OECD Accession Process of Croatia, in the areas of its competence. It also participated in the preparation of responses to the OECD questionnaire on the



application of the recommendations governing freedom of capital movement and freedom to provide services (the so-called Codes of Liberalisation), with regard to the regulatory framework and practice.

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

In view of the pandemic, which continued in 2021, study visits to Hanfa could not be organised during the year, nor could Hanfa's employees visit regulators in other countries. Bilateral cooperation thus focused on exchanging information and experience with other supervisory authorities, as well as exchanging legislative solutions related to the area of supervision. Nevertheless, arrangements were launched with several EU supervisory authorities to organise study visits by Hanfa's experts in connection with the supervision of CCPs and CSD, expected to take place in 2022.

At the beginning of 2021, Hanfa and the Albanian Financial Supervisory Authority signed a Memorandum of Understanding (hereinafter: MoU) regulating the exchange of information necessary for the implementation of procedures under the competence of both regulators, including the procedures for supervision and licensing of their supervised entities and technical cooperation. Although a similar agreement between the two institutions already exists, it regulates the exchange of information only in the area of capital markets, while the new MoU also covers the remaining two segments of the financial market under the competence of both institutions – the insurance market and the capitalised pension savings market. In addition, negotiations in connection with signing the ESMA Memorandum of Understanding, relating to the provision of advice, cooperation and exchange of information regarding the supervision of entities under the Alternative Investment Fund Managers Directive¹²⁰ with certain supervisory authorities from non-EU countries, that had started in 2019, were continued. In 2021, such MoUs were signed with the Australian Securities and Investment Commission, the Canadian regulators (the Alberta Securities Commission, the Quebec Financial Markets Authority, the British Columbia Securities Commission and the Ontario Securities Commission), the Astana Financial Services Authority of the Republic of Kazakhstan, the Ministry of Agriculture, Forestry and Fisheries of Japan and the Ministry of Economy, Trade and Industry of Japan.

8.3 Enhancing Hanfa's capacities via EU Technical Support Instrument (TSI)

IN 2021 Hanfa successfully completed the project related to training of national European insurance regulators on supervision and Solvency II Directive, implemented by EIOPA in cooperation with the European Commission. In addition, Hanfa and the CNB started the implementation of their joint project "The improvement of risk-based supervision of anti-money laundering and terrorist financing". The aim of the project is to further improve supervisory practices of both institutions, in particular in relation to

¹²⁰ [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

changes in regulations concerning this area. These projects were approved by the European Commission under the Technical Support Instrument (TSI).

Hanfa continued its practice of applying for technical assistance through the TSI instrument, and was approved three projects in 2021. The project “Sustainable Finance – capacity of supervisory authorities in several Member States” concerns strengthening the capacity of supervisory authorities, and alongside Hanfa, the project also involves supervisory authorities from Malta, Poland and Romania. The project “Implementation of regulations and supervisory practice with regard to market conduct” is a joint project of Hanfa and the CNB, which focuses on strengthening the capacities of both institutions in the area of consumer protection. The third approved application concerns the implementation of the EU flagship initiative “EU Supervisory Digital Finance Academy”, which aims to ensure the transfer of knowledge to Member States’ supervisory authorities on new technologies in the area of financial services, the development of supervisory tools and information on the development of the regulatory framework. Implementation of all three approved projects is expected to begin in 2022.

Technical Support Instrument (TSI)

The Technical Support Instrument (TSI) is the EU programme that provides tailor-made technical expertise to EU Member States to design and implement reforms. It is an important pillar of the EU’s initiative to help Member States mitigate the economic and social consequences of the outbreak of the COVID-19 crisis.

8.4 Innovation Hub

During 2021, almost 20 various entities interacted with Hanfa’s Innovation Hub. Inquiries were diverse, and related mostly to information regarding terms and conditions for the provision of regulated services and procedures under Hanfa’s competence, including the presentation of products and feedback from Hanfa representatives on the regulatory position of the presented business model.

For the purpose of encouraging active cooperation with various stakeholders, representatives of the Innovation Hub actively participated in eight conferences and panel discussions. This included participation in events in cooperation with the academic community, as well as events primarily oriented towards the technological and start-up community. In 2021, in cooperation with the Faculty of Economics and Business in Rijeka, Hanfa organised for the first time the conference “FinTech – Innovation, Risks and Responsibility”, which took place on 18 June 2021 in Opatija and was live-streamed on Hanfa’s YouTube channel.

Same as before, Hanfa representatives participated in the work of committees of international bodies dedicated to financial innovation, such as the IAIS Financial Innovation Forum, ESMA's Standing Financial Innovation Committee, the European Forum for Innovation Facilitators and the IOSCO Financial Innovation Network. Within the above-mentioned IAIS Forum and IOSCO network, Hanfa



representatives continued to participate in operative working groups analysing the implementation of distributed ledger technology (DLT) in the financial industry.

Green finance

Sustainable finance is the key concept of mobilising the capital needed to achieve the objectives of the European Green Deal¹²¹ and the international commitments (Paris Agreement¹²²) taken by the EU to meet the climate, social and governance sustainability objectives.

Sustainable finance is a process of taking into account and integrating ESG factors by financial market participants in their investment decisions or investment advice, which should ultimately lead to a long-term increase in investment in sustainable economic activities and projects.

In order to achieve the European Green Deal's objectives and climate neutrality by 2050, the European Parliament and the Council of the EU have in the last two years adopted a set of regulations¹²³ governing the legislative framework on sustainable finance. These new rules aim to shift capital and financial investment flows towards environmentally sustainable economic activities and contribute to the development of low-carbon and climate-change resilient economies. This process will have a far-reaching impact on all participants in the European Economic Area – from the financial sector and issuers on the regulated market to even SMEs that are not currently funded on the capital market. The European Commission has announced investments of over EUR 1 trillion by 2030 through various programmes and with the active involvement of the European Investment Bank, with the aim of realising the current strategy and a successful transition to low-carbon business operations of European companies.

The financial sector will play a key role in this transition by actively channelling the capital raised towards sustainable economic activities, and the Green Deal strategy will give it a strong incentive to finance the projects and entrepreneurs that focus on sustainable business. Financial sector investments need to be significantly shifted towards sustainable technologies and business activities and financing long-term development in a sustainable way, which will enhance the protection of social rights and governance practices in the corporate sector, contribute to the creation of low-carbon and climate-change resilient economies focusing on the activities based on circular economy principles and renewable energy sources. This will open new and significantly better financing conditions for entrepreneurs for the transition of existing activities towards sustainable business operations.

¹²¹ [European Green Deal](#)

¹²² [Paris Agreement](#)

¹²³ [Regulation \(EU\) 2019/2088](#) of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, OJ L 317, [Regulation \(EU\) 2020/852](#) of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, OJ L 198 (Taxonomy Regulation), [Regulation \(EU\) 2019/2089](#) of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned benchmarks and sustainability-related disclosures for benchmarks, OJ L 317 (Climate Benchmarks Regulation)

One of the key aspects for the successful implementation of the Green Deal strategy is the availability of credible and comparable information in relation to the sustainable operation of entrepreneurs. This will underpin financial market participants such as investment firms and funds, insurance companies, pension funds and banks to make their investment decisions, i.e. decisions on the placement of funds. Therefore, some of the adopted regulations in the field of sustainable finance are aimed at creating a classification system that presents information on business operations using quantitative indicators in a scientifically based way. At the heart of this are the Taxonomy Regulation and the Corporate Sustainability Reporting Directive, which is currently under discussion in the Council of the EU and the European Parliament.

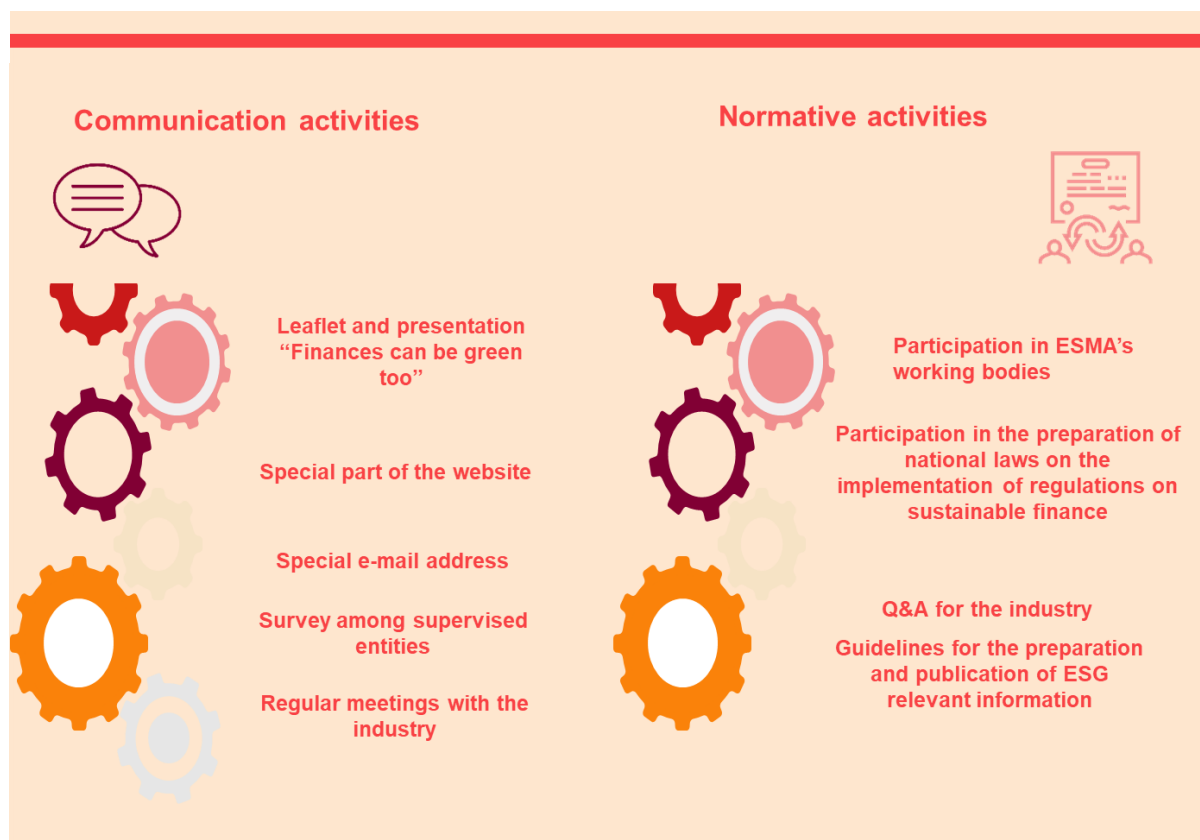
Financial market participants are obliged to implement the SFDR, therefore in the pre-contractual documentation of the financial products they offer (for example, in the investment fund prospectus), in the related periodic reports, as well as on their websites, they will have to indicate whether and to what extent they take the ESG factors into account, as well as to what extent they aim at achieving the environmental objectives defined by the Taxonomy Regulation. In particular, they will need to detail the extent to which they invest in financial instruments (shares, bonds, etc.) of non-financial and financial sector issuers whose business includes environmentally sustainable economic activities, so that their clients can make informed investment decisions. Such information will have to be presented as qualitative, but also quantitative data (so-called indicators) that will be defined within delegated acts under the SFDR.

Hanfa's Activities

Recognising the importance of implementing the European Green Deal and achieving climate neutrality, Hanfa started activities to familiarise and raise awareness of market participants and entities under its supervision since the start of the preparation and implementation of the sustainable finance legislative framework.

In order to educate and inform the general public and all market participants, a specific part of Hanfa's website is dedicated to sustainable finance-related issues and regulatory framework. In order to raise awareness among its supervised entities of the relevance and comprehensiveness of the legislative framework for sustainable finance, Hanfa also carried out a survey of supervised entities, which was established that most entities were aware of this legislative framework, but at a very general level. This is why, with a view to establishing frequent, timely and open communication with financial service providers, Hanfa set up a special e-mail address dedicated to sustainable finance topics, to which supervised entities may submit enquiries concerning the application of relevant regulations. This is how they can be supported in implementing relevant provisions into their business processes. Using this channel, supervised entities occasionally enquire about the application of relevant regulations. In addition, a number of face-to-face meetings were held with supervised entities regarding the application of regulations and the authorisation of new financial products that promote environmental and social characteristics.





Hanfa's engagement in normative activities related to sustainable finance, including the development of regulations and guidelines and active participation in ESMA's working bodies, was particularly intense, resulting in the adoption of the ESMA Sustainable Finance Roadmap 2022-2024 Action Plan, which has three main objectives: strengthening the supervisory capacity of ESMA and national supervisory authorities in the area of sustainable finance, monitoring, assessing and analysing the ESG market and associated risks, and combating greenwashing. Moreover, during 2021, Hanfa participated, inter alia, in the drafting of the Act on Sustainability-Related Disclosures, in relation to which it prepared Q&A sets with a view to clarifying to supervised entities how the relevant legal provisions are applied. In addition to the financial industry, which should act as a catalyst for the transition to a sustainable economic system, Hanfa is particularly focused on non-financial companies, i.e. issuers on the domestic capital market, which have been repeatedly educated and advised on the new legislative framework, in particular as regards non-financial reporting geared towards sustainable business and development. Therefore, in 2021, Hanfa published Guidelines for the preparation and disclosure of ESG relevant issuer information, which refer to reports to be published by companies financed on the capital market. This document is intended for issuers on the regulated market in the Republic of Croatia which are obliged to non-financial reporting according to the Accounting Act¹²⁴, but also for those that voluntarily decide to disclose non-financial annual reports. By disclosing indicators on the sustainability of their business and the positive impact on the environment, community and protection of human rights, issuers have the possibility to expand the range of investors by

¹²⁴ [Official Gazette, No 78/15](#)

attracting investors focused on sustainable investments and finding favourable sources of financing. The ESG corporate policy was also highlighted at the Hanfa conference, where the Code of Corporate Governance was presented at the end of 2021.

