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CROATIAN FINANCIAL
SERVICES SUPERVISORY AGENCY



HANFA

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Introduction

The Croatian Financial Services Supervisory Agency (Hrvatska agencija za nadzor financijskih usluga; hereinafter: Hanfa) was established pursuant to the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 140/05 and 12/12). Hanfa is an independent legal person with public authority, accountable to the Croatian Parliament. Hanfa's objectives, prescribed by law, comprise fostering and safeguarding the stability of the financial system covering insurance, pension and investment funds, leasing, factoring, and capital market, and supervision of the lawfulness of business operations of market participants (supervised entities) carrying out their operations in these areas.

In 2012, the financial market offering the said services was marked by unfavourable operating conditions, resulting from the financial and economic crisis, primarily reflected in some of the following indicators.

The total turnover on the Zagreb Stock Exchange fell by 35%, due to a significant, 44% decline in regular equity turnover relative to 2011, with share indices stagnating over the period. The bond market recorded positive results, owing to an increasing interest in the purchase of government bonds of the Republic of Croatia prior to the EU accession. A considerable number of shares were delisted from the regular market, as a result of the initiation of bankruptcy proceedings against issuers, transformation of joint-stock companies into limited liability companies and the squeeze-out of minority shareholders. Due to a lower turnover, which was followed by a lower income, the number of investment firms dropped, too. Open-ended investment funds recorded a modest increase in assets under management, accompanied by a decrease in the number of funds caused by their consolidation, primarily for the purpose of reducing management costs. The gross written premium of the insurance industry fell by 1.1% compared to 2011. The leasing industry recorded a decline in assets and in the value of newly concluded contracts, whereas mandatory pension funds showed positive trends with their assets rising by HRK 10bn, of which HRK 5bn resulted from new contribution payments and about HRK 5bn from the growth in the value of assets under management.

With a view to addressing adequately the challenges of the new business environment, substantial changes anticipated in the legislative framework of the Republic of Croatia in the process of its alignment with the *acquis communautaire* and the establishment of cooperation with supranational regulatory authorities of the European Union, Hanfa's new Board initiated, after having assumed office in February 2012, a number of new activities and projects:

- the screening of business processes within Hanfa
- the adoption of a new Statute in accordance with the Act on Hanfa
- the establishment of a new organisational structure
- the election of the Secretary General of Hanfa.

The existing organisational structure, based on functions (supervision, licensing, risk management), was replaced by a new one, based on industries supervised by Hanfa. New divisions were established for each industry, with their departments for licensing and legal support, on-site and off-site supervision and risk monitoring.

This organisational structure ensures:

- an efficient communication among departments within a division, enabling continuous monitoring of business activities of both individual supervised entities and industry as a whole, allowing risks to be identified and adequate measures to be taken in a timely manner

- an on-going exchange of information among divisions, ensuring timely identification of risks pertaining to business operations of related persons at the same time being Hanfa's supervised entities
- a more transparent definition of the line of responsibility of employees
- a proactive communication with supervised entities in the process of the adoption of subordinate legislation for the purpose of reducing their administrative burden, where applicable.

During 2102, the Board also launched a series of activities aimed at improving various internal processes:

- accounting operations were improved and aligned with the requirements and standards of the accounting profession, for the purpose of monitoring planned and recorded income and expenses and maintaining up-to date material and personnel records
- the work of the human resources office was improved with a view to assessing the level of competence of the employees required for the accomplishment of their tasks and the need for their further education. The tasks assigned to them involve specialist knowledge and skills needed for the understanding of business processes within the financial industry and the legislative framework, both in the Republic of Croatia and on the international level, as Croatia's entry into the European Union involves Hanfa's membership in supranational EU regulators covering capital markets, investment and pension funds, insurance and systemic risks
- the periodic assessment of the employees' performance was introduced, with clearly defined tasks and deadlines for their accomplishment
- preparations for the improvement of information processes were done aimed at reducing the administrative, and increasing the analytical and supervisory segment of Hanfa's operations, as well as at lowering administrative costs of supervised entities
- a project ensuring business continuity was launched and a disaster recovery site was purchased, guaranteeing the continuity of business operations of Hanfa even in the event of various natural or other disasters or threats to business at the original location
- the procedure for the submission of supervised entities' reports with advanced electronic signature was introduced, ensuring authenticity of data used in the analysis of business risks, and lowering costs borne by supervised entities for the submission of documentation
- the reporting system for the off-site supervision was upgraded by enhancing the quality of data requested and implementing new tools for their analysis.

All this makes a part of the comprehensive measures taken by Hanfa for the purpose of upgrading its work. A regulatory authority's operation involves not only the imposition of sanctions against supervised entities, but needs also to be reflected in the understanding of the industry it supervises and of the relationship between supervised entities and users of their services, as well as in an active communication and cooperation with stakeholders, ranging from government authorities and professional associations to the investing public and media, in order to be able to ensure the effective functioning of the financial market.

As of the date of the accession of the Republic of Croatia to the European Union, Hanfa will become a full member of two institutions belonging to the European System of Financial Supervisors, namely the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA). The system also comprises the European Banking Authority (EBA) and the European Systemic Risk Board (ESRB) and was created as a response to the financial crisis, for the purpose of hindering further difficulties in the functioning of financial institutions and preventing the outbreak of a new financial crisis in general.

In 2012, Hanfa participated in the work of the said authorities as an observer. However, Croatia's EU accession and Hanfa's full membership of these institutions will imply voting rights and

direct, active participation in the decision-making process. This, at the same time, entails a great responsibility for Hanfa's staff, especially taking into account the intention of the European Union to tighten up regulations on the financial services industry and to reduce the risk of disturbances in the financial market and, consequently, in the overall economy. The EU legislation relating to operation of financial institutions is generally applicable to all Member States, which reflects the EU's effort to standardise its legislative framework, leaving Member States only limited scope for autonomous solutions. All this should finally result in the creation of a level-playing field for all supervised entities and equal protection for all financial services users in all Member States.

It should be noted that the participation in the work of the European System of Financial Supervisors also presents a substantial financial burden for Hanfa in the form of high annual membership fees. Moreover, full membership implies taking part in the process of the adoption of a series of regulations, thus placing Hanfa's personnel under additional pressure, as it, in addition to their on-going tasks related to the supervision, risk analysis and licensing, requires further effort needed to draw up various position papers, comments or analyses.

Hanfa has been intensively seeking to assume a preventive role in the financial market while carrying out its supervisory activities, and to focus on hindering undesirable market behaviour, instead of on subsequent sanctioning. The move toward risk-based supervision, which emphasises this function of a supervisory body, is becoming a standard practice in the work of supervisory authorities in the EU Member States. In 2012, Hanfa continued developing its models and strategies aimed at implementing the risk-based approach to supervision.

All industries belonging to the non-banking financial sector have certain aspects¹ in common, thus making some parts of Hanfa's supervisory activities uniform, as well. For instance, all the measures taken by Hanfa within the framework of its competence are subject to the General Administrative Procedure Act (Official Gazette 47/09). The alignment of business operations of supervised entities is verified in the course of on-site and off-site supervision², with on-site supervision being classified as either full-scope or targeted supervision. Off-site supervision of supervised entities includes the analysis of financial and supervisory reports submitted to Hanfa within the prescribed deadlines, and monitoring, collecting and verifying documentation, notifications and data submitted at Hanfa's special request, as well as data or findings obtained from other sources. On-site examinations are defined by the Annual On-Site Examination Plan, whereas off-site examinations are initiated on the basis of financial, statistical and supervisory reports received. Hanfa carries out on-going supervision of all entities subject to its supervision, thus having carried out on-site examination in 50 entities during 2012. A total of 41 decisions were issued for the purpose of eliminating established violations and irregularities.

In 2012, Hanfa initiated the process of assessment of the possibility of standardising certain business processes in all the industries subject to its supervision, such as the requirements for granting authorisation to members of management boards, organisational requirements or risk exposure. The results of the assessment are implemented, to the appropriate extent, into relevant provisions of certain laws in the course of preparation of their amendments.

1 Apart from sharing general characteristics of the financial system, all legal persons subject to Hanfa's supervision are also subject to the subsidiary legislation, such as the Companies Act (Official Gazette 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12 and 144/12), the Bankruptcy Act (Official Gazette 44/96, 29/99, 129/00, 123/03, 82/06, 116/10, 25/12 and 133/12), the Civil Obligations Act (Official Gazette 35/05, 41/08 and 125/11), the Accounting Act (Official Gazette 109/07 and 144/12) and other relevant laws. In addition to legal persons, Hanfa also supervises natural persons, brokers, investment advisors, tied agents, certified actuaries and authorised insurance brokers and agents.

2 Supervisory activities are carried out pursuant to the Act on the Croatian Financial Services Supervisory Agency, *leges speciales* governing business operations of entities supervised by Hanfa and subordinate regulations adopted under those laws, regulations governing entrepreneurial accounting and implementation of the financial reporting standards, and the Act on the prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 25/12).

Pursuant to Article 8 of the Act on the Financial Services Supervisory Agency, all decisions falling within the scope of Hanfa's activities and competence are adopted at meetings of Hanfa's Board. The Board held 56 meetings in 2012 (of which 48 regular and 8 extraordinary meetings), having adopted a total of 1,105 decisions.

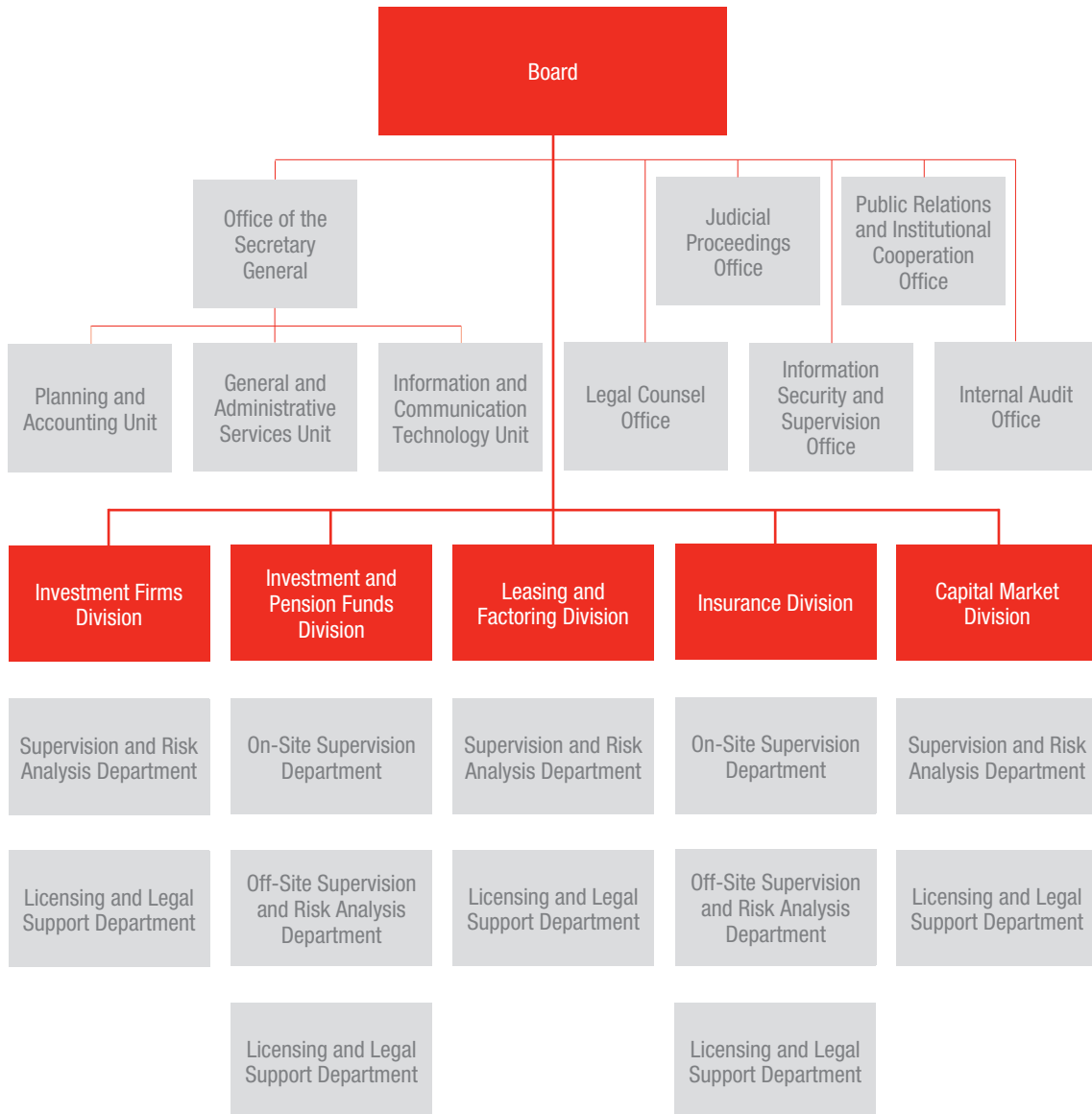
Fostering and safeguarding the stability of the financial system and monitoring the lawfulness of business operations of supervised entities were not only Hanfa's legally prescribed objectives but also its priority and principles which it followed in 2012, and which it will continue to follow in future.

Finally, I would like to thank all Hanfa's employees, without whose dedication and hard work we wouldn't have been able to achieve the goals set for the year 2012.

Petar-Pierre Matek
President of the Board



Organisation Chart of Hanfa





Capital Market

1 Capital Market

1.1 Capital Market Developments in 2012

The Croatian capital market is regulated by the Capital Market Act (Official Gazette 88/08, 146/08 and 74/09) and ordinances adopted under this Act, by the Act on the Takeover on Joint-Stock Companies (Official Gazette 109/07, 36/09 and 108/12), and by the Rules of the Zagreb Stock Exchange, Rules and Instructions of the Central Depository and Clearing Company, and by other regulations governing business operations of capital market participants.

In 2012, the capital market recorded further decline in economic activity in the Republic of Croatia, resulting in increased cautiousness and weaker activity on the part of both investors and issuers on the capital market. The year 2012 also saw the implementation of adjustments required for the accession of the Republic of Croatia to the European Union.

Business operations of the Zagreb Stock Exchange and the Central Depository and Clearing Company recorded no disturbances or situations adversely affecting market stability. The most significant novelty on the market was the admission of the first financial instrument (certificate, as a new instrument) to trading on the Zagreb Stock Exchange International Multilateral Trading Facility.

In 2012, upgraded its supervisory process related to transparency requirements for issuers and disclosure of regulated information.

The adoption of the Financial Operations and Pre-Bankruptcy Settlement Act (Official Gazette 108/12 and 144/12) affected securities issuers, as it also applies to some issuers whose securities are admitted to trading on the regulated market in the Republic of Croatia. The implementation of the Financial Operations and Pre-Bankruptcy Settlement Act was also followed by the Amendments to the Act on the Takeover of Joint-Stock Companies, providing for an additional exemption from the obligation to launch a takeover bid.

The turnover realised on a stock exchange and its indices are the main indicators of capital market developments. In 2012, the Zagreb Stock Exchange recorded a turnover totalling HRK 3.9bn, and falling by 34.9% in relation to the previous year, when it amounted to HRK 5.9bn. During 2012, the Zagreb Stock Exchange calculated two stock indices (CROBEX and CROBEX10) and two bond indices (CROBIS and CROBIStr).

The following charts present changes in the value of the CROBEX

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

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

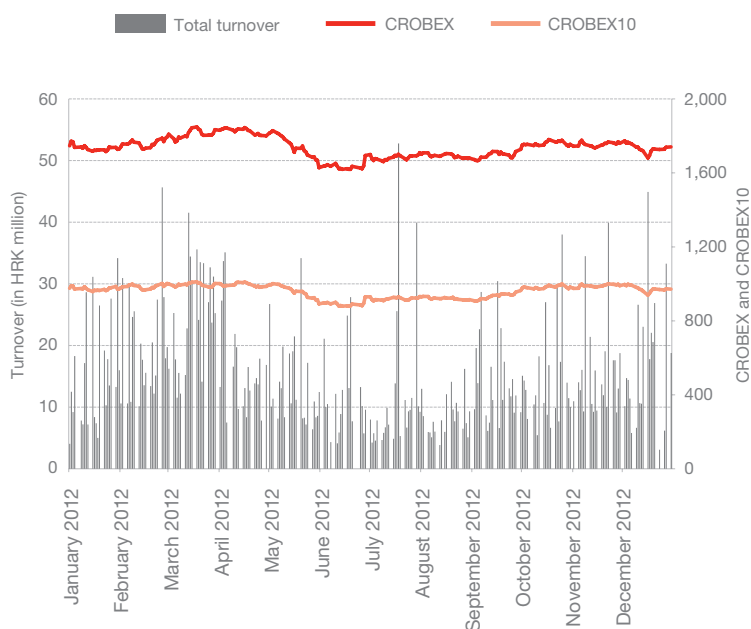
- *Zagreb Stock Exchange, as a market operator of the regulated market and multilateral trading facility*
- *Central Depository and Clearing Company, as a central depository of dematerialised securities, operator of the clearing and settlement system and operator of the Investor Compensation Scheme*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

and CROBEX10 indices, and in the value of the CROBIS and CROBIStr indices in 2012 and in the period preceding 2012.

The charts show the CROBEX and CROBEX10 returns reaching 1,740.39 and 971.56 points respectively at end-2012, remaining at almost the same levels as in 2011. In the 1998-2012 period, the CROBEX recorded the highest growth in 2007 (63.2%), and the largest fall in 2008 (-67.1%).

The CROBIS and CROBIStr indices recorded a 13.7% and 20.0% rise respectively compared to the previous year, reaching 103.75 and 122.13 points respectively. In the 2003-2012 period, the CROBIS recorded the largest fall in 2008 (-6.1%), and the highest growth in the following year (5.8%).

Chart 1.1 Changes in the value of the CROBEX and CROBEX10 indices and in the ZSE turnover in 2012



Source: Zagreb Stock Exchange

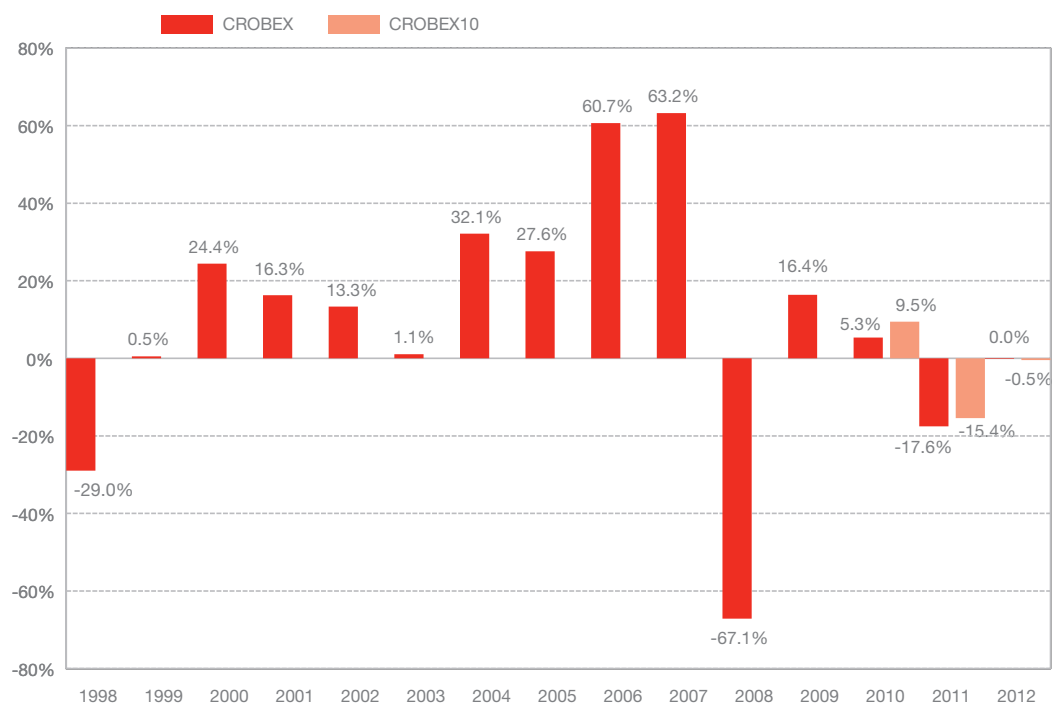
In 2012, the Zagreb Stock Exchange recorded a total turnover reaching HRK 3.9bn, and declining by 34.9% in comparison with 2011, when it amounted to HRK 5.9bn.

The CROBEX index consists of 25 stocks admitted to trading on the regulated market of the Zagreb Stock Exchange, and traded over more than 90% of the total number of trading days within a six-month period preceding index review (on the basis of the highest mean of the share in the free float market capitalisation and the share in the order book turnover). The index base date is 1 July 1997 with a base level of 1,000. The CROBEX10 index is made up of 10 stocks from the CROBEX index composition with the highest mean of the share in the free float market capitalisation and in the turnover. The base level of this index was set at 1,000 as of 31 July 2009.

The CROBIS index consists of government bonds and government agencies bonds having a nominal value of the issue higher than EUR 75m, a maturity longer than 18 months and a fixed interest rate, with the principal payment occurring in a lump sum upon maturity. The index base date is 30 September 2002. The CROBIStr index is a total return index, including both interest accrued and interest paid. The CROBIStr index composition equals that of the CROBIS index, and its base date is 1 December 2011.

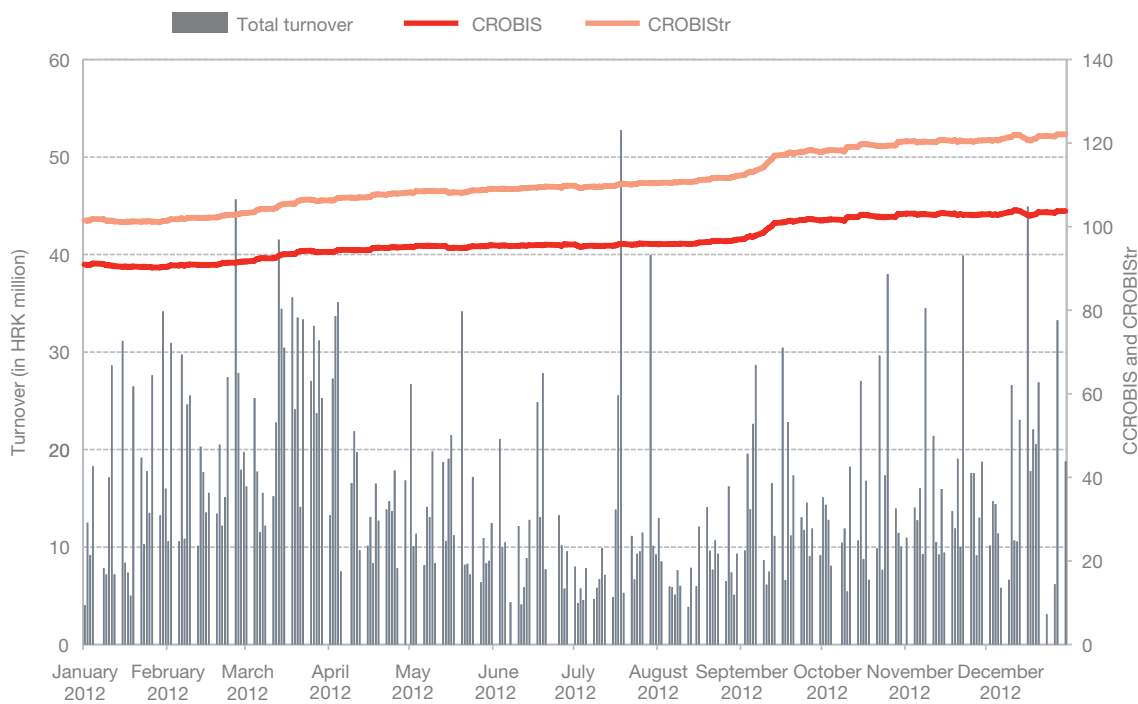


Chart 1.2 Annual rates of return of the CROBEX and CROBEX10 indices in the 1998-2012 period



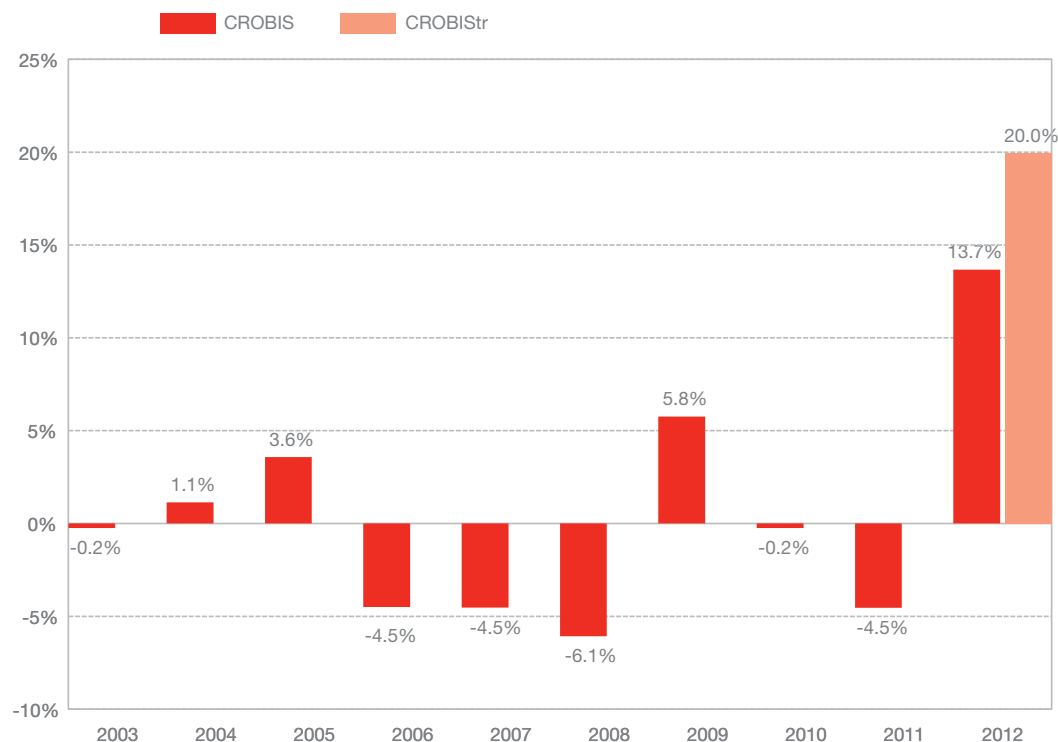
Source: Zagreb Stock Exchange

Chart 1.3 Changes in the value of the CROBIS and CROBIStr indices and in the ZSE turnover in 2012



Source: Zagreb Stock Exchange

Chart 1.4 Annual rates of return of the CROBIS and CROBIStr indices in the 2003-2012 period



Source: Zagreb Stock Exchange

1.1.1 Zagreb Stock Exchange

In 2012, the Zagreb Stock Exchange was the only operator of the regulated market and the operator of the multilateral trading facility in the Republic of Croatia.

The rules of trading on the regulated market and the multilateral trading facility, managed by the Zagreb Stock Exchange, are defined in the Rules of the Zagreb Stock Exchange. The basic difference between the regulated market and the multilateral trading facility lies in the level of issuer transparency, i.e. in their obligation to disclose regulated information to the public. Issuers whose securities are admitted to trading on the regulated market are obliged to publish a prospectus approved by Hanfa, containing all relevant information needed for an assessment of assets and liabilities, financial position, profit and loss, development of the issuer and guarantor, and rights attaching to the securities, in order to provide the issuer with full information required to make an investment decision on purchasing the security. Issuers are obliged to disclose all regulated information (including inside information) even after the admission of securities to trading on the regulated market,

A regulated market is a multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments, in the system and in accordance with its non-discretionary rules, in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with the provisions of the Capital Market Act.

whereas no such obligation is stipulated for issuers whose securities are admitted to trading on the multilateral trading facility.

The Rules of the Zagreb Stock Exchange provide for a division of the regulated market into the Regular Market, Official Market and Prime Market, depending on additional requirements issuers need to meet at the moment and after the admission of securities.

Table 1.1 Number of securities on the regulated market

	31 Dec 2011	31 Dec 2012
Shares	221	200
Official Market	21	22
Regular Market	200	178
Bonds (government, corporate, municipal)	50	46
Official Market	48	44
Regular Market	2	2
Commercial papers	15	8
Official Market	13	5
Regular Market	2	3

Source: Zagreb Stock Exchange

The multilateral trading facility managed by the Zagreb Stock Exchange is divided into the Domestic MTF and International MTF, depending on whether the registered office of the issuer is situated in the Republic of Croatia or abroad.

A significant event occurring on the Zagreb Stock Exchange was the commencement of trading in structured securities, namely index certificates and turbo long and turbo short certificates, on 21 September 2012, with 14 new certificates having been admitted subsequently (oil certificates, gold certificates, oil index certificate, gold index certificate). As at 31 December 2012, there were 16 certificates admitted to trading, as trading in one certificate was suspended on 21 December 2012 (the price of the underlying instrument, whose value affects the value of the structured security, reached the knock-out barrier). Considering the fact that certificates represent a relatively new product for the Croatian investing public and that they are the first instruments admitted to trading on the International MTF, on 20 September 2012

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

Regulated information is all the information on the issuer and/or financial instrument which must be publicly disclosed, such as financial statements and management reports, changes in the proportion of voting rights, proposals for decisions taken in a general meeting, inside information, etc.

Entities obliged to submit and publicly disclose regulated information are the following:

- *issuers whose securities are admitted to trading on the regulated market of the Zagreb Stock Exchange,*
- *natural persons and legal entities who reach, exceed or fall below, directly or indirectly, the thresholds of the voting rights in the share issuer prescribed by the Capital Market Act, and*
- *persons performing managerial functions in the issuer, and persons having close links with them.*

Index certificates are the most common type of structured securities, whose price reflects the movements of the underlying instrument in a 1:1 ratio. The underlying instruments are usually stock exchange indices, which allow investors to diversify the risk, but may also be the prices of energy products, commodities, etc.

Hanfa issued a public statement pointing out to the most significant characteristics of certificates, obligations of investment firms in respect of the provision of services related to certificates and the importance of understanding the risks attaching to investments in certificates.

Below is an overview of the turnover and market capitalisation of all financial instruments on the Zagreb Stock Exchange in 2012. There is also an overview of the reported OTC turnover, which was almost five times larger than the ZSE turnover. This is due to the fact that most of the transactions in debt securities are executed by professional investors outside the regulated market, but must be reported through the Zagreb Stock Exchange, pursuant to the Decision on the obligation to report OTC transactions³.

Turbo certificates are structured securities which reflect the movements of the underlying assets and come with an inbuilt leverage effect. There are two basic types of such certificates: long and short. With turbo long certificates investors benefit from rising prices, with turbo short certificates from falling ones.

Table 1.2 Turnover and market capitalisation on the Zagreb Stock Exchange (in HRK billion) in 2012

	31 Dec 2012	Changes relative to 2011
Turnover – total	3.9	-34.90%
OTC turnover	19.3	6.40%
Market capitalisation – total	191.6	3.70%
Shares	127.8	-2.20%
Bonds	62	14.60%
Structured	1.8	n/a

Source: Zagreb Stock Exchange

1.1.2 Central Depository and Clearing Company

In 2012, the Central Depository and Clearing Company was the only entity in the Republic of Croatia authorised to manage the central depository of dematerialised securities, manage the clearing and settlement system of transactions executed on the regulated market or the multilateral trading facility or outside the regulated market or the multilateral trading facility (OTC transactions) and carry out other activities in accordance with Article 506 of the Capital Market Act (e.g. assign unique identification numbers to dematerialised securities – ISIN and CFI codes). The operation of the Central Depository and Clearing Company is governed by the Capital market Act and the Rules and Instructions of the Central Depository and Clearing Company.

Table 1.3 Number of deposited securities and their market value

	31 Dec 2012	Changes relative to 2011
Total deposited securities	1,104	-1.87%
Shares	949	-1.76%
Bonds	59	-3.28%
Other	96	-2.04%

³ Decision on the obligation to report OTC transactions, adopted by Hanfa on 12 November 2010, available at: <http://www.zse.hr/UserDocImages/legal/HANFA%20Odluka.pdf>.

Market capitalisation – total (in HRK bn)	322.9	8.85%
Shares (in HRK bn)	234.7	6.90%
Bonds (in HRK bn)	62	10.47%
Other (in HRK bn)	26.2	24.81%

Source: Central Depository and Clearing Company

The ownership structure of all securities deposited with the Central Depository and Clearing Company did not change significantly compared to 2011, with domestic legal persons still being the most dominant investors accounting for a 50% share of the total market value of securities, followed by foreign persons with a 29% share, domestic natural persons with a 7% share, and other with a 14% share.

The clearing and settlement system, managed by the Central Depository and Clearing Company, includes the preparation of a transaction involving the transfer of funds or securities and the transfer itself. The total transaction value in the 2012 clearing and settlement system amounted to HRK 262.8bn, rising by 3.3% compared to 2011, when it stood at HRK 254.3bn.

The Central Depository and Clearing Company provides depository members with services relating to corporate actions, or activities relating to the exercise of rights attaching to securities, changes related to securities or status changes of the issuer. In 2012, the Central Depository and Clearing Company carried out a total of 1,551 corporate actions, a modest increase compared to 1,533 corporate actions carried out in 2011. Out of the 18 types of corporate actions carried out, most of them were related to general assemblies (44%), removal of securities (9%), maturity of the principal (9%), calculation and payment of cash dividend (5%), interest maturity (5%) and increase and reduction in the initial capital (4%).

1.1.3 Issuers

The year 2012 saw a decrease in the number of issuers on the regulated market: even though the number of share issuers on the Official Market rose by one (from 20 to 21) in comparison with 2011, the number of share issuers on the Regular Market dropped from 184 to 163 at end-2012. The largest number of issuers (nine) who filed an application for the removal of its securities from trading were delisted due to the initiation of the bankruptcy proceedings, six issuers were delisted after the decision of the general assembly on delisting (in accordance with Article 332 of the Capital Market Act), and six issuers were delisted due to one of the following reasons:

- squeeze-out of minority shareholders
- decision of the general assembly on the merger of issuers
- transformation of the joint-stock company into the limited liability company
- conversion of preference shares into ordinary shares.

There were no new listings on the Regular Market, and one issuer shifted from the Regular Market to the Official Market.

On 31 December 2012, there were 20 issuers whose bonds were listed on the regulated market, namely 18 issuers with bonds listed on the Official Market and two issuers with bonds listed on the Regular Market. The Zagreb Stock Exchange approved listing of three new bonds and five new commercial papers on the Official Market and of three new commercial papers on the Regular Market. Seven bonds were delisted in the same period.

The number of issuers on the Domestic Multilateral Trading Facility fell from 31 at end-2011 to 26 at end-2012: the Zagreb Stock Exchange adopted decisions on the delisting of 14 issuers

from trading on the multilateral trading facility due to the lack of fulfilment of listing requirements (five), at the request of the person who had applied for the admission to trading (four), and due to the squeeze-out of minority shareholders (one). Four decisions were readopted with respect to the admission of issuers to trading on the multilateral trading facility at the request of a member of the Zagreb Stock Exchange or the issuer, and six decisions were adopted with respect to the new admission of issuers to trading on the multilateral trading facility.

1.2. Hanfa's Activities

Since the outbreak of the global financial crisis in 2008, capital market regulators worldwide, including Hanfa, have been placing special emphasis on the identification, measurement, monitoring and managing risks attaching to business operations of supervised entities. Hanfa's activities are primarily focused on protecting investors on the capital market, ensuring a fair, efficient and transparent market and reducing systemic risks.

Following the practice of other EU regulatory authorities, in 2012 Hanfa prepared its second Annual Report on Corporate Governance of Issuers whose Securities are Admitted to Trading on the Regulated Market in the Republic of Croatia, presenting the level of corporate governance of issuers. The report is published on Hanfa's website and contains aggregate data on issuers of shares and corporate bonds.

1.2.1 Regulatory Activities

Hanfa monitors, on a regular and systematic basis, changes in the EU legislation for the purpose of efficiently implementing European regulations into the national law, which includes regulations governing the capital market, in particular:

- directives and regulations which have entered into force in the European Union and are going to apply in the Republic of Croatia upon its accession to the European Union: Regulation amending the Regulation on OTC derivatives, central counterparties and trade repositories (EMIR)⁴ and Regulation on short selling and certain aspects of credit default swaps⁵, and
- directives and regulations whose adoption is under way in the European Union: MiFID II⁶, comprising a revised original Markets in Financial Instruments Directive (MiFID)⁷ and a proposal for a new Markets in Financial Instruments Regulation (MiFIR)⁸, amendments to the Market Abuse Directive (MAD)⁹ and a proposal for a Market Abuse Regulation (MAR)¹⁰, and amendments to the Transparency Directive (TD)¹¹.

Within the final phase of the process of aligning national legislation with the *acquis communautaire*, in 2012 Hanfa worked on the proposal for the amendments to the Capital Market Act, aimed at its alignment with Directive 2010/73/EU¹², Directive 2010/76/EU¹³ and Omnibus I Directive¹⁴.

4 Regulation (EU) No 648/2012, OJ EU L 201

5 Regulation (EU) No 236/2012, OJ EU L 86

6 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0656:FIN:EN:PDF>

7 Directive 2004/39/EC, OJ EU L 145

8 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0652:FIN:EN:PDF>

9 Directive 2003/6/EC, OJ EU L 96, proposal for amendments to the Directive:

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0654:FIN:EN:PDF>

10 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0651:FIN:EN:PDF>

11 Directive 2004/109/EC, OJ EU L 390

12 Directive 2010/73/EU, OJ EU L 327

13 Directive 2010/76/EU, OJ EU L 329

14 Directive 2010/78/EU, OJ EU L 170

During the previous year, Hanfa adopted the Ordinance amending the Ordinance on minimum information in the prospectus, format of the prospectus and publication of the prospectus and advertisements relating to the prospectus (Official Gazette 34/12). This Ordinance introduced changes to the provisions of the existing Ordinance on minimum information in the prospectus, format of the prospectus and publication of the prospectus and advertisements relating to the prospectus (Official Gazette 05/09) with a view to harmonising certain provisions with the Prospectus Regulation¹⁵, and for the purpose of producing more efficient legislation governing the content of the prospectus, and, consequently, speeding up the process of approval of prospectuses by Hanfa.

In accordance with its powers, in 2012 Hanfa provided four opinions related to the application of the provisions of the Capital Market Act, and three opinions related to the application of the provisions of the Act on the Takeover of Joint-Stock Companies.

1.2.2 Licensing

Within the framework of its licensing activities, pursuant to the Capital Market Act, Hanfa grants authorisations to the operator of the regulated market and the operator of the clearing and settlement system, approves their acts (rules and price lists), issues and withdraws approvals for the acquisition of their qualifying holdings and issues and withdraws approvals for the appointment of members of management boards. In accordance with the Capital Market Act it also approves issuers' public offering and listing prospectuses, and pursuant to the Act on the Takeover of Joint-Stock Companies it approves publications of takeover bids.

1.2.2.1 Zagreb Stock Exchange and Central Depository and Clearing Company

In the course of 2012, Hanfa approved amendments to the Zagreb Stock Exchange Rules (twice), the Zagreb Stock Exchange Price List (once) and amendments to the Zagreb Stock Exchange Price List (once). Amendments to the said acts were mostly related to the regulation of admission of structured securities to trading on the International Multilateral Trading Facility.

During the previous year, Hanfa also approved amendments to the Instructions and Price List of the Central Depository and Clearing Company, and issued two approvals for the appointment of members of its Management Board. The amendments to the Instructions were mostly related to the prescribed dividend taxation and the correction of mistakes in the existing text of the Instructions, whereas the purpose of the amendments to the Price List was the reduction in the financial burden for issuers.

In 2012, no applications were submitted to Hanfa for issuing approval for the acquisition of qualifying holdings in the Zagreb Stock Exchange or the Central Depository and Clearing Company.

1.2.2.2 Prospectuses

Hanfa approves prospectuses relating to public offering of securities and to admission of securities to the regulated market, as well as supplements to prospectuses. The Capital Market Act does not permit public offering of securities or admission of securities to trading on the regulated market in the territory of the Republic of Croatia where a valid prospectus has not been published prior to the public offer or the admission of securities, except for in the cases prescribed by Articles 351 and 352 of the Capital Market Act. Exemptions from the obligation to

¹⁵ Commission Regulation (EC) No 809/2004, OJ EU L 149

publish a prospectus are relatively numerous, and are mostly used by issuers for offers limited to qualified investors or for issues of shares to existing shareholders on the basis of an increase in the initial capital from the company's funds, or in other cases where shares of issuers are offered to existing shareholders free of charge or where dividends are paid out on the form of shares, this reducing the costs of the issue or admission of securities to the regulated market.

The global financial crisis, followed by a decreased issuer activity on the capital market and a cautious attitude of investors in the process of investment decision-making, led to a fall in the number of approved prospectuses in 2012 relative to 2011. During the previous year, Hanfa approved three prospectuses relating to securities issues and three prospectuses relating to admission of securities on the regulated market of the Zagreb Stock Exchange, whereas three prospectuses relating to securities issues and six prospectuses relating to admission of securities on the regulated market of the Zagreb Stock Exchange were approved in 2011.

1.2.2.3 Takeover Bids

In accordance with the Act on the Takeover of Joint-Stock Companies, Hanfa supervises all the phases of the takeover procedure: from the public announcement of the obligation to publish a bid to the fulfilment of obligations of the parties to the bid.

The procedure of the acquisition of the offeree company is strictly prescribed by law for the purpose of ensuring an appropriate level of transparency of the takeover procedure, protecting investors and shareholders of the offeree company, and avoiding market disturbances resulting from transactions in shares of the offeror, offeree company and other companies taking part in the takeover procedure.

In 2012, Hanfa approved a total of ten applications for the approval to publish a takeover bid, and rejected one such application as the party failed to complete the application upon Hanfa's request. Out of the ten applications, three related to the approval to publish a voluntary takeover bid, of which one failed as the required threshold¹⁶ was not reached. In the other two cases, the submitters of the application of the approval to publish a takeover bid were already, at the moment of submitting the application, shareholders representing majority holdings in the initial capital of the offeree companies and sought, through the publication of the voluntary takeover bid, to further increase their qualifying holdings in the initial capital of the offeree company and to intensify control by increasing the number of the offeror's votes in the general assembly of the offeree company for the purpose of completely acquiring it.

On the basis of takeover bids published in 2012, the shareholders who had properly deposited their shares during the takeover procedures were paid a total amount of HRK 181m.

An offeree company is a joint-stock company with its registered office in the Republic of Croatia whose shares carrying voting rights are admitted to trading on the regulated market in the Republic of Croatia within the meaning of the Capital Market Act, or a limited liability company with more than 100 shareholders whose minimum initial capital amounts to HRK 30,000,000.00. A takeover bid is a public offer, mandatory or voluntary, made to all shareholders of the offeree company to acquire all shares carrying voting rights, subject to the conditions and in the manner stipulated by the Act on the Takeover of Joint-Stock Companies.

¹⁶ Pursuant to Article 23 paragraph 2 point 2 of the Act on the Takeover of Joint-Stock Companies, the offeror may make a voluntary takeover bid subject to reaching a certain required threshold that must not be lower than the control threshold.

Table 1.4 Number of approved bids and amounts paid in 2011 and 2012 (in HRK thousand)

Takeovers	2011	2012
Mandatory bid	8	7
Voluntary bid	1	3
Total takeovers	9	10
Amounts paid	214,739	180,782

Source: Hanfa

1.2.3 Supervision

1.2.3.1 Supervision of the Zagreb Stock Exchange

Hanfa is responsible for the supervision of the operation of the Zagreb Stock Exchange, and for verifying whether the Zagreb Stock Exchange operates in compliance with the Capital Market Act, regulations adopted under the Capital Market Act and its own acts.

Hanfa supervises trading in financial instruments on the regulated market and on the multilateral trading facility for the purpose of ensuring their orderly and proper functioning and establishing whether there are any activities on the part of capital market participants that constitute market abuse (insider dealing and market manipulation). This is an essential part of the overall capital market supervisory procedure and implies monitoring of real-time trade (placing, changing and cancelling orders, executing transactions, issuers' notifications, messages, observation segment, volatility interruption, suspension of trading, etc.) by means of a special surveillance system.

Pursuant to Article 291 paragraph 5 of the Capital Market Act, the Zagreb Stock Exchange is obliged to submit to Hanfa daily reports containing data on transactions in financial instruments executed on the regulated market managed by it, and weekly, monthly and annual reports containing trading data. The reports are collected and processed for the purpose of preparing trade analyses and establishing suspicions of market abuse. In addition to that, the Zagreb Stock Exchange and other authorised capital market participants (investment firms and credit institutions) are obliged, in accordance with the Ordinance on market manipulation and the obligation to report suspicions of market abuse (Official Gazette 05/09), to notify Hanfa without delay of any reasonable suspicions that a transaction might constitute insider dealing or market manipulation. If, following such a notification, market abuse is detected, Hanfa imposes supervisory measures or files charges to relevant competent authorities.

In 2012, Hanfa issued one (public) warning due to market abuse activities and imposed appropriate supervisory measures on the issuer for the purpose of improving its procedure for disclosing regulated information.

In accordance with Article 341 paragraph 4 of the Capital Market Act, Hanfa is authorised to temporarily suspend trading in financial instruments or remove financial instruments from trading on the regulated market whenever necessary for the purpose of protecting investors or ensuring regular and orderly trading on the regulated market. During the previous year, Hanfa suspended trading on four occasions (with respect to two different financial instruments). Trading may also be suspended by the Zagreb Stock Exchange, namely in the following cases:

- if the suspension serves the public interest, for the purpose of ensuring orderly trading on the regulated market or when it is unable to guarantee orderly trading due to other significant circumstances, in accordance with Article 305 paragraph 4 of the Capital Market Act, or according to Article 91 of the Rules of the Zagreb Stock Exchange, stipulating that the Zagreb Stock Exchange may suspend trading if, due to disturbances of the communication system or for other reasons, 20% or more of Zagreb Stock Exchange members are unable to establish a connection with the trading system, with suspended members not being taken into account (in 2012, the Zagreb Stock Exchange suspended trading twice for this reason)
- when the suspension is required by the investor protection principles or when the financial instrument no longer complies with the conditions laid down in the Rules of the Zagreb Stock Exchange, in accordance with Article 330 paragraph 2 of the Capital Market Act or Article 455 of the Rules of the Zagreb Stock Exchange (in 2012, the Zagreb Stock Exchange suspended trading with respect to 35 shares for this reason).

In addition to the supervision of the trading system, Hanfa also carries out on-site and off-site supervision of the Zagreb Stock Exchange, with the latter being carried out by collecting and analysing the following data and documentation of the Zagreb Stock Exchange:

- annual financial statements, annual report and audit report
- notification of the intention and manner of outsourcing business processes crucial to its operation or the operation of the regulated market
- notification of any received application for admission of financial instruments to trading on the Official or Regular market, and of its decision regarding the admission or the rejection of the application for admission
- list of its members, regularly updated
- with respect to its role as MTF operator, data on all changes in the trading system, availability of data on the supply and demand and trading data intended for users and the public, expected users of the system, financial instruments to be traded within the system, mechanism for and manner of settling transactions, measures ensuring the fulfilment of requirements laid down in the Capital Market Act and regulations adopted under this Act
- report on any significant breaches of its rules and MTF rules, disorderly trading conditions or behaviour that may involve market abuse
- data on ownership structure and all the changes in the ownership structure
- data on all the changes of Management board members and Supervisory board members
- report on the acquisition or disposal of financial instruments of the Management Board, Supervisory Board, employees, etc.

1.2.3.2 Supervision of the Central Depository and Clearing Company

Hanfa carries out off-site and on-site supervision of the Central Depository and Clearing Company for the purpose of verifying whether the Central Depository and Clearing Company operates in compliance with the Capital Market Act, regulations adopted under the Capital Market Act and its own acts. The off-site supervision of the Central Depository and Clearing Company includes the collection and analysis of the following data and documentation of the Central Depository and Clearing Company:

- annual financial statements, annual report and audit report
- notification of the intention and manner of outsourcing business processes crucial to its operation or the operation of the regulated market
- notification in the case of a serious threat to the risk management system
- information on any new member and termination of membership, and the updated member list
- information on any failure to fulfil the obligations by participating members in the clearing and settlement system
- data on ownership structure and all the changes in the ownership structure
- data on all the changes of Management board members and Supervisory board members.

As part of the supervision of the Central Depository and Clearing Company, Hanfa also supervises the Investor Compensation Scheme, operated by the Central Depository and Clearing Company since 2009.

Off-site supervision of the Investor Compensation Scheme includes the collection and analysis of the following data and documentation submitted by the Central Depository and Clearing Company as its operator:

- data the number of members of the Investor Compensation Scheme
- data on the total asset value of the Investor Compensation Scheme
- semi-annual and annual financial statements of the Investor Compensation Scheme.

On the basis of the documentation received, Hanfa verifies whether the Investor Compensation Scheme invests assets in a safe and profitable manner, taking into account diversification of risks, for the purpose of safeguarding the value and liquidity of the Investor Compensation Scheme, and whether the Investor Compensation Scheme possesses sufficient funds to compensate clients of its members.

1.2.3.3 Supervision of Issuers

Pursuant to Article 446 of the Capital Market Act, Hanfa carries out supervision of issuers with respect to the fulfilment of their transparency requirements. This primarily concerns the fulfilment of the obligation to disclose regulated information¹⁷ on issuers of securities, in accordance with Articles 395 – 449 of the Capital Market Act, submission of the annual document containing disclosed information pursuant to Article 364 of the Capital Market Act, and in particular the compliance with the provisions on market abuse according to Articles 450 – 487 of the Capital Market Act and the Ordinance on disclosure of the inside information which directly concern the issuer and on determining the legitimate interests of the issuer for the delay in disclosure (Official Gazette 05/09).

Pursuant to the Capital Market Act, issuers are obliged to submit regulated information, for the purpose of disclosure, simultaneously to:

1. Hanfa¹⁸
2. the Officially Appointed Mechanism for the Central Storage of Regulated Information
3. the Zagreb Stock Exchange and
4. the media (Croatian New Agency – HINA).

All regulated information submitted by issuers to the Officially Appointed Mechanism for the Central Storage of Regulated Information is available to the public free of charge, and may be searched by several criteria: issuer, type of regulated information, time period of submission and language (Croatian/English).

As regard the submission of information by individual issuers, in 2012 there were 322 cases handled by Hanfa, of which 97 related to the submission of information on acquisition and disposal of shares, while the remaining 225 cases related to the submission of all other regulated information (including notifications of inside information).

While carrying out off-site supervision of issuers, Hanfa verifies the content, form and time frames for the submission of regulated information, as well as the fulfilment of the obligation to

¹⁷ Regulated information is all information which the issuer, or any other person who has applied for the admission of securities to trading on a regulated market without the issuer's consent, is required to disclose under the Capital Market Act.

¹⁸ Submission of regulated information to the Officially Appointed Mechanism for the Central Storage of Regulated Information in the form of electronic documents signed with advanced electronic signature, in the form and manner laid down in the Decision on the form and manner of submitting regulated information to the Croatian Financial Services Supervisory Agency of 22 December 2011 constitutes the fulfilment of the obligation to submit information to Hanfa.

disclose regulated information, comparing this data with data received from other sources (e.g. the media, Official Gazette, register of companies of the Republic of Croatia, etc.). Disclosure of regulated information in the manner laid down in the Capital market Act ensures a simultaneous and equal access to information on issuers to all capital market participants, thus providing protection for investors and increasing the efficiency of the capital market.

Where it establishes violations or irregularities in respect of disclosure of regulated information, Hanfa is authorised to impose adequate supervisory measures on issuers, ranging from the request to submit and/or disclose information to public warnings and concrete measures aimed at improving the procedure for disclosing regulated information. In the course of 2012, Hanfa issued one public warning to the president of the management board of an issuer for presenting information which sent out the wrong signal related to shares of the issuer. The issuer was ordered to improve the internal system for handling inside and regulated information. Hanfa assessed these measures to be appropriate in the situation in question, both with the view of protecting investor confidence in the functionality and integrity of the market and preventing similar behaviour in future.

By monitoring disclosure of regulated information, Hanfa also monitors changes in the ownership structure of issuers and establishes any obligations to publish the takeover bid, as well as other circumstances or corporate actions that might be relevant for issuers and the market in general.

On the basis of authorisation referred to in Article 47 of the Act on the Takeover of Joint-Stock Companies, in 2012 Hanfa imposed supervisory measures on participants in takeover procedures on five occasions:

- three decisions ordering alterations to opinions of the management board of the offeree company, due to the fact that the content of the opinions did not comply with the provisions of Article 41 of the Act on the Takeover of Joint-Stock Companies
- one decision determining that during the takeover procedure the offeror communicated with the public contrary to the provisions of Article 4 of the Act on the Takeover of Joint-Stock Companies, which is why the offeror was ordered to take steps aimed at eliminating violations
- one decision ordering the offeror, following the violations and/or irregularities established during the takeover procedure, to submit and disclose additional data and/or information, statements, notifications or corrigenda relating to the takeover bid.

The third educational seminar for issuers whose securities are admitted to trading on the regulated market of the Zagreb Stock Exchange was held in June 2012 within the framework of Hanfa's activities related to issuers. As in the previous two years, the seminar was organised by the Zagreb Stock Exchange and Hanfa, this year joined by the Central Depository and Clearing Company. Hanfa's representatives presented the annual report on corporate governance, current problems encountered during supervisory activities and procedures related to the accession of the Republic of Croatia to the European Union. The Zagreb Stock Exchange presented the issuer supervisory system, information regarding the time limits issuers are required to obey and the scope of activities of the Committee on Disciplinary Measures, placing special emphasis on imposition of measures aimed at market protection. The Central Depository and Clearing Company introduced seminar participants to their portal intended for issuers and to trustee services¹⁹, and it displayed several useful examples of corporate actions. The seminar was

19 The Central Depository and Clearing Company provides trustee services both to investors and to all its members, but also to other interested parties. This service has proved to be necessary for some time already, in cases where the execution of certain agreements (on the sale/transfer of securities), subject to the fulfilment of specific conditions and obligations, laid down in the accompanying documentation, requires participation of a third party, which will ensure security to all parties to the agreement in the exercise of their rights and achievement of their goals.

attended by over 150 representatives of issuers, who used the opportunity to pose questions to employees of Hanfa, the Zagreb Stock Exchange and the Central Depository and Clearing Company, and directly discuss all the problems and difficulties they experience in the process of disclosing regulated information.





Investment Firms

2 Investment Firms

2.1 Description of the Market

Pursuant to the Capital Market Act (Official Gazette 88/08, 146/08 and 74/09), investment services and investment activities²⁰ and related ancillary services may be performed in the Republic of Croatia by investment firms, credit institutions and companies managing open-ended investment funds with public offering, with the latter being authorised only for the provision of the services of investment advice and portfolio management.

As at 1 January 2009, when the Capital Market Act entered into force, replacing the existing Securities Market Act (Official Gazette 84/02 and 138/06), there were 31 active investment firms, whereas only ten investment firms were active as at 31 December 2012. The number of credit institutions providing investment services and performing investment activities was equal as at 31 December 2008 and 31 December 2012 and totalled 19²¹.

Table 2.1 Number of active investment firms, credit institutions providing investment services and performing investment activities and companies managing open-ended investment funds with public offering

Date	Investment firms	Credit institutions	Companies managing investment funds with public offering
31 December 2008	31	19	
31 December 2009	23	21	5
31 December 2010	18	21	6
31 December 2011	13	20	6
31 December 2012	10	19	6

Source: Hanfa

20 Investment services and activities referred to in Article 5 paragraph 1 of the Capital Market Act are the following:

1. reception and transmission of orders in relation to one or more financial instruments
2. execution of orders on behalf of clients
3. dealing on own account
4. portfolio management
5. investment advice
6. underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis
7. placing of financial instruments without a firm commitment basis
8. operation of multilateral trading facilities.

Ancillary services referred to in Article 5 paragraph 2 of the Capital Market Act are the following:

1. safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management
2. granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction;
3. advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings
4. foreign exchange services where these are connected to the provision of investment services
5. investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments
6. services related to services referred to in paragraph 1 point 6 of Article 5
7. investment services and activities as well as ancillary services referred to in Article 5 related to the underlying of the derivatives referred to in Article 3 paragraph 1 point 2 subpoint d indents 2, 3, 4 and 7 of the Capital Market Act where these are connected to the provision of investment or ancillary services.

21 Pursuant to the Securities Market Act companies managing investment funds were not authorised to provide investment services and perform investment activities.

A fall of the financial markets worldwide, a sharp decrease in the turnover on the Zagreb Stock Exchange, lower liquidity in the financial sector and rising operating costs for investment firms following their compliance with the new legislation due to the accession of the Republic of Croatia to the European Union resulted in a substantial decline in the number of investment firms, which is still showing a downward tendency. For the purpose of cutting operating costs, certain investment firms ceased performing some of the investment activities and services which became less attractive to investors and thus less profitable. In 2012, three investment firms completely ceased to provide investment services and perform investment activities and ancillary services, as they were unable to comply with the provisions of the Capital Market Act relating to these services and activities. In order to remain present in the financial market, two firms started performing activities of the tied agent in accordance with the provisions of the Capital Market Act. Some investment firms stopped dealing on own account with a view to reducing regulatory capital requirements. In the same year, two credit institutions ceased, and one credit institutions started providing investment services and performing investment activities.

A tied agent is a natural or legal person appointed by an investment firm to promote, under the full and unconditional responsibility of the investment firm on whose behalf it acts, activities tied to investment firm's services, to offer investment firm's services, to receive and transmit orders from clients or prospective clients, to place financial instruments and to provide advice to clients in respect of financial instruments or services offered by the investment firm.

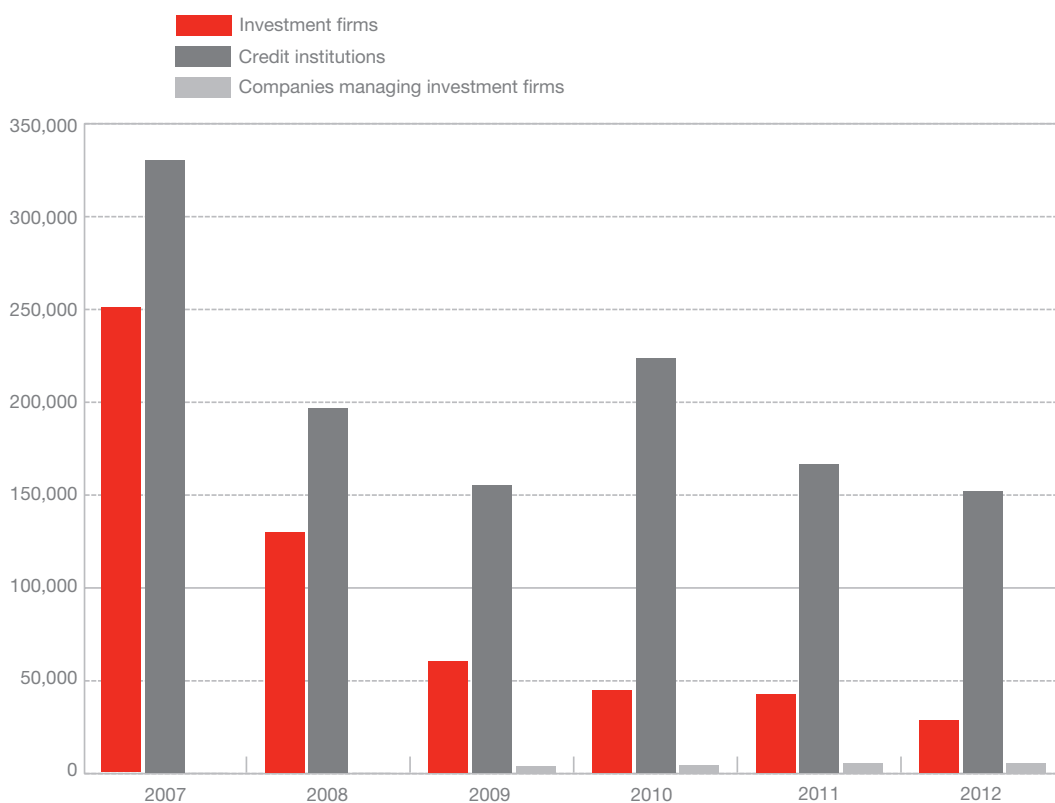
Income from Provision of Investment Services and Performance of Investment Activities²²

In 2012, investment firms, credit institutions and other legal persons authorised in accordance with the Capital Market Act to provide investment services and perform investment activities generated income from these operations in the amount of HRK 187.2m, which is a 13.5% decline in comparison with the previous year.

As much as 81.8% of the total income from provision of investment services and performance of investment activities was recorded by credit institutions, which is a 9.0% decrease relative to 2011. Investment firms generated income from provision of investment services and performance of investment activities, exclusive of dealing on own account, in the amount of HRK 28.8m, which represents a 32.9% fall in relation to the year before.

²² Total income from provision of investment services and performance of investment activities is shown exclusive of income from dealing on own account. This data is not included due to the fact that credit institutions providing investment services and performing investment activities generate large income from these operations, whose presentation would result in an incorrect perception of income.

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



Source: Hanfa

The largest part (59.3%) of income from investment services and activities reported by investment firms was generated from the provision of the service of the reception and transmission of orders and execution of orders on behalf of clients, which represents a 40.9% decrease compared to 2011. The major part of income generated by credit institutions was accounted for by income from safekeeping and administration of financial instruments for the account of clients, including custodianship and related services and income from placing of financial instruments without a firm commitment basis.



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

Investment service or activity	2011			2012		
	Investment firms	Credit institutions	Companies managing investment funds	Investment firms	Credit institutions	Companies managing investment funds
Income from reception and transmission of orders and income from execution of orders on behalf of clients	28,930	26,300	0	17,083	16,052	0
Income from portfolio management	2,073	1,334	5,105	1,554	469	5,251
Income from placing of financial instruments without a firm commitment basis	6,710	34,052	0	4,359	45,702	0
Income from underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis	0	11,234	0	0	8,065	0
Income from investment advice	2,137	6,917	101	31	0	72
Income from safekeeping and administration of financial instruments for the account of clients, including custodianship	106	78,478	0	180	73,237	0
Income from granting credits or loans to an investor to allow him to carry out a transaction	1,588	4,953	0	1,614	2,793	0
Income from advice to undertakings on capital structure, industrial strategy and related matters	1,394	4,984	0	3,990	6,792	0
Total income	42,938	168,252	5,205	28,811	153,111	5,324

Source: Hanfa

Assets under Management and Custody of Financial Instruments

As at 31 December 2012, the total assets under management reached HRK 753.7m, of which the most significant part was accounted for by assets under management of companies managing investment funds. The total assets under custody amounted to HRK 59.1bn and were primarily related to credit institutions.

Table 2.3 Assets under management and custody of financial instruments in 2012 (in HRK thousand)

	Assets under management	Custody of financial instruments
Investment firms	97,004	115,526
Credit institutions	43,611	59,008,082
Companies managing investment funds	613,121	0
TOTAL	753,737	59,123,609

Source: Hanfa

As regards the turnover in capital markets, in 2012 investment firms recorded income amounting to HRK 4.7bn in the domestic capital market and HRK 2.1bn in foreign capital markets.

2.2 Hanfa's Activities

2.2.1 Regulatory Activities

Hanfa continuously undertakes activities aimed at enhancing the legislative framework with respect to the provision of investment services and performance of investment activities. Since the entry into force of the Capital Market Act, experience has proved the need to revise and strengthen the part of the existing legislative framework relating to the protection of clients' assets and laying down the obligations of investment firms and other persons providing investment services and performing investment activities and ancillary services in accordance with the Capital Market Act.

In 2012, Hanfa prepared a Proposal for amendments to the Ordinance on organisational requirements for providing investment services and performing investment activities. The amended provisions of the said Ordinance relating to the protection of clients' assets (stipulating and defining in more detail the existing obligations of investment firms with respect to the protection of clients' assets and informing clients of their assets, defining certain terms and relations and more frequent and more detailed reporting to Hanfa) are based on the experience gained during examinations, the provisions of the Directive on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC (MiFID)²³ and relevant implementing regulations, comments of the Committee of European Securities Regulators (CESR) and the European Securities and Markets Authority (ESMA), and subordinate regulations of European regulators.

During the previous year Hanfa established working groups for the implementation and application of the Capital Requirements Directive (CRD IV) Package, consisting of a regulation and a directive.

Another working group was established for the implementation of the following directives into the Capital Market Act: Directive amending Directives 2006/48/EC and 2006/49/EC as regards

²³ Directive 2004/39/EC, OJ EU L 145

capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies²⁴, Directive amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC in respect of the powers of the European Supervisory Authority (European Banking Authority), the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority) (Omnibus I)²⁵, Directive amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management²⁶, and Directive amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC as regards the supplementary supervision of financial entities in a financial conglomerate²⁷.

In addition to that, the year 2012 saw the introduction of the electronic signature for reports of legal persons authorised to provide investment services and perform investment activities, for the purpose of ensuring authentication, integrity and non-repudiation of documents submitted electronically.

2.2.2 Education of Brokers and Investment Advisors

In accordance with the provisions of the Capital Market Act and the Ordinance on the requirements for the acquisition and examination of professional knowledge needed to obtain broker's and investment advisor's licence (Official Gazette 80/10), Hanfa organises and carries out the education programme and examinations of professional knowledge required to obtain broker's and investment advisor's licence.

The examination of professional knowledge needed to obtain broker's licence held in 2012 was taken by a total of 25 candidates, whose total success rate was 72%. The examination of professional knowledge needed to obtain investment advisor's licence was taken and passed by 17 candidates.

The comparison of the number of candidates sitting the examination of professional knowledge needed to obtain broker's and investment advisor's licence over the last four years points to a waning interest in obtaining broker's or investment advisor's authorisation, primarily due to the diminishing market activity caused by the financial crisis.

Table 2.4 Number of candidates taking the examination of professional knowledge needed to obtain broker's and investment advisor's licence over the last four years

	2009	2010	2011	2012
Brokers	173	83	48	25
Investment advisors	114	57	29	17

Source: Hanfa

24 Directive 2010/76/EU, OJ EU L 329
 25 Directive 2010/78/EU, OJ EU L 331
 26 Directive 2009/111/EC, OJ EU L 302
 27 Directive 2011/89/EU, OJ EU 326

2.2.3 Licensing

In accordance with the Capital Market Act, Hanfa issues and withdraws authorisations from investment firms, brokers, investment advisors and tied agents of investment firms, and approvals for members of management boards of investment firms and acquirers of qualifying holdings in investment firms.

In addition to that, Hanfa grants prior approvals to credit institutions with respect to the fulfilment of the requirements for the provision of investment services and performance of investment activities and related ancillary services referred to in Article 5 of the Capital Market Act, with the final authorisation for investment services and activities referred to in the Capital Market Act being granted by the Croatian National Bank.

Pursuant to Article 20 of the Capital Market Act, Hanfa issues authorisations to investment firms included in status changes (merger, acquisition, division).

According to Article 24 paragraph 9 of the Capital Market Act, Hanfa keeps the Register of Brokers and Investment Advisors. During 2012, eight investment advisor's authorisations and seven broker's authorisations were enrolled in the Register.

Furthermore, in the course of 2012 and pursuant to the Capital Market Act, Hanfa withdrew 37 broker's authorisations and 18 investment advisor's authorisations for administrative reasons, i.e. lack of fulfilment of the requirements based on which authorisations had been issued. In other words, brokers or investment advisors ceased to perform those activities in accordance with the provisions of the Capital Market Act because they were transferred to other positions within their investment firms or credit institutions or because their employment contract was terminated and they did not conclude another contract of employment for the position of a broker or investment advisor in another investment firm or credit institution.

In 2012, Hanfa issued nine authorisations to tied agents of investment firms, of which two authorisations were issued to natural persons and seven to legal persons.

Table 2.5 Comparative overview of issued and withdrawn authorisations in 2011 and 2012

	2011	2012
Issued authorisations		
Investment firms	0	0
Brokers	10	7
Investment advisors	15	8
Tied agents	3	9
Withdrawn authorisations		
Investment firms	3	3
Brokers	31	37
Investment advisors	16	18
Tied agents	2	0

Source: Hanfa

During the previous year, in accordance with the Capital Market Act, Hanfa issued one authorisation for the acquisition of a qualifying holding in an investment firm, whereas one application for the acquisition of a qualifying holding²⁸ in an investment firm was rejected.

In the same time period, six approvals for the position of member of management board of an investment firm were issued, whereas five such approvals were issued in 2011.

One investment firm obtained Hanfa's authorisation to expand its activities, allowing it to provide investment services and perform investment activities and related ancillary services for which it had already obtained authorisation also with respect to derivatives (options, futures, swaps, forward-rate agreements).

One investment firm received approval for a status change, namely disposal by acquisition.

One credit institution received prior approval confirming the fulfilment of requirements for the provision of an ancillary service referred to in Article 5 of the Capital Market Act, expanding the existing authorisation so as to include safekeeping and administration of financial instruments for the account of clients, including custodianship and related services. One credit institution started operating in 2012 based on authorisation issued previously by Hanfa.

Three decisions were issued determining that authorisations issued to investment firms had ceased to be valid, owing to their application to cease providing investment services and perform investment activities. Two credit institutions stopped providing investment services and perform investment activities and related ancillary services referred to in the Capital Market Act in entirety, thus reducing the total number of companies providing investment services and related ancillary services in the capital market.

2.2.4 Supervision

The purpose of supervision of business operations of investment firms, credit institutions and companies managing open-ended investment funds with public offering is to verify their compliance with the provisions of the Capital Market Act, regulations adopted under this Act, their own rules, and professional standards and rules.²⁹

2.2.4.1 On-Site Supervision

In 2012, Hanfa initiated 16 on-site examinations of investment firms and credit institutions. Six on-site examinations were initiated in investment firms, namely four full-scope and two targeted on-site examinations. Ten on-site examinations were initiated in credit institutions.

Following the on-site examinations carried out in 2012, Hanfa issued six decisions ordering measures aimed at improving business operations and measures aimed at eliminating violations and irregularities.

In addition to supervising authorised investment firms and credit institutions, Hanfa carries out, independently or in cooperation with other supervisory authorities (Financial Inspectorate, Tax

28 Every natural or legal person, or more persons acting in concert, that proposes to acquire or increase, directly or indirectly, their qualifying holding in an investment firm, which would result in the proportion of voting rights or of the capital that they hold reaching or exceeding 20%, 30% or 50% or in the investment firm ceasing to be their subsidiary, must submit a written application for issuance of approval to Hanfa.

29 The Croatian National Bank supervises the application of accounting regulations and the implementation of the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 25/12) by credit institutions.

Administration, Anti-Money Laundering Office, etc.) supervision of persons lacking authorisation to provide investment services and perform investment activities contrary to the provisions of the Capital Market Act. In 2012, Hanfa carried out two on-site examinations with a view to establishing the provision of investment services without authorisation.

One of Hanfa's tasks, as laid down in the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 140/05 and 12/12), is introducing the public to the role of the financial system and its functioning and raising awareness of benefits and risks pertaining to different types of investments and financial activities. In accordance with this, in 2012 Hanfa published on its website two warnings to the public about companies providing investment services in the territory of the Republic of Croatia contrary to the provisions of the Capital Market Act.

2.2.4.2 Off-Site Supervision

Within the framework of off-site supervision, Hanfa collects, analyses and processes investment firms' monthly reports on the net liquid asset indicator and quarterly reports of investment firms, credit institutions and companies managing open-ended investment funds on income and expenses arising from the provision of investment services and performance of investment activities, and on the management of clients' assets. Investment firms are obliged to submit their financial statements on a quarterly basis, namely the Statement of Financial Position, Statement of Comprehensive Income, Statement of Cash Flows, Statement of Changes in Equity and Notes.

Furthermore, investment firms referred to in Article 35 of the Capital Market Act are obliged to submit to Hanfa their Reports on Capital Adequacy on a monthly basis, while investment firms referred to in Article 32 of the Capital Market Act submit these reports on a quarterly basis. For the purpose of carrying out off-site supervision and protecting clients' assets, Hanfa obliged its supervised entities to submit the following forms: general data on transaction accounts, a report on clients' funds, a report on transactions in business purpose accounts, a report on realised volume and calculated income from the provision of investment services and given/taken credits and loans, and report on portfolio management, clients' asset structure and fees. The frequency of the submission depends on the type of reports (on a monthly or weekly basis, or upon a change), and the forms allow Hanfa to monitor business operations of its supervised entities more efficiently, placing a special emphasis on the protection of clients' assets.

Following the off-site examinations carried out in 2012, Hanfa issued three decisions ordering measures relating to capital adequacy (maintenance of sufficient capital level) and risk management.

Annual Financial Statements of Investment Firms

According to the aggregate statement of financial position, total assets of the ten investment firms decreased by HRK 159.7m or 33.7% in comparison with aggregate assets of the 13 investment firms on the same day in the previous year. This is, among other things, due to a decline in the number of investment firms and a status change relating to disposal by acquisition in two investment firms.

In the asset structure, the largest decrease was recorded by financial assets, which fell from HRK 302.1m as at 31 December 2011 to HRK 153.5m as at 31 December 2012. A significant fall within the liability structure was recorded by total liabilities, which amounted to HRK 193.2m as at 31 December 2012, falling from HRK 334.2m at end-2011. The decrease was attributable to a decline in liabilities for credits, loans and advance payments received (a decrease of HRK 148.5m), deferred tax liability (a decrease of HRK 2m) and other liabilities (a decrease of HRK 1.2m).

Table 2.6 Statement of financial position of investment firms as at 31 December 2011 and 31 December 2012 (in HRK thousand)

Assets		31 Dec 2011	31 Dec 2012
1	Intangible, tangible assets and long-term investments	46,891	44,219
2	Cash and receivables	125,709	117,241
3	Financial assets	302,126	153,530
TOTAL ASSETS		474,726	314,991
Liabilities			
1	Capital and reserves	140,500	121,807
2	Payables	334,226	193,184
TOTAL LIABILITIES		474,726	314,991

Source: Hanfa

In 2012, four investment firms generated a profit totalling HRK 3.1m, whereas six investment firms reported a loss reaching HRK 4.2m.

The most significant share of the income structure was accounted for by income from fees and commissions for investment services provided, totalling 50.4% of the total income. In the 2012 cost structure, the largest share was made up of staff costs (23.6% of total costs), other costs (21.9% of total costs) and expenses on fees and commissions for investment services provided (21.3% of total costs).

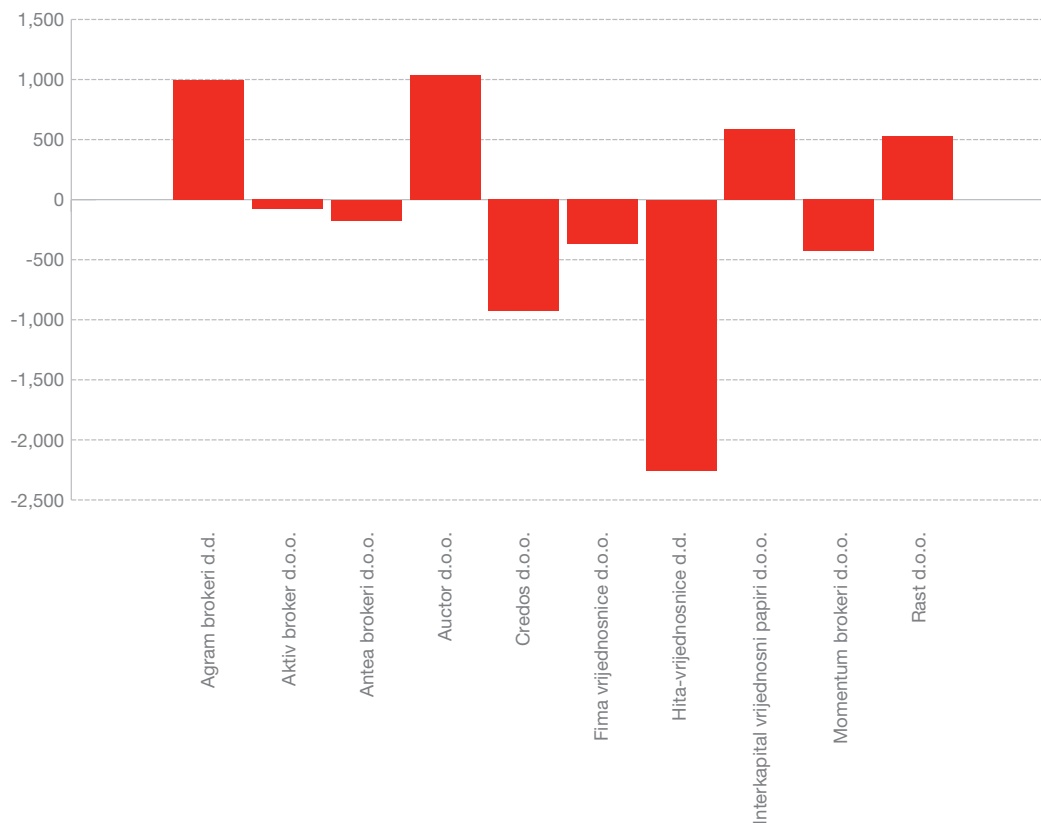
Table 2.7 Statement of comprehensive income of investment firms in 2011 and 2012 (in HRK thousand)

		2011	2012
1	Net income/expenses on fees and commissions	27,878	16,088
2	Net realised and unrealised income/expenses on financial assets	8,558	11,087
3	Net interest income/expenses	-3,649	-3,082
4	Net exchange rate differences	-3,498	435
5	Total other income	8,642	1,945
6	Total other costs	38,198	27,080
Total income		91,228	55,688
Total costs		91,495	56,295
Pre-tax profit or loss		-267	-607
Profit tax		877	476
Profit or loss		-1,144	-1,083
Unrealised profit/loss on financial assets available for sale		24,627	-3,361
Total comprehensive income		23,482	-4,444

Source: Hanfa

In the course of the previous year, the largest profit was reported by Auctor d.o.o. and Agram brokeri d.o.o., whereas the most significant loss was generated by Hita-Vrijednosnice d.d., Credos d.o.o. and Momentum brokeri d.o.o.