Despite numerous and intensive activities at the European level, the comprehensive legislative framework is still being drafted and due to its exceptional complexity, the application of certain types and parts of regulations has repeatedly been delayed, which makes it much more difficult for national supervisory authorities and market participants to adapt to this framework.





Judicial proceedings



9 Judicial proceedings

In line with its statutory powers, Hanfa, as an authorised prosecutor, initiates misdemeanour proceedings by bringing indictments to the Zagreb Municipal Misdemeanour Court (as the court having territorial and substantive jurisdiction) and to the Financial Inspectorate of the Ministry of Finance of the Republic of Croatia. In addition, as a defendant, it also participates in administrative disputes upon lawsuits filed against its administrative acts. In accordance with the provisions of the Act on Hanfa, which regulates Hanfa's legal position as well as its objectives, principles, scope and competence, procedures conducted by Hanfa within its competence are subject to provisions of the General Administrative Procedure Act, unless otherwise provided by law. Administrative disputes may be initiated against Hanfa's acts since these acts are final pursuant to the Act on Hanfa. In the event of a criminal offence that is prosecuted *ex officio*, Hanfa files criminal charges to the State Attorney's Office in accordance with criminal procedure regulations.

9.1 Misdemeanour proceedings

In 2021, Hanfa filed seven indictments to the Zagreb Municipal Misdemeanour Court, three of which were related to investment funds, insurance companies and leasing companies respectively, while four indictments were brought on the basis of consumer complaints relating to the insurance market.

Since its establishment on 1 January 2006 until 31 December 2021, Hanfa brought a total of 503 indictments serving as a basis for initiating misdemeanour proceedings. Most of them were related to the insurance market (42%) and capital market (20%), which partly reflects the structure of complaints filed by financial services users by segments of the financial services sector¹²⁵.

The Misdemeanour Act¹²⁶ provides for the possibility for the authorised prosecutor and defendant to negotiate terms and conditions for the admission of guilt and to agree on the type and amount of the sanction. The general tendency towards alternative dispute resolutions resulted in 29 final convictions in the period from 2014 to end-2021. 2020 saw a significant decline in the number of indictments due to the coronavirus pandemic and measures taken by competent authorities, which led to certain specificities in the work of business entities, courts and Hanfa itself. During some periods of the pandemic, meetings were completely banned, which made any negotiations impossible. At the same time, no hearings were scheduled, which left the perpetrators with no incentive to negotiate with the authorised prosecutor. This led to a reduced number of indictments and, consequently, to absence of final rulings based on negotiated agreements in 2020. Following the normalisation of working conditions

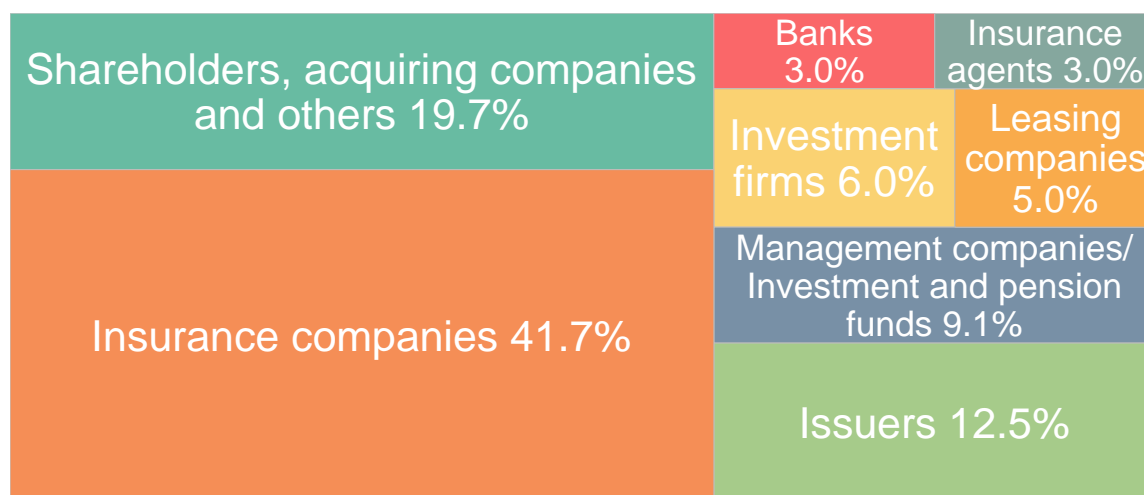
¹²⁵ See Figure 6.1.2 Structure of financial services users' complaints in Chapter 6 Consumer protection and improvement of financial literacy.

¹²⁶ Official Gazette, No 107/07, 39/13, 157/13, 110/15, 70/17 and 118/18

in 2021, the negotiation procedure reached the pre-pandemic levels again, which is clearly reflected in the 2021 data, showing that as much as 43% of the total number of misdemeanour proceedings were ended through negotiated agreement.

Figure 9.1.1 Misdemeanour proceedings by supervised entities in the period from 2006 to end-2021

In % of the total number of misdemeanour proceedings in the period from 2006 to end-2021

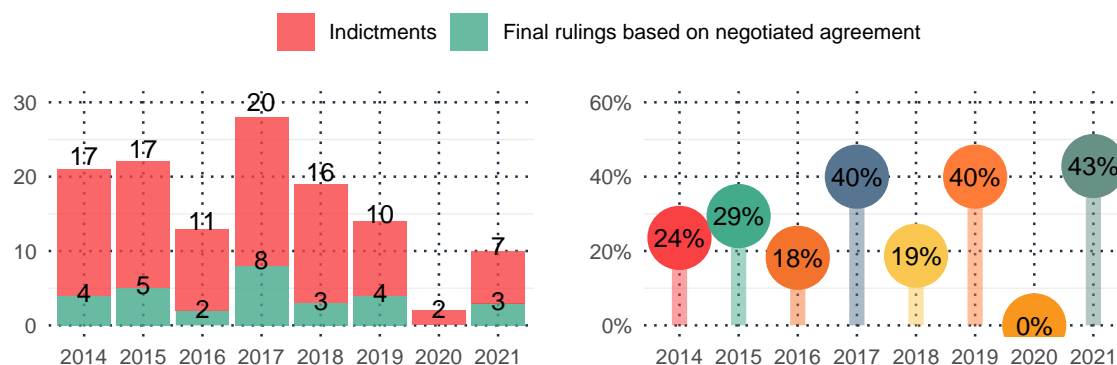


Source: Hanfa

Figure 9.1.2 Final rulings and indictments in the period from 2014 to end-2021

Number of final rulings based on negotiated agreements

Share of final rulings based on negotiated agreements, in % of the total number of indictments



Note: Final rulings based on negotiated agreements for the year 2016 include an agreement concluded and confirmed that year, for which the indictment was filed in 2012, before negotiation between an authorised prosecutor and a defendant was provided for by the Misdemeanour Act.

Source: Hanfa

Investment funds

In 2021, following the violation of provisions of the Act on Open-Ended Investment Funds with Public Offering¹²⁷ established during supervision, relating to a lack of compliance by an investment fund management company with regulatory capital requirements, Hanfa initiated misdemeanour proceedings. The proceedings, initiated against the investment fund management company and its responsible persons, were ended following the final conviction by the Zagreb Municipal Misdemeanour Court based on the settlement of the parties.

Insurance market

Five indictments were brought against insurance companies and their responsible persons in 2021. An indictment was brought against a legal person as a responsible insurer and the responsible person in the legal person due to their failure to submit the information referred to in the Insurance Act¹²⁸ (pre-contractual provision of information) prior to concluding contracts, and to include key information prescribed by the PRIIP Regulation¹²⁹ in documents submitted to policyholders prior to the conclusion of contracts. The case was ended through a settlement followed by a final conviction by the Zagreb Municipal Misdemeanour Court.

The remaining four indictments resulted from consumer complaints relating to the violation of provisions of the Act on Compulsory Traffic Insurance, namely to non-compliance with legally prescribed time limits for the submission of a reasoned offer or a reasoned reply to their claim, which also led to non-compliance with time limits for the payment of compensation (or the uncontested part of the claim as an advance) to injured parties. Until end-2021, one non-final judgement was passed with respect to the above-mentioned cases.

Leasing

In 2021, Hanfa brought an indictment against a legal person due to its failure to comply with provisions of the Leasing Act¹³⁰ relating to interest rate calculation in concluded lease contracts.

¹²⁷ [Official Gazette, No 44/16 and 126/19](#)

¹²⁸ [Official Gazette, No 30/15 and 112/18](#)

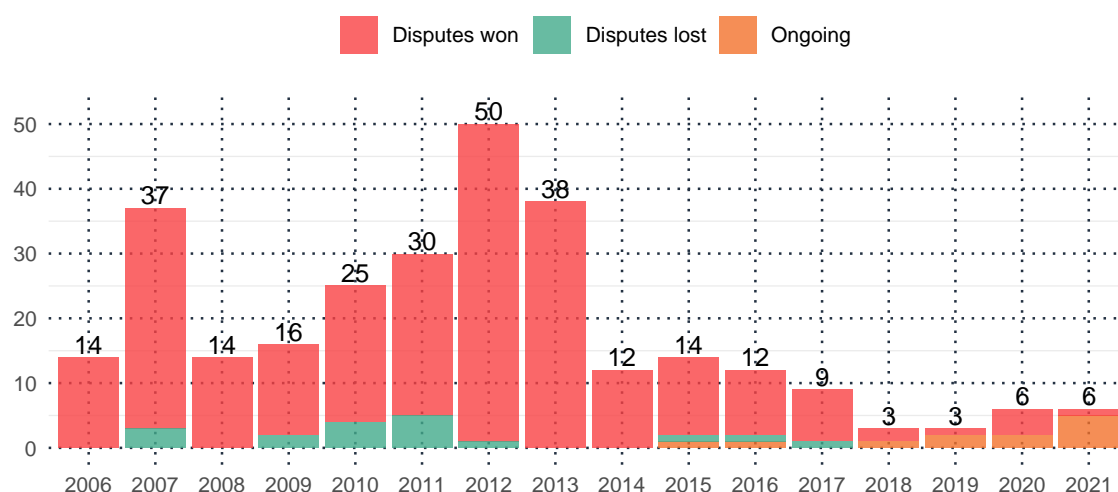
¹²⁹ [Regulation \(EU\) No 1286/2014](#) of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs), OJ L 352

¹³⁰ [Official Gazette, No 141/13](#)

9.2 Administrative disputes

During 2021, six administrative disputes were initiated against Hanfa's decisions before the Zagreb Administrative Court. Pursuant to the Administrative Disputes Act¹³¹, Hanfa provided responses to the complaints, and during the proceedings its employees submitted reports and attended hearings before the court regularly. Three administrative disputes were initiated against decisions relating to the capital market, and another three against decisions relating to the insurance sector. One of the disputes from the insurance area was terminated by a judgement with final force and effect upon the adoption of a decision on the dismissal of the claim. The other proceedings are still pending.

Figure 9.1.3 Outcomes of administrative disputes in the period from 2006 to end-2021, by type of outcome



Source: Hanfa

9.3 Criminal charges

During 2021, Hanfa filed a criminal charge with the competent State Attorney's Office after having established that there were grounds for suspicion that a criminal offence of forgery of documents, described by and punishable pursuant to Article 278(1) of the Criminal Code¹³², had been committed.

Since its establishment on 1 January 2006 until 31 December 2021, Hanfa filed 51 criminal charges with the competent State Attorney.

In addition to filing criminal charges, Hanfa regularly communicates with the competent State Attorney's Office, informing it of any suspicious findings or information it has obtained while carrying out its (primarily supervisory) activities within the framework of its competence.

¹³¹ Official Gazette, No 20/10, 143/12, 152/14, 94/16, 29/17 and 110/21

¹³² Official Gazette, No 125/11, 144/12, 56/15, 61/15, 101/17, 118/18 and 126/19

9.4 Debt recovery actions

Hanfa is participating in three insolvency proceedings conducted before competent commercial courts in its capacity as a creditor for the purpose of recovering debts based on fees that supervised entities are obliged to pay to Hanfa. In 2021, two insolvency proceedings in which Hanfa participated as a creditor were carried out and terminated. During the proceedings, Hanfa was paid related amounts of realised insolvency estate proportional to its determined claims. Entities having undergone insolvency proceedings will be deleted from the court register. One insolvency proceeding is still underway.

Civil procedures initiated against supervised entities were suspended due to the emergence of legal consequences of the initiation of the insolvency proceedings in accordance with the Insolvency Act¹³³ and Civil Procedure Act¹³⁴. One of the procedures was terminated upon the adoption of a decision on the dismissal of the complaint since the claim was entirely accepted in the insolvency proceedings. The same decision is expected to be adopted in the other proceeding.

¹³³ [Official Gazette, No 71/15](#) and [104/17](#)

¹³⁴ Official Gazette, No 53/91, 91/92, 58/93, 112/99, 88/01, 117/03, 88/05, 02/07, 84/08, 96/08, 123/08, 57/11, 148/11, 25/13, 89/14 and 70/19



Hanfa's business operations



10 Hanfa's business operations

Hanfa's human resources management activities focus on employing, motivating, developing and retaining employees whose professional principles in the performance of their tasks reflect Hanfa's core values. Hanfa keeps improving its human resources functions, having in 2021 updated and enhanced the process of onboarding, monitoring and evaluating its employees' performance, organisation of internal training and offboarding. In 2021, the organisation of work was still affected by the COVID-19 pandemic. Hanfa's employees worked from home part of the year, but thanks to the provided information-communication infrastructure, they fulfilled their tasks and objectives as in normal circumstances.

10.1 Internal organisational structure and human resources

Hanfa's organisational structure did not change during 2021. Hanfa is governed by the Board, which manages five divisions and seven offices, that carry out Hanfa's core functions and tasks described in the previous chapters, and by the Office of the Secretary General, in charge of Hanfa's daily operational and administrative tasks. The work of the divisions and the Office of the Secretary General is organised in departments.

The Board consists of the President, Deputy President and three members, and they are appointed and dismissed by the Croatian Parliament at the proposal of the Government of the Republic of Croatia. The President of the Board is Ante Žigman, and Board members are Tomislav Ridzak, Antun Palarić, Ilijana Jeleč and Jurica Jednačak. Members of the Board rotate in the position of Deputy President every 18 months. In 2021, Hanfa's Board held 45 meetings and adopted 896 acts regulating the financial services sector or Hanfa's business operations. Board decisions are taken by a majority of at least three votes, and neither the President nor members of the Board are allowed to abstain from voting.

Hanfa's Council is a body that provides opinions and expert and scientific advice for the purpose of developing Hanfa's supervisory practice. During 2021, it held three meetings. It consists of nine members, three of which are appointed by the Government of the Republic of Croatia, and five by representatives of supervised entities' associations at the Croatian Chamber of Economy. The President of Hanfa Board is a member of the Council by virtue of his office. Members of the Council are appointed for a four-year term of office. In 2021, a change occurred in the membership of the Council. In December 2021, the Council held its constitutive meeting, having elected Kristijan Buk as the President of the Council, and Ante Žigman, Ivana Gažić, Josip Glavaš, Marko Juranić, Ivana Ravlić Ivanović, Novka Simić, Davor Tomašković and Ivana Žepić as Council members.



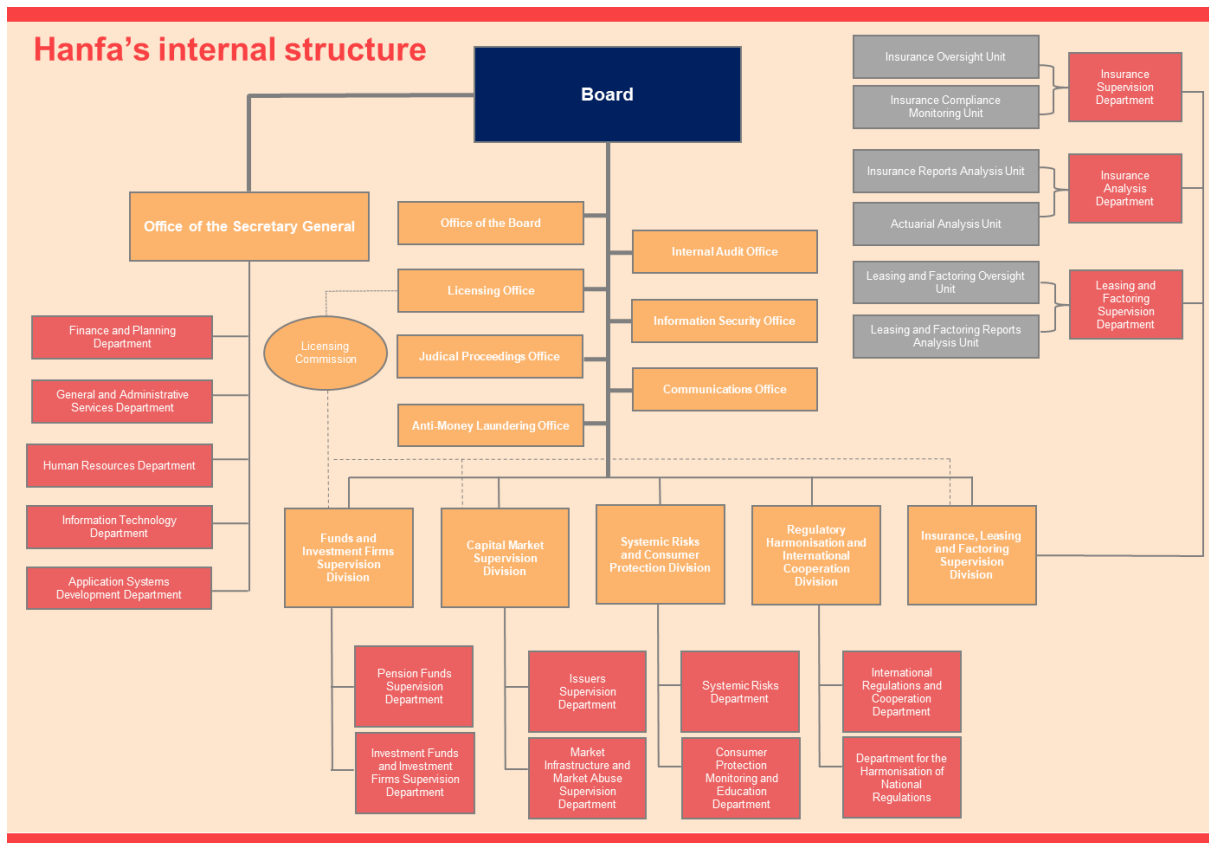
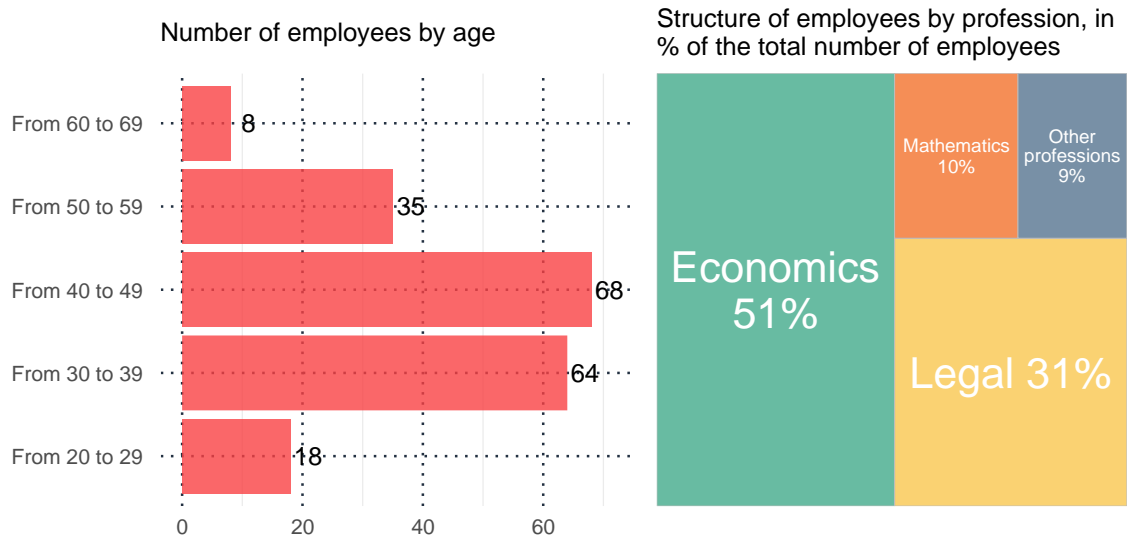


Figure 10.1.2 Structure of Hanfa's employees at the end of 2021



Source: Hanfa

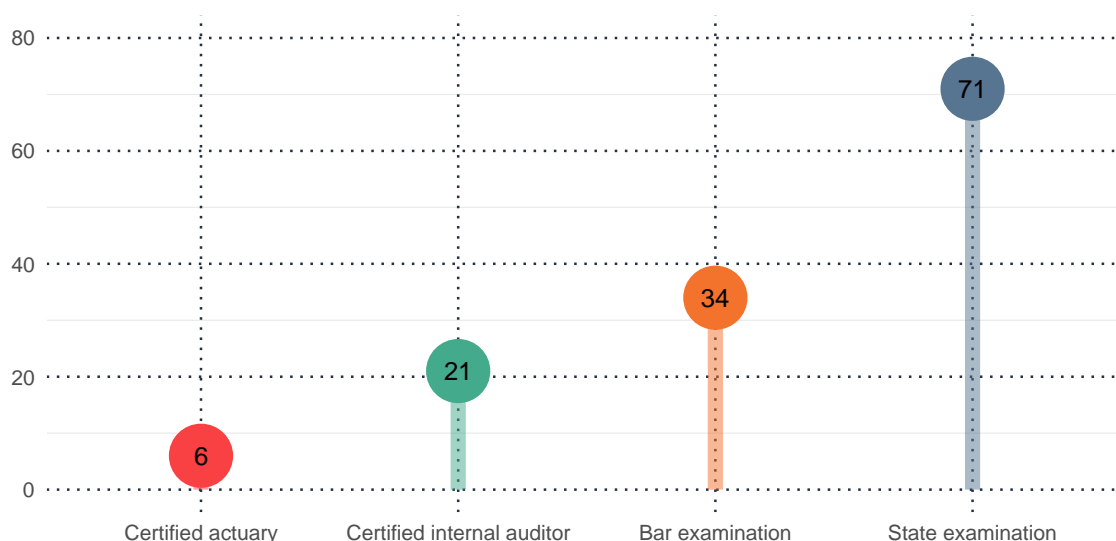
In 2021, the number of Hanfa employees remained unchanged: at the end of the year, Hanfa had a staff of 193, as in 2020. Almost all of them (98.5%) were in permanent employment. As in the previous years, a larger share of female employees in managerial positions (64%) reflected a larger share of women in Hanfa in general (66%), which testifies to equal promotion opportunities for employees of

both genders. There were no significant changes in the employee age structure either. The average employee age increased slightly, reaching 42.8 years of age, with 42% employees younger than 40 years of age.

The majority of Hanfa's employees (88%) are highly educated, half of them with a degree in economics. Increasing the competences of employees aiming at achieving high professional standards is one of Hanfa's objectives. In 2021, 70% of its employees participated in at least one kind of professional training, with two educational programmes having been attended by each employee in average. Participation in training decreased compared to the previous years, which is attributable to a change in circumstances caused by the pandemic.

A fifth of Hanfa's employees have a postgraduate degree. In 2021, Hanfa continued investing in education, having approved the financing of doctoral studies for three and of postgraduate specialist studies for five of its employees.

Figure 10.1.3 Professional training particularly important to Hanfa in 2021



Source: Hanfa

All employees carrying out off-site and on-site examinations are obliged to pass the state examination; therefore, around two thirds of Hanfa's staff subject to this obligation took and passed this examination. Given that employees who have already passed the bar examination are exempt from the requirement to take the state examination, around 90% of all the employees have met the obligation to undergo this type of professional training. About two thirds of all lawyers have passed the bar examination.

10.2 Internal audit

In 2021, Hanfa adopted new Rules of Procedure for the preparation and conduct of supervision of supervised entities. Their objective is the harmonisation, convergence and standardisation of procedures relating to the planning and carrying out of off-site, on-site and on-going examinations, to the drawing up of reports on conducted examinations, to the adoption of decisions and to the monitoring of implementation of measures imposed. In cooperation with external experts, Hanfa also revised its activities relating to personal data protection management, public and simple procurement procedures and judicial proceedings, namely misdemeanour proceedings and administrative disputes.

10.3 Information security at Hanfa

Within the framework of its supervisory activities, Hanfa regularly examines its supervised entities' IT systems, ordering them to eliminate any irregularities detected in the area of IT risk management. In 2021, Hanfa implemented measures aimed at protecting its IT system from cyber attacks. It also updated Hanfa's Business Continuity Plan, thus increasing its capacity to respond to incidents that could impair its operations. In order to raise the level of physical security, it drew up the Rules of Procedure for controlling access to Hanfa's premises.

10.4 Hanfa's information systems

In response to challenges posed to Hanfa's daily operations by the pandemic, in 2021, the trend of working from home continued, requiring additional adjustments of the information-communication system. Hanfa provided all its staff with adequate IT equipment (such as cell phones and laptops) in order to ensure smooth flow of work and, above all, safe working conditions for its employees, which imply business continuity in challenging working circumstances. In the upcoming period, remote work will be further facilitated by the introduction of new software solutions and increased level of IT security.

Due to growing demands for data capacity in the performance of daily tasks and the amount of reports received by supervised entities, Hanfa's IT system capacity was increased, which enabled larger amounts of data to be stored and automatised business processes to be sped up.

In accordance with the National Plan for the Changeover from the Croatian Kuna to the Euro, in 2021, Hanfa started with adjustments of its IT systems with respect to the introduction of the euro, including adjustments pursuant to the new Regulation on Office Management¹³⁵. The Regulation provides for the digitalisation of the entire business management process, including, among other things, the introduction of a qualified electronic signature and electronic official correspondence between bodies

¹³⁵ [Official Gazette, No 75/21](#)

governed by public law and between natural and legal entities. During the year, Hanfa also continued improving its system for monitoring continuous training of insurance intermediaries from Hanfa's register and its system for financial and statistical reporting on capital market regarding the central counterparty, central securities depository and issuers with respect to the European Single Electronic Format (ESEF) taxonomy.

Activities relating to the development, upgrading and maintenance of the IT system continued to be managed at regular IT committee meetings, where completed, active and planned activities were revised on a periodic basis, while priorities and new requirements were defined if necessary.

10.5 Hanfa's financial operations

Hanfa's financial and accounting operations are subject to the provisions of the Act on Financial Operations and Accounting of Non-Profit Organizations¹³⁶ and subordinate regulations adopted under this Act.

As at 31 December 2021, Hanfa's total assets amounted to HRK 35.2m, with 79.1% being accounted for by financial assets, 6.3 p.p. more relative to end-2020. The share of own funds in liabilities grew by 2.2 p.p., making own funds account for three quarters of Hanfa's liabilities at the end of the year.