Chart 2.2 Investment firms' profit/loss for 2012 (in HRK thousand)



Source: Hanfa

Capital Adequacy of Investment Firms

Within its field of competence, Hanfa supervises capital adequacy of investment firms, including, among other things, supervision of risk management procedures established by investment firms. Investment firms are obliged to manage, on an on-going basis, the risks they are exposed to in their business operations, arising either from the relationship between the investment firm and the client or from other business activities of the firm.

The management board of the investment firm is obliged to set up an adequate and efficient financial management and control system, which involves responsibility for the establishment and development of the risk management process. Taking account of the specificities of each individual risk, the investment firm is obliged to develop adequate policies and procedures for their identification, measurement and monitoring. Besides, the investment firm must at any time have sufficient own funds to cover all the risks the investment firm is exposed to in its regular business operations.



Table 2.8 Investment firms' capital adequacy as at 31 December 2012 (capital in HRK thousand)

Investment firm	Minimum own funds	Own funds according to the Ordinance	Original own funds	Additional own funds I	Additional own funds II	Capital adequacy
Agram brokeri d.d.	6,000	8,396	8,597	-201	0	9.08
Aktiv broker d.o.o.	1,000	1,002	882	120	0	2.78
Antea brokeri d.o.o.	1,000	963	963	0	0	4.39
Auctor d.o.o.	6,000	91,603	76,096	15,507	0	4.39
Credos d.o.o.	1,000	1,005	1,005	0	0	4.62
Fima vrijednosnice d.o.o.	6,000	6,113	4,538	1,576	0	5.49
Hita vrijednosnice d.d.	1,000	1,895	2,027	-132	0	3.84
Interkapital vrijednosni papiri d.o.o.	6,000	8,585	8,585	0	0	2.43
Momentum brokeri d.o.o.	1,000	1,041	1,041	0	0	2.72
Rast d.o.o.	1,000	1,526	1,526	0	0	5.76

Source: Hanfa

As at 31 December 2012, one investment firm was not meeting the minimum capital requirements, with the result that adequate measures, prescribed by law, were undertaken. All investment firms reported a capital adequacy ratio (ratio of capital to the sum of capital requirements) higher than the prescribed minimum ratio (1).

Operational risk was the most significant risk to investment firms over the previous years, but in 2012 the most substantial risk was liquidity risk, resulting from weaker business activity and, consequently, lower income, which made it difficult for investment firms to generate funds to cover operating expenses, forcing them to search for new sources of financing in the form of credits and additional payments of owners.



Investment Funds

3 Investment Funds

3.1 Description of the Market

The taking up and pursuit of the business of investment funds and management companies, the issue and sale of units and shares, repurchase of units, promotion of funds, activities carried out for funds by third parties and supervision of business operations of funds, management companies, depository bank and persons engaged in the sale of units and shares are regulated by the Investment Funds Act (Official Gazette 150/05).

As at 31 December, there were 121 registered open-ended investment funds, seven closed-ended investment funds and seven venture capital open-ended investment funds with private offering, five of which were the so-called economic cooperation funds, established under the Investment Funds Act, pursuant to the Decision of the Government of the Republic of Croatia of 14 January 2010 on the intention to participate in establishing economic cooperation funds. The Fund for the Croatian Homeland War Veterans and Members of their Families and the Retired Persons' Fund were established and operate under special acts.

Table 3.1 Number of investment funds as at 31 December 2011 and 31 December 2012

	31 Dec 2011	31 Dec 2012
Open-ended investment funds	126	121
with public offering	101	96
cash	23	23
bond	8	8
balanced	18	18
equity	52	47
with private offering	18	18
cash		
bond	1	1
balanced	8	8
equity	9	9
venture capital	7	7
venture capital funds with private offering	2	2
venture capital funds - economic cooperation funds	5	5
Closed-ended investment funds	7	7
with public offering	4	4
with public offering for real estate investments	3	3

Source: Hanfa

Investment funds are undertakings for collective investments whose sole purpose is to raise capital through a public or private offer and invest that capital in different types of assets in accordance with a pre-defined investment policy, exclusively for the benefit of unit-holders in these investment funds. Investment funds are established and managed by management companies.

An investment fund may be of a closed-ended or an open-ended type. Open-ended investment funds are established in the Republic of Croatia as persons without legal personality, whereas closed-ended investment funds are legal persons, with the basic difference between them lying in investor redemption rights. Investors in an open-ended investment fund may request the redemption of all or part of their units in the fund under conditions provided in the fund's prospectus and statute, after which the management company is obliged to redeem their units. On the other hand, shares of closed-ended investment funds are traded on a stock exchange and may be acquired or disposed depending on the supply and demand and conditions on financial markets.

Owing to the financial crisis, a decrease in equity funds' assets and a rise in management expenses, the consolidation of the investment fund market continued into 2012. The number of open-ended investment funds dropped from 126 to 121, whereas the number of open-ended equity funds with public offering fell (from 52 at end-2011 to 47 at end-2012), as four equity funds were merged with other funds, and one fund was wound up.

The number of open-ended funds with private offering, venture capital open-ended investment funds with private offering and closed-ended funds remained unchanged compared with the previous year.

3.1.1 Open-Ended Investment Funds

Open-ended investment funds may be funds with public or private offering. Open-ended investment funds with public offering are established for the purpose of raising monetary assets by offering units in the fund through a public offering to all interested investors, irrespective of the size of their capital. Investor assets are invested in accordance with the Investment Funds Act, and unit-holders have, in addition to the right to a proportional share in the fund's profit, the right to request the redemption of units and exit the fund. The procedure for submitting the application for redemption of units, and the procedure for redeeming units are prescribed by the prospectus and statute of each individual open-ended investment fund, but are also subject to the limitations laid down in the Investment Funds Act. Even though investments in investment funds are considered to be mid and long-term investments, such procedures enable, in a very efficient manner, each investor in need of liquid assets to have their financial assets at their disposal shortly after submitting the application for redemption of units.

On the other hand, open-ended investment funds with private offering are focused on offering units to a small number of qualified investors meeting the requirements laid down in the Investment Funds Act or operating on the basis of a valid authorisation as an investment or pension fund, a company managing investment or pension funds, a bank, an insurance company or an investment firm, or having assets amounting to at least HRK 1.5m and possessing cash totalling at least HRK 750 thousand for the purpose of investing in a certain investment fund. Open-ended investment funds with private offering are also established with a view to raising monetary assets, with the maximum number of fund investors, pursuant to the Investment Funds Act, being 200. The Investment Funds Act also prescribes the minimum first payment in the fund totalling HRK 750 thousand, and provides management companies with the authority to suspend purchase of units in a fund.

One management company may establish and manage several open-ended investment funds with public and private offering concurrently.

Venture capital open-ended investment funds with private offering raise monetary assets through a private offering of units in the fund from qualified investors in venture capital funds, as defined in the Investment Funds Act. The monetary assets are invested in undertakings, in compliance with investment objectives and investment limitations defined by the fund's prospectus, and investors have, in addition to the right to a proportional share in the fund's profit, the right to request the redemption of units under the conditions laid down in the fund's prospectus, and thus exit the fund. Investments of venture

Each open-ended or closed-ended investment fund operating in the territory of the Republic of Croatia is obliged to have a depository bank, which carries on a series of activities for the fund, involving safekeeping of separate assets of the fund, keeping of special accounts for the fund's assets and segregation of each fund's assets from the assets of other funds, as well as other activities of the depository bank in accordance with the Investment Funds Act. Only a bank with its registered office in the Republic of Croatia, authorised by the Croatian National Bank, may be a depository bank of a fund registered in the Republic of Croatia. Fund assets in custody with a depository bank are neither included in the depository bank's assets, bankruptcy estate or liquidation value, nor can they be used in the execution procedure with respect to receivables from the custodian bank.

capital investment funds usually may not be realised on regulated markets, as such investments mostly include investments in non-listed companies, early-stage companies, etc., and considering the fact that these funds are not able to ensure sufficient equity capital through other sources (banks, open-ended investment funds or pension funds), they seek financing through venture capital funds.

Economic cooperation funds also operate as venture capital open-ended investment funds with private offering in accordance with the Investment Funds Act. Their establishment was supported by the Government of the Republic of Croatia through participation of the Croatian Bank for Reconstruction and Development in cooperation with interested private investors, for the purpose of promoting the development of economy, preserving the current and creating new jobs and strengthening the existing and setting up new economic entities by means of ownership restructuring through the investment of additional capital.

Assets of Open-Ended Investment Funds

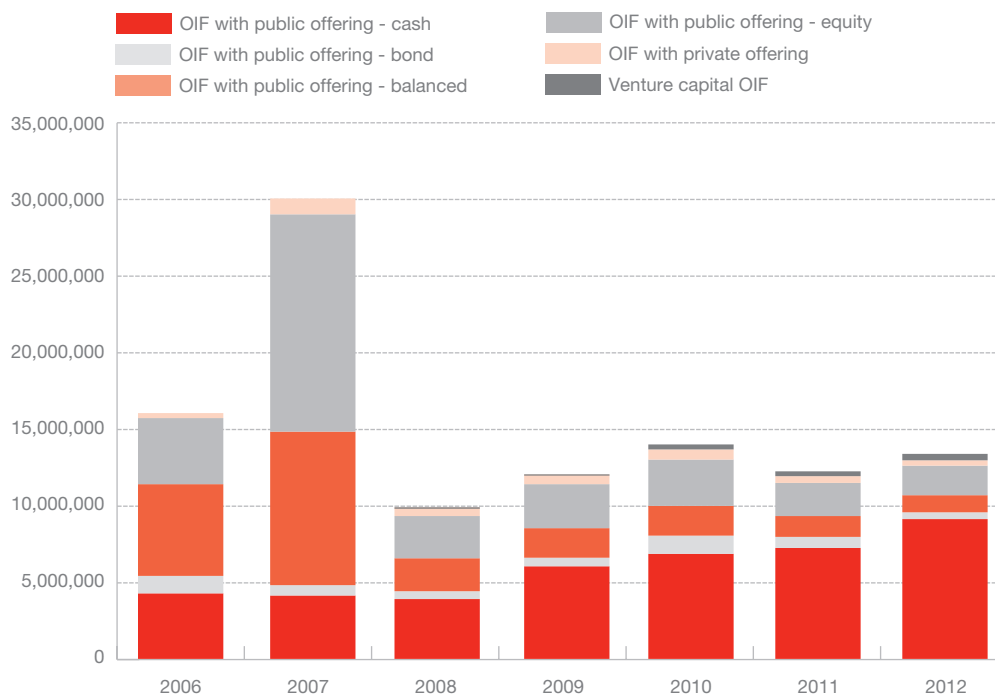
The assets of open-ended investment funds went up by HRK 1,033m in 2012, reaching HRK 13,535m at the end of the year. The assets were dominated by open-ended investment funds with public offering, namely cash funds, whose share in the total assets has risen year after year. The growth in cash fund assets is primarily accounted for by payments of investors, which were larger than redemptions of units. On the other hand, assets of other types of funds declined in spite of mostly positive contributions in 2012, as investors' payments were dominated by redemption of units, which reflects the investor risk aversion still present in the market. Accordingly, funds with private offering recorded a growth in bond funds owing to payments which were larger than redemptions, whereas cash and equity funds witnessed larger redemptions of units than investor payments, which caused their total assets to fall, as realised returns did not have any major impact on movements of the total assets. The increase in the assets of venture capital funds was a result of investments made by economic cooperation funds.

Table 3.2 Net assets of open-ended investment funds as at 31 December 2011 and 31 December 2012 (in HRK thousand)

	31 Dec 2011	Share	31 Dec 2012	Share	Absolute change	Percentage change
Open-ended investment funds	12,243,081	100.00%	13,535,412	100.00%	1,292,331	10.56%
with public offering	11,490,705	93.85%	12,615,617	93.20%	1,124,912	9.79%
cash	7,240,022	59.14%	9,124,521	67.41%	1,884,499	26.03%
bond	723,421	5.91%	446,683	3.30%	-276,738	-38.25%
balanced	1,361,556	11.12%	1,107,755	8.18%	-253,801	-18.64%
equity	2,165,706	17.69%	1,936,657	14.31%	-229,049	-10.58%
with private offering	438,190	3.58%	346,588	2.56%	-91,602	-20.90%
cash	-	-	-	-	-	-
bond	90,969	0.74%	95,651	0.71%	4,682	5.15%
balanced	79,218	0.65%	62,923	0.46%	-16,294	-20.57%
equity	268,003	2.19%	188,014	1.39%	-79,989	-29.85%
venture capital	314,186	2.57%	573,207	4.23%	259,021	82.44%
venture capital funds with private offering	246,099	2.01%	279,036	2.06%	32,937	13.38%
venture capital funds - economic cooperation funds	68,087	0.56%	294,171	2.17%	226,084	332.05%

Source: Hanfa

Chart 3.1 Net assets of open-ended investment funds (OIF) from 2006 to 2012 (in HRK thousand)



Source: Hanfa

Investments of Investment Funds

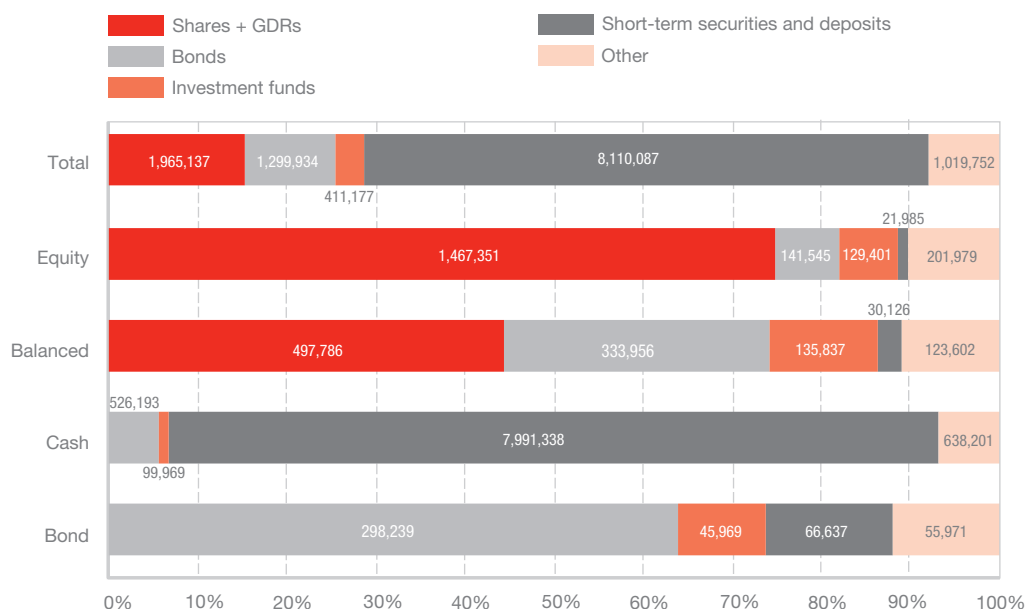
Permitted investments of individual investment funds and most significant investment limitations are prescribed by the Investment Funds Act and ordinances on permitted investments and investment limitations, while exposure to individual financial instruments depends on the fund type. The type of fund is determined in the prospectus and statute of the fund, which also provide further details on the exposure to certain asset class, geographic region or industry sector.

Equity fund assets were dominated by foreign shares with a 51.6% share in net assets (mostly from markets in the USA, Serbia, Slovenia and Great Britain). A total of 24.1% of net assets were invested in domestic shares, whereas the remaining assets were invested in bonds and units or shares of other investment funds. The largest share in bond fund assets was accounted for by government bonds (38.1%) and corporate bonds (27.8%), with the remaining investments relating mostly to investment funds and deposits. The largest investments were reported with respect to domestic assets; as regards foreign countries, bond funds reported the highest exposure to Russia, Germany, Ireland, Slovenia and Austria. Balanced fund assets were dominated by shares with a 44.9% share in net assets; a 30.2% share was accounted for by investments in bonds, and a 12.3% share by investments in other investment funds. The investments were mostly made in domestic assets (59.3%). Cash fund assets were largely invested in deposits in domestic credit institutions (65.6%) and domestic short-term securities (21.7%).

In general, investments of open-ended investment funds were dominated by investments in short-term securities and deposits, as cash funds accounted for the largest share in the total assets of open-ended investment funds with public and private offering, with short-term securities and

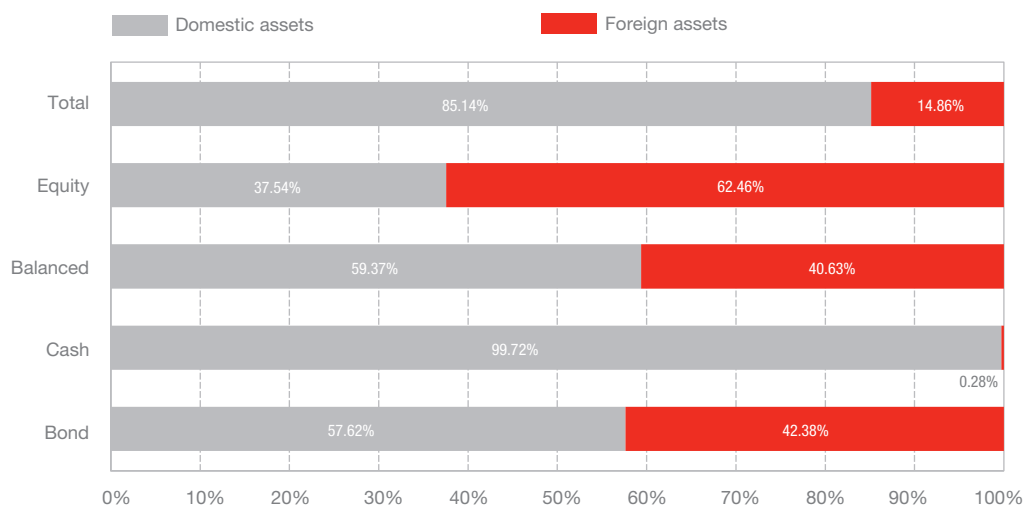
deposits making up the most significant share in their investments. A major share of assets of open-ended investment funds with public and private offering was invested in domestic assets owing to investments of cash funds in domestic bank deposits.

Chart 3.2 Investment structure of open-ended investment funds with public offering as at 31 December 2012 (in HRK thousand)



Source: Hanfa³⁰

Chart 3.3 Domestic and foreign asset share in net assets of open-ended investment funds with public offering as at 31 December 2012 (in HRK thousand)



Source: Hanfa

30 GDR (Global Depository Receipt) is a global certificate issued by depositories, which represents ownership of shares of a foreign company held by the depository on its account. It is commonly used by investors from developed markets to invest in companies from emerging markets. GDRs are traded on regulated markets and their price is often close to the price of the related security, but they are traded and settled independently of the underlying security. GDRs have not been issued by financial institutions in the Republic of Croatia so far, but they have been issued for certain issuers from the Republic of Croatia by foreign financial institutions.

3.1.2 Closed-Ended Investment Funds

Closed-ended investment funds are joint-stock companies that raise initial capital, stipulated by the statute, through a public offering of their shares. Those assets are then invested in transferable securities (shares and bonds) and other liquid financial assets (units or shares in investment funds, money market instruments, deposits, forward and futures contracts and option contracts). In the case where a closed-ended investment funds fails to reach the minimum amount of initial capital, the costs and fees relating to the establishment are borne by the founders who have adopted the statute, and the money invested is returned to the investors entirely. The share price of closed-ended investment funds fluctuates according to the supply and demand in the capital market, as does the price of securities in the closed-ended fund's portfolio, which are traded at a discount or premium to the actual asset value per share of the closed-ended investment fund, disclosed once a month for the last day of the month.

Apart from closed-ended investment funds for investments in securities, there are also closed-ended investment funds for real estate investments, whose management companies invest in real estate for the purpose of developing it and managing it as part of their portfolio.

As at 31 December 2012, there were seven registered closed-ended investment funds, of which three were registered for real estate investments. One closed-ended investment fund with public offering and two closed-ended investment funds for real estate investments were undergoing winding-up proceedings and were managed by liquidators in accordance with the Companies Act (Official Gazette 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12 and 144/12), namely Velebit d.d. closed-ended investment fund with public offering, Jadran Kapital d.d. closed-ended investment fund with public offering for real estate investments and Quaestus nekretnine d.d. closed-ended investment fund with public offering for real estate investments. The assets of closed-ended investment funds for real estate investments went down by 23.2% in comparison with the beginning of 2012, owing to the trends in the real estate market, marked by a continuous decline over the last several years.

Table 3.3 Net assets of closed-ended investment funds as at 31 December 2011 and 31 December 2012 (in HRK thousand)

	31 Dec 2011	Share	31 Dec 2012	Share	Absolute change	Percentage change
Closed-ended investment funds	1,670,814	100.00%	1,633,339	100.00%	-37,475	-2.24%
Closed-ended investment funds with public offering	1,217,383	72.86%	1,285,090	78.68%	67,707	5.56%
Closed-ended investment funds with public offering for real estate investments	453,431	27.14%	348,249	21.32%	-105,182	-23.20%

Source: Hanfa

3.1.3 Funds Established under Special Acts

The Fund for Croatian Homeland War Veterans and Members of their Families and the Retired Persons' Fund are funds established under special acts: The Act on the Fund for Croatian Homeland War Veterans and Members of their Families (Official Gazette 163/03, 82/04 and 41/08) and the Act on Retired Persons' Fund (Official Gazette 93/05, 41/07, 90/11 and 119/11).

The Fund for Croatian Homeland War Veterans and Members of their Families is an open-ended investment fund established by the Government of the Republic of Croatia, for the purpose of

investing and increasing its assets for the benefit of Croatian war veterans and members of their families. The net profit of the fund is divided into three parts, in accordance with the Act on the Fund for Croatian Homeland War Veterans and Members of their Families. One third of the profit is reinvested, thus remaining in the fund. The second third of the net profit is intended to improve the financial position of Croatian war veterans and members of their families. The Management Board of the fund, with the consent of the Government of the Republic of Croatia, adopts a special decision relating to the purpose of this part of the profit (used for financing the Foundation for Croatian Homeland War Veterans and Members of their Families and the Fund for Scholarships of Croatian Homeland War Veterans and Children of Croatian Homeland War Veterans). The last third is paid to each member of the fund in the form of a dividend proportionate to the number of units in the fund. The net assets of the fund, managed by Erste Invest d.o.o., decreased by 21.6% relative to 2011, primarily due to a decline in the value of financial assets and costs of redemptions of units.

The Retired Persons' Fund is a fund regulating the manner of compensating the fund's clients, i.e. old-age, anticipatory, disability and survivor's pension beneficiaries, eligible for the pension pursuant to the Act on Basic Rights Arising from Pension and Disability Insurance (Official Gazette 53/91) and the Act on Pension and Disability Insurance (Official Gazette 26/83, 5/86, 42/87, 34/89, 57/89, 40/90, 9/91, 26/93, 44/94 and 59/96) with respect to the period from 1 September 1993 to 31 December 1998. The founder of the fund on behalf of the Republic of Croatia is the Government of the Republic of Croatia. The fund is closed to any other members or investors, except for heirs of the first rank of fund members.

The net assets of the Retired Persons' Fund, managed by HPB Invest d.o.o., decreased by 79.88% relative to 2011, due to the compensation of the clients.

Table 3.4 Investment funds established under special acts as at 31 December 2011 and 31 December 2012 (net assets in HRK thousand)

Investment fund	Net assets 31 Dec 2011	Net assets 31 Dec 2012
Fund for Croatian Homeland War Veterans and Members of their Families	1,445,526	1,133,914
Retired Persons' Fund	979,523	197,040

Source: Hanfa

3.1.4 Management Companies

Investment funds are managed by investment fund management companies, established either as a limited liability company or a joint-stock company, whose scope of activities covers the establishment and management of investment funds, i.e. investments of monetary assets in its name and on behalf of unit-holders in open-ended investment funds, and in the name and on behalf of unit-holders in closed-ended investment funds, and other activities laid down in the Investment Funds Act.

As at 31 December 2012, there were 27 registered investment fund management companies, three fewer than in 2011.

In 2012, investment fund management companies reported an after-tax profit totalling HRK 42.8m and decreasing by 45.35% relative to 2011. The largest share in the total income of investment fund management companies was accounted for by management fees reaching HRK 54.2m and

falling by 18.6% compared to the previous year. This was due to an increase in the share of cash funds in the total investment fund assets, which charge lower management fees. The value of financial assets and value adjustment of other assets was also reduced, by HRK 18.8m. The year 2012 also saw a decline in costs for intermediation in the sale of units amounting to HRK 20.0m or 28.1%, as well as a fall in general and administrative expenses totalling HRK 11.0m or 9.0%.

A total of 20 investment fund management companies recorded a profit amounting to HRK 58.0m, while seven investment fund management companies realised a loss to the amount of HRK 15.2m. The largest profit was reported by ZB Invest d.o.o. (HRK 18.3m), followed by Hrvatsko mirovinsko investicijsko društvo d.o.o. (HRK 12.8m), PBZ Invest d.o.o. (HRK 5.8m) and Alternative Private Equity d.o.o. (HRK 5.2m).

Table 3.5 Statement of financial position of management companies as at 31 December 2011 and 31 December 2012

	31 Dec 2011	Share	31 Dec 2012	Share	Index 2012/2011
Property, plant and equipment	3,821	0.90%	4,031	0.59%	105
Investment property	0	0.00%	0	0.00%	-
Intangible assets	30,334	7.18%	19,091	2.82%	63
Financial assets	272,938	64.63%	535,796	79.03%	196
Receivables	58,665	13.89%	65,574	9.67%	112
Cash and cash equivalents	53,206	12.60%	49,641	7.32%	93
Prepayments and accrued income	2,764	0.65%	2,275	0.34%	82
Deferred tax assets	81	0.02%	933	0.14%	1152
Other assets	523	0.12%	601	0.09%	115
TOTAL ASSETS	422,332	100.00%	677,941	100.00%	161
Capital and reserves	233,865	55.37%	221,622	32.69%	95
Liabilities	164,889	39.04%	437,397	64.52%	265
Provisions	1,926	0.46%	2,316	0.34%	120
Accruals and deferred income	20,562	4.87%	15,670	2.31%	76
Deferred tax liabilities	1,090	0.26%	936	0.14%	86
TOTAL LIABILITIES	422,332	100.00%	677,941	100.00%	161

Source: Hanfa

Table 3.6 Statement of comprehensive income of management companies in 2011 and 2012
(in HRK thousand)

	31 Dec 2011	31 Dec 2012	Index 2012/2011
I. Income from investment fund management fees	291,335	237,171	81
II. Investment fund management expenses	-81,970	-60,057	73
Net result from investment fund management fees	209,365	177,114	85
III. Income from portfolio management	5,213	5,359	103
IV. Income from provision of investment advice	386	72	19
V. Financial income and expenses	6,464	-833	-13
Net financial income	12,063	4,598	38
VI. General and administrative operational expenses	-122,492	-111,488	91
VII. Depreciation and value adjustment of other assets	-5,309	-15,227	287
VIII. Provisions	-193	-119	62
IX. Other income and operational expenses	4,542	2,264	50
X. Pre-tax profit or loss	97,978	57,144	58
XI. Profit tax	19,741	14,388	73
XII. Profit or loss	78,236	42,756	55

Source: Hanfa

3.2 Hanfa's Activities

3.2.1 Regulatory Activities

The Investment Funds Act, which entered into force on 1 January 2006, provided for the adoption of a series of subordinate regulations for the purpose of defining the legislative framework in more detail. In 2012, four new subordinate regulations were adopted, replacing the existing regulations, namely the Ordinance on the minimum content, deadlines and form of mandatory reports on business operations of investment funds, management companies and depository banks (Official Gazette 141/12), Ordinance on the structure and content of financial statements of investment fund management companies (Official Gazette 141/12), Ordinance on the structure and content of financial statements of open-ended investment funds (Official Gazette 141/12) and Ordinance on the structure and content of financial statements of closed-ended investment funds (Official Gazette 141/12). One subordinate regulation was amended by the Ordinance amending the Ordinance on the form and amount of capital investment fund management companies are obliged to maintain (Official Gazette 141/12), and another subordinate regulations was amended by the Ordinance on the Addendum to the Ordinance on the conditions for membership in the management board of investment fund management companies (Official Gazette 109/12).

The purpose of the ordinances regulating reporting on business operations of investment funds, management companies and depository bank was to introduce a secure and efficient electronic submission of reports through the implementation of electronic signature, preceded by a process of development and adjustment of adequate IT infrastructure, both in Hanfa and its supervised entities. This made regulatory reporting of supervised entities even more efficient and simple, allowing a more efficient analysis and processing of collected data in accordance with all security standards and ensuring authenticity of documentation and reports received.

The Addendum to the Ordinance on the conditions for membership in the management board of investment fund management companies laid down more detailed requirements and contents of the management company's programme of operations attached to the application for the approval of the management board member. A special emphasis was laid on the description of the business environment of the company and its position with respect to the overall sector and competing companies, recognition of major advantages and disadvantages, strengths and weaknesses, a comprehensive description of activities to be carried out during the term of office of the candidate for the management board member, a description of the assumptions underlying the programme, measures adopted and systems established for the purpose of ensuring efficient identification, measurement and management of all the risks that may arise from all activities undertaken (environmental risks, client, product and market risks, business process risks, prudential risks, etc.), description of activities aimed at improving social circumstances, decision-making processes, policies for preventing conflicts of interest, monitoring the value of assets under management and description of internal control system and supervision of the compliance of the company's activities with the legislation. The purpose of the amendments was to ensure a precise programme of business operations of the company during the term of office of the candidate for the management board member and to enhance the quality of the company's operations in accordance with the best practice, industry standards and other good business practices, at the same time using established mechanisms for identification and measurement of all the risks that may arise from business operations of the management company and funds.

3.2.1.1 Draft Proposal for the Act on Open-Ended Investment Funds with Public Offering

Investment funds made a significant contribution to the development of the capital market in the Republic of Croatia and of the overall financial products and services market, while management companies and other participants in the fund industry, such as distributors, regulators, depository banks, etc., assisted in extending general investor knowledge of financial markets and investment possibilities. A major challenge to be met in near future lies in transforming the market after the accession of the Republic of Croatia to the European Union following the liberalisation of the market, i.e. opening the market to funds registered abroad. At the same time, management companies from the Republic of Croatia will be able to extend their operations to the EU market incurring no additional charges, by offering units in the overall territory of the European Union on the basis of authorisation obtained in the Republic of Croatia.

In this view, the year 2012 saw the commencement of a reform of the existing legislative system, which was marked by the Draft Proposal for the Act on Open-Ended Investment Funds with Public Offering, which drew a clear distinction between undertakings for collective investments in transferrable securities (UCITS) and other types of funds, the so-called alternative funds. The competent authority for the preparation of the Draft Proposal for the Act was the Ministry of Finance of the Republic of Croatia, while Hanfa played a significant role in the process of the preparation, by participating in the working group for the preparation of the Draft Proposal for the Act and implementing proposals for the improvement of operations of investment funds and best practices of other regulators, taking account of the specificities of the domestic market. Prior to its adoption, the Draft Proposal for the Act was subject to public consultation, allowing

stakeholders (the industry, consumers) to offer their suggestions, comments and proposals for possible improvements and elimination of deficiencies.

The new regulation was indispensable for the purpose of improving the existing legislation and aligning with the *acquis communautaire*, namely Directive 2009/65/EC³¹ of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), and accompanying implementing regulations and directives of the European Commission³².

The purpose of the new Act on Open-Ended Investment Funds with Public Offering was also to ensure a high level of consumer protection by establishing a common framework for the issuance of authorisations and supervision of operations of companies managing open-ended investment funds with public offering.

The Draft Proposal for the Act lays down the conditions for the constitution and functioning of investment funds and investment fund management companies, it regulates the issuance and redemption of units in investment funds, marketing of units, delegation of tasks to third parties and supervision of operation of investment funds, investment fund management companies, depositories and persons offering units in investment funds, and enables and defines cross-border activities relating to investment fund management and cross-border offering and marketing of units in UCITS, direct or indirect, through master-feeder structures. The Act is to be adopted in the first half of 2013.

3.2.1.2 Draft Proposal for the Alternative Investment Funds Act

The new legislative framework regulating investment funds in the Republic of Croatia makes a clear distinction between open-ended investment funds with public offering (UCITS) and alternative investment funds (AIF), i.e. all other types of investment funds established for the purpose of raising capital through a public or private offering and investing it in different types of assets in accordance with a pre-defined investment strategy and objectives of the AIF, exclusively for the benefit of unit-holders of that AIF. An AIF may be of an open-ended or a closed-ended type. In the Republic of Croatia, these funds have so far been regulated by the provisions of the existing Investment Funds Act (investment funds with private offering, real estate funds, venture capital open-ended investment funds with private offering).

During 2012, Hanfa made a significant contribution to the preparation of the Draft Proposal for the Alternative Investment Funds Act, which regulates exclusively the area of alternative investment funds, by participating in the working group for the preparation of the said legislative proposal (the Ministry of Finance being the competent authority for its preparation). The Draft Proposal for the Alternative Investment Funds Act was also subject to public consultation in order to allow stakeholders to make their suggestions, comments and proposals aimed at an efficient and clear legislative framework relating to the operation of alternative investment funds.

The new regulation was necessary for the purpose of aligning with the *acquis communautaire*, namely Directive 2011/61/EU³³ 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. The implementation of this part of European legislation into the law of the Republic of Croatia was especially demanding, as at

31 Directive 2009/65/EC, OJ EU L 302

32 Directive 2010/43/EC, OJ EU L 176, Directive 2010/44/EC, OJ EU L 176, Directive 2010/78/EC, OJ EU L 331, Commission Regulation (EU) No 583/2010, OJ EU L 176, Commission Regulation (EU) No 584/2010, OJ EU L 176

33 Directive 2011/61/EU, OJ EU L 174

the time of the preparation of the Draft Proposal for the Act the European Commission had not adopted implementing measures, nor had EU Member States implemented Directive 2011/61/EU into their national laws.

The Alternative Investment Funds Act is to enter into force on the day of accession of the Republic of Croatia to the European Union, along with the entry into force of the Act on Open-Ended Investment Funds with Public Offering, several of whose parts are further elaborated by the Draft Proposal for the Alternative Investment Funds Act.

The purpose of the preparation and adoption of the Draft Proposal of the Act was to ensure a high level of investor protection by establishing a common framework for the issuance of authorisations and supervision of operations of alternative investment fund management companies and alternative investment funds. The Alternative Investment Funds Act lays down, among other things, organisational requirements for management companies, requirements relating to the obligation to establish internal audit and other internal control mechanisms, and mechanisms for monitoring the compliance with relevant regulations. It also emphasises the obligation and defines requirements for the establishment of a comprehensive and efficient risk management system for companies and funds they manage, including risk management strategies, policies, procedures and measures, risk measurement techniques, as well as requirements for the establishment of a liquidity management system, aimed at efficient identification and management of all risks companies and funds may be exposed to.

The scope of the Draft Proposal of the Act covers entities managing alternative investment funds within the framework of their regular operations, irrespective of whether the alternative investment fund is of an open-ended or a closed-ended type, irrespective of the legal form of the alternative investment fund and irrespective of whether the units in the alternative investment fund are admitted to trading on a regulated market. The scope of the Draft Proposal of the Act also includes entities collecting capital from several investors, for the purpose of investing it for the benefit of these investors, in accordance with a pre-defined investment policy.

Furthermore, the Draft Proposal of the Act encompasses alternative investment fund management companies established in third countries in accordance with relevant national regulations, providing investment services related to alternative investment funds.

The intention of the Draft Proposal of the Act was to further facilitate cross-border sale of funds (master-feeder structures) and delegation of certain functions of management companies to third parties, and to provide for a more efficient regulation of operations of depository banks. The purpose of Directive 2011/61/EU (and, consequently, of the Draft proposal of the Act) was to lay down additional legislative requirements, thus clearly defining and increasing the level of responsibility of all participants in the financial market, including the responsibility of depositories and management companies, with a view to preventing events and causes that might lead to a financial crisis.

The Draft Proposal of the Act defines the responsibility of alternative investment fund management companies relating to assets invested in the European Union and to amounts traded on markets in financial instruments, as this involves a significant impact on markets and companies they invest in.

The new regulation also lays down the requirements which need to be met in order for authorised alternative investment fund management companies in the European Union to be able to market alternative investment funds outside the European Union to professional investors in the European Union, as well as the requirements which need to be satisfied in order for authorised alternative investment fund management companies outside the European Union to be able to obtain authorisation to manage alternative investment funds in the European Union and/or market alternative investment funds to professional investors in the European Union with a passport.

Authorisations to manage and/or market funds in the European Union to professional investors in the European Union are issued to alternative investment fund management companies by Hanfa.

For the purpose of protecting investor interests, which involves a proper and independent valuation of assets, the Draft Proposal of the Act stipulates that valuation of assets and calculation of the net asset value must be functionally independent from the portfolio management and the remuneration policy of the management company. In other words, it stresses the need to separate custody of assets from management tasks and to separate investor assets from the assets of the management company, placing a special emphasis on the role of depository.