Pursuant to Article 20 of the Act on Hanfa, in 2021, Hanfa financed its activities from fees from assets and income of supervised entities and fees for services provided. The calculation and amount of fees and the manner of charging fees from assets and income of supervised entities charged by Hanfa in 2021 are defined by the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency in 2021¹³⁷ (hereinafter: Ordinance on the calculation, amount and charging of fees). The type and amount of fees charged by Hanfa for the provision of services falling within its competence in 2021 are defined by the Ordinance on the type and amount of fees paid to the Croatian Financial Services Supervisory Agency¹³⁸ (hereinafter: Ordinance on the type and amount of fees). In 2021, Hanfa's total income reached HRK 83.5m, rising by 7.7% relative to 2020. Total expenditure amounted to HRK 76.7m, growing by 2.7% compared to the previous year.

¹³⁶ [Official Gazette, No 121/14](#)

¹³⁷ [Official Gazette, No 147/20](#)

¹³⁸ [Official Gazette, No 26/19](#)

Table 10.5.1 Hanfa's abbreviated balance sheet as at 31/12/2021

In HRK thousand

| Assets | Amount | Share in assets |
|----------------------|---------------|-----------------|
| Non-financial assets | 7,351 | 20.89% |
| Financial assets | 27,841 | 79.11% |
| Total assets | 35,192 | |

| Liabilities | Amount | Share in liabilities |
|--------------------------|---------------|----------------------|
| Liabilities | 8,815 | 25.05% |
| Own sources | 26,377 | 74.95% |
| Total liabilities | 35,192 | |

Note: Hanfa's detailed balance sheet is provided on its website.

Source: Hanfa

Income

The most significant source of income was income received under special regulations, which accounted for 99.1% (HRK 82.8m) of Hanfa's total income and was received from fees from assets and income of supervised entities, fees charged for the provision of services within Hanfa's competence and other income received under special regulations. The remaining 0.9% of total income consisted of income from assets, income from donations and other income, reaching HRK 737 thousand.

10.5.2 Summary of income realised in 2021

In HRK thousand

| | |
|---|---------------|
| Total income | 83,507 |
| Income received under special regulations | 82,771 |
| Income received under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2021 | 78,549 |
| Income generated under the Ordinance on the type and amount of fees | 4,212 |
| Other income received under special regulations | 10 |
| Income from assets | 8 |
| Income from donations | 0 |
| Other income | 728 |

Source: Hanfa

The structure of income received under special regulations was dominated by income realised under the Ordinance on the calculation, amount and charging of fees, which accounted for as much as 94.9% of Hanfa's income received under special regulations. In line with the size and importance of the pension

sector, the major part of Hanfa's income received under special regulations was earned from pension fund management companies and totalled HRK 46.7m, rising by HRK 4.5m or 10.6% relative to 2020. Income generated under the Ordinance on the type and amount of fees made up 5.1% of income received under special regulations. The largest part of income earned from the provision of services falling within Hanfa's competence was realised pursuant to the Insurance Act and was based on the examination of professional knowledge and issuance of authorisations and licences to pursue insurance and reinsurance distribution business. Income realised under the Insurance Act grew by 15.9% compared with the previous year, reaching HRK 1.6m.



Table 10.5.3 Income from fees generated in 2021

In HRK thousand

| Income received under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2021 | Amount | Share in total income |
|--|---------------|------------------------------|
| Income from pension companies | 46,676 | 59.42% |
| Income from insurance companies and reinsurance companies | 9,579 | 12.19% |
| Income from investment fund management companies | 8,044 | 10.30% |
| Income from investment firms | 4,652 | 5.92% |
| Income from leasing companies | 4,215 | 5.37% |
| Income from issuers | 2,127 | 2.71% |
| Income from the Central Depository and Clearing Company | 1,522 | 1.94% |
| Income from insurance distributors and reinsurance distributors | 562 | 0.72% |
| Income from the Zagreb Stock Exchange | 427 | 0.54% |
| Income from pension insurance companies | 389 | 0.50% |
| Income from companies managing funds established under special regulations | 280 | 0.36% |
| Income from factoring companies | 76 | 0.10% |
| Total | 78,549 | 100.00% |

| Income generated under Ordinance on the type and amount of fees paid to Hanfa | Amount | Share in total income |
|---|---------------|------------------------------|
| Income generated under the Insurance Act | 1,615 | 38.34% |
| Income generated under the Act on the Takeover of Joint-Stock Companies | 856 | 20.32% |
| Income generated under the Capital Market Act | 436 | 10.35% |
| Income generated under the Act on Open-Ended Investment Funds with Public Offering | 375 | 8.90% |
| Income generated under the Leasing Act | 224 | 5.32% |
| Income generated under the Alternative Investment Funds Act | 181 | 4.30% |
| Income from the maintenance of the Register of Leased Assets | 150 | 3.56% |
| Income generated under the Mandatory Pension Funds Act | 100 | 2.37% |
| Income generated under the Act on Hanfa (issuance of opinions and copies) | 81 | 1.92% |
| Income generated under the Factoring Act | 53 | 1.26% |
| Income generated under the Act on Pension Insurance Companies | 48 | 1.14% |
| Income generated under the Voluntary Pension Funds Act | 45 | 1.07% |
| Income from fees charged for the training organised for brokers, investment advisers, certified pension fund managers, certified pension insurance company managers | 40 | 0.95% |
| Income generated under the Act implementing EMIR | 8 | 0.19% |
| Total | 4,212 | 100.00% |

Source: Hanfa

In comparison with Hanfa's 2021 Financial Plan, the amount of total income realised reached 107.7%, making Hanfa's income exceed the planned level by HRK 6.0m. Income received under special regulations exceeded the Plan by HRK 5.9m, primarily due to a surplus in income generated under the Ordinance on the calculation, amount and charging of fees, pursuant to which Hanfa charges fees for its supervisory activities. This income had been planned conservatively, considering uncertain trends in financial markets that followed changes caused by the outbreak of the coronavirus. Income earned

under the Ordinance on the type and amount of fees exceeded the planned amount by HRK 770 thousand, due to a surplus in fees charged under the Act on the Takeover of Joint-Stock Companies and in fees received on the basis of examination of professional knowledge and issuance of authorisations to natural persons to pursue insurance distribution business. The fees in question depend on licensing applications submitted to Hanfa during the year and are therefore impossible to be fully foreseen.

Expenditure

The total 2021 expenditure was again dominated by employee expenses (a 62.6% share), which reached HRK 48.0m or 1.4% less than in 2020, due to lower costs calculated for leave not taken.

Material expenses accounted for 32.4% of total expenditure, growing by 14.9% compared to the previous year. This rise was due to an increase in Hanfa's mandatory membership fees paid to the European Supervisory Authorities, growing number of training programmes attended by its employees, increase in the number of cell phone users, rising costs of renting business premises, maintaining IT programmes, software and websites, and organising live streaming conferences, as well as higher health services costs arising from health checks and rapid antigen testing of some employees.

In 2021, Hanfa donated a smart board to a school that won the prize competition "Insure your Future" on the occasion of marking the World and European Money Week. In addition, it also continued with its student scholarship project.

10.5.4 Summary of expenditure realised in 2021

In HRK thousand

| | |
|----------------------------------|---------------|
| Total expenses | 76,747 |
| Employee expenses | 48,028 |
| Material expenditure | 24,852 |
| Costs for employees | 2,137 |
| Costs for external staff | 144 |
| Expenditure on services | 12,510 |
| Expenses on materials and energy | 1,857 |
| Other material expenditure | 8,204 |
| Depreciation expenditure | 2,632 |
| Financial expenditure | 95 |
| Donations | 107 |
| Other expenses | 1,033 |

Source: Hanfa



Relative to Hanfa's 2021 Financial Plan, its expenditure was lower by HRK 309 thousand or 0.4% compared to the previous year.

In 2021, Hanfa recorded surplus income over expenditure in the amount of HRK 6.8m, which was transferred into the state budget of the Republic of Croatia in March 2022, pursuant to the provisions of the Act Amending the Act on the Croatian Financial Services Supervisory Agency¹³⁹.

On the basis of a self-assessment of the financial management and control system, carried out pursuant to the Fiscal Responsibility Act¹⁴⁰, in 2021, Hanfa prepared the 2020 Statement of Fiscal Responsibility. The self-assessment carried out in line with the prescribed criteria did not detect any deficiencies and/or irregularities in the system. The Statement, which confirmed a legitimate, intended and purposeful use of resources and effective and efficient functioning of the financial management and control system, within the financial limits determined by the financial plan, was delivered to the Croatian Parliament.

In accordance with the Act on Financial Operations and Accounting of Non-Profit Organisations, an external audit of Hanfa's 2021 financial statements was carried out, and the Independent Auditor's Report¹⁴¹ was published on Hanfa's website.

¹³⁹ [Official Gazette, No 12/12](#)

¹⁴⁰ [Official Gazette, No 111/18](#)

¹⁴¹ [Link to the Report](#)





Statistical overview of industries



11 Statistical overview of industries

11.1 Investment funds

Open-ended investment funds with public offering

Investment funds - UCITS

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-----------------------------|------------|------------|------------|------------|------------|------------|
| Number of funds | 88 | 92 | 93 | 96 | 96 | 93 |
| Net assets, in HRK thousand | 18,440,776 | 18,499,606 | 19,117,203 | 22,577,123 | 18,216,156 | 21,512,344 |

Issuance and redemption of units in UCITS

In HRK thousand

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---------------------|------------|------------|------------|------------|------------|------------|
| Issuance of units | 22,139,754 | 18,108,512 | 11,496,927 | 11,498,262 | 8,830,386 | 10,454,735 |
| Redemption of units | 17,930,220 | 18,219,022 | 10,811,532 | 9,486,498 | 13,742,012 | 7,456,225 |

Asset structure of equity UCITS per asset type

In HRK thousand

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Cash | 188,563 | 187,921 | 155,063 | 191,965 | 160,011 | 249,192 |
| Shares | 1,568,137 | 1,640,305 | 1,356,601 | 1,513,730 | 1,402,870 | 2,033,892 |
| Bonds | 11,801 | 20,305 | 26,685 | 29,050 | 27,560 | 13,886 |
| Investment funds | 36,828 | 58,850 | 61,403 | 79,575 | 75,361 | 121,798 |
| Money market instruments | 0 | 0 | 0 | 0 | 0 | 0 |
| Deposits | 6,697 | 2,732 | 3,205 | 1,363 | 10,002 | 22,003 |

Asset structure of balanced UCITS per asset type

In HRK thousand

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------|---------|---------|---------|---------|---------|---------|
| Cash | 114,196 | 70,187 | 94,989 | 170,954 | 132,900 | 254,073 |
| Shares | 254,959 | 309,063 | 257,702 | 221,032 | 246,464 | 366,698 |
| Bonds | 301,746 | 379,825 | 390,711 | 438,988 | 432,432 | 512,892 |
| Investment funds | 117,048 | 127,699 | 113,786 | 146,212 | 154,773 | 339,341 |
| Money market instruments | 26,238 | 0 | 0 | 0 | 0 | 0 |
| Deposits | 49,514 | 7,664 | 27,948 | 15,459 | 0 | 14,502 |



Asset structure of bond UCITS per asset type

In HRK thousand

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------|-----------|-----------|-----------|------------|------------|------------|
| Cash | 802,896 | 829,976 | 991,665 | 2,232,505 | 2,292,276 | 2,429,903 |
| Shares | 0 | 0 | 0 | 0 | 13,128 | 25,546 |
| Bonds | 3,020,783 | 4,982,146 | 7,491,015 | 14,408,996 | 10,600,488 | 10,853,886 |
| Investment funds | 22,021 | 53,664 | 37,221 | 87,145 | 113,888 | 120,107 |
| Money market instruments | 342,403 | 458,012 | 474,855 | 692,834 | 119,118 | 484,568 |
| Deposits | 110,150 | 80,003 | 291,476 | 1,797,672 | 1,569,641 | 1,402,549 |

Asset structure of other UCITS per asset type

In HRK thousand

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------|---------|---------|---------|---------|---------|-----------|
| Cash | 54,533 | 92,020 | 39,281 | 173,691 | 159,567 | 350,246 |
| Shares | 26,649 | 46,346 | 17,670 | 50,558 | 81,401 | 156,933 |
| Bonds | 303,960 | 402,083 | 568,729 | 611,887 | 680,927 | 1,064,842 |
| Investment funds | 161,661 | 201,057 | 189,580 | 402,438 | 331,781 | 620,933 |
| Money market instruments | 56,603 | 0 | 0 | 0 | 200 | 300 |
| Deposits | 36,226 | 41,715 | 67,835 | 133,383 | 124,349 | 113,779 |

Asset structure of feeder UCITS per asset type

In HRK thousand

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------|------|------|--------|--------|---------|---------|
| Cash | | | 2,159 | 764 | 3,745 | 15,235 |
| Shares | | | 0 | 0 | 0 | 0 |
| Bonds | | | 0 | 0 | 0 | 0 |
| Investment funds | | | 17,312 | 14,476 | 111,062 | 416,969 |
| Money market instruments | | | 0 | 0 | 0 | 0 |
| Deposits | | | 0 | 0 | 0 | 0 |

Alternative investment funds – AIF

Investment funds - AIF

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Number of funds | 29 | 38 | 34 | 36 | 38 | 34 |
| Net assets, in HRK thousand | 3,235,912 | 3,486,817 | 3,588,528 | 4,474,656 | 4,712,125 | 5,222,883 |

Investment firms

Investment firms

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---------|---------|---------|-----------|-----------|-----------|
| Number of firms | 8 | 7 | 7 | 7 | 6 | 6 |
| Portfolio management, in HRK thousand | 30,158 | 29,169 | 27,934 | 23,106 | 26,312 | 33,060 |
| Custody of financial instruments, in HRK thousand | 646,154 | 691,026 | 677,305 | 1,055,282 | 1,822,577 | 4,378,445 |

11.2 Pension funds

Mandatory pension funds

Mandatory pension funds

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------------------|------------|------------|------------|-------------|-------------|-------------|
| Number of funds | 12 | 12 | 12 | 12 | 12 | 12 |
| Number of fund members | 1,784,169 | 1,844,272 | 1,936,261 | 2,010,403 | 2,057,391 | 2,111,192 |
| Category A | 5,369 | 5,874 | 6,273 | 25,453 | 83,448 | 150,266 |
| Category B | 1,755,823 | 1,810,704 | 1,896,361 | 1,948,510 | 1,925,328 | 1,899,623 |
| Category C | 22,977 | 27,694 | 33,627 | 36,440 | 48,615 | 61,303 |
| Net assets, in HRK thousand | 84,179,365 | 91,924,545 | 98,126,194 | 112,598,105 | 119,068,058 | 132,984,229 |
| Total contributions, in HRK thousand | 61,348,342 | 67,011,806 | 73,191,233 | 79,885,879 | 86,715,548 | 94,171,693 |
| Total payments, in HRK thousand | -6,522,907 | -7,143,223 | -8,143,581 | -9,280,324 | -10,788,978 | -12,649,473 |

MIREX values

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---------|-------|-------|-------|-------|-------|-------|
| Mirex A | 127.6 | 133.4 | 134.6 | 152.3 | 153.0 | 173.7 |
| Mirex B | 233.6 | 240.8 | 243.2 | 265.2 | 267.7 | 287.4 |
| Mirex C | 118.1 | 125.3 | 129.0 | 136.0 | 137.5 | 138.1 |

Asset structure of category A MPFs by investment type

In HRK thousand

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------|---------|---------|---------|---------|---------|---------|
| Cash | 19,273 | 31,596 | 33,699 | 15,702 | 35,296 | 63,354 |
| Shares | 221,299 | 214,033 | 222,283 | 305,045 | 363,879 | 564,600 |
| Bonds | 255,773 | 308,956 | 332,626 | 411,578 | 417,817 | 494,502 |
| Investment funds | 11,901 | 37,767 | 54,301 | 97,084 | 139,857 | 249,969 |
| Money market instruments | 0 | 0 | 0 | 0 | 0 | 0 |
| Deposits | 0 | 307 | 13,000 | 5,000 | 26,801 | 60,402 |

Asset structure of category B MPFs by investment type

In HRK thousand

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------|------------|------------|------------|------------|------------|------------|
| Cash | 1,792,551 | 2,040,812 | 3,095,922 | 820,503 | 2,030,600 | 1,505,894 |
| Shares | 16,223,498 | 15,177,046 | 15,500,483 | 19,555,589 | 21,647,924 | 27,587,606 |
| Bonds | 58,741,529 | 64,105,360 | 65,269,705 | 74,555,257 | 74,374,498 | 75,274,404 |
| Investment funds | 3,442,194 | 5,252,268 | 6,040,680 | 8,582,871 | 9,554,559 | 15,083,286 |
| Money market instruments | 0 | 199,512 | 1,249,715 | 1,405,660 | 1,764,742 | 1,079,949 |
| Deposits | 616,071 | 1,195,812 | 1,811,324 | 1,165,028 | 1,622,544 | 1,766,056 |

Asset structure of category C MPFs by investment type

In HRK thousand

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Cash | 73,052 | 128,031 | 184,826 | 85,683 | 264,893 | 274,893 |
| Shares | 0 | 0 | 0 | 0 | 0 | 0 |
| Bonds | 2,896,107 | 3,809,899 | 4,388,270 | 5,499,820 | 6,394,115 | 7,635,017 |
| Investment funds | 46,266 | 0 | 69,079 | 33,321 | 134,428 | 185,036 |
| Money market instruments | 44,739 | 0 | 39,996 | 55,973 | 79,956 | 239,995 |
| Deposits | 0 | 30,467 | 169,001 | 0 | 397,005 | 641,508 |

Open-ended voluntary pension funds

Open-ended voluntary pension funds

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|
| Number of funds | 6 | 8 | 8 | 8 | 8 | 8 |
| Number of fund members | 257,075 | 285,822 | 305,145 | 320,533 | 335,327 | 351,266 |
| Net assets of funds, in HRK thousand | 3,548,401 | 3,895,569 | 4,231,346 | 5,119,466 | 5,542,772 | 6,420,544 |
| Total contributions during the year, in HRK thousand | 464,138 | 548,789 | 624,305 | 727,137 | 718,688 | 791,349 |
| Total payments during the year, in HRK thousand | -144,677 | -202,942 | -250,782 | -243,343 | -247,513 | -257,632 |

Annual returns of OVPFs

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------------|--------|--------|--------|--------|--------|--------|
| AZ Benefit OVPF | 7.65% | 3.80% | -0.07% | 6.56% | -0.44% | 0.55% |
| AZ Profit OVPF | 5.13% | -3.37% | -2.53% | 10.45% | -1.26% | 7.03% |
| Croatia osiguranje OVPF | 5.56% | 2.10% | -1.52% | 12.20% | 0.39% | 5.92% |
| Croatia osiguranje 1000 A OVPF | | | 5.23% | 13.76% | 0.82% | 7.69% |
| Croatia osiguranje 1000 C OVPF | | | 2.45% | 5.37% | 1.76% | 0.76% |
| Erste Plavi Expert OVPF | 11.13% | 4.31% | -2.09% | 12.60% | -3.00% | 11.26% |
| Erste Plavi Protect OVPF | 6.62% | 3.51% | 5.40% | 6.85% | 0.42% | -0.30% |
| Raiffeisen OVPF | 6.68% | 3.19% | 1.61% | 8.86% | -1.04% | 8.12% |



Asset structure of OVPFs by investment type

In HRK thousand

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Cash | 420,911 | 236,344 | 401,078 | 318,790 | 423,805 | 611,347 |
| Shares | 951,369 | 877,886 | 910,732 | 1,216,157 | 1,319,016 | 1,599,166 |
| Bonds | 2,134,504 | 2,537,236 | 2,675,416 | 3,177,205 | 3,331,395 | 3,442,322 |
| Investment funds | 93,483 | 249,754 | 264,014 | 427,111 | 472,074 | 743,274 |
| Money market instruments | 0 | 0 | 0 | 0 | 0 | 0 |
| Deposits | 0 | 13,529 | 0 | 12,800 | 14,000 | 35,000 |

Closed-ended voluntary pension funds

Closed-ended voluntary pension funds

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|---------|---------|---------|-----------|-----------|-----------|
| Number of funds | 18 | 19 | 21 | 20 | 20 | 20 |
| Number of fund members | 29,237 | 30,387 | 40,482 | 44,569 | 45,228 | 46,001 |
| Net assets, in HRK thousand | 777,088 | 849,556 | 908,054 | 1,101,694 | 1,198,075 | 1,384,181 |
| Total contributions during the year, in HRK thousand | 86,534 | 93,986 | 124,961 | 154,667 | 132,290 | 142,605 |
| Total payments during the year, in HRK thousand | -32,829 | -34,480 | -56,864 | -37,454 | -39,524 | -49,152 |

Asset structure of CVPFs by investment type

In HRK thousand

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------|---------|---------|---------|---------|---------|---------|
| Cash | 76,726 | 60,718 | 108,159 | 66,942 | 82,249 | 140,828 |
| Shares | 193,757 | 193,817 | 212,670 | 280,586 | 298,919 | 358,803 |
| Bonds | 456,569 | 534,282 | 533,800 | 635,612 | 641,920 | 644,932 |
| Investment funds | 42,667 | 60,449 | 58,831 | 117,674 | 199,950 | 239,079 |
| Money market instruments | 0 | 0 | 0 | 0 | 0 | 0 |
| Deposits | 0 | 2,041 | 0 | 4,260 | 0 | 0 |

11.3 Insurance companies

Insurance

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|-----------|-----------|-----------|------------|------------|------------|
| Number of insurance and reinsurance companies | 22 | 20 | 18 | 16 | 15 | 15 |
| Gross written premiums, in HRK thousand | 8,672,628 | 9,062,401 | 9,862,029 | 10,487,755 | 10,481,574 | 11,743,839 |
| Claims settled, gross amounts, in HRK thousand | 4,723,352 | 5,106,300 | 5,553,116 | 5,976,279 | 6,548,767 | 7,330,071 |

Note: The data in the table referring to 2017 include the premium of the Croatian Nuclear POOL.

Gross written premium by insurance classes

In HRK thousand

| Code | Insurance class | 2020 | Share | 2021 | Share | Change |
|------|--|-------------------|----------------|-------------------|----------------|---------------|
| 01 | Personal accident insurance | 512,008 | 4.89% | 514,796 | 4.38% | 0.54% |
| 02 | Health insurance | 634,270 | 6.06% | 703,436 | 5.99% | 10.90% |
| 03 | Insurance of land motor vehicles | 1,304,833 | 12.46% | 1,407,981 | 11.99% | 7.91% |
| 04 | Insurance of railway rolling stock | 2,440 | 0.02% | 3,245 | 0.03% | 33.01% |
| 05 | Insurance of aircraft | 11,574 | 0.11% | 11,571 | 0.10% | -0.02% |
| 06 | Insurance of vessels | 171,075 | 1.63% | 193,274 | 1.65% | 12.98% |
| 07 | Insurance of goods in transit | 33,971 | 0.32% | 35,768 | 0.30% | 5.29% |
| 08 | Insurance against fire and natural disasters | 727,985 | 6.95% | 821,316 | 6.99% | 12.82% |
| 09 | Other property insurance lines | 824,665 | 7.87% | 939,885 | 8.00% | 13.97% |
| 10 | Motor vehicle liability insurance | 2,595,802 | 24.78% | 2,962,150 | 25.22% | 14.11% |
| 11 | Aircraft liability insurance | 4,494 | 0.04% | 4,746 | 0.04% | 5.61% |
| 12 | Insurance against liability arising out of the use of vessels | 37,667 | 0.36% | 40,081 | 0.34% | 6.41% |
| 13 | Other liability insurance lines | 469,573 | 4.48% | 530,069 | 4.51% | 12.88% |
| 14 | Credit insurance | 255,817 | 2.44% | 367,254 | 3.13% | 43.56% |
| 15 | Suretyship insurance | 13,810 | 0.13% | 15,956 | 0.14% | 15.54% |
| 16 | Insurance against miscellaneous financial losses | 121,429 | 1.16% | 177,495 | 1.51% | 46.17% |
| 17 | Legal expenses insurance | 5,252 | 0.05% | 4,285 | 0.04% | -18.40% |
| 18 | Travel insurance | 100,958 | 0.96% | 113,059 | 0.96% | 11.99% |
| 19 | Life insurance | 2,211,940 | 21.12% | 2,361,269 | 20.11% | 6.75% |
| 20 | Annuity insurance | 14,461 | 0.14% | 11,071 | 0.09% | -23.44% |
| 21 | Supplementary insurance linked with life insurance | 125,446 | 1.20% | 122,850 | 1.05% | -2.07% |
| 22 | Marriage and birth insurance | 3,855 | 0.04% | 3,493 | 0.03% | -9.39% |
| 23 | Life or annuity insurance where the investment risk is borne by the policyholder | 291,751 | 2.79% | 398,788 | 3.40% | 36.69% |
| 24 | Tontines | 0 | 0.00% | 0 | 0.00% | |
| 25 | Insurance with paid-up sum assured | 0 | 0.00% | 0 | 0.00% | |
| | Total non-life insurance (classes 01 – 18) | 7,827,624 | 74.73% | 8,846,368 | 75.33% | 13.01% |
| | Total life insurance (classes 19 – 25) | 2,647,453 | 25.27% | 2,897,471 | 24.67% | 9.44% |
| | Total (classes 01 – 25) | 10,475,070 | 100.00% | 11,743,839 | 100.00% | 12.11% |

Note: The data in the table referring to 2017 include the premium of the Croatian Nuclear POOL.