Considering the fact that management companies have a possibility to employ leverage and, under certain conditions, contribute to the build up of systemic risk or disorderly markets, specific requirements have been imposed on companies employing leverage, relating to the exchange of information among relevant authorities.

The Draft Proposal of the Act also provides for the possibility of the exchange of information with other competent authorities in the Republic of Croatia and the European Union, and includes misdemeanour provisions aimed at a more efficient implementation of the Alternative Investment Funds Act.

The purpose of the Draft Proposal of the Act was to enable funds to be offered in the Croatian financial market, which should enhance investor climate, expected to produce positive economic effects both with respect to investors and in the market as a whole. The Act is to be adopted in the first half of 2013.

3.2.2 Licensing

In 2012, Hanfa's activities included procedures and activities related to licensing and granting approval to companies, management board members and employees in supervised entities, as well as activities involving approval of other functions and acts in the area of investment funds which require Hanfa's prior approval.

Table 3.7 Comparison of the number of cases relating to licensing procedures with respect to the operation of investment fund management companies in 2011 and 2012

Case type	2011	2012
Authorisations withdrawn from management companies	3	3
Approval and registration of the fund register entry	7	0
Approval for the selection of depository bank	7	0
Approval for the change of a depository bank	0	4
Liquidation	5	1
Merger / acquisition	6	4
Approval of new, amended prospectuses	26	28
Approval of new, amended statutes	25	9
Promotion of investment funds	8	3
Approval of the prospectus on the conflicts of interest	8	2
Approvals to members of the management board	10	18
Approvals to management companies to manage assets and provide investment advice	2	0
Approval for the delegation of tasks to third parties	9	3

Source: Hanfa

During the previous year, Hanfa withdrew authorisations from POBA ICO Invest d.o.o. and ADRIATICA CAPITAL d.o.o., due to their voluntary decision to give up their authorisations granted for the establishment and management of investment funds, whereas the authorisation of S.T. Invest d.o.o. was withdrawn in the course of a targeted examination.

3.2.3 Supervision

Within the framework of its regular activities, Hanfa carries out on-going on-site and off-site supervision of investment fund management companies.

Off-site supervision of investment funds involves the analysis of reports submitted to Hanfa, with an emphasis being placed on their compliance with the Investment Funds Act and accompanying subordinate regulations with respect to asset valuation, investment limitations, accounting policies, provisions laid down in the statute and prospectus of investment funds and qualitative and quantitative risk assessment.

The following reports are processed by Hanfa in the course of off-site examination: calculations of net asset value per unit or share of the fund (submitted by the depository bank for each valuation day), annual reports on business operations and annual financial statements of investment fund management companies and investment funds audited by an independent certified auditor (submitted within four months following the end of the referent financial year), and interim financial statements and supervisory reports.

The on-site supervision is focused on the organisational structure of the management company, working procedures relating to fund asset management, investments of assets under management, calculation of fund asset value, register of unit-holders of the fund, portfolio

management, accounting records and financial reporting of management companies and funds, and the implementation of the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 25/12). In addition, management companies providing services and performing activities of investment advice and portfolio management pursuant to the Capital Market Act (Official Gazette 88/08, 146/08 and 74/09) are checked for compliance of general organisational requirements and business conduct of the management company in the course of provision of these services with the said act and accompanying subordinate regulations.

In 2012, Hanfa carried out six full-scope on-site examinations in management companies managing 28 funds at that point, namely 21 open-ended investment funds with public offering, six open-ended investment funds with private offering and one fund of a special type. Three full-scope on-site examinations were initiated in management companies managing a total of 19 funds at the moment of examination, namely 14 open-ended investment funds with public offering, two venture capital open-ended investment funds with private offering and three investment funds with private offering. A targeted on-site examination was carried out in S.T. Invest d.o.o. investment fund management company, resulting first in the adoption of a temporary decision banning the company from managing assets of investment funds under its management, and then in a definite withdrawal of the authorisation from the company due to serious violation of the provisions of the Investment Funds Act.

Following the findings of full-scope on-site examinations carried out in investment companies and investment funds they manage, due to established violations of the Investment Funds Act, Capital Market Act, relevant subordinate regulations and internal procedures, Hanfa adopted a decision ordering an investment fund management company to enhance, in an adequate and efficient manner, its existing risk management system, banning the company from transferring assets among investment funds it manages through a third party as an intermediary, which results in treatment more favourable to one fund over another, ordering it to align its investments of investment fund assets under management, ordering it to commence the application of the internal model for monitoring exceeded limitations on investments of assets of investment funds with public offering under management, and to amend, revise and commence the application of internal acts in accordance with the Capital Market Act.





Pension Funds and Pension Insurance Companies

4 Pension Funds and Pension Insurance Companies

4.1 Description of the Market

Pension funds are funds of a special type, i.e. separate assets with no legal personality, managed by pension companies and established for the purpose of collecting monetary assets through contributions of pension fund members and investing those assets with a view to increasing the value of fund assets in order to ensure the payment of pensions to fund members.

Each pension company is obliged to select a custodian bank, with which it concludes a safekeeping agreement for the purpose of entrusting it with the safekeeping of pension fund assets. Pension fund assets are kept on a special account in the custodian bank, separate from assets of custodian bank and its other clients. Pursuant to the Mandatory and Voluntary Pension Funds Act (Official Gazette 49/99, 63/00, 103/03, 177/04, 71/07, 124/10 and 114/11), pension fund assets held by a custodian bank cannot be used in the execution procedure with respect to liabilities of the custodian bank, nor are they included in the custodian bank's bankruptcy estate.

4.1.1 Mandatory Pension Funds

Every insured person may select their mandatory pension fund within three months after becoming a mandatory pension scheme member. A pension fund may be selected at the counter of the Central Register of Insured Persons (Regos) within an office of the Financial Agency (FINA), by presenting any identity document containing a picture and the personal identification number (OIB). In the case where an insured person fails to make this selection within three months after becoming a mandatory pension scheme member, the Central Register of Insured Persons will allocate them, in accordance with the Ordinance on the manner of allocating insured persons to mandatory pension funds and informing them of the allocation (Official Gazette 118/01 and 145/12) and in line with its powers, to one of the mandatory pension funds, by assigning a number of persons, proportionate to the number of pension fund members, to each pension fund. Until the moment of the allocation, paid contributions are kept on the provisional account of the Central Register of Insured Persons, still belonging to the insured person. The data on the selection of pension funds show that a very small number of persons select their pension fund themselves: in 2012, out of 52,995 new members of one of the mandatory pension funds 50,431 persons or 95% of them were allocated to a fund by the Central Register of Insured Persons.

The pension system of the Republic of Croatia is established as a three-pillar system, with Pillar 1 and Pillar 2 being mandatory, and Pillar 3 being a voluntary pension pillar. Pillar 1 is based on the intergenerational solidarity system and is regulated by the Croatian Pension Insurance Institute. Pension Pillars 2 and 3 are based on the principles of individual capitalised savings. Pension Pillar 2 involves mandatory, and Pension Pillar 3 voluntary pension funds, which are regulated by the Mandatory and Voluntary Pension Funds Act and supervised by Hanfa.

Membership of a mandatory pension funds is obligatory for any person under 40 years of age at the moment of becoming a mandatory pension scheme member pursuant to the Pension Insurance Act.

Table 4.1 Mandatory pension fund (OMF) membership

Mandatory pension fund	AZ OMF	Erste Plavi OMF	PBZ CO OMF	Raiffeisen OMF	Total
Balance as at 31 Dec 2011	576,858	247,006	285,721	494,751	1,604,336
First registrations	281	202	336	223	1,042
Subsequently completed registrations	349	336	561	276	1,522
Allocation by Regos	18,137	7,765	8,982	15,547	50,431
Total number of new members	18,767	8,303	9,879	16,046	52,995
Transfers to another mandatory pension fund	84	78	212	235	609
Transfers from other mandatory pension funds	331	151	50	77	609
Net change	247	73	-162	-158	0
Total termination of membership	1,463	763	877	1,426	4,529
Balance as at 31 Dec 2012	594,409	254,619	294,561	509,213	1,652,802
Annual change	3.04%	3.08%	3.09%	2.92%	3.02%

Source: Regos

Pursuant to the Contributions Act (Official Gazette 84/08, 152/08, 94/09, 18/11, 22/12 and 144/12), contributions within the framework of mandatory pension insurance based on individual capitalised savings total 5% of an employee's gross salary. This amount is paid by the employer into the provisional account of the Central Register of Insured Persons, and is forwarded, having been processed, verified, and reduced by the fund entry fee, to the personal account of the employee, i.e. fund member. These assets are then invested in capital markets in various types of financial assets, generating return, which the pension company uses exclusively for the benefit of fund members.

A mandatory pension company may manage only one mandatory pension fund. There were four mandatory pension companies and mandatory pension funds operating in 2012:

- AZ obvezni mirovinski fond (managed by Allianz ZB d.o.o. društvo za upravljanje obveznim mirovinskim fondom)
- Erste Plavi obvezni mirovinski fond (managed by Erste d.o.o. društvo za upravljanje obveznim mirovinskim fondom)
- PBZ Croatia osiguranje obvezni mirovinski fond (managed by PBZ Croatia osiguranje d.d. za upravljanje obveznim mirovinskim fondom) and
- Raiffeisen obvezni mirovinski fond (managed by Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.d.).

As at 31 December 2012, their net assets totalled HRK 51.1bn. AZ obvezni mirovinski fond accounted for the largest market share (40.2%), followed by Raiffeisen obvezni mirovinski fond (30.1%), PBZ Croatia osiguranje obvezni mirovinski fond (16.3%) and Erste Plavi obvezni mirovinski fond (13.4%). In comparison with the previous year, net assets of mandatory pension funds increased by 24.1% or HRK 10.1bn, with HRK 4.7bn relating to the contributions, and the remaining part being the result of the realised return on assets.

Table 4.2 Net assets of mandatory pension funds as at 31 December 2011 and 31 December 2012 (in HRK thousand)

	31 Dec 2011	31 Dec 2012	Absolute change	Percentage change
AZ OMF	16,573,300	20,539,030	3,965,730	23.93%
Erste Plavi OMF	5,356,144	6,853,093	1,496,949	27.95%
PBZ/CO OMF	6,851,565	8,353,032	1,501,466	21.91%
Raiffeisen OMF	12,286,090	15,388,570	3,102,481	25.25%
TOTAL	41,067,099	51,133,725	10,066,626	24.51%

Source: Hanfa

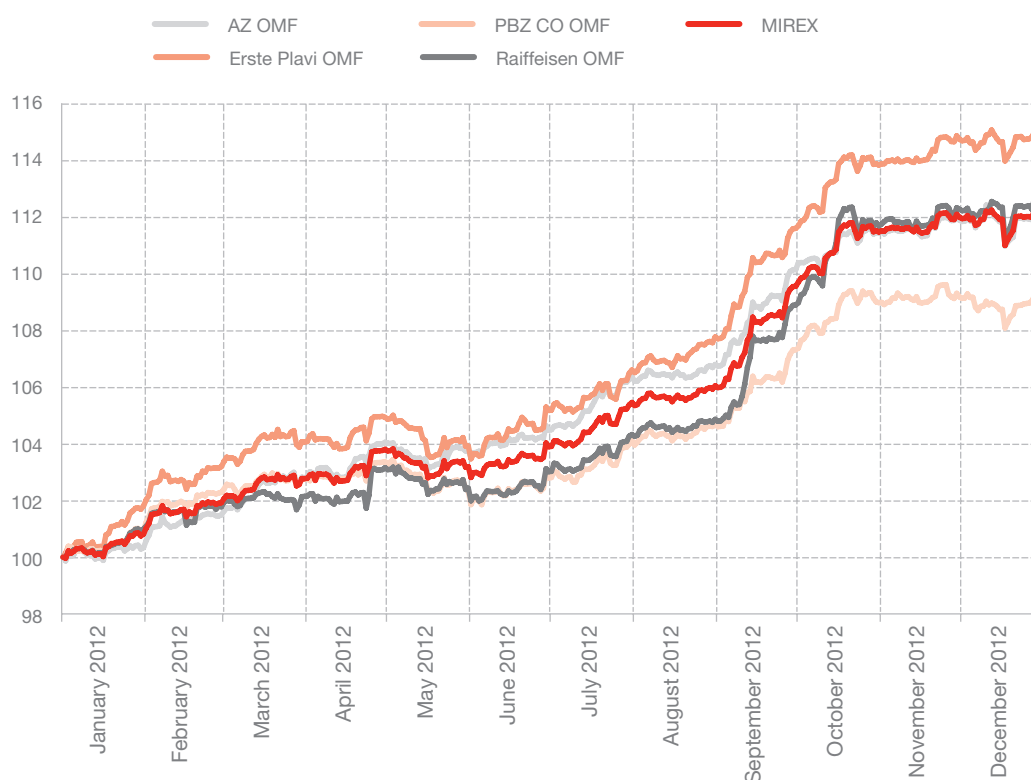
Table 4.3 Payment of contributions to mandatory pension funds in 2012 (in HRK thousand)

Mandatory pension fund	AZ OMF	Erste Plavi OMF	PBZ CO OMF	Raiffeisen OMF	Total
Net contributions	1,888,543	666,028	869,687	1,487,690	4,911,947
Payments from other mandatory pension funds	16,477	4,015	1,297	3,019	24,809
Disbursements to other mandatory pension funds	2,107	3,464	9,160	10,164	24,894
Disbursements of funds upon adjustments	2,764	1,021	1,051	2,283	7,120
Disbursements of funds upon the closure of personal accounts	65,899	28,179	37,794	55,587	187,460

Source: Regos

In 2012, mandatory pension funds recorded rates of return ranging from 9.3% to 15.1%, while the rate of return of the MIREX index, which represents the average weighted value of accounting units of all mandatory pension funds, reached 12.3%. High rates of return of mandatory pension funds were mostly due to the movements of the yield on bonds of the Republic of Croatia. The 2102 rates of return were significantly higher than average annual rates of return recorded by mandatory pension funds since the beginning of their operation on 30 April 2002. As at 31 December 2012, the rates of return ranged between 4.6% and 5.8%, while the average weighted rate of return stood at 5.5%.

Chart 4.1 Values of accounting units and the MIREX index during 2012



Source: Hanfa

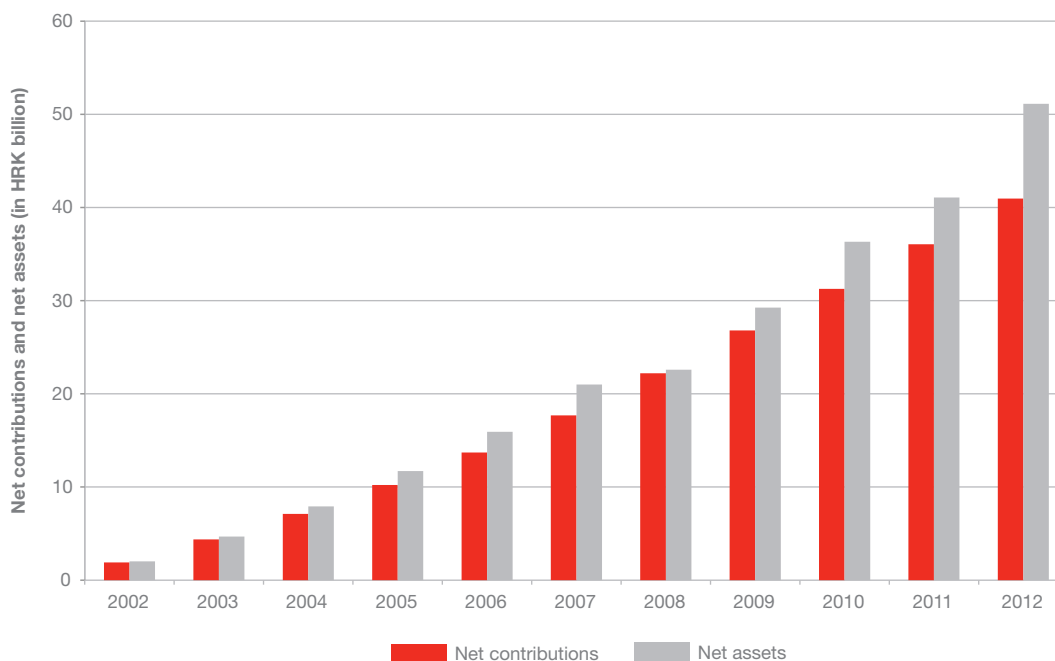
Table 4.4 Values of accounting units and rates of return of mandatory pension funds

Mandatory pension fund	Value of accounting units		Mandatory pension funds' rates of return	
	31 Dec 2011	31 Dec 2012	2012	Annualised rates of return since the beginning of operation
AZ OMF	161.4465	181.1034	12.18%	5.72%
Erste Plavi OMF	158.5558	182.5308	15.12%	5.80%
PBZ/CO OMF	148.2493	162.0964	9.34%	4.63%
Raiffeisen OMF	156.5803	176.6198	12.80%	5.47%
MIREX	157.4119	176.8405	12.34%	5.48%

Source: Hanfa

Due to a steady rise in the number of pension fund members and return generated by pension funds, net assets of mandatory pension funds have grown year after year.

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



Source: Hanfa

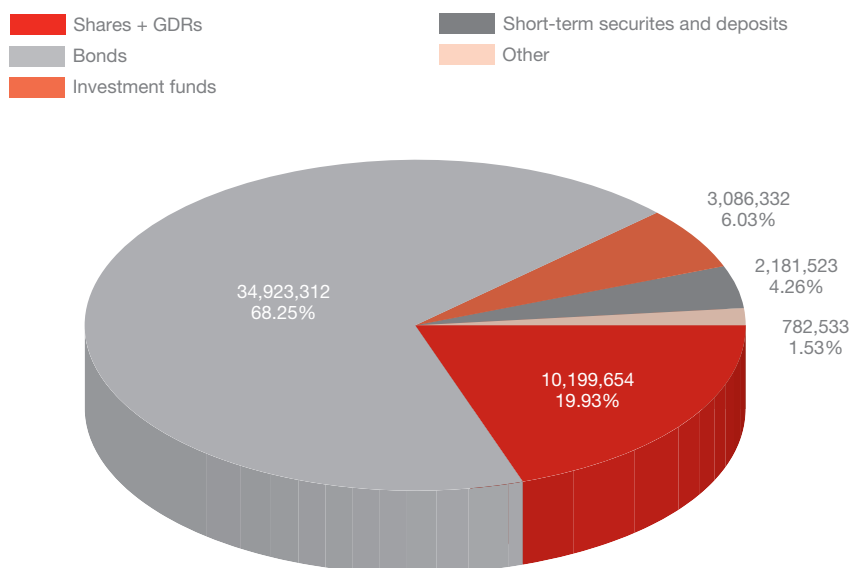
In order to provide greater safety and protection of mandatory pension fund members' assets, the Mandatory and Voluntary Pension Funds Act provides for a guaranteed return and guarantee deposit. In January each year, Hanfa calculates the guaranteed return and adopts a decision on its level.

In the first quarter of every year, the guarantee deposit is aligned with the consumer price index of the Croatian Bureau of Statistics, pursuant to the decision adopted by Hanfa. As at 31 December 2012, the required guarantee deposit amounted to HRK 70.5m for AZ obvezni mirovinski fond, HRK 24.7m for Erste Plavi obvezni mirovinski fond, HRK 30.5m for PBZ Croatia osiguranje obvezni mirovinski fond, and HRK 58.6m for Raiffeisen obvezni mirovinski fond. These assets cannot be used in the execution procedure, nor are they included in the custodian bank's bankruptcy estate.

Mandatory pension companies are obliged to invest mandatory pension fund assets in securities and money market instruments as permitted by the Mandatory and Voluntary Pension Funds Act, taking into account the prescribed investment limitations and ensuring the quality and profitability of the entire portfolio, while maintaining an adequate liquidity level and mitigating risks. At the end of 2012, pension fund assets were mostly invested in the domestic market (88.1% of total assets), primarily in domestic government bonds, whereas foreign investments were mostly made in shares and investment funds.

The guaranteed rate of return of mandatory pension funds equals the reference rate of return, calculated as the weighted arithmetic mean of average annual rates of return for all mandatory pension funds, for the period of the three preceding calendar years, reduced by six percentage points. The guarantee deposit is an amount in a special account opened with the custodian bank, in which a pension company is obliged to hold HRK 1m for each increment of 10,000 members above 50,000 members of a mandatory pension fund. In the case where the annual rate of return of the mandatory pension fund has been lower than the guaranteed rate of return over three years, this amount is used by the pension company for the purpose of paying the balance into the pension fund.

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



Source: Hanfa

In 2012, mandatory pension companies recorded a profit after tax in the amount of HRK 111.4m, which is 30.60% less than in 2011. This was mostly due to a decrease in management fees and the transfer of the part of costs for the Central Register of Insured Persons to mandatory pension companies. Management fees are charged by mandatory pension companies for managing mandatory pension funds and are deducted from total assets of pension funds for the purpose of covering operating costs. The maximum percentage of the management fee, in accordance with the Decision on the maximum percentage of the fee charged by mandatory pension companies for the year 2012, adopted by Hanfa, was 0.45%, while in 2011 it totalled 0.65%. As a result, the income from management fees, which accounts for the largest share in mandatory pension companies' income, declined by HRK 48.9m or 19.15%, despite an increase in assets under management. On the other hand, in 2012, the costs for the Central Register of Insured Persons rose by HRK 29.0m or 137.27%, due to introduction of a new fee for managing the register pursuant to the Act on the Collection of Data on Insured Persons and Contributions for Mandatory Pension Insurance (Official Gazette 177/04 and 90/11). The cost of the fee, totalling HRK 2.5 per month for each member of the mandatory pension fund, is now borne by mandatory pension companies.



Chart 4.4 Mandatory pension fund management fees



Source: Hanfa

Nevertheless, the profitability of mandatory pension companies measured by the return on equity (ROE) ranged from 10.06 to 36.80, whereas the return on assets (ROA) varied between 9.26 and 33.78, with the profitability differing depending on the size of assets of the mandatory pension fund managed by each company: with fixed management costs, larger assets under management lead to a higher profitability of mandatory pension companies.

Table 4.5 Statement of financial position of mandatory pension companies as at 31 Dec 2011 and 31 Dec 2012 (in HRK thousand)

	31 Dec 2011	Share	31 Dec 2012	Share	Index 2012/2011
I. Financial assets	423,372	81.65%	465,576	83.48%	110
II. Receivables	25,702	4.96%	33,140	5.94%	129
III. Prepayments and accrued income	2,720	0.52%	2,460	0.44%	90
IV. Deferred tax assets	4,779	0.92%	3,497	0.63%	73
V. Property, plant and equipment	6,044	1.17%	5,716	1.02%	95
VI. Intangible assets	14,675	2.83%	13,104	2.35%	89
VII. Other assets	41,259	7.96%	34,199	6.13%	83
TOTAL ASSETS	518,551	100.00%	557,692	100.00%	108
Capital and reserves	479,463	92.46%	523,568	93.88%	109
I. Subscribed capital	327,844	63.22%	327,844	58.79%	100
II. Reserves	8,300	1.60%	8,300	1.49%	100

	31 Dec 2011	Share	31 Dec 2012	Share	Index 2012/2011
III. Revaluation reserves	-2,218	-0.43%	1,935	0.35%	-87
IV. Retained earnings or accumulated loss	44,944	8.67%	74,106	13.29%	165
V. Profit or loss of the current year	100,593	19.40%	111,382	19.97%	111
Liabilities	14,062	2.71%	12,884	2.31%	92
Provisions	10,788	2.08%	8,144	1.46%	75
Accruals and deferred income	14,239	2.75%	12,612	2.26%	89
Deferred tax liabilities	0	0.00%	484	0.09%	-
TOTAL LIABILITIES	518,551	100.00%	557,692	100.00%	108

Source: Hanfa

Table 4.6 Statement of comprehensive income of mandatory pension companies in 2011 and 2012 (in HRK thousand)

	2011	2012	Index 2012/2011
Income from fund management	287,952	240,427	83
Fee from paid contributions	32,796	34,129	104
Fee from total assets of the pension fund	255,155	206,296	81
Exit fee	2	2	100
Expenses on fund management	51,342	69,712	136
Transaction costs	3	4	148
Marketing costs	9,655	4,214	44
Sales agent costs	12,250	7,109	58
Other pension fund management costs	29,434	58,385	198
Profit from fund management	236,610	170,715	72
Operating expenses	61,265	64,141	105
Material costs	967	823	85
Staff costs	29,299	28,506	97
Depreciation and adjustment of value of other assets	4,728	4,724	100
Provisions	80	0	0
Other operating expenses	26,191	30,087	115
Profit from regular business activities	175,345	106,574	61
Net financial result	19,212	25,559	133
Other income and expenses	6,194	7,166	116
Pre-tax profit	200,752	139,300	69
Profit tax	40,259	27,918	69
Profit	160,493	111,382	69

Source: Hanfa

Out of the four mandatory pension companies, two were directly owned by foreign financial institutions, one was in direct foreign ownership, while in one of them equal ownership shares were held by domestic and foreign founders. In 2012, the number of mandatory pension companies remained unchanged compared to 2011.

4.1.2 Voluntary Pension Funds

A voluntary pension fund is a fund providing pension insurance for persons on a voluntary basis, based on individual capitalised savings in accordance with the Mandatory and Voluntary Pension Funds Act, statute and prospectus of the fund. This fund may be of an open-ended type, with its membership being open to any citizen of the Republic of Croatia, or of a closed-ended type, with its membership consisting of persons employed with an employer acting as a sponsor of the pension fund, or members of trade unions, or members of associations of self-employed persons acting as sponsors of the pension fund.

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

In 2012, there were six open-ended voluntary pension funds (ODMF) and 17 closed-ended voluntary pension funds (ZDMF), which were managed by four voluntary pension companies. While the number of open-ended voluntary pension funds remained unchanged in comparison with the previous year, two new closed-ended voluntary pension funds were established, namely:

- ZDMF AUTOCESTA RIJEKA-ZAGREB (managed by Croatia osiguranje mirovinsko društvo za upravljanje dobrovoljnim mirovinskim fondom d.o.o.), pursuant to Hanfa's decision of 5 April 2012
- AZ ZABA ZDMF (managed by Allianz ZB d.o.o. društvo za upravljanje dobrovoljnim mirovinskim fondovima), pursuant to Hanfa's decision of 26 April 2012.

The number of members of open-ended voluntary funds rose by 6,869 in 2012, while their average gross contributions decreased from HRK 1,650 in 2011 to HRK 1,480 in 2012. The total gross contributions declined by over HRK 20m, after having grown continuously over the preceding five years.

Table 4.7 Open-ended voluntary pension fund membership

Fund	31 Dec 2011	31 Dec 2012	Change
AZ Benefit ODMF	24,493	22,178	-2,315
AZ Profit ODMF	69,215	73,517	4,302
Croatia osiguranje ODMF	17,936	18,576	640
Erste Plavi Expert ODMF	16,447	17,010	563
Erste Plavi Protect ODMF	9,339	11,512	2,173
Raiffeisen ODMF	46,695	48,201	1,506
TOTAL	184,125	190,994	6,869

Source: Hanfa

Table 4.8 Gross contributions of members of open-ended voluntary pension funds (in HRK thousand)

Fund	Gross contributions in 2011	Gross contributions in 2012	Change
AZ Benefit ODMF	39,850	41,001	2.89%
AZ Profit ODMF	122,668	114,491	-6.67%
Croatia osiguranje ODMF	24,153	19,091	-20.96%
Erste Plavi Expert ODMF	20,123	17,998	-10.56%
Erste Plavi Protect ODMF	11,949	14,309	19.75%
Raiffeisen ODMF	85,071	75,768	-10.94%
TOTAL	303,814	282,658	-6.96%

Source: Hanfa

As at 31 December 2012, net assets of open-ended voluntary pension funds amounted to HRK 2.0bn, or to an average of HRK 10.4 thousand per open-ended voluntary pension fund member. A 21.0% growth in net assets of open-ended voluntary pension funds compared to the previous year was a result of contributions paid by members and the realised return. Each open-ended voluntary pension fund recorded a positive annual rate of return in 2012, ranging from 11.2% to 18.3%. At the end of 2012, almost 90% of assets of open-ended voluntary pension funds were invested in domestic securities and deposits, while foreign investments primarily related to shares and investment funds.

Table 4.9 Net assets of open-ended voluntary pension funds as at 31 Dec 2011 and 31 Dec 2012 (in HRK thousand)

	31 Dec 2011	31 Dec 2012	Absolute change	Percentage change
AZ Benefit ODMF	141,095	178,858	37,762	26.76%
AZ Profit ODMF	678,227	830,130	151,903	22.40%
Croatia osiguranje ODMF	111,193	128,629	17,435	15.68%
Erste Plavi Expert ODMF	100,014	129,009	28,995	28.99%
Erste Plavi Protect ODMF	42,894	59,715	16,821	39.22%
Raiffeisen ODMF	568,706	661,075	92,369	16.24%
TOTAL	1,642,130	1,987,416	345,286	21.03%

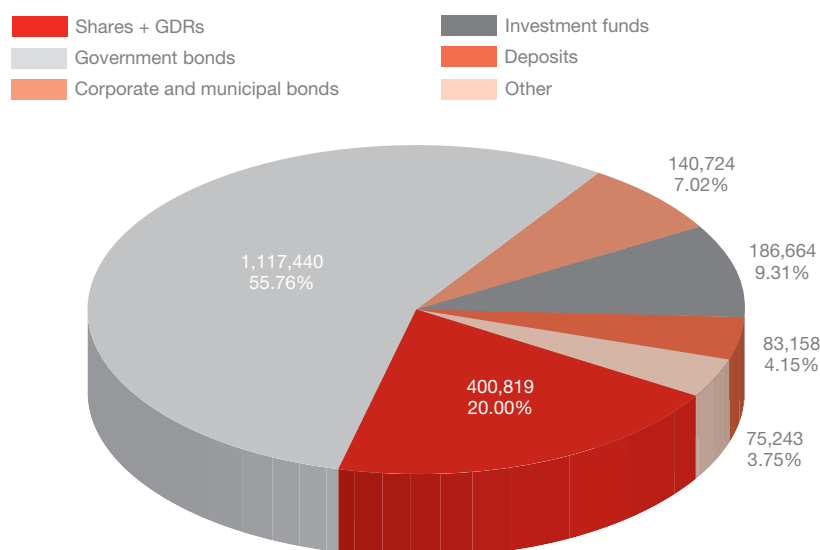
Source: Hanfa

Table 4.10 Rates of return of open-ended voluntary pension funds

Open-ended voluntary pension fund	Beginning of operation	Rates of return of open-ended voluntary pension funds	
		2012	Annualised rates of return from the beginning of operation
AZ Benefit ODMF	3 Dec 2003	18.14%	7.56%
AZ Profit ODMF	29 Sep 2003	11.22%	8.49%
Croatia osiguranje ODMF	29 Oct 2003	11.84%	3.01%
Erste Plavi Expert ODMF	14 Mar 2005	18.29%	5.64%
Erste Plavi Protect ODMF	14 Mar 2005	16.38%	6.02%
Raiffeisen ODMF	6 Aug 2002	11.72%	5.11%

Source: Hanfa

Chart 4.5 Investment structure of open-ended voluntary pension funds in 2012 (in HRK thousand)



Source: Hanfa

At 31 December 2012, net assets of closed-ended voluntary pension funds amounted to HRK 441.9m or to an average HRK 19.1 thousand per closed-ended voluntary pension fund member. Each closed-ended voluntary pension fund recorded a positive annual rate of return in 2012, ranging from 8.6% to 17.5%.

Table 4.11 Main indicators for closed-ended voluntary pension funds

Data	31 Dec 2011	31 Dec 2012
Total membership of closed-ended voluntary pension funds	18,155	23,146
Total contributions to closed-ended voluntary pension funds (in HRK thousand)	334,508	429,208
Total assets of closed-ended voluntary pension funds (in HRK thousand)	326,598	441,855

Source: Hanfa

Table 4.12 Rates of return of closed-ended voluntary pension funds

Voluntary pension company	Closed-ended voluntary pension fund	Beginning of operation	Rates of return of closed-ended voluntary pension funds	
			2012	Annualised rates of return from the beginning of operation
Allianz ZB d.o.o. društvo za upravljanje DMF-ovima	AZ Auto Hrvatska ZDMF	29 Dec 2011	17.48%	17.32%
	AZ Dalekovod ZDMF	14 Dec 2004	12.28%	9.25%
	AZ Hrvatska kontrola zračne plovidbe ZDMF	14 Mar 2005	12.53%	9.19%
	AZ VIP ZDMF	8 Mar 2004	12.87%	9.01%
	AZ ZABA ZDMF	2 Oct 2012	-0.32%	-
	AZ Zagreb ZDMF	9 Oct 2008	14.09%	11.02%
Croatia osiguranje MD za upravljanje DMF-om d.o.o.	Croatia osiguranje ZDMF	20 Sep 2005	11.87%	1.97%
	ZDMF Autocesta Rijeka-Zagreb	1 Jun 2012	5.27%	-
	ZDMF HAC	3 Jun 2008	11.83%	6.16%
	ZDMF HEP grupe	9 May 2006	13.10%	2.91%
	ZDMF Sindikata pomoraca Hrvatske	21 Oct 2004	11.97%	1.98%
Erste DMD d.o.o. za upravljanje DMF-om	Cestarski ZDMF	30 Dec 2008	16.92%	8.46%
Raiffeisen MD za upravljanje DMF-ovima d.o.o.	ZDMF Ericsson Nikola Tesla	21 Feb 2005	8.70%	7.52%
	ZDMF Hrvatskog liječničkog sindikata	1 Jul 2004	13.11%	7.88%
	ZDMF Novinar	14 Oct 2005	8.62%	6.99%
	ZDMF Sindikata hrvatskih željezničara	15 Nov 2007	12.94%	6.07%
	ZDMF T-HT	20 Dec 2006	12.56%	7.31%

Source: Hanfa

The profit recorded by voluntary pension companies in 2012 was by 49.6% higher than in 2011. This was mostly due to a 14.7% or HRK 4.9m increase in income from management fees, resulting from a growth in assets under management. The profit increase was also a result of a rise in net income from investments in financial instruments, which accounts for a smaller share in total income and which rose by HRK 2.7m or 109.2% relative to 2011. As for expenses of voluntary pension companies, sales agent costs were reduced by HRK 1.2m or 10.5%, while staff costs increased by HRK 0.9m or 10.6%.

Table 4.13 Statement of financial position of voluntary pension companies as at 31 Dec 2011 and 31 Dec 2012 (in HRK thousand)

	31 Dec 2011	Share	31 Dec 2012	Share	Index 2012/2011
I. Financial assets	72,009	84.72%	89,481	86.89%	124
II. Receivables	7,023	8.26%	5,659	5.50%	81
III. Prepayments and accrued income	650	0.76%	695	0.67%	107
IV. Deferred tax assets	904	1.06%	2,162	2.10%	239
V. Property, plant and equipment	255	0.30%	389	0.38%	152
VI. Investment property	0	0.00%	0	0.00%	0
VII. Intangible assets	609	0.72%	462	0.45%	76
VIII. Other assets	3,550	4.18%	4,136	4.02%	117
Total assets	84,999	100.00%	102,984	100.00%	121
Capital and reserves	69,070	81.26%	84,386	81.94%	122
I. Subscribed capital	78,445	92.29%	78,445	76.17%	100
II. Capital reserves	0	0.00%	0	0.00%	0
III. Reserves	0	0.00%	0	0.00%	0
IV. Revaluation reserves	-430	-0.51%	562	0.55%	-131
V. Retained earnings or accumulated loss	-18,521	-21.79%	-8,946	-8.69%	48
VI. Profit or loss of the current year	9,576	11.27%	14,324	13.91%	150
Liabilities	4,499	5.29%	6,270	6.09%	139
Provisions	197	0.23%	296	0.29%	151
Accruals and deferred income	11,235	13.22%	11,873	11.53%	106
Deferred tax liabilities	0	0.00%	160	0.16%	0
Total liabilities	84,999	100.00%	102,984	100.00%	121

Source: Hanfa

Table 4.14 Statement of comprehensive income of voluntary pension companies in 2011 and 2012 (in HRK thousand)

	2011	2012	Index 2012/2011
Income from fund management	46,365	48,915	105
Fee from paid contributions	13,184	10,841	82
Fee from total assets of the pension fund	33,176	38,043	115
Exit fee	5	32	604
Expenses on fund management	17,470	16,225	93
Transaction costs	145	144	99
Marketing costs	2,605	2,253	86
Sales agent costs	11,837	10,589	89
Other pension fund management costs	2,883	3,239	112
Profit from fund management	28,895	32,690	113
Operating expenses	20,030	21,356	107
Material costs	369	382	104
Staff costs	8,680	9,599	111
Depreciation and adjustment of value of other assets	370	369	100
Provisions	37	19	51
Other operating expenses	10,574	10,987	104
Profit from regular business activities	8,866	11,334	128
Net financial result	2,514	5,260	209
Other income and expenses	301	1,422	473
Pre-tax profit	11,680	18,016	154
Profit tax	2,105	3,692	175
Profit	9,576	14,324	150

Source: Hanfa

Out of four mandatory pension companies operating in 2012, one was directly owned by foreign financial institutions, two were in indirect foreign ownership through companies established in the Republic of Croatia, while one company was in domestic ownership. In 2012, the number of voluntary pension companies remained unchanged in comparison to 2011.

4.1.3 Pension Insurance Companies

Since the entry into force of the Act on Pension Insurance Companies and Payment of Pension Annuities Based on Individual Capitalised Savings (Official Gazette 106/99, 63/00, 107/07 and 114/11, hereinafter: Act on Pension Insurance Companies) there has been only one pension insurance company operating in the Republic of Croatia, namely Raiffeisen mirovinsko osiguravajuće društvo (hereinafter: RMOD). RMOD was established in 2002, and started paying out the first retirement benefits in 2003.

According to the statement of financial position as at 31 December 2012, the total assets of RMOD totalled HRK 267.3m, increasing by HRK 61.0m in comparison to 31 December 2011. The increase was primarily due to the growth in total investments, which account for 92.7% of total assets and which rose by HRK 53.3m relative to 2011. As at 31 December 2012, technical provisions stood at HRK 220.5m, making up 82.5% of total liabilities. Technical provisions of the voluntary pension insurance amounted to HRK 210.5m, while technical provisions of the mandatory pension insurance reached HRK 10.0m. Capital and reserves increased significantly in comparison to 2011, primarily due to a rise in revaluation reserves of financial investments.