11.4 Leasing companies

Leasing companies

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Number of leasing companies | 19 | 17 | 16 | 14 | 15 | 15 |
| Leasing companies' assets, in HRK thousand | 17,904,585 | 18,149,656 | 19,526,659 | 21,320,617 | 19,704,217 | 19,979,465 |
| Number of newly concluded contracts (from 1 January to 31 December) | | | | | | |
| Operating lease | 19,428 | 22,388 | 20,483 | 14,853 | 10,392 | 10,983 |
| Finance lease | 25,256 | 30,696 | 41,223 | 50,600 | 30,033 | 39,130 |
| Total | 44,684 | 53,084 | 61,706 | 65,453 | 40,425 | 50,113 |
| Value of newly concluded contracts, in HRK thousand (from 1 January to 31 December) | | | | | | |
| Operating lease | 1,744,661 | 1,595,112 | 1,493,608 | 1,640,408 | 1,246,705 | 1,289,628 |
| Finance lease | 4,763,030 | 5,717,928 | 7,320,667 | 8,543,535 | 5,336,236 | 6,845,483 |
| Total | 6,507,691 | 7,313,041 | 8,814,275 | 10,183,942 | 6,582,941 | 8,135,110 |
| Number of active contracts | | | | | | |
| Operating lease | 46,979 | 44,486 | 43,426 | 43,399 | 39,582 | 38,409 |
| Finance lease | 65,466 | 76,057 | 90,457 | 106,438 | 106,679 | 113,893 |
| Loans | 755 | 238 | 205 | 25 | 24 | 17 |
| Total | 113,200 | 120,781 | 134,088 | 149,862 | 146,285 | 152,319 |
| Value of active contracts, in HRK thousand | | | | | | |
| Operating lease | 3,201,019 | 2,928,944 | 2,523,613 | 2,616,111 | 2,431,243 | 2,375,506 |
| Finance lease | 10,803,204 | 10,949,997 | 12,425,489 | 14,438,107 | 13,823,383 | 14,279,182 |
| Loans | 43,018 | 23,842 | 15,263 | 562 | 332 | 0 |
| Total | 14,047,241 | 13,902,783 | 14,964,365 | 17,054,781 | 16,254,958 | 16,654,688 |

11.5 Factoring companies

Factoring companies

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|------------------|------------------|------------------|----------------|----------------|---------|
| Number of factoring companies | 13 | 6 | 7 | 6 | 4 | 4 |
| Factoring companies' assets, in HRK thousand | 5,900,059 | 2,352,743 | 1,397,891 | 1,363,017 | 323,957 | 362,730 |
| Transaction volume, in HRK thousand (from 1 January to 31 December) | | | | | | |
| Factoring | 2,394,857 | 1,721,668 | 1,869,816 | 783,628 | 740,179 | |
| Factoring including discounting of bills of exchange | 1,914,769 | 500,620 | 213,476 | 85,402 | 83,488 | |
| Reverse factoring | 1,036,558 | 1,004,048 | 1,029,198 | 124,674 | 109,991 | |
| Total | 5,346,184 | 3,226,337 | 3,112,490 | 993,704 | 933,659 | |
| Receivables, in HRK thousand | | | | | | |
| Factoring | 720,577 | 394,346 | 452,151 | 115,984 | 144,165 | |
| Factoring including discounting of bills of exchange | 1,383,402 | 258,730 | 62,972 | 24,427 | 14,124 | |
| Reverse factoring | 414,747 | 388,689 | 369,925 | 41,347 | 36,846 | |
| Total | 2,518,726 | 1,041,765 | 885,048 | 181,757 | 195,135 | |

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



Appendices



12 Appendices

Appendix 1 List of ordinances adopted in 2021

Ordinances adopted under the Capital Market Act

1. Ordinance on organisational requirements for a settlement system operator, and on minimum standards applying to the risk management system and information system of that operator ([Official Gazette, No 7/2021](#))
2. Ordinance amending the Ordinance on the contents and structure of issuers' interim reports and on the form and manner of their submission to the Croatian Financial Services Supervisory Agency ([Official Gazette, No 27/2021](#))
3. Ordinance on issuing approval for management board members and the acquisition of a qualifying holding / controlling interest and criteria for suitability assessment of supervisory board members, key function holders and senior management ([Official Gazette, No 36/2021](#))
4. Ordinance amending the Ordinance on the professional training and examinations taken in order to acquire qualifications to provide information on investment products and services, carry out brokerage activities and provide investment advice services ([Official Gazette, No 83/2021](#))
5. Ordinance amending the Ordinance on supervisory reports of the central counterparty ([Official Gazette, No 144/2021](#))
6. Ordinance amending the Ordinance on periodic, statistical and capital reporting by the central securities depository and reporting by the central securities depository of another Member State ([Official Gazette, No 144/2021](#))

Ordinance adopted under the Act Implementing Regulation (EU) No 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation

1. Ordinance on re-securitisation, disclosure of information on private securitisations and websites, and issuing approval to third parties verifying STS compliance ([Official Gazette, No 88/2021](#))



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

1. Ordinance amending the Ordinance on the form and amount of regulatory capital of UCITS management companies ([Official Gazette, No 5/2021](#))

Ordinances adopted under the Alternative Investment Funds Act

1. Ordinance amending the Ordinance on liquidation and extension of AIFs ([Official Gazette, No 137/2021](#))
2. Ordinance amending the Ordinance on the structure and contents of annual and semi-annual financial statements and other reports of AIFMs ([Official Gazette, No 137/2021](#))
3. Ordinance amending the Ordinance on the structure and contents of annual and semi-annual financial statements and other reports of alternative investment funds ([Official Gazette, No 137/2021](#))

Ordinances adopted under the Mandatory Pension Funds Act

1. Ordinance amending the Ordinance on annual, quarterly and other reports of mandatory pension funds ([Official Gazette, No 24/2021](#))
2. Ordinance amending the Ordinance on permitted investments and additional investment limitations relating to mandatory pension funds ([Official Gazette, No 24/2021](#))
3. Ordinance amending the Ordinance on the educational programme and examination for certified managers of pension funds and managers of pension insurance companies ([Official Gazette, No 83/2021](#))
4. Ordinance amending the Ordinance on the structure and contents of annual and semi-annual financial statements and other reports of pension companies managing mandatory pension funds ([Official Gazette, No 118/2021](#))
5. Ordinance on reporting to the Croatian Financial Services Supervisory Agency on complaints of fund members to mandatory pension companies ([Official Gazette, No 144/2021](#))

Ordinances adopted under the Voluntary Pension Funds Act

1. Ordinance on reporting to the Croatian Financial Services Supervisory Agency on complaints of fund members to voluntary pension companies ([Official Gazette, No 144/2021](#))

Ordinances adopted under the Insurance Act



1. Ordinance amending the Ordinance on the fit and proper requirements of insurance distributors and reinsurance distributors and their entry in the register ([Official Gazette, No 9/2021](#))
2. Ordinance on the minimum content of the recovery plan of insurance companies and reinsurance companies ([Official Gazette, No 68/2021](#))
3. Ordinance amending the Ordinance on the fit and proper requirements of insurance distributors and reinsurance distributors and their entry in the register ([Official Gazette, No 83/2021](#))
4. Ordinance amending the Ordinance on insurance statistical standards ([Official Gazette, No 118/2021](#))
5. Ordinance on reporting to the Croatian Financial Services Supervisory Agency on complaints and objections of interested persons to insurance companies ([Official Gazette, No 144/2021](#))
6. Ordinance amending the Ordinance on reporting on material changes and reporting at request of the Croatian Financial Services Supervisory Agency ([Official Gazette, No 144/2021](#))

Ordinances adopted under the Anti-Money Laundering and Terrorist Financing Act

1. Ordinance amending the Ordinance on the procedure of assessing the risk of money laundering and terrorist financing and the manner of carrying out simplified and enhanced customer due diligence measures ([Official Gazette, No 144/2021](#))

Ordinances adopted under the Act on the Croatian Financial Services Supervisory Agency

1. Ordinance on the calculation, level and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2022 ([Official Gazette, No 144/2021](#))



Appendix 2 Hanfa's financial reports

Hanfa's balance sheet as at 31 December 2021

In HRK thousand

| Account from the Chart of Accounts | ITEM | ADP | As at 1 January | As at 31 December | Index (5/4) |
|---|---|----------|--------------------|----------------------|----------------|
| 1 | 2 | 3 | 4 | 5 | 6 |
| ASSETS | | | | | |
| | ASSETS (ADP 002+074) | 1 | 30,920 | 35,192 | 113.8% |
| 0 | Non-financial assets (ADP 003+018+047+051+055+064) | 2 | 8,407 | 7,351 | 87.4% |
| 01 | Non-produced fixed assets (ADP 004+008-017) | 3 | 589 | 340 | 57.7% |
| 011 | Tangible assets - natural resources (ADP 005 to 007) | 4 | 0 | 0 | - |
| 0111 | Land | 5 | 0 | 0 | - |
| 0112 | Mineral resources | 6 | 0 | 0 | - |
| 0113 | Other tangible assets (natural resources) | 7 | 0 | 0 | - |
| 012 | Intangible assets (ADP 009 to 016) | 8 | 4,317 | 4,480 | 103.8% |
| 0121 | Patents | 9 | 0 | 0 | - |
| 0122 | Concessions | 10 | 0 | 0 | - |
| 0123 | Licences | 11 | 3,169 | 3,332 | 105.1% |
| 0124 | Other rights | 12 | 1,148 | 1,148 | 100.0% |
| 0125 | Goodwill | 13 | 0 | 0 | - |
| 0126 | Formation expenses | 14 | 0 | 0 | - |
| 0127 | Research and development | 15 | 0 | 0 | - |
| 0128 | Other intangible assets | 16 | 0 | 0 | - |
| 019 | Value adjustment for non-produced fixed assets | 17 | 3,728 | 4,140 | 111.1% |
| 02 | Produced fixed assets (ADP 019+023+031+034+039+042-046) | 18 | 7,657 | 6,899 | 90.1% |
| 021 | Buildings (ADP 020 to 022) | 19 | 3,565 | 3,565 | 100.0% |
| 0211 | Houses | 20 | 0 | 0 | - |
| 0212 | Commercial buildings | 21 | 3,451 | 3,451 | 100.0% |
| 0213 | Other buildings | 22 | 114 | 114 | 100.0% |
| 022 | Plant and equipment | 23 | 11,437 | 11,722 | 102.5% |
| 0221 | Office equipment and furniture | 24 | 10,305 | 10,643 | 103.3% |
| 0222 | Telecommunications equipment | 25 | 337 | 263 | 78.0% |
| 0223 | Maintenance and security equipment | 26 | 599 | 616 | 102.8% |
| 0224 | Medical and laboratory equipment | 27 | 0 | 0 | - |
| 0225 | Instruments and machines | 28 | 66 | 66 | 100.0% |
| 0226 | Sports and musical equipment | 29 | 0 | 0 | - |
| 0227 | Machines and equipment for other purposes | 30 | 131 | 136 | 103.7% |
| 023 | Means of transportation (ADP 032+033) | 31 | 274 | 274 | 100.0% |
| 0231 | Means of road transportation | 32 | 274 | 274 | 100.0% |
| 0232 | Other means of transportation | 33 | 0 | 0 | - |
| 024 | Books, artwork and other exhibits (ADP 035 to 038) | 34 | 153 | 153 | 100.0% |
| 0241 | Library books | 35 | 0 | 0 | - |
| 0242 | Works of art (in galleries, museums etc.) | 36 | 153 | 153 | 100.0% |
| 0243 | Museum exhibits and objects of natural rarities | 37 | 0 | 0 | - |
| 0244 | Other exhibits | 38 | 0 | 0 | - |
| 025 | Growing crops and live stock (ADP 040+041) | 39 | 0 | 0 | - |
| 0251 | Growing crops | 40 | 0 | 0 | - |
| 0252 | Live stock | 41 | 0 | 0 | - |
| 026 | Intangible produced assets (ADP 043 to 045) | 42 | 4,778 | 5,923 | 124.0% |
| 0261 | Software investments | 43 | 4,778 | 5,923 | 124.0% |
| 0262 | Works of art, literary and scientific works | 44 | 0 | 0 | - |
| 0263 | Other intangible produced assets | 45 | 0 | 0 | - |
| 029 | Value adjustment for produced fixed assets | 46 | 12,550 | 14,737 | 117.4% |
| 03 | Precious metals and other valuables (ADP 048) | 47 | 0 | 0 | - |
| 031 | Precious metals and other valuables (ADP 049+050) | 48 | 0 | 0 | - |
| 0311 | Precious metals and precious stones | 49 | 0 | 0 | - |
| 0312 | Archived books, works of art and similar valuables | 50 | 0 | 0 | - |