As at 31 December 2012, technical provisions of the mandatory pension insurance amounted to HRK 10.0m, while the assets for their coverage were by HRK 1.0m higher, totalling HRK 11.0m. The assets covering technical provisions of the voluntary pension insurance reached HRK 232.0m, exceeding by HRK 21.5m total technical provisions, which amounted to HRK 210.5m.

Table 4.15 Statement of financial position of RMOD as at 31 Dec 2011 and 31 Dec 2012 (in HRK thousand)

No.	Item	31 Dec 2011	31 Dec 2012	Index 2012/2011
Assets				
1	Receivables for subscribed capital unpaid	0	0	-
2	Intangible assets	0	0	-
3	Tangible assets	49,382	69,935	141.62
4	Investments	194,362,331	247,677,055	127.43
5	Share of reinsurance in technical provisions	0	0	-
6	Deferred and current tax assets	95,490	428,312	448.54
7	Receivables	0	5,365	-
8	Other assets	8,274,345	14,015,435	169.38
9	Prepayments and accrued income	3,582,885	5,123,119	142.99
	Total assets	206,364,434	267,319,221	129.54
Liabilities				
10	Capital and reserves	11,965,425	31,127,345	260.14
11	Minority interest	0	0	-

Upon acquisition of pension rights, pension fund members conclude a contract with the selected pension insurance company, and their capitalised savings are transferred from the pension fund (mandatory or voluntary) to the pension insurance company, which provides them with pension payments. Mandatory pension fund members receive lifelong pension payments in line with the transferred savings. Members of voluntary pension funds (both open-ended and closed-ended) receive lifelong or temporary retirement benefits from the pension insurance company in accordance with the provisions of their contracts, which differ depending on the pension scheme chosen by members among the schemes available on the market. In accordance with legal provisions, the pension insurance company provides Hanfa with data on proposed unit amounts of pensions and payments guaranteed to defined beneficiaries. The unit amounts of pensions and guaranteed payments may differ only depending on pension type and category, adjustment method, age of beneficiaries and duration of guarantee period. Unit amounts of pensions apply equally to all persons intending to conclude a pension contract. Within the voluntary pension insurance scheme, unit amounts of pensions and guaranteed payments may also differ according to gender of beneficiaries and duration of temporary pension. Pursuant to legal provisions, the pension insurance company submits to Hanfa a copy of the standardised form of the pension contract, at least one month prior to usage of the form. Within one month

No.	Item	31 Dec 2011	31 Dec 2012	Index 2012/2011
12	Technical provisions	179,194,847	220,467,900	123.03
13	Other provisions - reservations	0	0	-
14	Non-insurance-technical provisions - reservations	0	0	-
15	Financial liabilities	0	0	-
16	Deferred and current tax liabilities	0	6,686	-
17	Other liabilities	1,641,879	393,175	23.95
18	Accruals and deferred income	13,562,282	15,324,115	112.99
	Total liabilities	206,364,434	267,319,221	129.54

Source: Hanfa

In the period between 1 January and 31 December 2012, RMOD recorded a total income reaching HRK 135.3m, which is a HRK 16.3m decline in the total income compared with the same period in 2011. This was mostly due to a decrease in the number of mandatory pension scheme members, resulting from amendments to the Act on Pension Insurance Companies. The largest share in the income structure (82.9% or HRK 112.1m) was accounted for by income from payments of pension companies and direct lump sum payments under voluntary pension insurance.

Total expenses in the amount of HRK 132.5m were by HRK 13.3m lower compared to total expenses in 2011. The largest share of the expenses (HRK 123.4m or 93.1%) was made up of expenses arising from voluntary pension scheme contracts, out of which HRK 71.5m was accounted for by payments under the voluntary pension insurance, and HRK 51.9m referred to changes in technical provisions. Expenses arising from voluntary pension scheme contracts rose by HRK 16.8m compared to 2011, when they reached HRK 106.5, and accounted for 73.1% of total expenses.

Expenses arising from mandatory pension scheme contracts reaching HRK 3.0m in 2012 made up only 2.3% of total expenses, while in 2011, they accounted for 23.4% of total expenses. It is important to point out that the decline was a result of the transfer of the majority of persons insured within Pension Pillar 2 to the intergenerational solidarity system; therefore this amount will increase again once the persons who were obliged to join Pension Pillar 2 acquire their pension rights.

after the reception of the standardised form, Hanfa may notify its objections to the pension insurance company in the case where the form is either misleading for potential pension beneficiaries or is not compliant with the conditions laid down by the said legal provisions. The pension insurance company is obliged to comply with Hanfa's objections; otherwise, the contract is considered to be void.

RMOD recorded a pre-tax profit of the accounting period reaching HRK 2.8m, and an after-tax profit of the accounting period totalling HRK 2.2m.

Table 4.16 Statement of comprehensive income of RMOD for 2011 and 2012

No.	Item	2011	2012	Index 2012/2011
1	Income from payments of pension companies and lump sum payments - mandatory pension insurance	32,421,295	2,354,455	7.26
2	Income from payments of pension companies and lump sum payments - voluntary pension insurance	95,031,734	112,115,637	117.98
3	Income from investments - mandatory pension insurance	2,694,391	677,955	25.16
4	Income from investments - voluntary pension insurance	12,503,296	14,192,907	113.51
5	Income from investments - RMOD business operations	612,036	800,046	130.72
6	Income from fees and commissions	8,283,877	5,025,227	60.66
7	Other income	91,693	150,522	164.16
	Total income	151,638,322	135,316,749	89.24
8	Expenses arising from pension contracts - mandatory pension insurance	-34,109,226	-2,995,227	8.78
9	Expenses arising from pension contracts - voluntary pension insurance	-106,546,261	-123,388,811	115.81
10	Operating expenses	-3,140,313	-3,426,910	109.13
11	Investment expenses - mandatory pension insurance	-1,006,099	-35,238	3.50
12	Investment expenses - voluntary pension insurance	-986,969	-2,680,032	271.54
13	Investment expenses - RMOD business operations	0	-22	-
	Total expenses	-145,788,868	-132,526,240	90.90
14	Pre-tax profit or loss of the accounting period	5,849,454	2,790,509	47.71
15	Profit tax	-1,169,387	-556,499	47.59
16	After-tax profit or loss of the accounting period	4,680,066	2,234,011	47.73

Source: Hanfa

As at 31 December 2012, there were a total of 11.140 concluded pension contracts, of which 11.091 contracts related to the voluntary pension insurance (Pension Pillar 3), and 49 contracts related to the mandatory pension insurance (Pension Pillar 2). The total number of pension scheme beneficiaries amounted to 10.688, of which 99.5% or 10.639 persons were voluntary pension scheme beneficiaries, and 49 persons were mandatory pension scheme beneficiaries.

4.2 Hanfa's Activities

4.2.1 Regulatory Activities

4.2.1.1 Pension Funds

Pursuant to the Mandatory and Voluntary Pension Funds Act, in 2012 Hanfa adopted two new subordinate regulations, namely the Ordinance on financial statements of pension funds (Official Gazette 137/12) and the Ordinance on financial statements of pension companies (Official Gazette 137/12). One subordinate regulation was amended through the Ordinance amending the Ordinance on the manner of allocating insured persons to mandatory pension funds and informing them of the allocation (Official Gazette 145/12). The purpose of the ordinances regulating the reporting of pension funds and pension companies was to introduce a secure and efficient electronic submission of reports through the implementation of electronic signature, preceded by a process of adjustment of IT infrastructure, both in Hanfa and its supervised entities. The aim of the new ordinances and of the amendments of the existing ones was to simplify the reporting process, to adjust to the industry's needs and business practices, to improve the practical application of subordinate regulations, as well as to provide for a higher level of quality and efficiency of supervision carried out by Hanfa.

As regards the fees relating to this area, in 2012, Hanfa adopted a Decision on the maximum percentage of the fee charged by the custodian bank for the year 2013, a Decision on the maximum percentage of the fee charged by mandatory pension companies for the year 2013, and a Decision on the guaranteed return of mandatory pension funds for the year 2011.

In 2012, in cooperation with the Ministry of Labour and Pension System, Hanfa worked intensely on the new Proposal for the Mandatory Pension Funds Act. The existing system of individual capitalised savings and pension funds have shown, over the last ten years, the need to improve and strengthen the overall system, resulting in a proposal for a separation of the existing act into two new acts: the Mandatory Pension Funds Act, regulating the mandatory pension insurance system based on individual capitalised savings (Pension Pillar 2) and the Voluntary Pension Funds Act, regulating the voluntary pension insurance system based on individual capitalised savings (Pension Pillar 3) and aligning the national legislation relating to closed-ended pension funds with EU directives.

The new Act Proposals define in more detail business operations of pension companies, from organisational requirements and fit and proper requirements for management and supervisory board membership, to statutory changes in companies and funds, operation of funds, their investment types and limitations, provision of information to pension fund members, business operations of the depository and the Central Register of Insured Persons, to supervision carried out by Hanfa. The proposed changes were notified to the financial industry, whose representatives were included in the work of the working group for drafting the Act.

The Acts are to be adopted in 2013.

4.2.1.2 Pension Insurance Companies

The establishment and pursuit of business of pension insurance companies are regulated by the Act on Pension Insurance Companies, which entered into force on 1 January 2000. The Act also regulates payments of pensions, made by pension insurance companies under the

mandatory pension insurance system based on individual capitalised savings (Pension Pillar 2), and of other retirement benefits paid under the voluntary pension insurance system based on individual capitalised savings (Pension Pillar 3).

Pursuant to Article 22 paragraphs 1 and 2 of the Act on Amendments to the Act on Pension Insurance Companies and Payment of Pension Annuities Based on Individual Capitalised Savings (Official Gazette 107/07) a pension insurance company may not withhold more than 10% of the remittance made by the mandatory pension fund as a fee for covering the pension insurance company's costs. A decision on the maximum fee is adopted by Hanfa on an annual basis. Pursuant to the Decision on the maximum fee for covering costs of the pension insurance company in 2012 out of remittances made by the mandatory pension fund (Official Gazette 16/12), adopted by Hanfa in February 2012, the maximum fee reached 5% of remittances made by the mandatory pension fund.

At the beginning of the pension system reform, mandatory pension insurance based on individual capitalised savings (Pension Pillar 2) was obligatory for insured persons under 40 years of age. Persons between the ages of 40 and 50 were allowed to choose whether they wanted to remain within the intergenerational solidarity system or join Pension Pillar 2.

Article 103a paragraph 1 of the latest amendments to the Act on Pension Insurance Companies (Official Gazette 114/11) allowed pension beneficiaries who voluntarily joined the mandatory pension insurance system based on individual capitalised savings to receive their pensions in the amount and manner as if they had been insured only within the mandatory pension insurance system based on intergenerational solidarity. In order to receive the pensions, the pension beneficiaries were obliged to submit a request for the calculation of pension according to the said provision to the pension insurance company within 90 days of the entry into force of the Amendments to the Act on Pension Insurance Companies. Therefore, every insured person having chosen Pension Pillar 2 at the beginning of the pension system reform was allowed to exit this Pillar at the moment of retirement and to have their pensions calculated and paid out as if they had been part of the intergenerational solidarity system the whole time.

The majority of such persons chose this option and entered the pension insurance system based on intergenerational solidarity within the legally prescribed period. The same category of insured persons already receiving their pensions was given an opportunity to require a recalculation and payment of the pension exclusively from the intergenerational solidarity system. Based on reports submitted by RMOD on 30 September 2011 (prior to the entry into force of the Amendments to the Act on Pension Insurance Companies), there were 1,004 insured persons within the mandatory pension insurance system. This number decreased significantly until 31 December 2011, when it totalled only 214. The number of insured persons within the mandatory insurance system continued to decline until the end of the 90-day period for submitting the request for the calculation of the pension defined by the said legal provisions, reaching only 41 according to RMOD report for February 2012.

4.2.2 Licensing

4.2.2.1 Pension Funds

In 2012, licensing activities related to pension funds were reduced to some degree compared to 2011, as shown by the table below:

Table 4.17 Number of cases related to operation of pension companies and pension funds

Case type	2011	2012
Approval for the establishment and management of a pension fund (authorisation)	1	0
Approval for the establishment of the fund	1	2
Approval for the appointment of a management board member of a mandatory pension company	3	4
Approval for the appointment of a management board member of a voluntary pension company	3	4
Approval for the appointment of a supervisory board member of a mandatory pension company	8	3
Approval for the appointment of a supervisory board member of a voluntary pension company	4	3
Approval for the amendments to the statute of a voluntary pension fund	15	4
Approval for the amendments to the statute of a mandatory pension fund	0	4
Approval for the informative prospectus and amendments to the informative prospectus of a voluntary pension fund	15	4
Marketing of pension funds	35	33
Decisions granting the licence to pension fund managers	3	0
Decisions renewing the licence of pension fund managers	14	13
Approval for transactions in equity shares in a mandatory pension company	1	0

Source: Hanfa

4.2.2.2 Pension Insurance Companies

During 2012, Hanfa renewed two licences for certified managers of the pension insurance company in accordance with Article 10 paragraphs 3, 4 and 5 of the Act on Pension Insurance Companies and the provisions of the Ordinance on the requirements for the acquisition and examination of professional knowledge needed to obtain certified pension insurance company manager's licence (Official Gazette 80/10). It also issued one approval for a supervisory board member of a pension insurance company pursuant to Article 12 paragraph 2 of the Act on Pension Insurance Companies.

In the course of the previous year, Hanfa also approved two marketing activities for RMOD in accordance with the provisions of the Ordinance on marketing of pensions and other pension benefits (Official Gazette 26/08), regulating the content of the advertisement, advertising material, claims, statements and information regarding pensions and other pension benefits as well as on voluntary pension schemes (hereinafter: advertisement and advertising material) published by or for a pension insurance company and/or voluntary pension company (hereinafter: advertisers), as well as additional requirements for marketing of pensions and other pension benefits, the procedure for obtaining Hanfa's approval for the advertisement and advertising material, procedure for the supervision of agents, employees and persons related to advertisers responsible for the sale and marketing of pensions and other pension benefits as well as voluntary pension schemes, as well as the basic criteria for the conduct and public presentation of market research on pensions and other pension benefits and voluntary pension schemes by or for advertisers.

4.2.3 Supervision

4.2.3.1 Pension Funds

As part of its regular activities, Hanfa conducts off-site and on-site supervision of the compliance of business operations of pension funds and mandatory and voluntary pension funds with the Mandatory and Voluntary Pension Funds Act and relevant subordinate regulations, with the aim of protecting the interests of mandatory and voluntary pension fund members.

Off-site supervision involves processing of collected reports, which implies daily calculations of pension fund rates of return and the MIREX index, and periodic analyses of the performance of pension companies and pension funds. It also comprises a qualitative and quantitative assessment of the risks pertaining to business operations of pension funds and pension companies, monitoring of changes in capital, number of fund members, adequacy of guarantee deposit, potential liabilities for the payment of guaranteed rate of return, structure of and relations between costs and revenues, and verification of the accuracy of fee calculations. The reports used by Hanfa within off-site supervision include calculations of net asset value (submitted on every valuation day by a depository bank), annual reports on business operations and annual financial statements of pension companies and pension funds audited by an independent certified auditor (submitted within four months after the end of the financial year), as well as financial interim statements and other interim reports.

On-site examinations are focused on pension companies' organisational structures and institutional characteristics, organisation of tasks relating to fund asset management, investments of fund assets under management, management of risks inherent to operation of pension companies and funds, verification of the calculation of fund assets, register of members, accounting records and financial reporting of pension companies and funds, and implementation of the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 25/12).

With respect to the said supervisory structure, on-site supervisory activities involve the examination of internal acts of pension companies and pension funds, investment decision-implementing process, compliance with the provisions on permitted investments and investment limitations, membership of supervisory boards, accounting procedures and preparation of financial statements of pension companies and funds, contracts concluded with business partners relating to activities important for operation of pension funds, and internal procedures.

In 2012, Hanfa carried out a total of six full-scope on-site examinations in companies managing a total of 13 mandatory or voluntary pension funds at that point, namely four mandatory pension funds, three open-ended voluntary pension funds and six closed-ended voluntary pension funds. A full-scope on-site examination was also carried out in the Central Register of Insured Persons.

Full-scope examinations carried out by Hanfa in pension companies and pension funds in 2012 focused on the definition and improvement of processes and procedures used by pension companies when investing assets and on the establishment and improvement of adequate risk management procedures and systems.

Examinations carried out in several companies revealed certain weaknesses in internal procedures and processes related to investment decision making and performance of analyses prior to the investments, after which Hanfa issued conclusions and recommendations of the examinations, ordering the companies to eliminate or minimise the said weaknesses.

The conclusions of the examinations related to a failure of certain companies to prescribe clear criteria for making investment decisions with respect to certain classes of financial assets based on the portfolio and investment risk profile; a failure to ensure, through internal procedures, documentation of each (non)investment decision, including the facts proving the (non)fulfilment of the prescribed criteria; a failure to prescribe the frequency and methodology of revision of adopted investment decisions and of the assessment of the credit risk of securities issuers in the fund portfolio as well as of potential investments. It was recommended to the companies to revise their internal procedures regulating the investment decision-making process, to define clear criteria for making investment decisions with respect to certain classes of financial assets based on the portfolio and investment risk profile, to clearly define powers and responsibilities of each segment of the organisational structure and participants in the investment decision-making process, to ensure documentation of every investment decision, including the facts proving the (non)fulfilment of the prescribed investment criteria, and to prescribe the frequency and methodology of revision of the adopted investment decisions and of the assessment of the credit risk of securities issuers in the fund portfolio as well as of potential investments. These measures were supposed to improve the companies' investment decision-making processes and verification of implementation of these decisions, ensure more efficient monitoring of their impact on the rate of return of pension funds, and contribute to the fair valuation of their financial assets.

Within the framework of its supervisory activities, Hanfa will continue to monitor and provide recommendations for pension companies through all the phases of the investment process, and urge the companies to improve their business processes in the area of fund asset management, investments and management of risks arising from the investments.

4.2.3.2 Pension Insurance Companies

Hanfa carries out on-going supervision of the pension insurance company's operation, based on financial statements and supplementary reports, actuarial assessments and reports submitted at Hanfa's request by RMOD, as defined in the Act on Pension Insurance Companies and the Ordinance on the structure and content of financial statements of pension insurance companies (Official Gazette 94/08).



Insurance

5 Insurance

5.1 Description of the Market

The 2012 analysis of the Croatian insurance market was performed on the basis of financial, statistical and supervisory reports³⁴ delivered to Hanfa, and examinations carried out in insurance and reinsurance companies, the Croatian Nuclear POOL EIG and the Croatian Insurance Bureau (hereinafter: Bureau).

5.1.1 Insurance Companies and Reinsurance Companies

In the period between 1 January 2012 and 31 December 2012, insurance companies operating in the Republic of Croatia recorded a gross written premium amounting to HRK 9.0bn and declining by 1.1% relative to 2011. The 2012 insurance density³⁵ in both life and non-life insurance totalled HRK 2,114 or EUR 280³⁶, falling compared with the previous year. The insurance density in non-life insurance stood at HRK 1,538 or EUR 204, while in life insurance it reached HRK 576 or EUR 76. In the 2003-2008 period, the insurance density recorded a continuous increase, interrupted in 2009 largely as a result of the financial crisis. The following charts show movements in the insurance density and share of gross written premium in GDP³⁷ (insurance market indicators) in the period between 2003 and 2012.

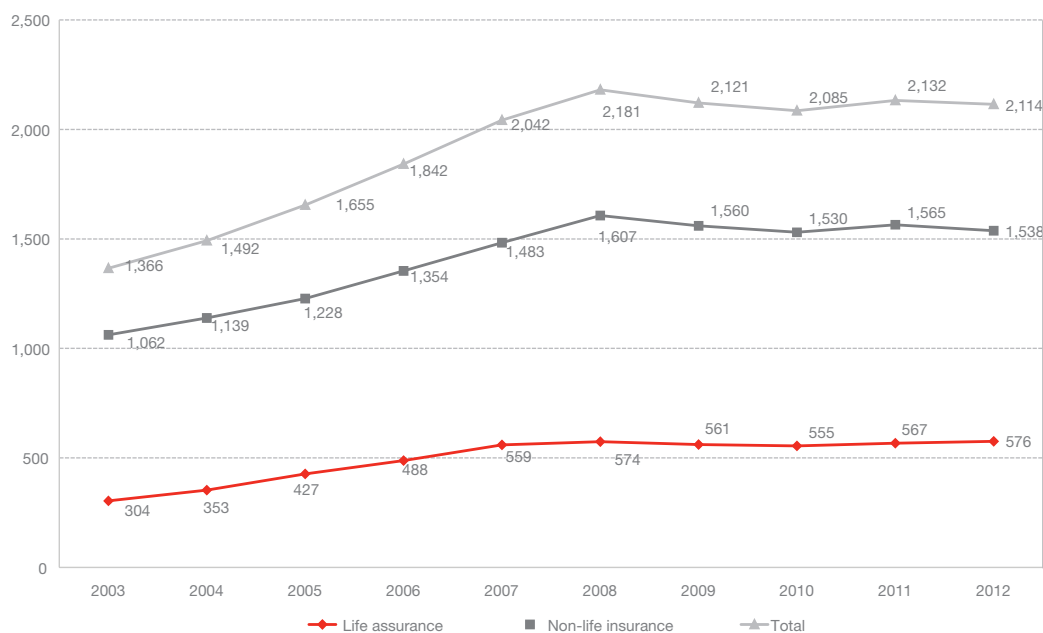
34 The financial, statistical and supervisory data for 2008, 2009, 2010, 2011 and 2012 used in this report have been presented based on audited reports of insurance and reinsurance companies, with data used for the Croatian Nuclear POOL EIG and the Croatian Insurance Bureau in the same period having been presented based on unaudited reports. The financial, statistical and supervisory data for the 2003-2007 period have also been presented based on unaudited financial and statistical reports of all supervised entities. Furthermore, the data for the previous years shown in Hanfa's 2012 Annual Report might differ from the data in Annual Reports for 2006, 2007, 2008, 2009, 2010 and 2011 due to the application of the provisions of the Accounting Act (Official Gazette 109/07), the Insurance Act (Official Gazette 151/05, 87/08 and 82/09), and IFRS (Official Gazette 136/09, 08/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11, 15/12 and 118/12), as well as due to actions taken by insurance and reinsurance companies following Hanfa's instructions.

35 The insurance density is calculated as the ratio of gross written premium to total population. The population data source is the web site of the Central Bureau of Statistics (www.dzs.hr, the last access date being 5 July 2013).

36 Calculated according to the midpoint exchange rate of the Croatian National Bank as at 31 December 2012.

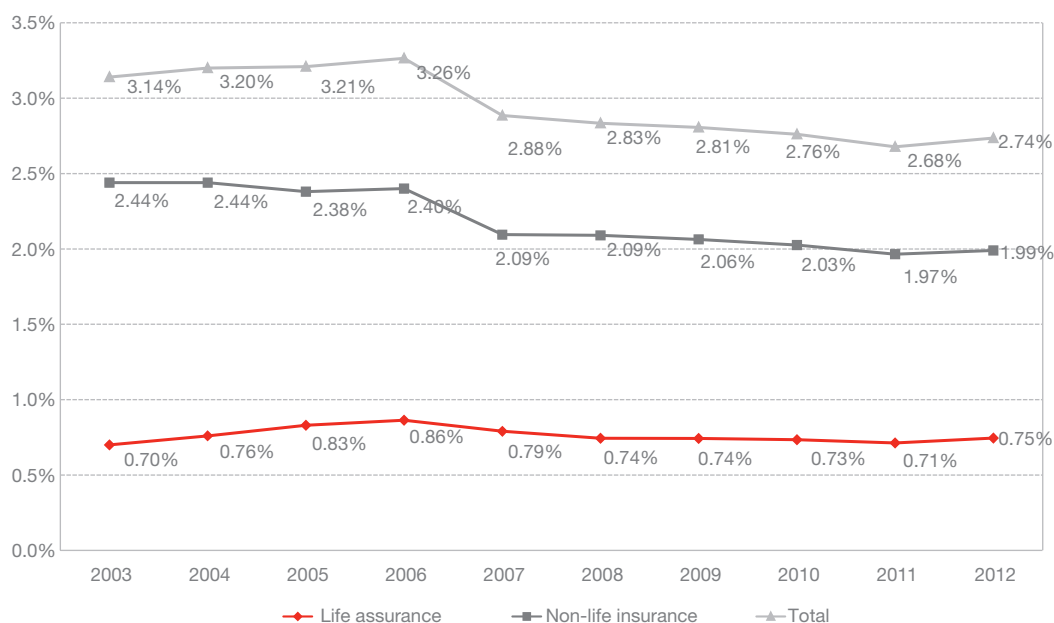
37 Gross domestic product – data taken from the website of the Croatian Bureau of Statistics (www.dzs.hr, the last access date being 7 June 2013).

Chart 5.1 Insurance density in the 2003-2012 period (in HRK)



Source: Hanfa

Chart 5.2 Shares of the gross written premium in GDP in the 2003-2012 period



Source: Hanfa

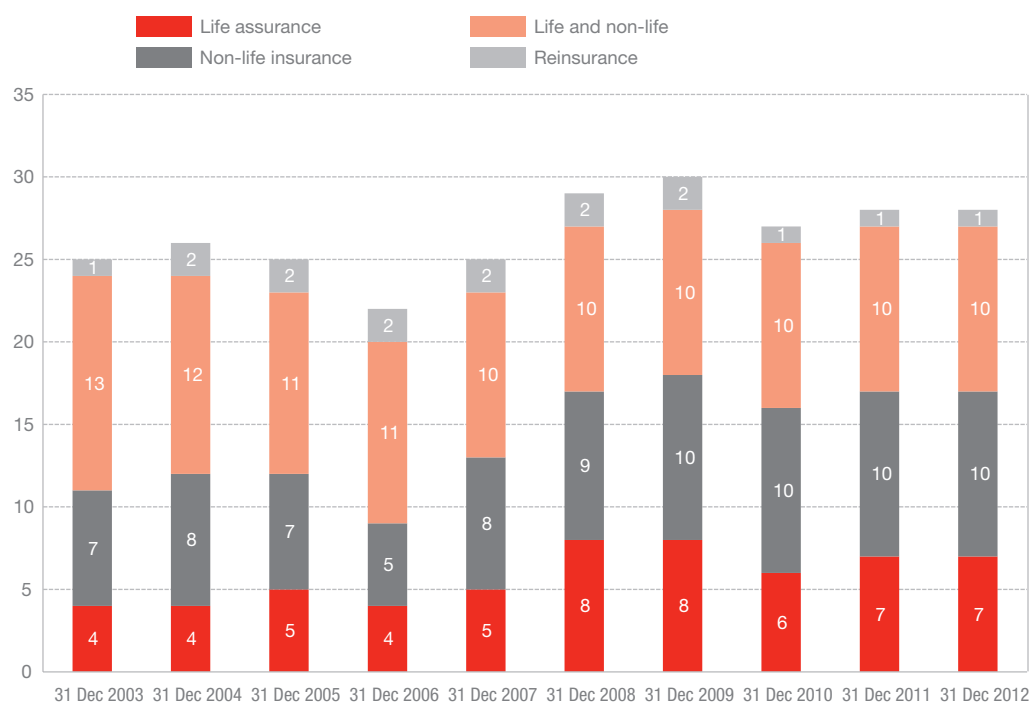
After a downward trend that started in 2007 and lasted until 2011, the share of the insurance premium in GDP recorded an increase in 2012: in 2011, the share (total in life and non-life insurance) stood at 2.68%, rising to 2.74% in 2012. In the life assurance group, the share grew from 0.71% in 2011 to 0.75% in 2012, while the share in the non-life insurance group rose from 1.97% to 1.99%. According to the available data relating to 2011, the average share of

the insurance premium (total in life and non-life insurance) in GDP for all members of Insurance Europe, the European insurance and reinsurance federation (32 countries), amounted to 7.6%³⁸ and was significantly higher than the average share of total insurance premium in GDP in the Republic of Croatia.

5.1.1.1 Description of the Market

As at 31 December 2012, there were 27 licenced insurance companies and one reinsurance company in the insurance market in the Republic of Croatia.

Chart 5.3 Number of licensed insurance and reinsurance companies in the 2003-2012 period



Source: Hanfa

In 2012, seven insurance companies pursued solely life activities, ten insurance companies pursued solely non-life activities, while ten insurance companies pursued both life and non-life activities (composite companies). Reinsurance activities were pursued by one reinsurance company.

38 Source: Statistics N°46, European Insurance in Figures, January 2013., www.insuranceeurope.eu

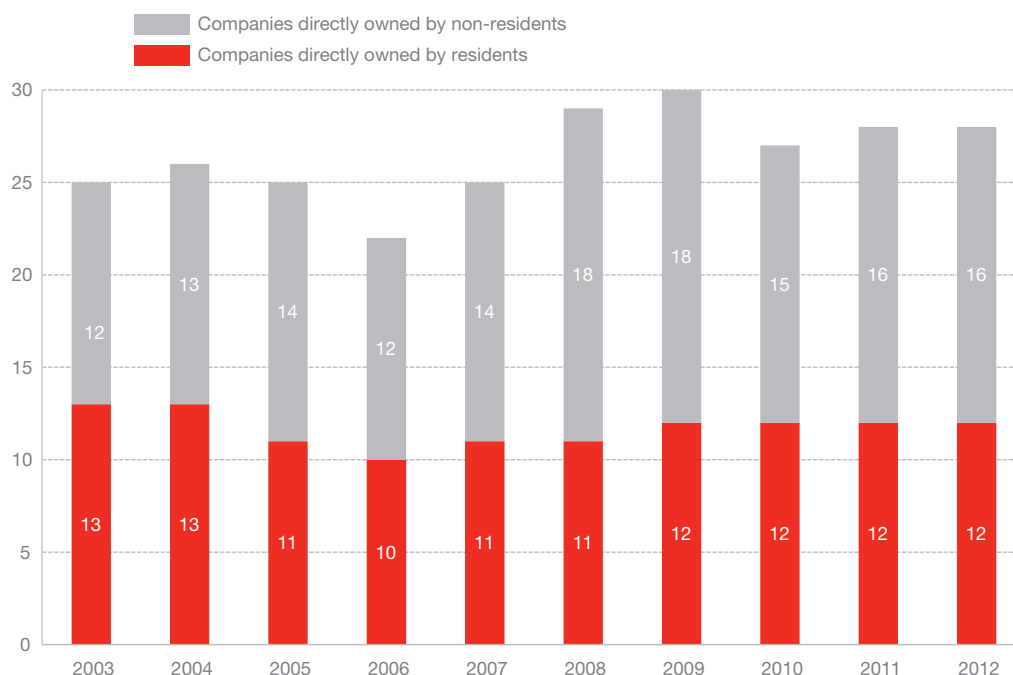
Table 5.1 Insurance activities pursued by insurance and reinsurance companies in 2012

Life assurance	Non-life insurance	Life and non-life insurance	Reinsurance
Agram životno osiguranje d.d.	BNP Paribas Cardif osiguranje d.d.	Allianz Zagreb d.d.	Croatia Lloyd d.d.
ERGO životno osiguranje d.d.	Croatia zdravstveno osiguranje d.d.	Basler osiguranje Zagreb d.d.	
Erste osiguranje Vienna Insurance Group d.d.	ERGO osiguranje d.d.	Croatia osiguranje d.d.	
KD životno osiguranje d.d.	Euroherc osiguranje d.d.	Generali osiguranje d.d.	
Societe Generale osiguranje d.d.	HOK osiguranje d.d.	Grawe Hrvatska d.d.	
Velebit životno osiguranje d.d.	Hrvatsko kreditno osiguranje d.d.	Helios Vienna Insurance Group d.d.	
Wüstenrot životno osiguranje d.d.	Izvor osiguranje d.d.	Kvarner Vienna Insurance Group d.d.	
	Jadransko osiguranje d.d.	Merkur osiguranje d.d.	
	Sunce osiguranje d.d.	Triglav osiguranje d.d.	
	Velebit osiguranje d.d.	Uniqa osiguranje d.d.	

Source: Hanfa

As at 31 December 2012, out of 28 licenced insurance and reinsurance companies, 16 were directly majority-owned by non-residents. The premium share of those 16 companies amounted to 41.8%, while the remaining 12 companies majority-owned by residents recorded a 58.2% premium share.

Chart 5.4 Ownership structure of licenced insurance and reinsurance companies (direct ownership) in the 2003-2012 period



Source: Hanfa

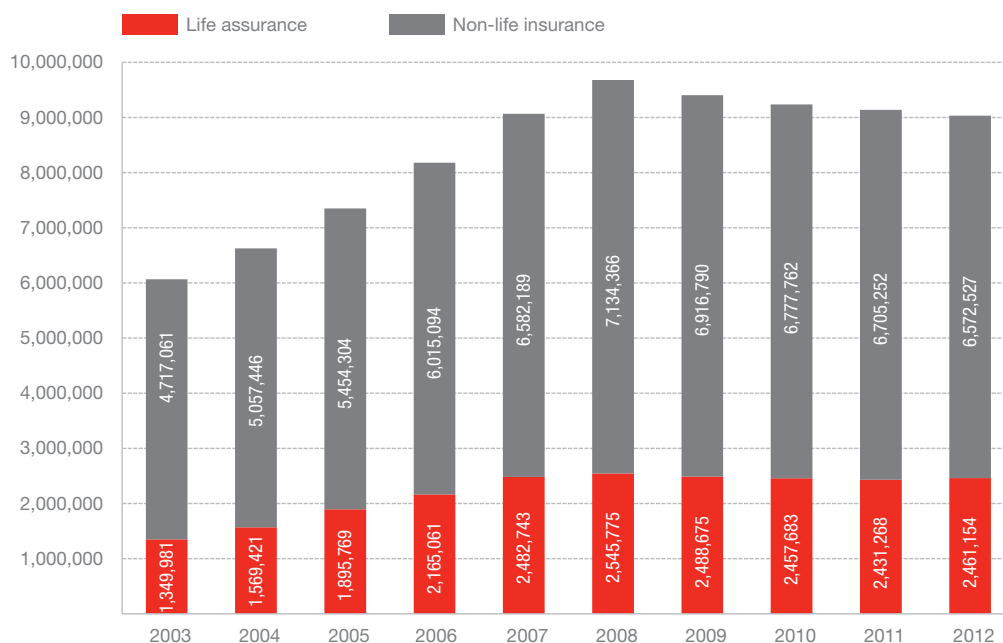
5.1.1.2 Gross Written Premium

In 2012, insurance companies recorded a gross written premium totalling HRK 9.0bn and decreasing by HRK 0.1bn (1.1%) relative to 2011, when it amounted to HRK 9.1bn. More precisely, the non-life insurance premium declined by HRK 132.7m (2.0%), while the life assurance premium rose by HRK 29.9m (1.2%). A rise in the total gross written premium in comparison to 2011 was recorded by 14 out of 26 insurance companies which conducted insurance business in 2011 as well.

The total gross written premium of reinsurance companies amounted to HRK 427.7m, falling by HRK 46.1m (9.7%) in comparison with the previous year.

The insurance portfolio concentration by total gross written premium of the top five insurance companies decreased from 64.6% in 2011 to 64.3% in 2012, while the insurance portfolio concentration of the top ten insurance companies declined from 84.4% to 83.9% in the same period. Non-life insurance recorded higher concentration than life assurance: five insurance companies accounted for 74.6% of the total non-life insurance premium, whereas five insurance companies made up 60.2% of the total life assurance premium.

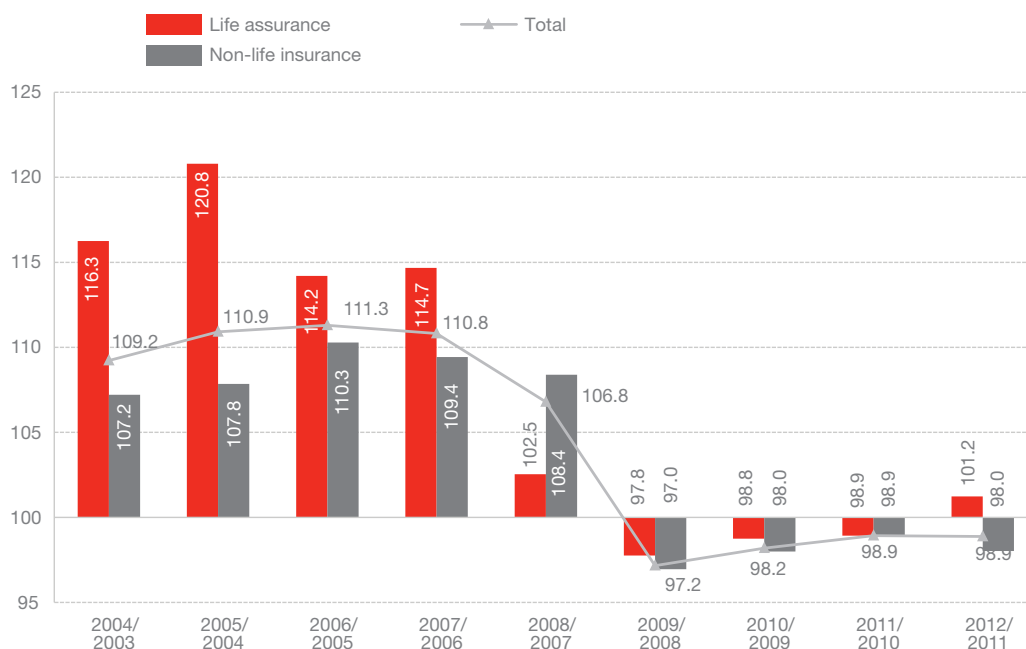
Chart 5.5 Gross written premium of insurance companies in the 2003-2012 period (in HRK thousand)



Source: Hanfa

The downward trend in the non-life insurance premium that began in 2009 continued into 2012, while the life assurance premium halted its decreasing trend, having risen for the first time since 2008.

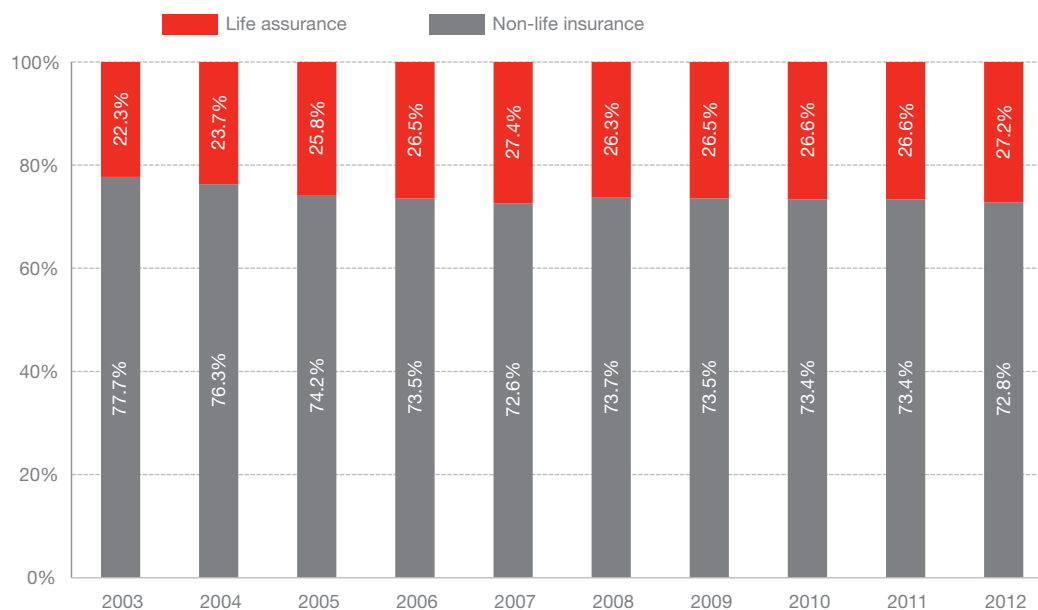
Chart 5.6 Gross written premium indices in the insurance industry in the 2003-2012 period



Source: Hanfa

Non-life insurance continued dominating the total gross written premium in the Croatian insurance market, accounting for a 72.8% share, whereas the share of life assurance amounted to 27.2% of the gross written premium. Compared to 2011, no significant change was recorded in life and non-life insurance shares in the total gross written premium. More than two thirds of the total gross written premium related to non-life insurance, with motor vehicle liability insurance accounting for a significant share in the total gross written premium (32.5%). This points out to the fact that Croatian citizens are still focused on mandatory insurance products (primarily motor vehicle liability insurance), and insurance products tied to loans offered by credit institutions. An improvement in the general economic situation could lead to a growth in the gross written premium of less represented insurance products belonging to other insurance categories.

Chart 5.7 Share of life and non-life insurance in the total gross written premium in the 2003-2012 period



Source: Hanfa

In 2012, shares of individual insurance classes in the total insurance portfolio with respect to the total gross written premium were unevenly distributed, with two (out of 25) insurance classes (motor vehicle liability insurance and life assurance³⁹) accounting for 56.1% of the total insurance portfolio, their share having increased compared to 2011, when it totalled 55.0%. Six insurance classes with individual shares larger than 5.0% made up 84.0% of the total insurance portfolio, while in 2011 they accounted for 83.8% of the total insurance portfolio.

³⁹ In this context, the term "life assurance" relates to insurance class 19 – life assurance, which is part of the group of life assurance classes ranging from class 19 to class 25.

Table 5.2 Gross written premium by insurance classes in 2011 and 2012 (in HRK thousand)⁴⁰

Code	Insurance class	2011	Share	2012	Share	Index 2012/2011
01	Personal accident insurance	517,410	5.66%	504,048	5.58%	97.42
02	Health insurance	255,147	2.79%	238,668	2.64%	93.54
03	Insurance of land motor vehicles	797,849	8.73%	720,458	7.98%	90.30
04	Insurance of railway rolling stock	5,325	0.06%	4,346	0.05%	81.61
05	Insurance of aircraft	15,130	0.17%	7,536	0.08%	49.81
06	Insurance of vessels	204,916	2.24%	181,125	2.00%	88.39
07	Insurance of goods in transit	59,805	0.65%	51,557	0.57%	86.21
08	Insurance against fire and natural disasters	565,981	6.19%	586,515	6.49%	103.63
09	Other property insurance lines	751,571	8.23%	705,244	7.81%	93.84
10	Motor vehicle liability insurance	2,934,900	32.12%	2,939,904	32.54%	100.17
11	Aircraft liability insurance	2,565	0.03%	6,046	0.07%	235.72
12	Insurance against liability arising out of the use of vessels	36,617	0.40%	35,869	0.40%	97.96
13	Other liability insurance lines	289,132	3.16%	288,045	3.19%	99.62
14	Credit insurance	130,084	1.42%	147,360	1.63%	113.28
15	Suretyship insurance	7,869	0.09%	8,050	0.09%	102.31
16	Insurance against miscellaneous financial losses	81,376	0.89%	89,671	0.99%	110.19
17	Legal expenses insurance	2,911	0.03%	2,845	0.03%	97.72
18	Travel insurance	46,663	0.51%	55,241	0.61%	118.38
19	Life assurance	2,092,895	22.91%	2,134,691	23.63%	102.00
20	Annuity insurance	9,047	0.10%	8,225	0.09%	90.92
21	Supplementary insurance linked with life assurance policy	156,469	1.71%	165,224	1.83%	105.60
22	Marriage and birth assurance	8,969	0.10%	8,244	0.09%	91.91
23	Life assurance in which the investment risk is held by the policyholder	163,888	1.79%	144,770	1.60%	88.33
24	Tontines	0	0.00%	0	0.00%	-
25	Assurance with paid-up sum assured	0	0.00%	0	0.00%	-
TOTAL NON-LIFE INSURANCE (classes 01-18)		6,705,252	73.39%	6,572,527	72.76%	98.02
TOTAL LIFE ASSURANCE (classes 19-25)		2,431,268	26.61%	2,461,154	27.24%	101.23
TOTAL (classes 01-25)		9,136,520	100.00%	9,033,681	100.00%	98.87

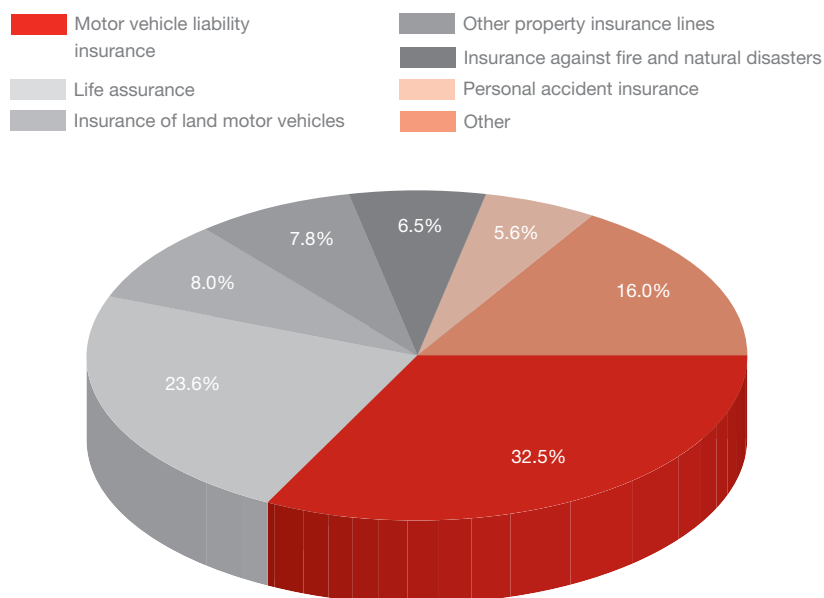
Source: Hanfa

Motor vehicle insurance including motor vehicle liability insurance (class 10) and insurance of land motor vehicles (class 03) made up 40.5% of the total gross written premium, decreasing

40 Types of insurance business, groups of insurance classes, insurance classes within types of insurance business and risk types within insurance classes are prescribed by the Ordinance on the classification of risk types by types and classes of insurance and reinsurance business (Official Gazette 100/09).

slightly compared with a 40.8% share in 2011. The gross written premium for motor vehicle liability insurance (class 10) reached HRK 2.9bn, rising by HRK 5.0m or 0.2% relative to 2011. The premium of insurance of land motor vehicles totalled HRK 720.5m, falling by HRK 77.4m or 9.7% in comparison to 2011, and recording the largest decrease in the premium by a single insurance class in absolute amount.

Chart 5.8 Premium structure by insurance classes in 2012



Source: Hanfa

During 2012, compulsory insurance of owners or users of motor vehicles against liability for damage to third parties, known as motor vehicle liability insurance business (risk 10.01), was conducted by 15 insurance companies in the Republic of Croatia. The motor vehicle liability insurance premium in the amount of HRK 2.9bn made up almost one third of the total gross written premium in 2012, increasing by HRK 4.4m (0.2%) compared to 2011. Three insurance companies accounted for 64.7% of the total motor vehicle liability insurance premium, a slightly smaller share relative to 2011, when three companies made up 65.2% of the total premium. The technical result of the market for risk 10.01 totalled HRK 590.5m, rising by 33.0% compared to 2011, when it amounted to HRK 443.9m.



Table 5.3 Motor vehicle liability insurance in 2011 and 2012 (in HRK thousand)

No.	Insurance company	Gross written premium (for risk type 10.01)		
		2011	2012	Index 2012/2011
1	Croatia osiguranje d.d.	788,560	785,533	99.62
2	Euroherc osiguranje d.d.	658,987	652,633	99.04
3	Jadransko osiguranje d.d.	451,543	446,718	98.93
4	Allianz Zagreb d.d.	252,703	273,208	108.11
5	HOK osiguranje d.d.	125,355	135,672	108.23
6	Triglav osiguranje d.d.	124,356	106,997	86.04
7	Kvarner VIG d.d.	114,075	100,476	88.08
8	Basler osiguranje Zagreb d.d.	96,736	93,112	96.25
9	Generali osiguranje d.d.	73,164	74,094	101.27
10	Uniq osiguranje d.d.	58,022	54,878	94.58
11	Grawe Hrvatska d.d.	50,725	50,394	99.35
12	Helios VIG d.d.	32,089	45,279	141.10
13	Velebit osiguranje d.d.	43,487	43,176	99.28
14	Sunce osiguranje d.d.	29,069	30,742	105.76
15	Izvor osiguranje d.d.	12,107	22,478	185.66
	TOTAL	2,910,978	2,915,390	100.15

Source: Hanfa

5.1.1.3 Asset Structure

As at 31 December 2012, the total assets of insurance and reinsurance companies amounted to HRK 35.0bn, increasing by HRK 2.1bn or 6.2% compared with 2011. A total of HRK 17.3bn (49.6%) of those assets related to life assurance, HRK 16.7bn (47.8%) related to non-life insurance, while HRK 907.8m (2.6%) related to reinsurance. Investments made up the most significant share (77.0%) in the structure of total assets of insurance and reinsurance companies. Receivables accounted for a 6.8% asset share, tangible assets made up 6.5% of the assets, the reinsurance share in technical provisions accounted for a 4.3% share, while other items accounted for 5.4% of the asset structure.

Table 5.4 Asset structure of insurance and reinsurance companies in 2011 and 2012 (in HRK thousand)

	31 Dec 2011			Total share	31 Dec 2012			Total share	Index 2012/2011
	Life	Non-life	Total		Life	Non-life	Total		
Receivables for subscribed capital unpaid	0	0	0	0.00%	0	0	0	0.00%	-
Intangible assets	10,228	88,600	98,828	0.30%	9,813	90,563	100,376	0.29%	101.57
Tangible assets	118,807	2,272,139	2,390,946	7.27%	95,705	2,190,354	2,286,059	6.54%	95.61
Investments	14,072,466	10,815,320	24,887,786	75.63%	15,532,546	11,386,808	26,919,355	77.01%	108.16
Investments for the account of life assurance policyholders who bear the investment risk	694,621	0	694,621	2.11%	799,441	0	799,441	2.29%	115.09
Reinsurer's share of technical provisions	353,177	1,133,992	1,487,169	4.52%	367,215	1,128,615	1,495,830	4.28%	100.58
Deferred and current tax assets	44,018	27,537	71,555	0.22%	15,900	41,389	57,289	0.16%	80.06
Receivables	209,147	2,184,126	2,393,273	7.27%	228,600	2,161,770	2,390,369	6.84%	99.88
Other assets	84,143	359,313	443,456	1.35%	77,150	343,579	420,729	1.20%	94.87
Prepayments and accrued income	196,757	240,403	437,160	1.33%	223,593	264,663	488,256	1.40%	111.69
TOTAL ASSETS	15,783,364	17,121,430	32,904,794	100.00%	17,349,962	17,607,741	34,957,702	100.00%	106.24

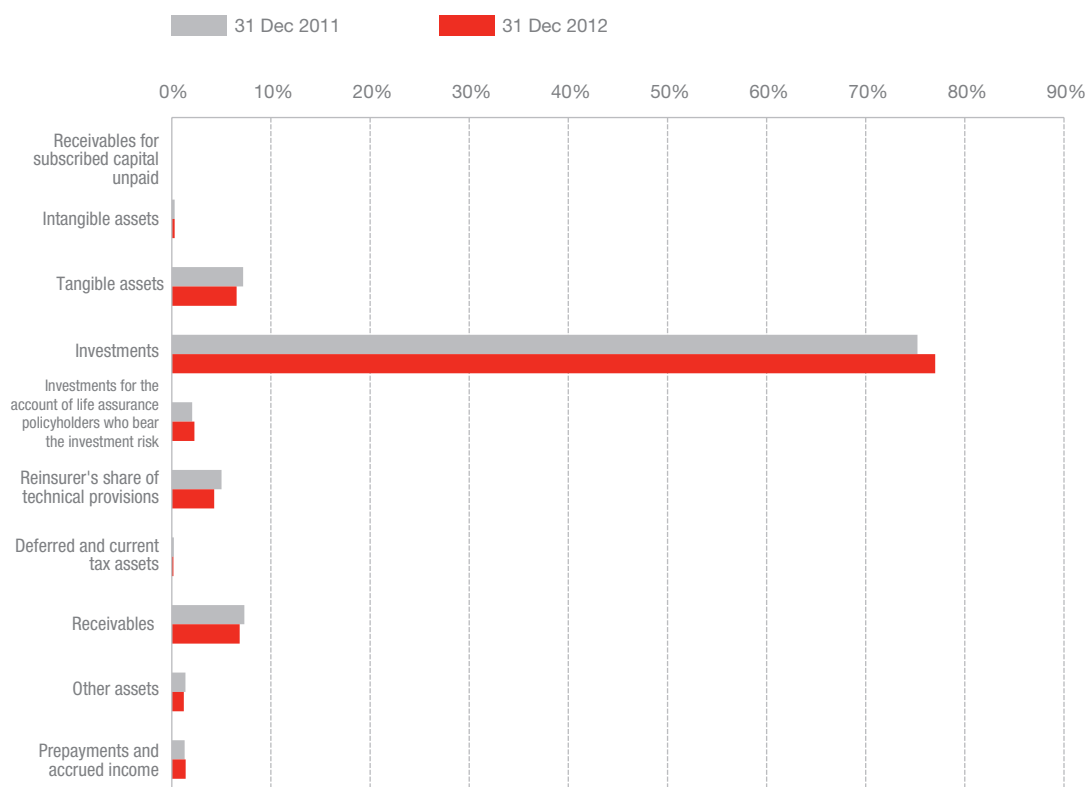
Source: Hanfa

The largest share in life assurance assets (89.5%) was accounted for by investments. Investments for the account of life assurance policyholders who bear the investment risk accounted for 4.6%, while other asset items made up less than 3.0% of total assets. The major share in investments was accounted for by investments in debt securities and other securities with fixed income classified in the portfolio of investments held to maturity (39.9% of life assurance assets) and investments in debt securities and other securities with fixed income classified in the portfolio of investments available for sale (28.4% of life assurance assets).

Investments accounted for the most significant share in the structure of non-life insurance assets as well; however their share was significantly lower than in life assurance and totalled 64.7%. Tangible assets made up 12.4% of non-life insurance assets, receivables accounted for 12.3%, while a 6.4% share was accounted for by the reinsurer's share of technical provisions. The major share in investments was accounted for by deposits, loans and receivables (together totalling 20.1% of non-life insurance assets).

This data point to the fact that in 2012, the total gross written premium was lower than the premium in 2011, while total assets rose compared with 2011. This was primarily due to an increase in assets of life assurance, resulting from a rise in mathematical provisions, and consequently in investments.

Chart 5.9 Asset structure of insurance and reinsurance companies in 2011 and 2012



Source: Hanfa

5.1.1.4 Liability Structure

As at 31 December 2012, the largest share (67.8%) in the liability structure of the insurance industry was accounted for by technical provisions. Capital and reserves made up 20.9%, other liabilities made up 3.7%, while other liability items accounted for less than 3.0% of total liabilities.



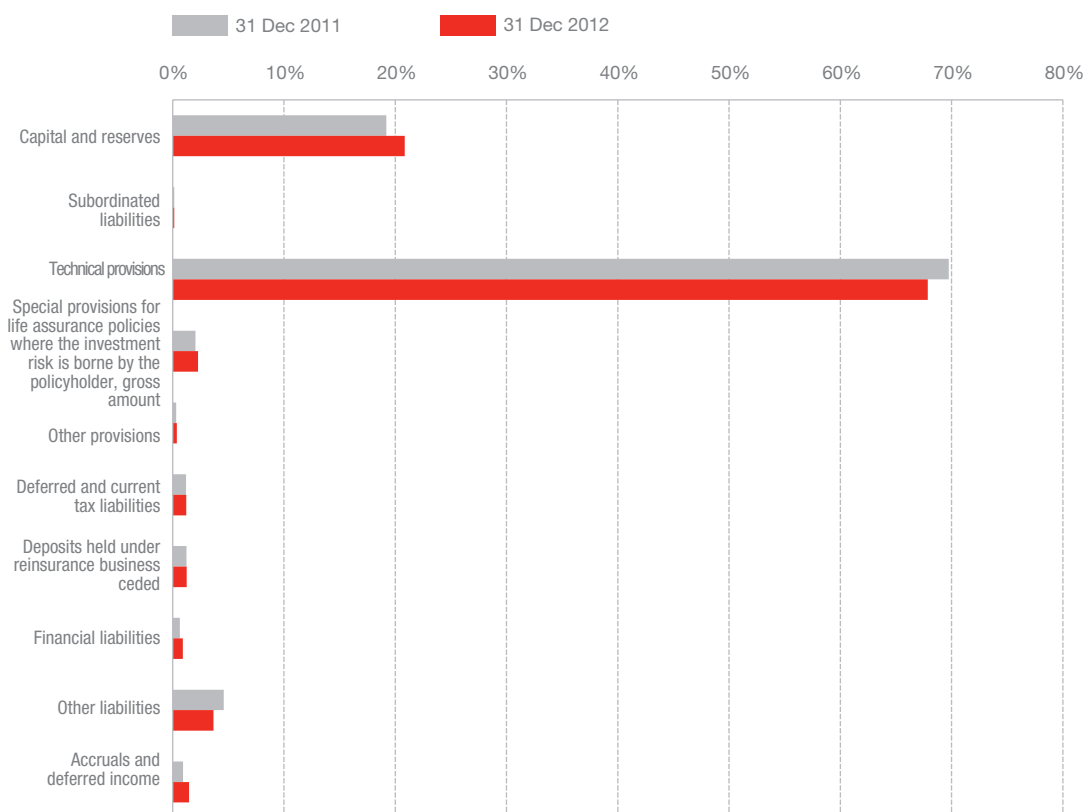
Table 5.5 Liability structure of insurance and reinsurance companies in 2011 and 2012 (in HRK thousand)

	31 Dec 2011			Total share	31 Dec 2012			Total share	Index 2012/2011
	Life	Non-life	Total		Life	Non-life	Total		
Capital and reserves	1,573,614	4,651,512	6,225,126	18.92%	2,224,252	5,066,713	7,290,965	20.86%	117.12
Subordinated liabilities		41,808	41,808	0.13%	0	41,880	41,880	0.12%	100.17
Technical provisions	12,869,357	10,172,138	23,041,495	70.02%	13,604,443	10,114,224	23,718,667	67.85%	102.94
Special provisions for life assurance policies where the investment risk is borne by the policyholder, gross amount	690,605		690,605	2.10%	798,381	0	798,381	2.28%	115.61
Other provisions	6,656	97,037	103,693	0.31%	16,762	112,065	128,827	0.37%	124.24
Deferred and current tax liabilities	24,299	375,607	399,906	1.21%	84,024	341,478	425,502	1.22%	106.40
Deposits held under reinsurance business ceded	340,420	76,148	416,568	1.27%	353,075	87,157	440,232	1.26%	105.68
Financial liabilities	13,174	203,339	216,513	0.66%	36,292	281,801	318,093	0.91%	146.92
Other liabilities	229,964	1,226,914	1,456,878	4.43%	192,267	1,087,015	1,279,282	3.66%	87.81
Accruals and deferred income	35,275	276,927	312,202	0.95%	40,464	475,408	515,873	1.48%	165.24
TOTAL LIABILITIES	15,783,364	17,121,430	32,904,794	100.00%	17,349,962	17,607,741	34,957,702	100.00%	106.24

Source: Hanfa

As at 31 December 2012, technical provisions totalled HRK 13.6bn, making up 78.4% of the life assurance liability structure. The largest share in the technical provisions was accounted for by gross mathematical provisions, amounting to HRK 13.4bn and accounting for 77.0% of total liabilities. Capital and reserves stood at HRK 2.2bn, making up a 12.8% liability share. Special provisions for life assurance policies where the investment risk is borne by the policyholder (gross amount) amounted to HRK 798.3m, representing a 4.6% share in total liabilities, while none of the other life assurance liability items exceeded 3.0% of total liabilities. Technical reserves were also the most significant item in the non-life insurance liability structure (reinsurance excluded), amounting to HRK 9.6bn and making up 57.4% of all liabilities. The largest share of that amount (HRK 6.4bn) was made up of the gross amount of provisions for claims outstanding, which participated in total liabilities with a 38.6% share. Capital and reserves reached HRK 4.8bn and made up 28.6% of total liabilities, while the remaining liability items totalled HRK 1.0bn (6.0% of total liabilities).

Chart 5.10 Liability structure of insurance and reinsurance companies in 2011 and 2012



Source: Hanfa

5.1.1.5 Financial Operating Results

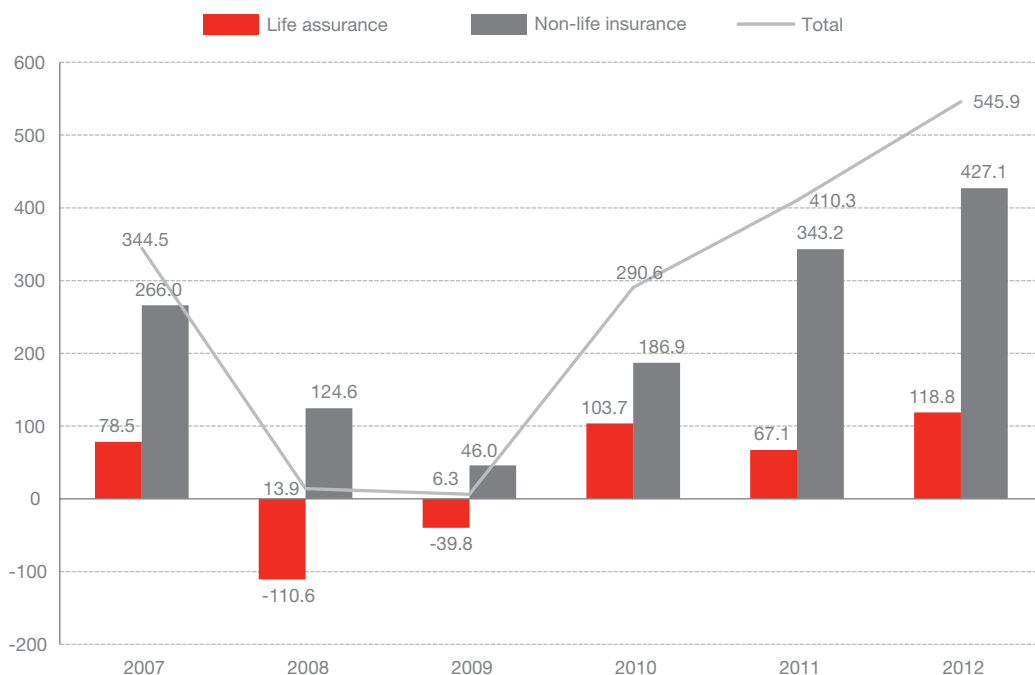
Out of 27 insurance companies and one reinsurance company operating in the insurance sector in 2012, a net profit in the amount of HRK 646.0m was reported by 17 insurance companies and one reinsurance company, while ten insurance companies recorded a loss totalling HRK 100.1m.

In the period between 1 January and 31 December 2012, those insurance and reinsurance companies realised a net profit reaching HRK 545.9m, and increasing by HRK 135.6m compared to the net profit amounting to HRK 410.3m in 2011.

In the life assurance business, a net profit reaching HRK 161.0m was generated by 11 insurance companies, whereas a loss in the amount of HRK 42.2m was realised by six insurance companies. In the non-life insurance business, a net profit totalling HRK 470.3m was reported by 14 insurance companies, while a loss amounting to HRK 69.9m was recorded by six insurance companies. The reinsurance company realised a net profit in the amount of HRK 26.7m.



Chart 5.11 Operating results of insurance and reinsurance companies from 2007 to 2012⁴¹ (in HRK million)



Source: Hanfa

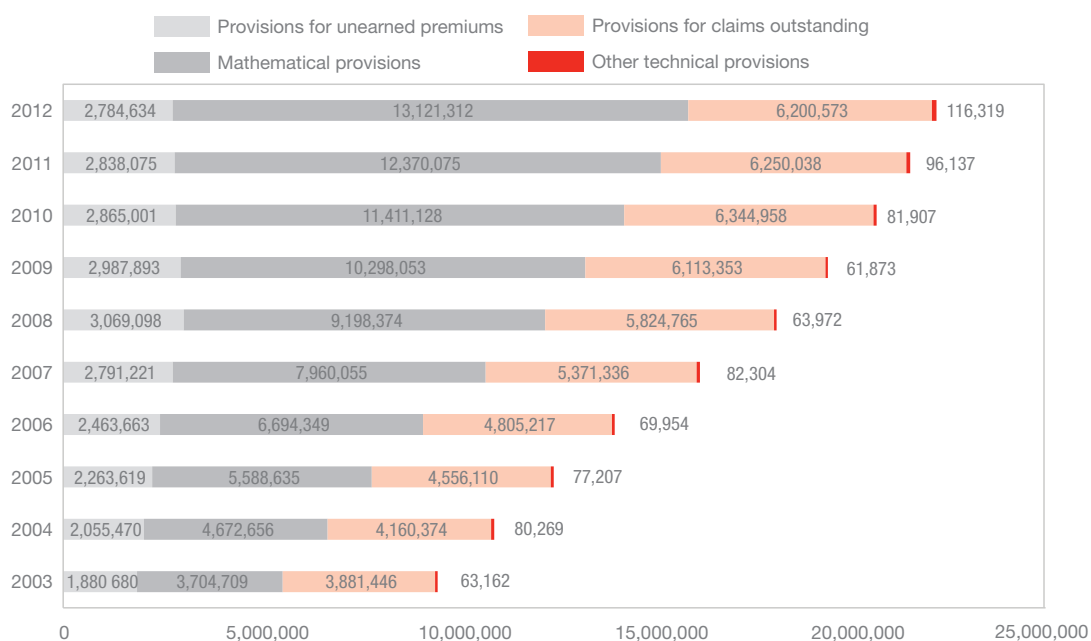
5.1.1.6 Technical Provisions

As at 31 December 2012, net technical provisions of insurance and reinsurance companies as presented in the statement of financial position amounted to HRK 22.2bn, increasing by 3.1% compared to 31 December 2011. As in the previous year, the largest part of net technical provision were allocated in mathematical provisions, which made up 59.0% of total technical provisions, rising by 6.1% in comparison to 2011. Compared with 2011, mathematical reserves accounted for a larger share in total technical reserves due to an increase in life assurance gross written premium and life assurance technical provisions.

Technical provisions consist of the insurance company's assets intended for covering future underwriting liabilities and any losses due to risks arising from the business written. Technical provisions include provisions for unearned premiums, provisions for bonuses and rebates, provisions for outstanding claims and other technical provisions. The insurance company may also establish equalisation provisions. Mathematical provisions must be established by the insurance company pursuing life insurance activities or insurance activities where premiums are accumulated in the form of savings or assets used for covering risks in later year of insurance of long-term nature, subject to similar probability tables and calculations to that of life assurance. Special provisions must be established by the insurance company conducting insurance business where the policyholder bears the investment risk.

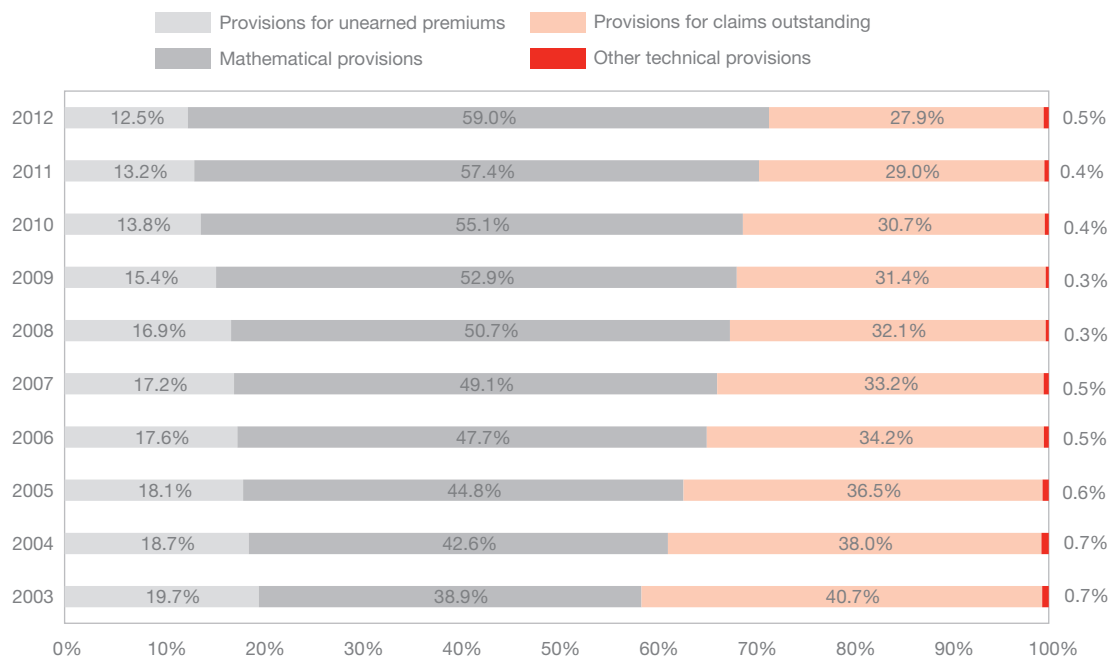
⁴¹ Operating results of insurance and reinsurance companies for the periods before 2007 have not been presented due to a change in the methodology for presenting data in the form Statement of Comprehensive Profit.

Chart 5.12 Net technical provisions in the 2003-2012 period (in HRK thousand)



Source: Hanfa

Chart 5.13 Structure of technical provisions in the 2003-2012 period



Source: Hanfa

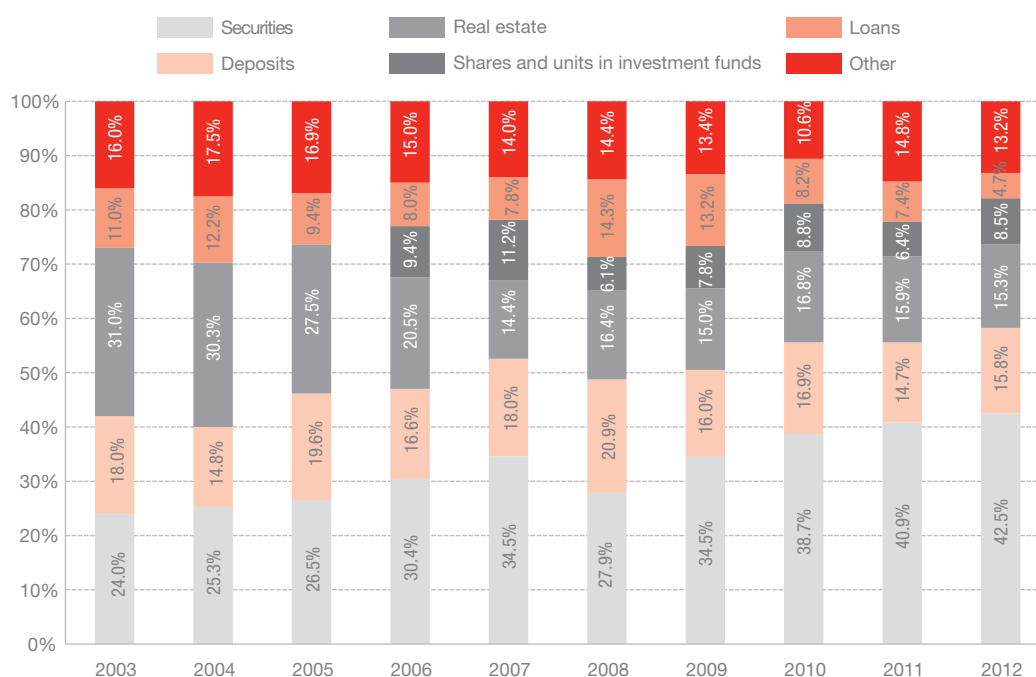


5.1.1.7 Investments of Assets Covering Technical Provisions

Insurance and reinsurance companies are obliged to set up assets covering technical provisions in line with relevant provisions of the Insurance Act prescribing types of and limitations on investments of assets for covering technical provisions, and in line with the Ordinance on types and characteristics of assets covering technical provisions, rules on diversification and limitations on investments of assets covering technical provisions, their valuation and compliance with the law, rules on the use of derivative financial instruments, and the manner and time limits for reporting (Official Gazette 119/09, 155/09, 01/12 and 39/12, hereinafter: Ordinance on investments). As at 31 December 2012, the required coverage of technical provisions except for mathematical provisions⁴² of insurance and reinsurance companies amounted to HRK 9.0bn, whereas total invested assets reached HRK 9.5bn, i.e. HRK 0.5bn or 5.8% more.

The largest share in the investment structure of the insurance sector was accounted for by investments in securities issued by the Republic of Croatia, the Croatian National Bank and the Croatian Bank for Reconstruction and Development, reaching 35.5%. Investments in securities, including bonds of other issuers and shares, made up 42.5% of total investments, rising relative to 2011, when they amounted to 40.9% of total investments. Deposits also recorded an increase in the share in total investments, from 14.7% in 2011 to 15.8% in 2012, mostly due to an increase in investments with the approval from the supervisory authority. The share of investments in investment funds rose as well, from 6.4% in 2011 to 8.5% in 2012, which is comparable to the 2010 level. The share of investments in real estate decreased from 15.9% in 2011 to 15.3% in 2012, while the share of loans fell from 7.4% in 2011 to 4.7% in 2012. Other investments⁴³ also declined, from 14.8% in 2011 to 13.2% in 2012.

Chart 5.14 Structure of investments of assets covering technical provisions in the 2003-2012 period



Source: Hanfa

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

43 Funds in the business account of the insurance company, long-term bonds and other long term securities issued by a foreign non-state entity from a Member State or an OECD member country, shares issued by a foreign joint-stock company and traded on a regulated capital market of Member States or OECD member countries, units of investment funds marketed in a Member State or an OECD member country and investments with the approval from the supervisory authority.

5.1.1.8 Investments of Assets Covering Mathematical Provisions

Insurance companies set up mathematical provisions⁴⁴ in the amount of the present value of all their future liabilities, calculated on the basis of concluded insurance contracts reduced by the present estimated value of future premiums payable under such insurance contracts. Furthermore, insurance companies conducting insurance business covering insurance classes in respect of which mathematical provisions are to be formed must invest assets covering mathematical provisions and manage them separately from other assets. The value of assets covering mathematical provisions must at all times be at least equal to the amount of the required coverage which includes mathematical provisions. Assets covering mathematical provisions must be invested in line with relevant provisions of the Insurance Act and the Ordinance on investments, taking into account the type of insurance activities carried out and guaranteeing the safety, profitability and adequate diversity of investments. Available cash must be invested adequately, so as to reduce the investment risk to the lowest possible level through higher diversification and precise definition of investment goals. This relates especially to investments of life assurance assets, due to the fact that those assets match the definition of long-term savings. As at 31 December 2012, insurance companies reported the required coverage of mathematical provisions⁴⁵ in the amount of HRK 13.2bn, while assets covering mathematical provisions stood at HRK 13.8bn, meaning that insurance companies invested HRK 0.6bn or 4.3% more than the required coverage.

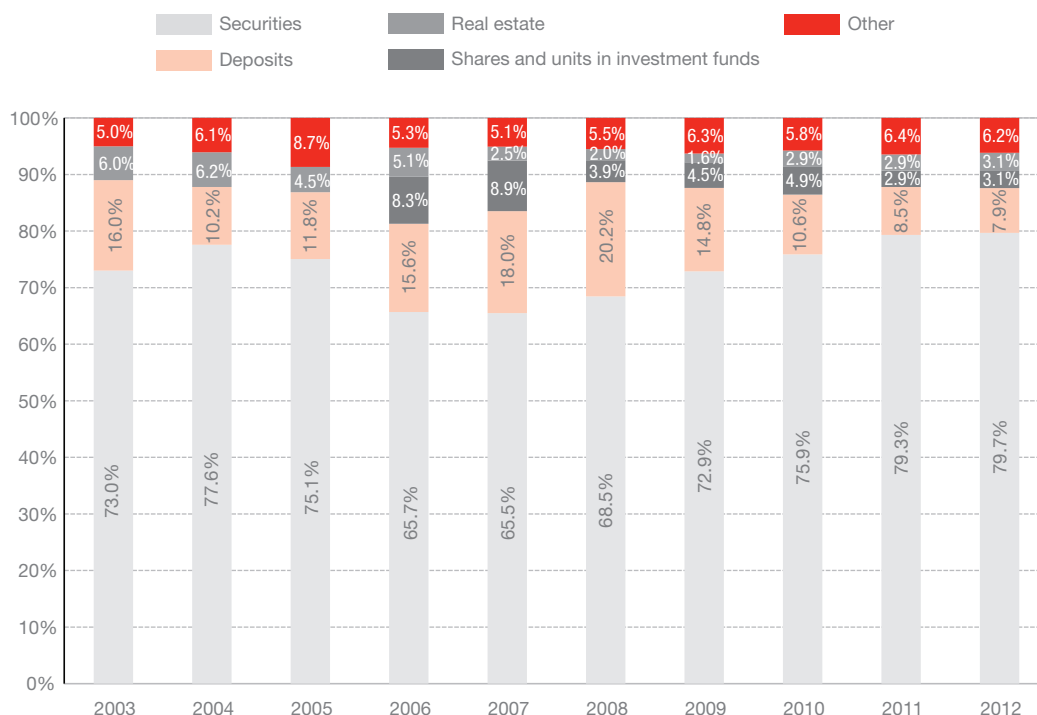
In the investment structure, the largest share (79.7%) of assets was invested in securities issued by the Republic of Croatia, the Croatian National Bank and the Croatian Bank for Reconstruction and Development. This is in line with the provisions of the Insurance Act stipulating that investment companies are obliged to invest at least 50.0% of the required coverage of mathematical provisions in securities issued by the Republic of Croatia, the Croatian National Bank and the Croatian Bank for Reconstruction and Development and in bonds and other debt securities guaranteed by the Republic of Croatia. A significant share of assets was also invested in deposits in banks having their registered offices in the Republic of Croatia (7.9%). Less than 5.0% was invested in each of other asset types and those investments jointly made up a 14.5% share in the total structure of investments of assets covering mathematical provisions.