| | | | | | |
|------|---|-----|--------|--------|--------|
| 04 | Small inventory (ADP 052+053-054) | 51 | 0 | 0 | - |
| 041 | Small inventory on stock | 52 | 0 | 0 | - |
| 042 | Small inventory in use | 53 | 651 | 981 | 150.7% |
| 049 | Value adjustment for small inventory | 54 | 651 | 981 | 150.7% |
| 05 | Non-financial assets - work in progress (ADP 056 to 059+062+063) | 55 | 126 | 77 | 60.7% |
| 051 | Buildings - work in progress | 56 | 0 | 0 | - |
| 052 | Plant and equipment - work in progress | 57 | 126 | 77 | 60.7% |
| 053 | Means of transportation - work in progress | 58 | 0 | 0 | - |
| 054 | Growing crops and livestock - work in progress (ADP 060+061) | 59 | 0 | 0 | - |
| 0541 | Growing crops - work in progress | 60 | 0 | 0 | - |
| 0542 | Live stock - work in progress | 61 | 0 | 0 | - |
| 055 | Other intangible produced assets - work in progress | 62 | 0 | 0 | - |
| 056 | Other intangible assets - work in progress | 63 | 0 | 0 | - |
| 06 | Produced current assets (ADP 065+070+073) | 64 | 35 | 35 | 99.4% |
| 061 | Inventories for the pursuit of activities (ADP 066 to 069) | 65 | 35 | 35 | 99.4% |
| 0611 | Inventories for redistribution | 66 | 0 | 0 | - |
| 0612 | Materials inventory for regular needs | 67 | 35 | 35 | 99.4% |
| 0613 | Spare parts inventory | 68 | 0 | 0 | - |
| 0614 | Materials inventory for special needs | 69 | 0 | 0 | - |
| 062 | Production and products | 70 | 0 | 0 | - |
| 0621 | Production in progress | 71 | 0 | 0 | - |
| 0622 | Finished goods | 72 | 0 | 0 | - |
| 063 | Goods for resale | 73 | 0 | 0 | - |
| 1 | Financial assets (ADP 075 +083+100+105+125+133+142) | 74 | 22,513 | 27,841 | 123.7% |
| 11 | Cash at bank and in hand | 75 | 20,405 | 26,062 | 127.7% |
| 111 | Cash at bank (ADP 077 to 079) | 76 | 20,398 | 26,058 | 127.7% |
| 1111 | Cash in the account with domestic commercial banks | 77 | 20,398 | 26,058 | 127.7% |
| 1112 | Cash in the account with foreign commercial banks | 78 | 0 | 0 | - |
| 1113 | Interim account | 79 | 0 | 0 | - |
| 112 | Cash reserved | 80 | 0 | 0 | - |
| 113 | Cash in hand | 81 | 6 | 4 | 60.2% |
| 114 | Securities in hand | 82 | 0 | 0 | - |
| 12 | Deposits, guarantee deposits, employee receivables and receivables for prepaid taxes, and other (ADP 084+087+088+089+095) | 83 | 758 | 710 | 93.6% |
| 121 | Deposits with banks and other financial institutions (ADP 085+086) | 84 | 0 | 0 | - |
| 1211 | Deposits with domestic banks and other financial institutions | 85 | 0 | 0 | - |
| 1212 | Deposits with foreign banks and other financial institutions | 86 | 0 | 0 | - |
| 122 | Guarantee deposits | 87 | 604 | 604 | 100.0% |
| 123 | Employee receivables | 88 | 5 | 7 | 145.5% |
| 124 | Receivables for prepaid taxes and contributions (ADP 090 to 094) | 89 | 2 | 0 | 0.0% |
| 1241 | Receivables for prepaid taxes | 90 | 0 | 0 | 0.0% |
| 1242 | Value-added tax receivables | 91 | 0 | 0 | - |
| 1243 | Receivables for prepaid duties and customs duties | 92 | 0 | 0 | - |
| 1244 | Receivables for prepaid other taxes | 93 | 0 | 0 | - |
| 1245 | Receivables for prepaid contributions | 94 | 1 | 0 | 0.0% |
| 129 | Other receivables (ADP 096 to 099) | 95 | 148 | 99 | 67.0% |
| 1291 | Receivables for refundable benefits | 96 | 11 | 30 | 276.0% |
| 1292 | Receivables for damages | 97 | 0 | 0 | - |
| 1293 | Receivables for advance payments | 98 | 110 | 30 | 27.2% |
| 1294 | Other receivables | 99 | 27 | 40 | 145.3% |
| 13 | Loans (ADP101+102+103-104) | 100 | 0 | 0 | - |
| 131 | Loans to citizens and households | 101 | 0 | 0 | - |
| 132 | Loans to legal entities engaged in entrepreneurial activity | 102 | 0 | 0 | - |
| 133 | Loans to other entities | 103 | 0 | 0 | - |
| 139 | Impairment of loan receivables | 104 | 0 | 0 | - |
| 14 | Securities (ADP 106 +109+112+115+118+121-124) | 105 | 0 | 0 | - |
| 141 | Cheques (ADP 107+108) | 106 | 0 | 0 | - |
| 1411 | Cheques – domestic | 107 | 0 | 0 | - |
| 1412 | Cheques – foreign | 108 | 0 | 0 | - |
| 142 | Commercial papers and treasury bills (ADP 110+111) | 109 | 0 | 0 | - |
| 1421 | Commercial papers and treasury bills – domestic | 110 | 0 | 0 | - |
| 1422 | Commercial papers and treasury bills – foreign | 111 | 0 | 0 | - |
| 143 | Bills of exchange (ADP 113+114) | 112 | 0 | 0 | - |
| 1431 | Bills of exchange – domestic | 113 | 0 | 0 | - |
| 1432 | Bills of exchange – foreign | 114 | 0 | 0 | - |

| | | | | | |
|------------------------------------|---|------------|---------------|---------------|---------------|
| 144 | Bonds (ADP 116+117) | 115 | 0 | 0 | - |
| 1441 | Bonds – domestic | 116 | 0 | 0 | - |
| 1442 | Bonds – foreign | 117 | 0 | 0 | - |
| 145 | Options and other financial derivatives (ADP 119+120) | 118 | 0 | 0 | - |
| 1451 | Options and other financial derivatives – domestic | 119 | 0 | 0 | - |
| 1452 | Options and other financial derivatives – foreign | 120 | 0 | 0 | - |
| 146 | Other securities (ADP 122+123) | 121 | 0 | 0 | - |
| 1461 | Other domestic securities | 122 | 0 | 0 | - |
| 1462 | Other foreign securities | 123 | 0 | 0 | - |
| 149 | Value adjustment for securities | 124 | 0 | 0 | - |
| 15 | Shares and participations in equity (ADP 126+129-132) | 125 | 0 | 0 | - |
| 151 | Shares and participations in equity of banks and other financial institutions (ADP 127+128) | 126 | 0 | 0 | - |
| 1511 | Shares and participations in equity of domestic banks and other financial institutions | 127 | 0 | 0 | - |
| 1512 | Shares and participations in equity of foreign banks and other financial institutions | 128 | 0 | 0 | - |
| 152 | Shares and participations in equity of companies (ADP 130+131) | 129 | 0 | 0 | - |
| 1521 | Shares and participations in equity of domestic companies | 130 | 0 | 0 | - |
| 1522 | Shares and participations in equity of foreign companies | 131 | 0 | 0 | - |
| 159 | Value adjustment for shares and participations in equity | 132 | 0 | 0 | - |
| 16 | Income receivables (ADP 134 to 137+140-141) | 133 | 0 | 0 | - |
| 161 | Customer receivables | 134 | 0 | 0 | - |
| 162 | Receivables for membership fees and membership contributions | 135 | 0 | 0 | - |
| 163 | Receivables for income under special regulations | 136 | 0 | 0 | - |
| 164 | Receivables for income from assets (ADP 138+139) | 137 | 0 | 0 | - |
| 1641 | Receivables for income from financial assets | 138 | 0 | 0 | - |
| 1642 | Receivables for income from non-financial assets | 139 | 0 | 0 | - |
| 165 | Other receivables | 140 | 0 | 0 | - |
| 169 | Value adjustment for receivables | 141 | 0 | 0 | - |
| 19 | Prepayments and accrued income (ADP 143+144) | 142 | 1,350 | 1,069 | 79.2% |
| 191 | Prepayments | 143 | 1,350 | 1,069 | 79.2% |
| 192 | Accrued income | 144 | 0 | 0 | - |
| LIABILITIES AND OWN SOURCES | | | | | |
| | Liabilities and own sources (ADP 146+195) | 145 | 30,920 | 35,192 | 113.8% |
| 2 | Liabilities (ADP 147+174+182+190) | 146 | 8,398 | 8,815 | 105.0% |
| 24 | Liabilities for expenditures (ADP 148+156+164+168+169+170) | 147 | 7,373 | 8,291 | 112.5% |
| 241 | Liabilities for employees (ADP 149 to 155) | 148 | 5,855 | 7,354 | 125.6% |
| 2411 | Liabilities for salaries – net | 149 | 1,992 | 1,979 | 99.4% |
| 2412 | Liabilities for salary compensations – net | 150 | 213 | 197 | 92.8% |
| 2413 | Liabilities for salaries in kind – net | 151 | 0 | 0 | - |
| 2414 | Liabilities for tax and surtax on salaries | 152 | 373 | 370 | 99.0% |
| 2415 | Liabilities for contributions from salaries | 153 | 646 | 640 | 98.9% |
| 2416 | Liabilities for contributions on salaries | 154 | 490 | 480 | 98.0% |
| 2417 | Other liabilities for employees | 155 | 2,141 | 3,688 | 172.3% |
| 242 | Liabilities for material expenses (ADP 157 to 163) | 156 | 1,244 | 739 | 59.4% |
| 2421 | Costs for employees | 157 | 73 | 79 | 108.0% |
| 2422 | Remuneration for members of representative and executive bodies, committees etc. | 158 | 0 | 40 | - |
| 2423 | Remuneration for volunteers | 159 | 0 | 0 | - |
| 2424 | Costs for external staff | 160 | 5 | 0 | 0.0% |
| 2425 | Liabilities towards domestic suppliers | 161 | 573 | 620 | 108.2% |
| 2426 | Liabilities towards foreign suppliers | 162 | 502 | 0 | 0.0% |
| 2429 | Other liabilities for financing operating expenses | 163 | 91 | 0 | 0.0% |
| 244 | Liabilities for financial expenses (ADP 165 to 167) | 164 | 0 | 0 | - |
| 2441 | Liabilities for interest on issued securities | 165 | 0 | 0 | - |
| 2442 | Liabilities for interest on credits and loans received | 166 | 0 | 0 | - |
| 2443 | Liabilities for other financial expenses | 167 | 0 | 0 | - |
| 245 | Liabilities for financial aid funds collected | 168 | 0 | 0 | - |
| 246 | Liabilities for penalties and damages | 169 | 0 | 0 | - |
| 249 | Other liabilities (ADP 171 to 173) | 170 | 274 | 198 | 72.3% |
| 2491 | Liabilities for taxes | 171 | 0 | 0 | - |
| 2492 | Liabilities for value-added tax | 172 | 113 | 62 | 54.8% |
| 2493 | Liabilities for prepayments, deposits, caution money received and other liabilities | 173 | 160 | 136 | 84.7% |
| 25 | Liabilities for securities (ADP 175+178-181) | 174 | 0 | 0 | - |
| 251 | Liabilities for cheques (ADP 176+177) | 175 | 0 | 0 | - |
| 2511 | Liabilities for cheques – domestic | 176 | 0 | 0 | - |

| | | | | | |
|--------------------------------|---|-----|--------|--------|--------|
| 2512 | Liabilities for cheques – foreign | 177 | 0 | 0 | - |
| 252 | Liabilities for bills of exchange (ADP 179+180) | 178 | 0 | 0 | - |
| 2521 | Liabilities for bills of exchange – domestic | 179 | 0 | 0 | - |
| 2522 | Liabilities for bills of exchange – foreign | 180 | 0 | 0 | - |
| 259 | Value adjustment for securities liabilities | 181 | 0 | 0 | - |
| 26 | Liabilities for credits and loans (ADP 183+186-189) | 182 | 0 | 0 | - |
| 261 | Liabilities for bank credits and credits from other creditors (ADP 184+185) | 183 | 0 | 0 | - |
| 2611 | Liabilities for domestic credits | 184 | 0 | 0 | - |
| 2612 | Liabilities for foreign credits | 185 | 0 | 0 | - |
| 262 | Liabilities for commodity and other loans (ADP 187+188) | 186 | 0 | 0 | - |
| 2621 | Liabilities for domestic loans | 187 | 0 | 0 | - |
| 2622 | Liabilities for foreign loans | 188 | 0 | 0 | - |
| 269 | Value adjustment for liabilities for credits and loans | 189 | 0 | 0 | - |
| 29 | Accrued expenses and deferred income | 190 | 1,025 | 524 | 51.1% |
| 291 | Accrued expenses | 191 | 272 | 286 | 105.1% |
| 292 | Deferred income (ADP 193+194) | 192 | 753 | 238 | 31.6% |
| 2921 | Accrued income | 193 | 727 | 212 | 29.2% |
| 2922 | Deferred income | 194 | 26 | 26 | 100.0% |
| 5 | Own sources (ADP 196+199-200) | 195 | 22,522 | 26,377 | 117.1% |
| 51 | Own sources (ADP 197+198) | 196 | 2,269 | 2,220 | 97.8% |
| 511 | Own sources | 197 | 2,269 | 2,220 | 97.8% |
| 512 | Revaluation reserves | 198 | 0 | 0 | - |
| 5221 | Excess of income | 199 | 20,254 | 24,157 | 119.3% |
| 5222 | Income deficit | 200 | 0 | 0 | - |
| OFF-BALANCE SHEET ITEMS | | | | | |
| 61 | Off-balance sheet items – assets | 201 | 0 | 139 | - |
| 62 | Off-balance sheet items – liabilities | 202 | 0 | 139 | - |

Statement of Hanfa's income and expenditure for the period from 1 January 2021 to 31 December 2021