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44 Mathematical provisions are formed in the amount of the present value of all their estimated future liabilities based on concluded insurance contracts reduced by the present estimated value of future premiums payable under such insurance contracts.

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

Chart 5.15 Structure of investments of assets covering mathematical provisions in the 2003-2012 period

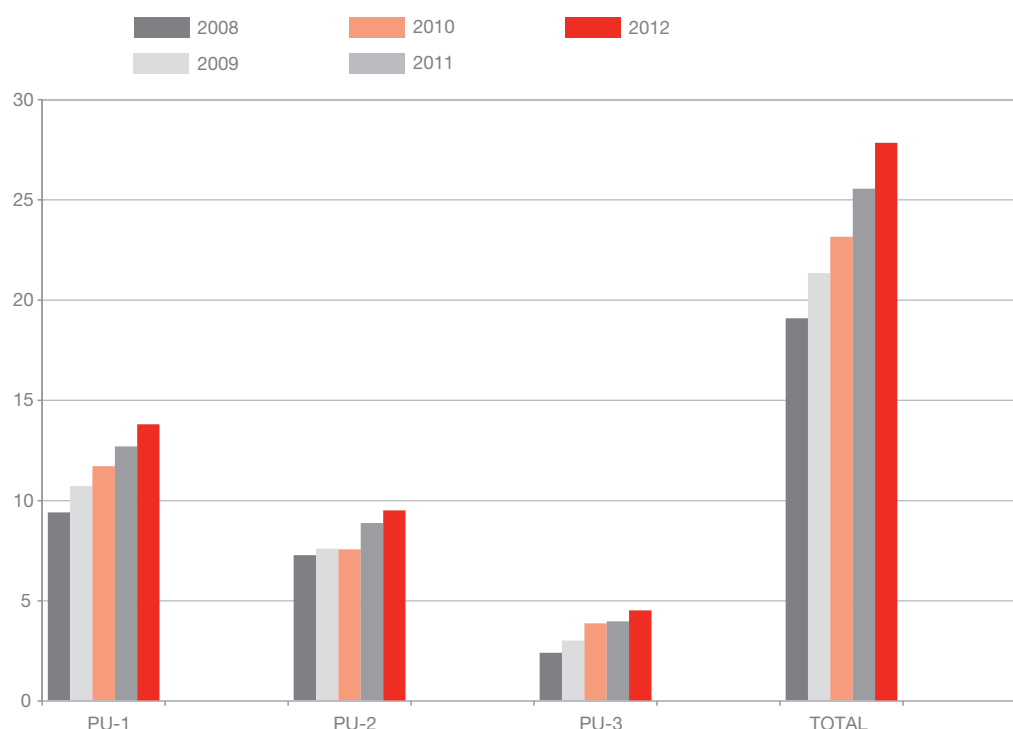


Source: Hanfa

5.1.1.9 Investments of Assets from Capital and other Funds (Except for Assets Covering Mathematical and Technical Provisions)

In 2012, total investments of assets from capital and other funds, except for assets covering mathematical and technical provisions (hereinafter: investments of assets from capital), amounted to HRK 4.5bn, of which HRK 1.3bn or 28.3% related to life assurance and HRK 3.2bn or 71.7% to non-life insurance. The majority share (44.3%) of total investments of assets from capital was accounted for by deposits, loans and receivables in the amount of HRK 2.0bn. In comparison with the year 2012, total investments of assets from capital rose by HRK 0.6bn or 13.9%.

Chart 5.16 Structure of investments of assets covering mathematical provisions⁴⁶, technical provisions except for mathematical provisions⁴⁷ and investments of assets from capital⁴⁸ in the 2008-2012 period⁴⁹ (in HRK billion)



Source: Hanfa

5.1.1.10 Capital Adequacy

Hanfa attaches special importance to whether companies have enough capital and provisions needed to meet their liabilities towards policyholders, and whether they invest assets in accordance with legal provisions. Insurance and reinsurance companies are obliged to maintain a capital level corresponding to the volume and types of insurance activities carried on as well as considering the risks they are exposed to. In order to meet the prescribed capital adequacy requirements, insurance companies must satisfy three conditions laid down in the Insurance Act: the capital of the insurance company must be at least equal to the solvency margin, the guarantee fund of the

The solvency margin is used to determine the minimum capital requirement, and is defined in terms of relations among certain items in financial statements of insurance and reinsurance companies. It reflects the insurance portfolio risk of insurance companies (measured by claims, premiums, technical provisions and amounts at

46 Data on investments of assets covering mathematical provisions are taken from the form Overview of investments of assets covering mathematical provisions (form PU-1).

47 Data on investments of assets covering technical provisions except for mathematical provisions are taken from the form Overview of investments of assets covering technical provisions except for mathematical provisions (form PU-2).

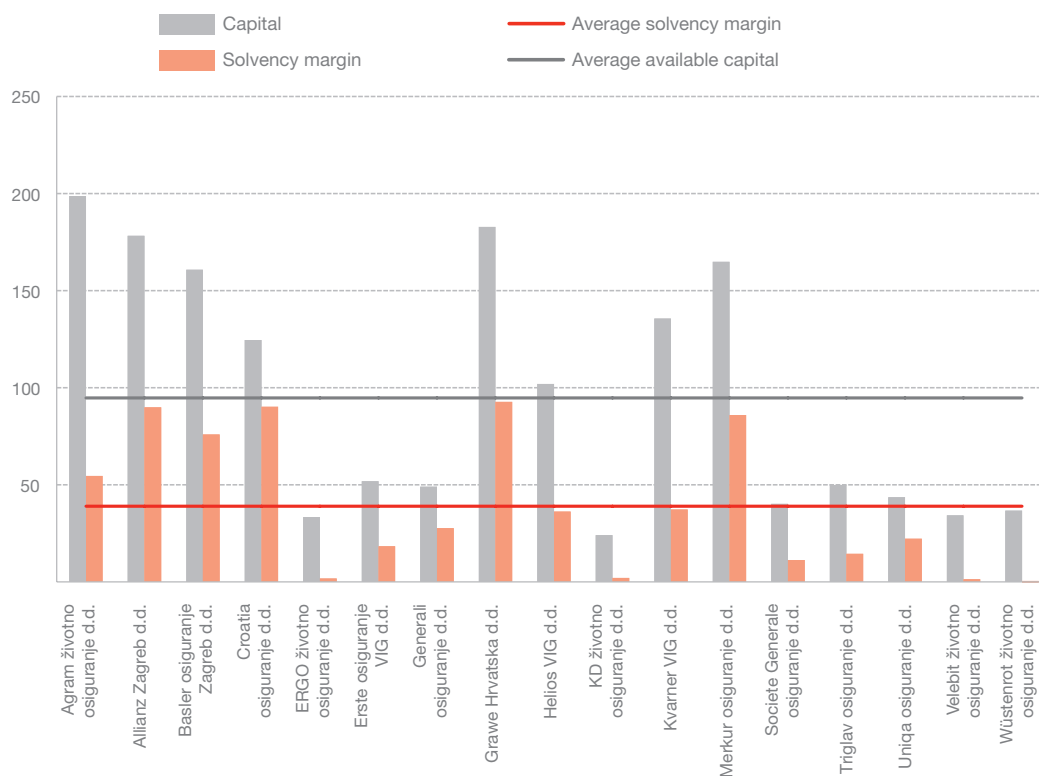
48 Data on investments of capital were taken from the form Overview of investments of assets from capital and other funds (Form PU- 3)

49 Investments made by insurance and reinsurance companies of assets covering mathematical provisions, technical provisions except mathematical provisions and investments from capital for the periods before the year 2008 are not presented due to the fact that the data from the form Overview of investments of assets from capital and other funds, except for assets covering mathematical and technical provisions (form PU-3) started being collected in 2008.

insurance company must be at least equal to one third of the solvency margin and the guarantee fund must be at least equal to the minimum initial capital.

risk). Articles 98 and 99 of the Insurance Act prescribe the method of calculating the solvency margin of insurance companies pursuing life and non-life insurance business and of reinsurance companies.

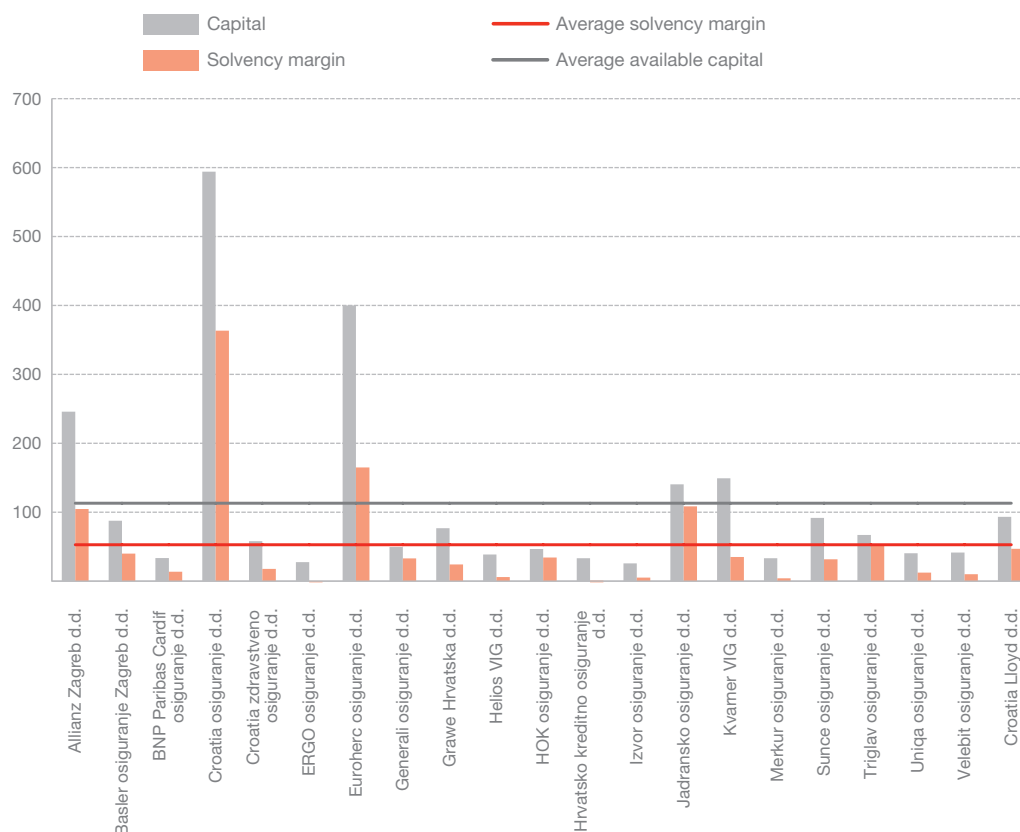
Chart 5.17 Ratio of available capital to solvency margin by life assurance companies for 2012 (in HRK million)



Source: Hanfa



Chart 5.18 Ratio of available capital to solvency margin by non-life insurance companies for 2012 (in HRK million)



Source: Hanfa

As at 31 December 2012, all insurance and reinsurance companies were meeting the prescribed capital adequacy requirements and the three conditions laid down in the Insurance Act.

5.1.1.11 Insurance Industry Indicators

Insurance industry indicators are used to assess business operations of insurance and reinsurance companies.

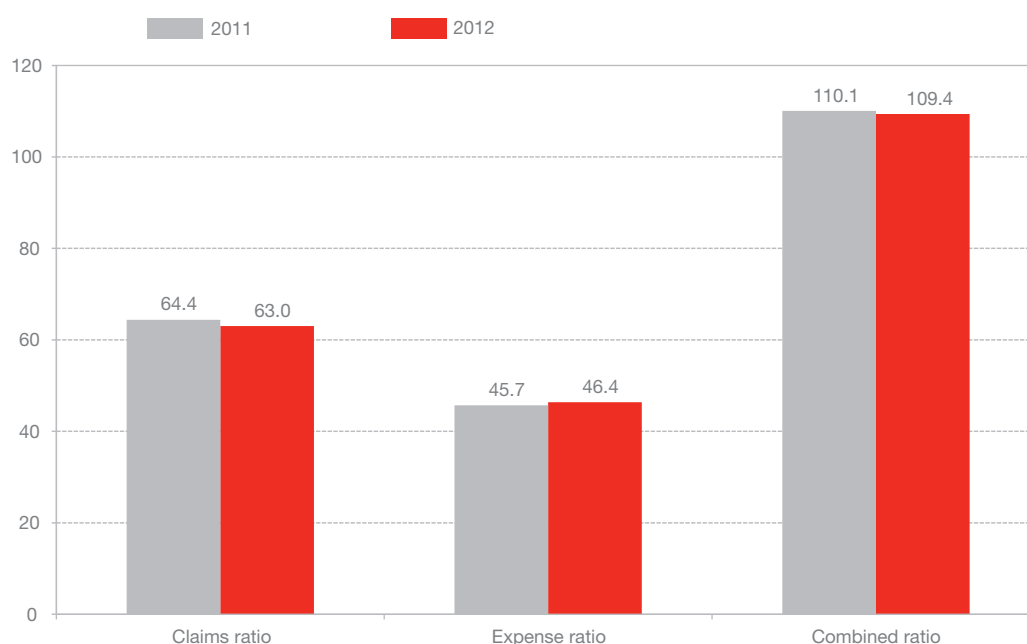
The claims ratio is the ratio of the sum of claims paid, changes in provisions for claims outstanding and changes in other technical provisions (including changes in life assurance technical provisions where the policyholder bears the investment risk) to insurance premiums earned (multiplied by 100), with the net value of reinsurance being included into the calculation. The 2012 claims ratio amounted to 63.0% and was more favourable compared to 2011, when it stood at 64.4%. The claims ratio in the life assurance business amounted to 93.1%, decreasing compared to 2011, when it stood at 96.6%. The claims ratio in the non-life insurance business reached 50.6%, declining relative to 2011, when it amounted to 51.3%.

The expense ratio is the ratio of the sum of operating expenses (acquisition costs and administrative costs) and other technical charges to gross written premium, reduced by premiums ceded to reinsurance. In 2012, the expense ratio amounted to 46.4%, and was less favourable

in comparison with 2011, when it reached 45.7%. The 2012 expense ratio in the life assurance business totalled 35.4%, increasing compared to 2011, when it stood at 34.6%. In the non-life insurance business, the ratio reached 50.9%, which is a slight increase relative to 2011, when it amounted to 50.1%.

The combined ratio is calculated as the sum of the claims ratio and expense ratio, and it shows operating results prior to the inclusion of income from investments. This ratio amounted to 109.4% in 2012, while in 2011 it reached 110.1% and was more favourable. The combined ratio in the life assurance business stood at 128.5%, while in the non-insurance business it totalled 101.4%. A combined ratio lower than 100% is considered desirable. This ratio is more significant as a non-life insurance business indicator, as in the life insurance business investment results must be taken into account, because the interest rate is implicitly included in the insurance premium and mathematical provisions.

Chart 5.19 Insurance industry indicators for 2011 and 2012 (in%)



Source: Hanfa

Return on investment is calculated as the ratio of income from investments reduced by investment costs to the amount of investments. The 2012 return on investments amounted to 4.4%, while in 2011 it stood at 4.7%. Return on investment in the life assurance business reached 5.2%, decreasing compared to 2011, when it totalled at 5.7%. This indicator amounted to 3.3% in the non-life insurance business, declining compared to 2011, when it totalled 3.4%. The indicator recorded lower values in both types of insurance business, implying that the 2012 return of investments was poorer than in the previous year.

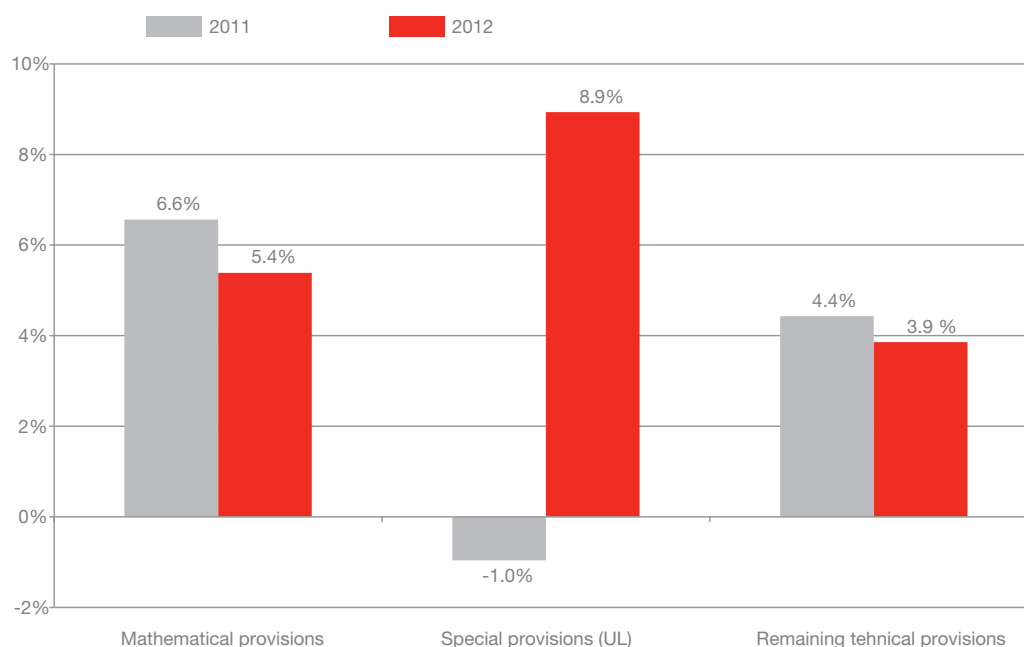
The debt ratio is calculated as the ratio of total liabilities to total assets. It shows the amount of assets financed by liabilities not including capital and reserves. The 2012 debt ratio stood at 0.79, while in 2011 it reached 0.81. In the life assurance business, the debt ratio amounted to 0.87, decreasing slightly compared to 2011, when it reached 0.90. In the non-life insurance business, the ratio totalled 0.71, declining relative to 2011, when it amounted to 0.73.



Return on assets (ROA) is a ratio of after-tax profit or loss of the accounting period to total assets. In 2012, this indicator amounted to 1.6% for all insurance companies, rising in comparison with 2011, when it reached 1.3%. In the life assurance business, return on assets stood at 0.7%, increasing compared to 2011, when it totalled 0.4%. In the non-life insurance business, it amounted to 2.4%, growing relative to 2011, when it stood at 2.0. A high indicator implies a high return on assets.

Return on equity (ROE) represents the relationship between after-tax profit or loss of the accounting period and equity (subscribed capital, premium on shares issued, revaluation reserves, reserves and accumulated profit or loss). It is expressed as a percentage, showing how much net profit or loss of the accounting period can be generated by HRK 100 of equity. The 2012 total return on equity amounted to 8.1%, increasing compared to 2011, when it reached 7.1%. In the life insurance business, return on equity totalled 5.6%, rising relative to 2011, when it stood at 4.5%. In the non-life insurance business, this indicator reached 9.2%, growing in comparison with 2011, when its value reached 8.0%.

Chart 5.20 Return on investment⁵⁰ by sources in 2011 and 2012



Source: Hanfa

In 2012, insurance and reinsurance companies recorded the highest return on investment from special provisions where the policyholder bears the investment risk (8.9%), followed by return on investment from mathematical provisions (5.4%), and return on investment from the remaining technical provisions (3.9 %). It should be noted that in the previous year insurance and reinsurance companies recorded a significant increase in return on investments from special provisions in comparison with 2011, when return on investment from special provisions was negative (-1.0%). Return on investment from mathematical provisions and the remaining technical provisions decreased compared to the year 2011.

⁵⁰ Return on investment is calculated as the ratio of investment income net of investment costs to average invested assets.

5.1.2 Croatian Insurance Bureau

Pursuant to Article 271 paragraph 5 of the Insurance Act, business operations of the Croatian Insurance Bureau (hereinafter: the Bureau) are financed by insurance companies as members of the Bureau. Membership of the Bureau is mandatory for insurance companies engaged in activities relating to compulsory insurance within the transport sector, while other insurance and reinsurance companies voluntarily join the Bureau. In 2012, the Bureau had 20 members, of which 15 were mandatory and five voluntary members.

The 2012 Report of the Bureau presents financial operations of the Bureau (regular operations of the Bureau) as well as financial operations of the Guarantee Fund during the previous year.

5.1.2.1 Regular Operations

Table 5.6 Abbreviated statement of financial position of regular operations of the Bureau as at 31 December 2011 and 31 December 2012 (in HRK thousand)

No.	Item	2011	2012	Index 2012/2011
Assets				
Total assets		10,222	8,452	82.69
1	Non-financial assets	7,219	6,669	92.37
2	Financial assets	3,003	1,784	59.41
Liabilities				
Total liabilities and own sources		10,222	8,452	82.69
1	Liabilities	4,117	3,743	90.91
2	Sources of financing	6,105	4,710	77.15

Source: Hanfa

The statement of financial position as at 31 December 2012 shows that the total assets of the Bureau amounted to HRK 8.5m, with non-financial assets reaching HRK 6.7m and financial assets totaling HRK 1.8m. The total assets decreased by 17.3% compared to 2011, primarily due to a reduction in financial assets, namely shares and units, which declined by HRK 450.0 thousand or 31.0%, and in operating income receivable, which fell by HRK 614.2 thousand or 96.5% relative to 2011. The total liabilities of the Bureau at end-2012 totalled HRK 3.7m, falling by 9.1% in comparison with the previous year. Sources of financing amounted to HRK 4.7m, and were comprised of own sources of financing totalling HRK 68.0 thousand and of the excess of income over expenses in the amount of HRK 4.6m. The surplus income was made up of funds unspent since the beginning of the Bureau's business operations and of all acquisitions of long-term assets from funds planned in the budget, reduced by the long-term asset value impairment.

Table 5.7 Income and expenses from regular operations of the Bureau for 2011 and 2012 (in HRK thousand)

No.	Item	2011	2012	Index 2012/ 2011
A	Income	13,765	9,976	72.48
1.	Total income from regular operations	12,996	9,367	72.08
2.	Total income - taxable activity	769	609	79.17
B	Expenses	12,004	11,207	93.36
1.	Total expenses from regular operations	11,027	10,476	95.00
2.	Total expenses - taxable activity	977	731	74.79
C	Operating surplus/deficit	1,760	-1,231	-

Source: Hanfa

In the period from January to December 2012, the total income of the Bureau amounted to HRK 10.0m, falling by 27.5% compared to the previous year. Income from regular operations⁵¹ made up 93.9%, while income from taxable activity⁵² accounted for 6.1% of total income. Total expenses stood at HRK 11.2m, decreasing by 6.6% compared to 2011. The largest share in total expenses was accounted for by expenses on regular operations⁵³ (93.5%), with functional expenses accounting for the largest share in their structure (47.8%), followed by salaries and fringe benefits (48.1%). The total expenses from taxable activity⁵⁴ made up 6.5% of the total expenses of the Bureau. The deficit of income over expenses amounted to HRK 1.2m.

5.1.2.2 Guarantee Fund

Pursuant to Article 45 paragraph 1⁵⁵ of the Act on Compulsory Insurance within the Transport Sector (Official Gazette 151/05, 36/09 and 75/09), insurance companies conducting compulsory insurance business within the transport sector are obliged to pay contributions to the Bureau for the Guarantee Fund, in proportion to the premium earned from a certain class of compulsory insurance in the previous year.

- *The Guarantee Fund consists of the Bureau's assets used for meeting liabilities arising from:*
 - *claims resulting from accidents occurring outside the territory of the Republic of Croatia, in an EU Member State or a third country that is a member*

51 Income from members for operating costs, income from voluntary and new members, income from members - organisation of the 45th General Assembly of the Council of Bureau (COB), the DWH Project, the BI Portal and the DP System, other income, income from the Mediation Centre

52 Income from consulting services, income from the Centre for Education of Insurance Industry Employees (CEDOH), income from the services provided to leasing companies

53 Functional expenses, depreciation and investment costs, salaries and fringe benefits, Ombudsman costs, the Mediation Centre costs

54 Croatian Insurance Bureau symposia, CEDOH symposia, accounting costs and electronic equipment maintenance costs (specialist seminars and CEDOH)

55 Pursuant to Article 45 paragraph 1 of the Act on Compulsory Insurance within the Transport Sector, an insurance company carrying on insurance business referred to in Article 2 paragraph 1 of the Act on Compulsory Insurance within the Transport Sector is obliged to pay contributions intended for the Guarantee Fund to the HUO, in proportion to the premium earned from a certain class of compulsory insurance in the previous year. Article 2 paragraph 1 of the Act on Compulsory Insurance within the Transport Sector defines the following types of compulsory insurance: accident insurance of passengers in public transport, third party liability insurance of owners or users of motor vehicles, aircraft passenger and third-party liability insurance of air carriers and aircraft operators, third party liability insurance of owners or users of motor boats or yachts.

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

According to the statement of financial position of the Guarantee Fund, as at 31 December 2012, the total assets and liabilities of the Guarantee Fund amounted to 18.4m, decreasing by 15.4% relative to 2011.

Table 5.8 Abbreviated statement of financial position of the Guarantee Fund for 2011 and 2012 (in HRK thousand)

No.	Item	2011	2012	Index 2012/2011
Assets				
Total assets		21,760	18,403	84.57
1	Non-financial assets	0	383	-
2	Financial assets	21,760	18,020	82.81
Liabilities				
Total liabilities and own sources		21,760	18,403	84.57
1	Liabilities	544	320	58.88
2	Sources of financing	21,216	18,083	85.23

Source: Hanfa

5.1.3 Croatian Nuclear POOL Economic Interest Grouping

Pursuant to Article 270, paragraph 1⁵⁶ of the Insurance Act, two or more insurance or reinsurance companies may, for the purpose of carrying on insurance or reinsurance business covering risks of liability claims for great damage arising from nuclear energy or for other great damage, establish an insurance or reinsurance pool. The only association of such nature in the Republic of Croatia is the Croatian Nuclear Insurance and Reinsurance Pool EIG⁵⁷ (hereinafter: CN POOL), consisting of five members as at 31 December 2011, namely Allianz Zagreb d.d., Croatia Lloyd

- of the Green Card System, caused by insured and insured vehicles, whose settlement is guaranteed by the Bureau to foreign national bureaux*
- o *claims resulting from accidents occurring outside the territory of the Republic of Croatia, in an EU Member State, caused by vehicles bearing foreign registration plates and insured under Article 35 paragraph 1 of the Act on Compulsory Insurance within the Transport Sector*
- o *claims resulting from accidents occurring outside the territory of the Republic of Croatia, in an EU Member State or a third country that is a member of the Green Card System*
- o *claims resulting from accidents occurring in the territory of the Republic of Croatia, caused by uninsured vehicles*
- o *claims resulting from death, personal injury or impairment of health occurring in the Republic of Croatia, caused by unidentified vehicles*
- o *claims resulting from accidents occurring in the territory of the Republic of Croatia, caused by vehicles bearing foreign registration plates*
- o *claims resulting from destruction or damage of property occurring in territory of the Republic of Croatia, caused by unidentified vehicles claims which could not be collected by injured parties as a result of dissolution or liquidation*

56 Pursuant to Article 270 paragraph 1 of the Insurance Act, two or more insurance or reinsurance companies may establish an insurance or reinsurance pool for the purpose of carrying on insurance or reinsurance business covering risks of liability claims for great damage arising from nuclear energy or for other great damage.

57 Pursuant to Article 583 of the Companies Act (Official Gazette 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12 and 144/12), an economic interest grouping (EIG) is a legal person established by two or more natural or legal persons with the aim of facilitating and promoting economic activities which constitute the scope of their business operations, and of improving the effect of those operations, provided that those legal person do not generate profits for themselves.

d.d., Croatia osiguranje d.d., Generali osiguranje d.d. and Triglav osiguranje d.d.

In accordance with its Memorandum of Association, members of the CN POOL jointly accept extraordinary risks with respect to insurance, co-insurance and reinsurance of nuclear plants, i.e. risks with respect to the exploitation of nuclear power for peacetime purposes.

5.1.3.1 Statement of Financial Position

As at 31 December 2012, the total assets of CN POOL amounted to HRK 78.2m, increasing by 2.5% in comparison with end-2011. The total asset structure was dominated by cash at bank and in hand (90.7% of total assets), amounting to HRK 71.0m, and mostly relating to foreign exchange account (HRK 44.7m) and giro account (HRK 26.3m). These amounts were made up of deposits or time deposits from the CN POOL account, intended for maintaining the real value and generating adequate return. The largest liability share (92.4%) was accounted for by provisions totaling HRK 72.3m and increasing by HRK 3.1m or 4.5% compared to the previous year.

5.1.3.2 Statement of Comprehensive Income

In the period from 1 January to 31 December 2012, the CN POOL generated a profit totalling HRK 38.6 thousand and increasing by 2.0% compared to the previous year. Total income amounted to HRK 17.1m, decreasing by 7.8% compared with 2011, primarily due to a fall in positive exchange rate differences. The largest income share was accounted for by premiums for active reinsurance against foreign risks, which amounted to HRK 9.6m, declining by 1.5% relative to 2011. Domestic risk insurance premium totalled HRK 6.3m, rising by 2.8% relative in comparison with the previous year. Interest income, amounting to HRK 2.4m, decreased by 6.6% compared to the previous year, when it recorded a substantial increase, partially due to a change in the method of recording interest calculation in 2011.

Total expenses stood at HRK 17.1m, declining by 7.8% relative to the previous year. Provisions, comprised of provisions for claims, provisions for bonuses and rebates, provisions for unearned premiums and other technical provisions, amounted to HRK 6.0m, falling by 28.4% compared to 2011. During 2012, settled claims for reinsured foreign risks rose significantly, having a significant impact on reported business results. In 2012, the total amount of settled claims reached HRK 2.8m, increasing by 259.6% relative to 2011.

Operating costs of the CN POOL are financed by insurance and active reinsurance premiums, as well as by income from investments. In 2012, they amounted to HRK 4.8m, decreasing

of the insurance company and insured amount if the owner of a vehicle serving for transportation of passengers contrary to Article 21 of the Act on Compulsory Insurance within the Transport Sector has not concluded a contract of insurance covering passengers in public transportation against personal accident or if the insured amount has not been paid due to dissolution or liquidation of the insurance company.

The Guarantee Fund is also used for covering claims processing costs, but not for covering claims resulting from damage caused by vehicles bearing foreign registration plates travelling in the territory of the Republic of Croatia on the basis of special agreements of which the Republic of Croatia is a signatory, if the vehicles do not possess valid international documentation or evidence of the existence of motor vehicle liability insurance.

by 3.7% compared to the previous year. Material and non-material expenses, in the total amount of HRK 2.5m, increased by 4.7% relative to 2011, mostly as a result of increased depreciation.

5.2 Hanfa's Activities

5.2.1 Legislative Framework

The legislative framework regulating business operations and supervision of insurance and reinsurance companies comprises the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 140/05 and 12/12), the Insurance Act, the Act on Compulsory Insurance within the Transport Sector, the Companies Act, the Accounting Act, the Audit Act (Official Gazette 146/05, 139/08 and 144/12), the Civil Obligations Act (Official Gazette 35/05, 41/08 and 125/11) and the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 25/12).

5.2.2 Regulatory and Licensing Activities

During 2012, Hanfa adopted new subordinate regulations, i.e. ordinances and technical instructions relating to the insurance market and one amendment to the statistical standards for insurance. All ordinances having entered into force in 2012 were actually ordinances amending various, previously adopted ordinances. Out of eight ordinances on amendments, two ordinances related to amendments to the Ordinance on types and characteristics of assets covering technical provisions, rules for diversification and limitations on asset investments, their valuation and compliance with the law, rules for the use of derivative financial instruments, as well as the manner and time limits for reporting (Official Gazette 1/12 and 39/12). The remaining six ordinances related to amendments to ordinances governing the following areas of business conducted by insurance and reinsurance companies:

- structure and content of financial statements and supervisory reports,
- calculation of liquidity ratios and the minimum value of liquidity ratios,
- minimum standards, method of calculation and criteria for the calculation of technical provisions,
- calculation of the solvency margin (capital adequacy),
- calculation of capital, guarantee fund and capital adequacy.

In addition to these ordinance, the year 2012 also saw the entry into force of the Amendments to Statistical Standards for Insurance (Official Gazette 39/12) and the Technical instruction for the preparation and submission of reports of insurance and reinsurance companies in electronic form, which were adopted at the meeting of Hanfa's Board held on 29 March 2012.

The Ordinance on Amendments to the Ordinance on types and characteristics of assets covering technical provisions, rules for diversification and limitations on asset investments, their valuation and compliance with the law, rules for the use of derivative financial instruments, as well as the manner and time limits for reporting (Official Gazette 1/12) introduced, for the purpose of improving the existing provisions, a change in the calculation of the fair value of equity and short-term and long-term debt securities traded on markets in the Republic of Croatia on the day of valuation of assets covering technical or mathematical provisions. The fair value is now to be calculated by using the average trade price weighted by the volume of securities traded on a regulated market and reported institutional transactions and OTC transactions.

With a view to ensuring the compliance of insurance and reinsurance companies with the principles of security and marketability in investments, and for the purpose of mitigating possible risks arising from investments, the said ordinance also prescribed an obligation for insurance and reinsurance companies to undertake activities that are undertaken in the process of the conclusion of the first, basic loan agreement, in the event that certain provisions of the loan agreement are modified. Furthermore, for the purpose of aligning the operation of insurance and reinsurance companies with the newly adopted ordinance, EU directives and the International Accounting Standards, the new legislative provisions stipulate that insurance companies and reinsurance companies must define in their accounting policies criteria for separating active from inactive markets for certain classes of financial assets, taking into account the provisions of accepted accounting standards.

The Ordinance amending the Ordinance on types and characteristics of assets covering technical provisions, rules for diversification and limitations on asset investments, their valuation, rules for the use of derivative financial instruments, as well as the manner and time limits for reporting (Official Gazette 39/12) prescribed rules for insurance and reinsurance companies regarding the new manner of submitting reports to Hanfa and the introduction of the electronic signature, as well as the obligation of insurance and reinsurance companies to act in accordance with the Technical instruction for the preparation and submission of reports in electronic form. An insurance or reinsurance company is considered to have submitted its financial statements at the moment of their reception on a Hanfa's server used for this purpose.

Ordinances amending the Ordinance on the structure and content of financial statements of insurance and reinsurance companies (Official Gazette 39/12), the Ordinance on the structure and content of supervisory reports of insurance and reinsurance companies (Official Gazette 39/12), the Ordinance on the manner of calculating liquidity ratios and the minimum value of liquidity ratios of insurance and reinsurance companies (Official Gazette 39/12), the Ordinance on minimum standards, the accounting method and criteria for the calculation of technical provisions (Official Gazette 39/12), as well as ordinances amending the Ordinance on the method of calculating the solvency margin (capital adequacy) of insurance and reinsurance companies (Official Gazette 39/12) and the Ordinance on the calculation of capital, guarantee fund and capital adequacy of insurance and reinsurance companies (Official Gazette 39/12), were adopted primarily in order to align the operation of the companies with the new manner of delivering reports to Hanfa and the introduction of the electronic signature. The Amendments to the Statistical Standards for Insurance (Official Gazette 39/12), adopted with a view to improving the existing provisions and facilitating business operations of supervised entities, prescribed more detailed forms used for statistical reports, along with time limits for their delivery. The most significant change in this subordinate regulation was related to the introduction of the electronic signature and new manner of submitting reports of supervised entities to Hanfa.

In order to improve the method of submitting reports to Hanfa and to provide more detailed information to supervised entities thereon, the Technical instructions for the preparation and submission of reports of insurance and reinsurance companies defined the form (electronic) and method of submitting reports of insurance and reinsurance companies, appointed certified actuary or trustee of mathematical provisions, as well as time limits for delivery and the type and structure of reports to be submitted electronically.

During 2012, Hanfa did not grant any authorisations to new insurance companies; however, it granted one authorisation to an insurance company to conduct insurance business with respect to new classes of insurance. Hanfa received and handled 22 applications for the position of member of the management board in an insurance company and one application for issuance of approval to acquire a qualifying holding in an insurance company.

Furthermore, three authorisations were granted to insurance companies to transfer outsourced computer data processing tasks to another person, two approvals were granted to insurance companies to entrust the conduct of internal audit to a certified auditor or a certified internal

auditor not employed with the companies, and one approval was granted to an insurance company to acquire another legal person.

In the course of the previous year, three applications were received and handled relating to the approval of promotional activities of insurance companies.

A total of 28 authorisations to conduct insurance representation business were issued to insurance agencies, and 19 such authorisations were granted to owners of insurance representation crafts. Authorisations to conduct insurance representation business at vehicle roadworthiness test garages were issued to two insurance agencies and two owners of insurance representation crafts. A prior approval for the conduct of insurance representation business was issued to a housing savings bank. Five authorisations to conduct insurance and reinsurance brokerage business were granted to insurance and reinsurance brokerage companies, and one authorisation was granted to an insurance and reinsurance brokerage company for the acquisition of another insurance and reinsurance brokerage company.