In HRK thousand

| Account from the Chart of Accounts | ITEM | ADP | Realised in the previous year | Realised in the reporting period | Index (5/4) |
|------------------------------------|--|-----|-------------------------------|----------------------------------|---------------|
| 1 | 2 | 3 | 4 | 5 | 6 |
| INCOME | | | | | |
| 3 | INCOME (ADP 002 +005+008+011+024+040+049) | 1 | 77,554 | 83,507 | 107.7% |
| 31 | Income from the sale of goods and provision of services | 2 | 0 | 0 | - |
| 3111 | Income from the sale of goods | 3 | 0 | 0 | - |
| 3112 | Income from the provision of services | 4 | 0 | 0 | - |
| 32 | Income from membership fees and membership contributions | 5 | 0 | 0 | - |
| 3211 | Membership fees | 6 | 0 | 0 | - |
| 3212 | Membership contributions | 7 | 0 | 0 | - |
| 33 | Income under special regulations (ADP 009+010) | 8 | 76,260 | 82,771 | 108.5% |
| 3311 | Income under special regulations from the state budget | 9 | 0 | 0 | - |
| 3312 | Income under special regulations from other sources | 10 | 76,260 | 82,771 | 108.5% |
| 34 | Income from assets (ADP 012+021) | 11 | 9 | 8 | 93.6% |
| 341 | Income from financial assets (ADP 013 to 020) | 12 | 9 | 8 | 93.6% |
| 3411 | Interest income from loans granted | 13 | 0 | 0 | - |
| 3412 | Income from interest on securities | 14 | 0 | 0 | - |
| 3413 | Interest on time deposits and demand deposits | 15 | 0 | 0 | 96.8% |
| 3414 | Income from default interest | 16 | 0 | 0 | - |
| 3415 | Income from positive exchange rate differences | 17 | 8 | 8 | 93.5% |
| 3416 | Dividend income | 18 | 0 | 0 | - |
| 3417 | Income from profits of companies, banks and other financial institutions under special regulations | 19 | 0 | 0 | - |
| 3418 | Other income from financial assets | 20 | 0 | 0 | - |
| 342 | Income from non-financial assets (ADP 022+023) | 21 | 0 | 0 | - |
| 3421 | Income from leases and rents | 22 | 0 | 0 | - |
| 3422 | Other income from non-financial assets | 23 | 0 | 0 | - |
| 35 | Income from donations (ADP 025+030+033+036+037) | 24 | 256 | 1 | 0.3% |
| 351 | Income from donations from the budget (ADP 026 to 029) | 25 | 256 | 0 | 0.0% |
| 3511 | Income from donations from the state budget | 26 | 256 | 0 | 0.0% |
| 3512 | Income from donations from bodies of local and regional self-government | 27 | 0 | 0 | - |
| 3513 | Income from donations from the state budget for EU projects | 28 | 0 | 0 | - |
| 3514 | Income from donations from bodies of local and regional self-government for EU projects | 29 | 0 | 0 | - |
| 352 | Income from foreign governments and international organisations (ADP 031+032) | 30 | 0 | 0 | - |
| 3521 | Income from foreign governments and international organisations | 31 | 0 | 0 | - |
| 3522 | Income from EU institutions and bodies | 32 | 0 | 0 | - |
| 353 | Income from companies and other legal persons (ADP 034+035) | 33 | 0 | 1 | - |
| 3531 | Income from companies and other legal persons | 34 | 0 | 1 | - |
| 3532 | Income from companies and other legal persons for EU projects | 35 | 0 | 0 | - |
| 354 | Income from citizens and households | 36 | 0 | 0 | - |
| 355 | Other income from donations (ADP 038+039) | 37 | 0 | 0 | - |
| 3551 | Other income from donations | 38 | 0 | 0 | - |
| 3552 | Other income from donations for EU projects | 39 | 0 | 0 | - |
| 36 | Other income (ADP 041+044+045) | 40 | 1,029 | 728 | 70.7% |
| 361 | Income from damages and refunds (ADP 042+043) | 41 | 557 | 637 | 114.3% |
| 3611 | Income from damages | 42 | 0 | 0 | - |
| 3612 | Income from refunds | 43 | 557 | 637 | 114.3% |
| 362 | Income from the sale of fixed assets | 44 | 225 | 23 | 10.1% |
| 363 | Other income (ADP 046 to 048) | 45 | 247 | 68 | 27.6% |
| 3631 | Liability write-off | 46 | 1 | 0 | 0.0% |
| 3632 | Receivables written off | 47 | 0 | 0 | - |
| 3633 | Other income | 48 | 246 | 68 | 27.8% |
| 37 | Income from related non-profit organisations (ADP 050 to 053) | 49 | 0 | 0 | - |
| 3711 | Current income from related non-profit organisations | 50 | 0 | 0 | - |
| 3712 | Capital income from related non-profit organisations | 51 | 0 | 0 | - |
| 3713 | Current income from related non-profit organisations for EU projects | 52 | 0 | 0 | - |
| 3714 | Capital income from related non-profit organisations for EU projects | 53 | 0 | 0 | - |
| EXPENDITURE | | | | | |
| 4 | EXPENSES (ADP 055 +067+108+109+120+128+139) | 54 | 74,697 | 76,747 | 102.7% |
| 41 | Employee expenses (ADP 056+061+062) | 55 | 48,698 | 48,028 | 98.6% |

| | | | | | |
|------|---|-----|--------|--------|--------|
| 411 | Salaries (ADP 057 to 060) | 56 | 37,000 | 37,335 | 100.9% |
| 4111 | Salaries for regular work | 57 | 36,558 | 36,853 | 100.8% |
| 4112 | Salaries in kind | 58 | 356 | 362 | 101.7% |
| 4113 | Salaries for overtime work | 59 | 87 | 120 | 138.3% |
| 4114 | Salaries for extraordinary working conditions | 60 | 0 | 0 - | |
| 412 | Other employee expenses | 61 | 5,801 | 4,642 | 80.0% |
| 413 | Contributions on salaries (ADP 063 to 066) | 62 | 5,896 | 6,051 | 102.6% |
| 4131 | Contributions for health insurance | 63 | 5,896 | 6,051 | 102.6% |
| 4132 | Employment contributions | 64 | 0 | 0 - | |
| 4133 | Pension insurance contributions paid by the employer | 65 | 0 | 0 - | |
| 4134 | Special contributions for stimulating employment of people with disabilities | 66 | 0 | 0 - | |
| 42 | Material expenses (ADP 068+072+077+082+087+097+102) | 67 | 21,635 | 24,852 | 114.9% |
| 421 | Employees' costs (ADP 069 to 071) | 68 | 1,934 | 2,136 | 110.4% |
| 4211 | Business trips | 69 | 653 | 417 | 64.0% |
| 4212 | Travel, field and separate maintenance allowance | 70 | 874 | 942 | 107.8% |
| 4213 | Employees' professional training | 71 | 408 | 777 | 190.5% |
| 422 | Remuneration for members of representative and executive bodies, committees etc. (ADP 073 to 076) | 72 | 55 | 48 | 87.4% |
| 4221 | Remuneration for regular activities | 73 | 55 | 48 | 87.4% |
| 4222 | Business travel costs | 74 | 0 | 0 - | |
| 4223 | Other costs | 75 | 0 | 0 - | |
| 4224 | Other remuneration | 76 | 0 | 0 - | |
| 423 | Remuneration to volunteers (ADP 078 to 081) | 77 | 0 | 0 - | |
| 4231 | Remuneration for regular operations | 78 | 0 | 0 - | |
| 4232 | Business travel costs | 79 | 0 | 0 - | |
| 4233 | Other costs | 80 | 0 | 0 - | |
| 4234 | Other remuneration | 81 | 0 | 0 - | |
| 424 | Remuneration to external staff (ADP 083 to 086) | 82 | 220 | 96 | 43.5% |
| 4241 | Remuneration for regular activities | 83 | 220 | 91 | 41.3% |
| 4242 | Business travel costs | 84 | 0 | 5 - | |
| 4243 | Other costs | 85 | 0 | 0 - | |
| 4244 | Other remuneration | 86 | 0 | 0 - | |
| 425 | Expenses for services (ADP 088 to 096) | 87 | 10,762 | 12,510 | 116.2% |
| 4251 | Telephone, postal and transport services | 88 | 324 | 488 | 150.3% |
| 4252 | Daily and investment maintenance services | 89 | 1,694 | 2,144 | 126.6% |
| 4253 | Promotional and information services | 90 | 358 | 654 | 182.4% |
| 4254 | Public utility services | 91 | 1,293 | 1,175 | 90.9% |
| 4255 | Leases and rents | 92 | 3,488 | 4,304 | 123.4% |
| 4256 | Health care and veterinary services | 93 | 51 | 169 | 334.4% |
| 4257 | Intellectual and personal services | 94 | 1,208 | 1,150 | 95.2% |
| 4258 | IT services | 95 | 361 | 152 | 42.2% |
| 4259 | Other services | 96 | 1,986 | 2,275 | 114.6% |
| 426 | Expenses for material and energy (ADP 098 to 101) | 97 | 1,851 | 1,857 | 100.3% |
| 4261 | Stationery and other material expenses | 98 | 752 | 495 | 65.9% |
| 4262 | Raw materials and consumables | 99 | 0 | 0 - | |
| 4263 | Energy | 100 | 829 | 1,001 | 120.7% |
| 4264 | Small inventory and car tires | 101 | 270 | 361 | 133.7% |
| 429 | Other material expenses (ADP 103 to 107) | 102 | 6,812 | 8,204 | 120.4% |
| 4291 | Insurance premiums | 103 | 113 | 112 | 99.0% |
| 4292 | Representation | 104 | 318 | 416 | 131.0% |
| 4293 | Membership fees | 105 | 6,376 | 7,668 | 120.3% |
| 4294 | Participation fees | 106 | 6 | 8 | 147.7% |
| 4295 | Other material expenditure | 107 | 0 | 0 - | |
| 43 | Depreciation expenditure | 108 | 3,053 | 2,632 | 86.2% |
| 44 | Financial expenses (ADP 110+111+115) | 109 | 91 | 95 | 104.0% |
| 441 | Interest on securities issued | 110 | 0 | 0 - | |
| 442 | Interest on credits and loans received (ADP 112 to 114) | 111 | 0 | 0 - | |
| 4421 | Interest on credits received from banks and other creditors | 112 | 0 | 0 - | |
| 4422 | Interest on received commodity and other loans | 113 | 0 | 0 - | |
| 4423 | Interest on approved, unconsumed credits and loans | 114 | 0 | 0 - | |
| 443 | Other financial expenses (ADP 116 to 119) | 115 | 91 | 95 | 104.0% |
| 4431 | Banking and payment system services | 116 | 45 | 46 | 101.4% |
| 4432 | Negative exchange rate differences and currency clause | 117 | 46 | 49 | 107.3% |
| 4433 | Default interest | 118 | 0 | 0 | 22.2% |
| 4434 | Other material expenditure | 119 | 0 | 0 - | |

| | | | | | |
|--|--|-----|---------|--------|---------|
| 45 | Donations (ADP 121+125) | 120 | 157 | 107 | 68.1% |
| 451 | Current donations (ADP 122 to 124) | 121 | 157 | 107 | 68.1% |
| 4511 | Current donations | 122 | 21 | 7 | 34.9% |
| 4512 | Scholarships | 123 | 137 | 100 | 73.1% |
| 4513 | Current donations from EU funds | 124 | 0 | 0 | - |
| 452 | Capital donations (ADP 126+127) | 125 | 0 | 0 | - |
| 4521 | Capital donations | 126 | 0 | 0 | - |
| 4522 | Capital donations from EU funds | 127 | 0 | 0 | - |
| 46 | Other expenses (ADP 129+134) | 128 | 1,063 | 1,033 | 97.2% |
| 461 | Fines, penalties and indemnities (ADP 130 to 133) | 129 | 0 | 0 | - |
| 4611 | Compensation for financial losses given to legal and natural persons | 130 | 0 | 0 | - |
| 4612 | Penalties, storage charges and other | 131 | 0 | 0 | - |
| 4613 | Indemnities for employees | 132 | 0 | 0 | - |
| 4614 | Agreed fines and other compensations for damage | 133 | 0 | 0 | - |
| 462 | Other financial expenses (ADP 135 to 138) | 134 | 1,063 | 1,033 | 97.2% |
| 4621 | Net book value and other expenses for retired and disposed fixed assets | 135 | 92 | 0 | 0.2% |
| 4622 | Receivables written off | 136 | 0 | 0 | - |
| 4623 | Expenses for other tax levies | 137 | 9 | 7 | 78.1% |
| 4624 | Other expenses | 138 | 963 | 1,026 | 106.6% |
| 47 | Expenses for the funding of related non-profit organisations (ADP 140 to 143) | 139 | 0 | 0 | - |
| 4711 | Current expenses for the funding of related non-profit organisations | 140 | 0 | 0 | - |
| 4712 | Capital expenses for the funding of related non-profit organisations | 141 | 0 | 0 | - |
| 4713 | Current expenses for the funding of related non-profit organisations for EU projects | 142 | 0 | 0 | - |
| 4714 | Capital expenses for the funding of related non-profit organisations for EU projects | 143 | 0 | 0 | - |
| | Production and finished goods inventory at the beginning of the period | 144 | 0 | 0 | - |
| | Production and finished goods inventory at the end of the period | 145 | 0 | 0 | - |
| | Increase in production and finished goods inventory (ADP 145-144) | 146 | 0 | 0 | - |
| | Decrease in production and finished goods inventory (ADP 144-145) | 147 | 0 | 0 | - |
| | TOTAL EXPENSES (ADP 054-146 or 054+147) | 148 | 74,697 | 76,747 | 102.7% |
| | EXCESS OF INCOME (ADP 001-148) | 149 | 2,857 | 6,760 | 236.6% |
| | DEFICIENCY OF INCOME (ADP 148-001) | 150 | 0 | 0 | - |
| 5221 | Excess of income – transferred | 151 | 17,397 | 17,397 | 100.0% |
| 5222 | Income deficit – transferred | 152 | 0 | 0 | - |
| | Income tax liabilities | 153 | 0 | 0 | - |
| | Surplus income available in the following period (ADP 149+151-150-152-153) | 154 | 20,254 | 24,157 | 119.3% |
| | Deficit of income for the coverage in the following period (AOP 150+152-149-151+153) | 155 | 0 | 0 | - |
| Additional data | | | | | |
| 11 | Cash at the beginning of the year | 156 | 24,887 | 20,405 | 82.0% |
| 11- | Total inflows of cash at bank and in hand | 157 | 96,379 | 99,252 | 103.0% |
| payables | | | | | |
| 11- | Total outflows of cash at bank and in hand | 158 | 100,861 | 93,594 | 92.8% |
| receivable | | | | | |
| s | | | | | |
| 11 | Cash at the end of the period (ADP 156+157-158) | 159 | 20,405 | 26,062 | 127.7% |
| | Average number of employees at the end of the reporting period (whole number) | 160 | 0 | 0 | 102.6% |
| | Average number of employees' working hours (whole number) | 161 | 0 | 0 | 94.4% |
| | Number of volunteers | 162 | 0 | 0 | - |
| | Number of volunteered hours | 163 | 0 | 0 | - |
| Value of realised investments in fixed assets | | | | | |
| 051 | Buildings - work in progress | 164 | 0 | 0 | - |
| 052 | Plant and equipment - work in progress | 165 | 46 | 317 | 686.8% |
| 053 | Means of transportation - work in progress | 166 | 0 | 0 | - |
| 054 | Growing crops and livestock - work in progress (ADP) | 167 | 0 | 0 | - |
| 055 | Other intangible produced assets - work in progress | 168 | 0 | 1,145 | - |
| 056 | Other intangible assets - work in progress | 169 | 0 | 361 | - |
| | Inventories | 170 | 35 | 35 | 99.4% |
| | Control sum (ADP 160 to 170) | 171 | 82 | 1,858 | 2276.8% |