On the basis of notifications received relating to termination of operation, a total of 13 decisions were adopted establishing the termination of authorisations to conduct insurance representation business granted to insurance agencies, and 12 decisions were adopted establishing the termination of authorisations to conduct insurance representation business granted to owners of insurance representation crafts. Two decisions were adopted establishing the termination of authorisations to conduct insurance representation business at vehicle roadworthiness test garages granted to insurance agencies, and two more decisions were adopted establishing the termination of such authorisations granted to owners of insurance representation crafts.

Due to violations established in their operation, Hanfa withdrew authorisations for the conduct of insurance representation business from two insurance agencies and three insurance representation crafts.

In 2012, a total of seven examinations were organised for applicants taking examination for authorised insurance agents or insurance and reinsurance brokers. A total of 1,637 candidates took the examination of professional knowledge needed to obtain authorisation to conduct insurance representation business, of which 1,232 candidates passed. A total of 30 candidates took the examination of professional knowledge needed to obtain authorisation to conduct insurance and reinsurance brokerage business, of which 27 candidates passed. In addition, two authorisations to conduct insurance representation business were granted on the basis of applications submitted by persons who passed the examination of professional knowledge needed to obtain authorisation to conduct insurance and reinsurance brokerage business.

At the request of parties, Hanfa issued six opinions on the implementation of the provisions of the Insurance Act and the Act on Compulsory Insurance within the Transport Sector.

Over the last year, Hanfa's representative participated in three sessions of the Council of the Insurance Ombudsman Service.

5.2.3 Insurance Market Supervision

In the course of 2012, Hanfa carried out 15 examinations in supervised entities operating in the insurance market, of which two were off-site examinations, and 13 on-site examinations.

Two out of 13 on-site examinations were initiated in 2011, and completed in 2012. Nine on-site examinations were initiated and completed in 2012, while two examinations were initiated in 2012, and continued into 2013.

During the previous year, Hanfa adopted six decisions ordering insurance companies to eliminate violations and irregularities established during on-site examinations completed in 2011. Seven more decisions were adopted ordering insurance companies to eliminate violations and irregularities established during on-site examinations completed in 2012. The insurance companies acted according in accordance with Hanfa's decisions.

Out of a total of 13 on-site examinations, ten were carried out in insurance companies, and one in an insurance agency, an insurance brokerage company and a bank conducting insurance representation business respectively.

Supervision of insurance companies covered the following areas: risk management system, arrangement and conclusion of insurance contracts, claims processing, risk management relating to insurance business operations, security and adequacy of the IT system, risk management relating to investments in loans, calculation of provisions for unearned premiums, implementation of the Act on the Prevention of Money Laundering and Terrorist Financing, monitoring of users rights to access data on insured persons, investments of assets covering technical provisions, deductible items within the calculation of insurance companies' capital for the purpose of applying risk management rules.

Supervision of insurance agencies, insurance and reinsurance brokerage companies and the bank conducting insurance representation business covered the compliance of insurance representation business, and insurance and reinsurance brokerage business with the provisions of the Insurance Act.

Violations and irregularities established in the course of supervision of insurance companies related to the lack and inadequacy of internal procedures, ensuring risk monitoring and the adoption of risk mitigation measures, significant exposure to the parent company, non-compliance with subordinate regulations adopted by Hanfa, inadequate business continuity procedures, lack of adequate internal control and internal audit systems, keeping of business books and records, formation and recording of value adjustments, implementation of receivable impairment tests, calculation of provisions for unearned premiums, non-compliance with premium systems and related terms and conditions for types of insurance covered by supervision, conclusion of insurance contracts, conduct of insurance representation business by persons lacking Hanfa's authorisation to perform these activities, claims processing, security and adequacy of the IT system, outsourcing of computer data processing tasks without Hanfa's approval, failure to implement measures for the prevention of money laundering and terrorist financing, compliance of investments of assets covering mathematical provisions with legislation or subordinate legislation, compliance of investments of assets covering technical provisions with legislation or subordinate legislation and calculation of insurance companies' capital.

Violations and irregularities established in the course of supervision of insurance agencies and insurance brokerage companies related to inadequate accounting records of business events, conduct of insurance representation business by persons lacking authorisation of the competent authority, and conduct of insurance brokerage business by persons lacking authorisation of the competent authority.

5.2.4 Preparations for Amendments to the Legislative Framework

The accession of the Republic of Croatia to the European Union involves the alignment of the Croatian legislation regulating the insurance industry with the Directive of the European Parliament and of the Council as regards the supplementary supervision of financial entities in



a financial conglomerate⁵⁸ and the Directive of the European Parliament and of the Council in respect of the powers of the European Supervisory Authorities⁵⁹ (European Banking Authority, European Insurance and Occupational Pensions Authority and European Securities and Markets Authority). The main goals of the preparation of the new legislative framework are, among other things, to identify the EU supervisory authorities and to ensure mutual cooperation and exchange of information among Hanfa, the European Insurance and Occupational Pensions Authority (hereinafter: EIOPA) and other supervisory authorities, to increase the required initial capital and guarantee fund, to increase the sums relating to compulsory third party liability insurance of owners or users of motor vehicles referred to in the Act on Compulsory Insurance within the Transport Sector, and to make necessary alignments in the area of compulsory third party liability insurance of owners or users of aircraft.

The Directive on the taking-up and pursuit of the business of insurance and reinsurance (hereinafter: Solvency II)⁶⁰ is another directive that needs to be implemented into the Croatian legislative framework. This Directive changes the existing method of calculating solvency, technical provisions and capital of insurance and reinsurance companies.

During 2012, Hanfa participated in the work of working groups for the preparation of acts on amendments to the Act on Compulsory Insurance within the Transport Sector and the Insurance Act, having taken part in a series of meetings over the year.

As a future EU Member State, the Republic of Croatia is obliged to participate in the preparatory process leading to the implementation of Solvency II, in order for Croatian insurance and reinsurance undertakings and the supervisory authority to be ready for the application of its provisions. To that end, in cooperation with the Bureau and the Croatian Actuarial Society (HAD), Hanfa established a Working Group for Capital Adequacy and Solvency – Solvency II HANFA-Bureau-HAD, with the purpose of adopting the provisions of Solvency II and facilitating the adjustment of insurance and reinsurance companies in the Republic of Croatia to the new regulation.

The Quantitative Impact Study (hereinafter: QIS) comprises exercises and studies whose purpose is to set quantitative requirements regarding the new solvency rules. They are used by the European Commission to assess the impact of certain Solvency II provisions, the entire Solvency II or proposals for implementing measures on the operation of insurance and reinsurance companies within the European Union. The QIS is conducted by EIOPA on behalf of the European Commission. EIOPA ran five QIS exercises and published their results in the period from October 2005 to March 2011.

In the Republic of Croatia, the QIS was conducted in the period between October 2011 and May 2012. In September 2011, Hanfa invited insurance and reinsurance companies to participate in the QIS based on their data as at 31 December 2010, and to submit their results in defined forms until 28 February 2012 at the latest. In February 2012, another invitation to run the QIS was sent out to the companies, postponing the deadline for the submission of the results until 31 May 2012, due to the extension of the period for the adoption of EU regulations regarding the application of the new Solvency II legislative and regulatory framework. The study was based on the QIS5 exercise, run by EIOPA at the request of the European Commission in cooperation with supervisory authorities of the EU Member States, with a view to analysing the quantitative impact of the new legislative provisions prior to the implementation of Solvency II. The requirements contained in the QIS were set in accordance with the QIS5 Technical Specifications, stipulating valuation of assets and liabilities, valuation of technical provisions, calculation of the solvency

58 Directive 2011//89/EU, OJ EU L 326

59 Directive 2010/78/EU, OJ EU L 331

60 Directive 2009/138/EC, OJ EU 335

capital requirement (SCR), calculation of the minimum capital requirement (MCR), own funds and group calculations. Qualitative questionnaires tested overall preparedness of insurance and reinsurance companies for Solvency II implementation, and analysed the techniques used, assessment methods and difficulties encountered during the study. The QIS was run by 25 insurance and reinsurance companies, which accounted for 99.7% of the total gross written premium as at 31 December 2010. Such a high response rate testifies to the awareness of insurance and reinsurance companies of the importance of an adequate preparation for Solvency II implementation. All the QIS participants met the minimum capital requirement, and more than one third (36%) of them recorded a solvency capital requirement coverage ranging between 100.0% and 200.0%. The recorded solvency ratio totalled 196.0%. More than a half of the QIS participants reported a double (28.0%) or threefold (24.0%) coverage of their capital requirements. A solvency ratio lower than 100.0%, i.e. a deficit in the coverage of the SCR, was reported by 12.0% of the QIS participants. The insurance and reinsurance companies are expected to make a full adjustment to both quantitative and more complex qualitative Solvency II requirements in the forthcoming period, which is why they have been planning activities relating to the extension of databases, improvement of the IT support and enhancement of data management.





Leasing

6 Leasing

6.1 Description of the Market

In 2012, the leasing industry was marked by a further slowdown in business activities, reflected in a decrease in the value of newly concluded contracts and an asset decline, recorded for the fourth consecutive year.

As at 31 December 2012, 25 leasing companies⁶¹ recorded their assets amounting to HRK 22.2bn and falling below the level reported in 2006, when a special act regulating the leasing industry in the Republic of Croatia entered into force. Compared to 31 December 2008, when the total assets of the leasing industry totalled HRK 35.1bn and until when the leasing industry had recorded a steady growth, leasing companies' assets were lower by HRK 12.9bn, or as much as 36.8%.

Table 6.1 Assets, value of newly concluded contracts, value of active contracts and number of persons employed in the leasing industry in the period 31 December 2006 – 31 December 2012

Date	Total assets (in HRK thousand)	Value of newly concluded contracts (in HRK thousand)	Value of active contracts (in HRK thousand)	Number of employees
31 Dec 2006	26,968,591	13,344,149	22,053,947	868
31 Dec 2007	30,303,865	13,816,970	26,510,657	997
31 Dec 2008	35,067,935	15,464,017	30,881,104	1,007
31 Dec 2009	33,665,809	8,212,235	27,125,757	992
31 Dec 2010	28,078,061	5,805,148	22,254,304	989
31 Dec 2011	25,596,075	5,564,905	19,192,994	959
31 Dec 2012	22,159,270	4,839,815	16,270,132	905

Source: Hanfa

The value of newly concluded contracts decreased from 2008 to 2012, amounting to HRK 4.8bn as at 31 December 2012, and falling by HRK 8.5bn, or as much as 63.7% compared to the year 2006.

The slowdown in leasing activity was due, among other things, to a change in the tax treatment of passenger cars in the year 2012, which made finance lease less attractive for this category of leased assets due to the lack of possibility to deduct tax prepayment.

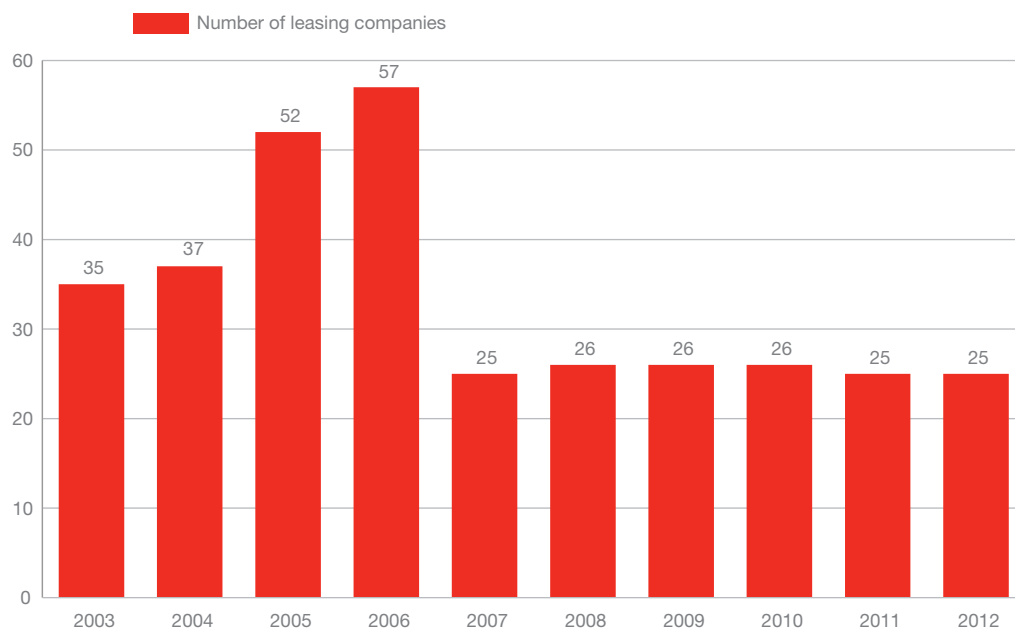
The recovery of the leasing market depends on the stabilization of the overall economic situation.

⁶¹ Data for the leasing industry presented in Hanfa's Annual Reports for 2011 and 2012 are based on the annual financial statements and additional reports for the period from January 1 to December 31 2012, for 25 leasing companies that submitted their reports to Hanfa in accordance with the Ordinance on the structure and content of financial statements and additional reports of leasing companies and on the manner of and time limits for their submission (Official Gazette 124/10). For the purpose of comparability, data as at 31 December 2011 relate to the data contained in reports submitted to Hanfa as at 31 December 2012 (for the previous year) by the 25 leasing companies. The data presented in the 2012 Annual Report may differ from the data in Hanfa's Annual Reports for 2006-2011 due to the application of the provisions of the Accounting Act (Official Gazette 109/07), the Leasing Act (Official Gazette 135/06), the International Financial Reporting Standards (Official Gazette 136/09, 08/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11, 15/12 and 118/12), changes in reporting methodology, as well as due to actions taken by leasing companies in accordance with instructions contained in Hanfa's records prepared following examinations carried out.

It is realistic to expect those leasing companies with access to higher quality sources of financing to adapt to the new business environment more easily. As leases are largely used to finance passenger cars and commercial vehicles, the recovery of the leasing market will depend on the recovery of the vehicle market, but also of the property, vessel and building equipment markets.

The number of leasing companies stabilised after 2007, following the alignment of the companies with the provisions of the Leasing Act. As at 31 December 2012, leasing operations in Croatia were carried out by 25 leasing companies, their number being the same as in 2011.

Chart 6.1 Number of leasing companies in the Republic of Croatia in the 2003-2012 period



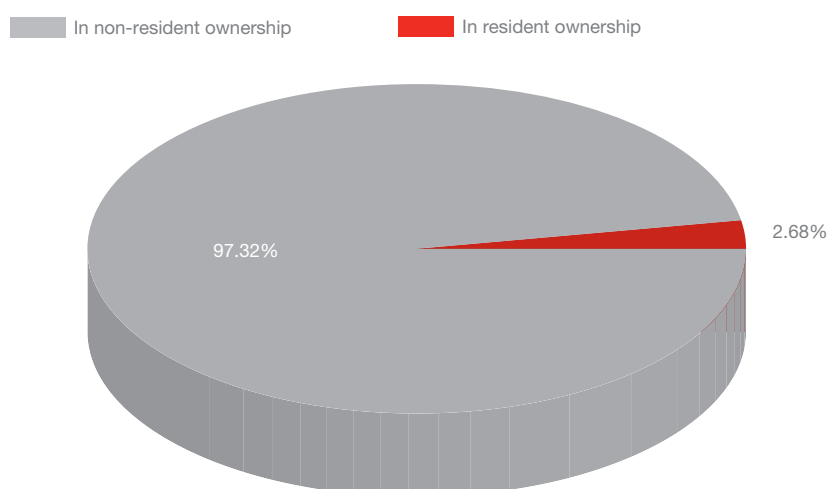
Source: Croatian National Bank (2003-2005), Hanfa (2006-2012)

In contrast to 31 December 2011, when only five leasing companies were in direct resident ownership, as at 31 December 2012, residents directly owned six leasing companies, of which only three companies were also in indirect resident ownership (Alpha Leasing d.o.o., Croatia Leasing d.o.o., and Euroleasing d.o.o.). The change that occurred in direct ownership is a result of the change in direct ownership of SG Leasing d.o.o., which in 2012 changed its direct owner (now Societe-Generale-Splitska banka d.d. Hrvatska) within the Societe Generale Group.

According to the data from the aggregate statement of financial position for the 25 leasing companies, as at 31 December 2012, the initial capital of the leasing industry amounted to HRK 703.3m, with the non-resident share accounting for 81.2% or HRK 571m and 18.8% or HRK 132.3m being accounted for by the initial capital in direct resident ownership. The share of three leasing companies owned by residents in the total assets of the leasing industry totalled 2.7%.



Chart 6.2 Structure of leasing companies' assets by capital origin as at 31 Dec 2012



Source: Hanfa

6.1.1 Asset Structure

According to the data from the aggregate statement of financial position of the leasing industry, the total assets of the 25 leasing companies decreased by HRK 3.4bn or 13.4% compared to the aggregate assets of the said companies on the same day in the previous year, due to a decrease in the volume of business activities, i.e. a decline in the value of newly concluded contracts, as well as to the expiry of contracts.

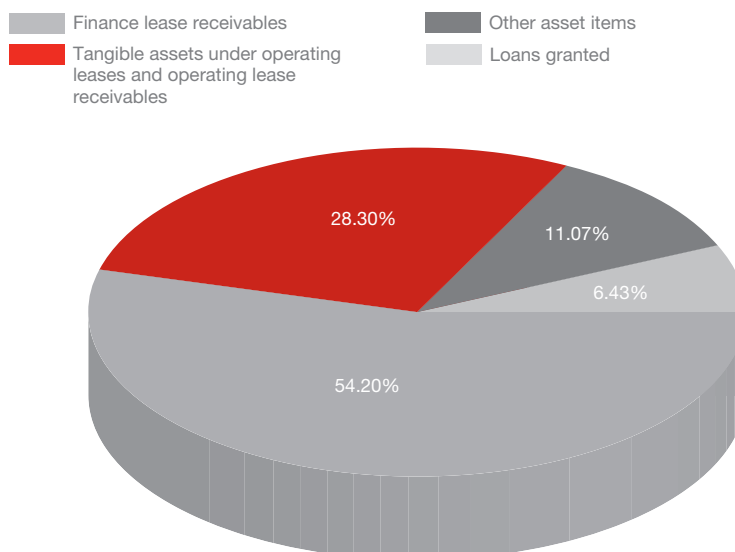
Table 6.2 Leasing industry assets as at 31 December 2011 and 31 December 2012 (in HRK thousand)

Description	31 Dec 2011	31 Dec 2012	Index 31 Dec 2012/ 31 Dec 2011
Tangible assets under operating leases	7,023,836	6,084,128	86.62
Operating lease receivables	241,355	186,438	77.25
Finance lease receivables	13,845,683	12,009,725	86.74
Loans granted	1,642,422	1,424,881	86.75
Inventories	620,254	819,084	132.06
Other assets	2,222,524	1,635,013	73.57
TOTAL ASSETS	25,596,075	22,159,270	86.57

Source: Hanfa

As at 31 December 2012, the largest items in the assets structure of the leasing industry were long-term and short-term finance lease receivables totalling HRK 12bn or 54.2% of total assets. Due to the continued decrease in the volume of new lease contracts and a relatively high share of value adjustments, these items recorded a decline amounting to HRK 1.8bn or 13.3% relative to the previous year. Of this amount, short-term receivables accounted for HRK 3.8bn, and long-term receivables for HRK 8.2bn.

Chart 6.3 Leasing industry asset structure as at 31 December 2012



Source: Hanfa

Tangible assets under operating leases and operating lease receivables totalled HRK 6.3bn, accounting for 28.3% of total assets and decreasing by HRK 994.6m or 13.7% over the previous year.

The reduction in the value of tangible assets under operating leases and of operating and finance lease receivables in 2012, recorded in the statement of financial position, was mostly due to a decline in the value of newly concluded contracts in that year. The value of newly concluded contracts did not suffice to compensate for the fall in the value of active contracts.

In contrast to the downward trend in finance lease receivables and in tangible assets under operating leases and operating lease receivables, inventories recorded a HRK 198.8m or 32.1% increase. The general economic situation in the Republic of Croatia made the number of insolvent lessees rise, leading to the termination of lease contracts and consequently the seizure of leased assets registered by companies registered in their inventories.

The share of ten largest leasing companies by asset size in the total assets of the leasing industry was slightly lower than in the previous year (it fell from 80.9% as at 31 December 2011 to 78.5% as at 31 December 2012). This was largely due to a continued reduction in assets of a leasing company that accounted for the largest market share in the previous years.

Leases may be classified either as finance leases or operating leases.

Under an operating lease, the lessor acquires the ownership of the leased asset on the basis of the contract of sale concluded with the vendor, and conveys to the lessee the right to use the asset for an agreed period of time, based on the operating lease agreement. In return, the lessee pays a defined fee which does not have to take into account the overall value of the leased asset. The lessee has no option to purchase the asset, and returns the leased asset to the lessor after the end of the lease term. The lessor is both a legal and economical owner of the leased asset and bears its depreciation costs.

Under a finance lease, the lessor acquires the ownership of the leased asset on the basis of the contract of sale concluded with the vendor, and conveys to the lessee the right to use the asset for



Table 6.3 Comparative overview of assets by leasing company as at 31 Dec 2011 and 31 Dec 2012 (in HRK thousand)

No.	Company	31 Dec 2011	Share	31 Dec 2012	Share
1	UniCredit Leasing Croatia d.o.o.	4,117,165	16.09%	3,611,931	16.30%
2	Hypo Leasing Kroatien d.o.o.	4,715,665	18.42%	3,598,469	16.24%
3	Raiffeisen Leasing d.o.o.	2,224,813	8.69%	1,883,506	8.50%
4	Erste & Steiermärkische S-Leasing d.o.o.	2,587,423	10.11%	1,830,802	8.26%
5	PBZ-Leasing d.o.o.	1,383,401	5.41%	1,369,492	6.18%
6	Erste Group Immorent Leasing d.o.o.	1,366,522	5.34%	1,282,176	5.79%
7	VB Leasing d.o.o.	1,366,958	5.34%	1,096,072	4.95%
8	Porsche Leasing d.o.o.	1,127,170	4.40%	1,021,407	4.61%
9	Mercedes-Benz Leasing Hrvatska d.o.o.	1,130,945	4.42%	916,854	4.14%
10	Impuls-Leasing d.o.o.	693,563	2.71%	790,286	3.57%
11	Other companies (15 leasing companies)	4,882,449	19.07%	4,758,275	21.47%
	TOTAL	25,596,075	100.00%	22,159,270	100.00%

Source: Hanfa

an agreed period of time, based on the finance lease agreement. In return, the lessee pays a defined fee which takes into account the overall value of the leased asset, bears its depreciation costs and has the option to purchase it and become its owner at the price that is lower than the fair value of the asset at the moment of exercise of the purchase option. The leased asset is under legal ownership of the lessor, but under economic ownership of the lessee, who records it in his business books and bears its depreciation costs.

6.1.2 Liability Structure

The assets of the leasing industry are largely financed by loans from banks and financial institutions. Therefore, the largest share of total liabilities of the leasing industry (as much as 87%) was accounted for by long-term and short-term liabilities for loans from domestic and foreign banks and financial institutions. As at 31 December 2012, total long-term and short-term liabilities amounted to HRK 20.5bn, declining by HRK 3.7bn or 15.4% compared to the previous year.

Due to the decrease in the volume of business activities, loans from foreign banks and financial institutions were lower by HRK 3.3bn (15.4%) compared to the same day in the previous year, when they totalled HRK 21.4bn. In addition to an absolute decrease, this item also recorded a relative decrease in the share in total liabilities.

Liabilities for loans from domestic banks and financial institutions stood at HRK 1.1bn, falling by HRK 44.2m (3.8%) compared to the previous year. At the same time, liabilities for deposits and

guarantees relating to amounts guaranteed under operating lease contracts totalled HRK 0.9bn (4.1% of total liabilities), and in line with the reduction in the value of active contracts decreased by 31.1%. Decreased borrowing of leasing companies was primarily a result of reduced financing of new lease contracts.

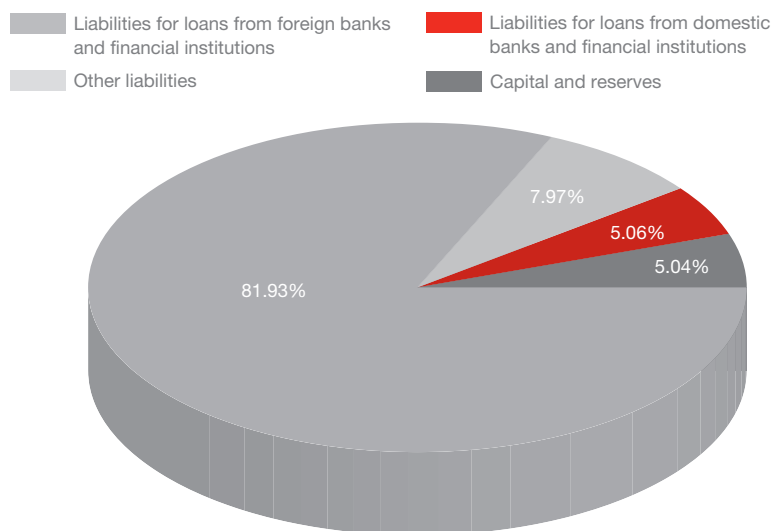
Table 6.4 Leasing industry liabilities as at 31 Dec 2011 and 31 Dec 2012 (in HRK thousand)

Liabilities	31 Dec 2011	31 Dec 2012	Index 31 Dec 2012/ 31 Dec 2011
Capital and reserves	866,568	1,116,534	128.85
Liabilities for loans from foreign banks and financial institutions	21,454,583	18,155,530	84.62
Liabilities for loans from domestic banks and financial institutions	1,165,425	1,121,261	96.21
Other liabilities	2,109,498	1,765,944	83.71
TOTAL LIABILITIES	25,596,075	22,159,270	86.57

Source: Hanfa

Loans from foreign banks kept dominating sources of financing, with the largest share (81.9%) in the total liabilities of the 25 leasing companies as at 31 December 2012 being related to long-term and short-term liabilities for loans from foreign banks and financial institutions. This is a common method of financing in business operations of leasing companies as the majority of leasing companies are majority owned by foreign banks and their related financial institutions.

Chart 6.4 Leasing industry liability structure as at 31 Dec 2012



Source: Hanfa

6.1.2.1 Capital and Reserves

As at 31 December 2012, leasing industry capital and reserves amounted to HRK 1.1bn and accounted for a 5% share in the liability structure, increasing by HRK 250m or 28.8% compared to 31 December 2011, when they stood at HRK 866.6m.

The reported subscribed capital declined by HRK 22.4 m, due to a simplified reduction in the initial capital carried out by one leasing company for the purpose of covering its losses.

In order to ensure the maintenance of adequate capital levels and coverage of reported losses above levels of capital, Hanfa undertakes regulatory measures aimed at leasing companies, on the basis of which a total of HRK 211.3m was paid in capital reserves by two leasing companies in 2012. Positive amounts of capital and reserves totalling HRK 1.2bn were reported by 22 companies, whereas a loss in excess of capital in the amount of HRK 80.2m was recorded by three leasing companies.

Hanfa carries out on-going supervision of business operations of leasing companies and undertakes regulatory activities for the purpose of ensuring the maintenance of level of capital and reserves sufficient to cover any losses or with a view to ensuring increase in capital of leasing companies. These activities resulted in an absolute and relative increase in the capital and reserve item as at 31 December 2012 compared to the same day of the previous year.

6.1.3 Financial Operating Results

In the period from 1 January to 31 December 2012, the leasing industry recorded a profit after tax totalling HRK 93.8m, as opposed to 2011, when leasing companies reported an after-tax loss amounting to HRK 131.4m.

The positive operating result of the leasing industry recorded in 2012 was due to a substantial decrease of in expenses on value adjustment for impairment of losses and to a decline in losses arising from net exchange rate differences.

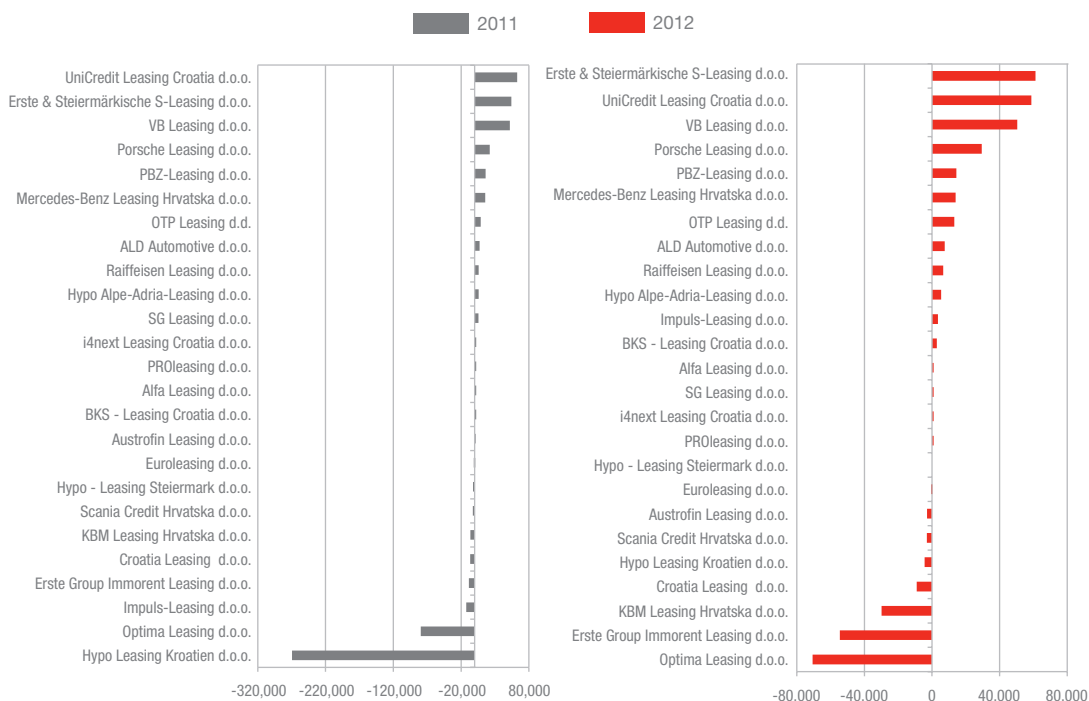
Table 6.5 Statement of comprehensive income of the leasing industry in 2011 and 2012 (in HRK thousand)

Description	1 Jan - 31 Dec 2011	1 Jan - 31 Dec 2012	Index 2012/2011
Interest income	1,108,193	946,640	85.42
Interest expenses	720,659	596,357	82.75
Interest profit/loss	387,534	350,283	90.39
Income from fees and commissions	87,282	57,984	66.43
Expenses on fees and commissions	33,953	31,083	91.55
Profit/loss on fees and commissions	53,329	26,901	50.44
Other operating income	2,844,316	2,445,494	85.98
Other operating expenses	2,760,102	2,407,947	87.24
Profit/loss on other income and expenses	84,214	37,547	44.59
Profit/loss before expenses on value adjustment for impairment losses	525,077	414,731	78.98
Expenses on value adjustment for impairment losses	638,343	244,931	38.37
Profit/loss before profit tax	-113,266	169,800	-
Profit tax	18,163	76,017	418.53
Profit/loss after profit tax	-131,429	93,783	-

Source: Hanfa

Expenses on value adjustment for impairment losses for 2012 amounted to HRK 244.9m, decreasing by HRK 393.4m or as much as 61.6% compared to the previous year, primarily due to increased cancellation of value adjustment from previous years.

Chart 6.5 Operating results of leasing companies in 2011 and 2012 (in HRK thousand)



Source: Hanfa

In 2012, a total of 17 leasing companies recorded a profit after tax in the amount of HRK 269.0m, whereas an after-tax loss totalling HRK 175.2 million was reported by eight leasing companies.

6.1.4 Leasing Industry Portfolio Structure

In the period from 1 January to 31 December 2012, a total of 26,673 new lease contracts were concluded, their number declining by 3,983 or 13.0% compared to the previous year. The total value of newly concluded contracts amounted to HRK 4.8bn, recording a HRK 725.1m or 13.0% decrease compared to the value of newly concluded contracts in 2011.

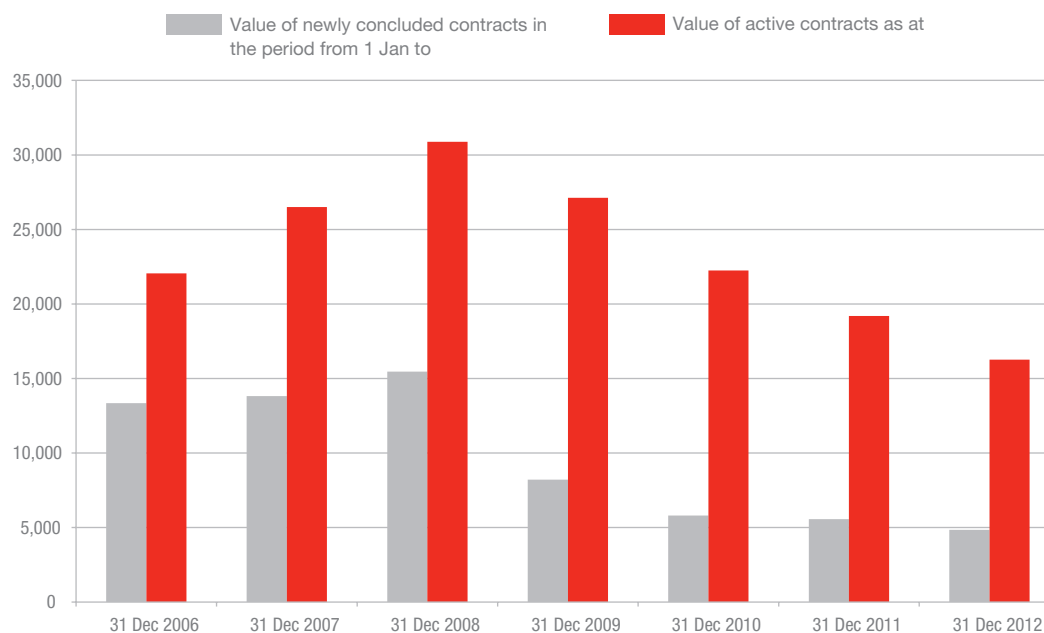
Table 6.6 Leasing industry portfolio structure as at 31 December 2011 and 31 December 2012

Date/period from 1 Jan to	Newly concluded contracts in the period			Active contracts as at		
	Number of newly concluded contracts	Value of newly concluded contracts (in HRK thousand)	Average value of newly concluded contracts (in HRK thousand)	Number of active contracts	Value of active contracts (in HRK thousand)	Average value of active contracts (in HRK thousand)
31 Dec 2011	30,656	5,564,905	182	138,893	19,192,994	138
31 Dec 2012	26,673	4,839,815	181	120,070	16,270,132	136

Source: Hanfa

As at 31 December 2012, there were a total of 120,070 active contracts, their number decreasing by 18,823 or 13.6% compared to the same day of the previous year. The value of active contracts amounted to HRK 16.3bn, recording a decline of HRK 2.9bn or 15.2% relative to end-2011.

Chart 6.6 Value of newly concluded and active contracts in the leasing industry in the 2006-2012 period (in HRK million)



Source: Hanfa

The value of newly concluded and active contracts rose until 2008, showing a downward trend afterwards. The reduced volume of newly concluded contracts and the general descending trend in new leases are also reflected in the fact that the share of value of newly concluded contracts in the total value of active contracts amounted to 50.1% at end-2008, only to drop to 29.7% at the end of 2012.

Table 6.7 Number and value of newly concluded contracts in the leasing industry in 2011 and 2012

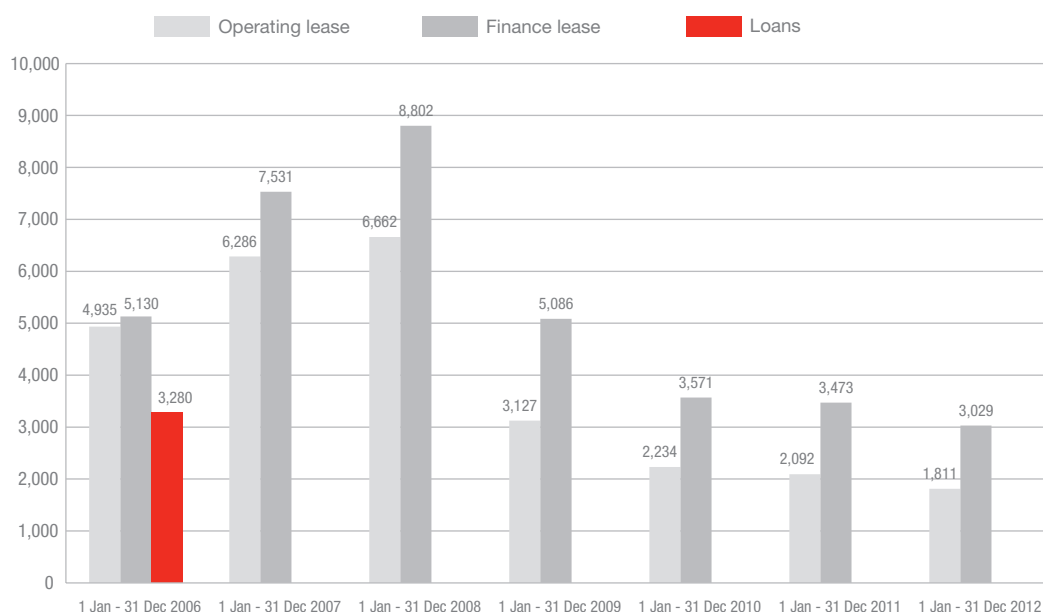
Lease type/ period	Number of newly concluded contracts in the period			Value of newly concluded contracts in the period (in HRK thousand)		
	1 Jan-31 Dec 2011	1 Jan-31 Dec 2012	Index 2012/2011	1 Jan-31 Dec 2011	1 Jan-31 Dec 2012	Index 2012/2011
Operating lease	15,716	12,244	77.91	2,091,842	1,810,821	86.57
Finance lease	14,940	14,429	96.58	3,473,063	3,028,994	87.21
TOTAL	30,656	26,673	87.01	5,564,905	4,839,815	86.97

Source: Hanfa

The reduction in the volume of business operations (value of newly concluded contracts) between 2009 and 2012 had a significant impact on the decrease in the value of leasing companies' assets, as the value of newly concluded contracts in the said period was not sufficient to compensate for the decline in the value of active contracts.

The share of finance lease in the total value of newly concluded contracts increased slightly, from 62.4% in 2011 to 62.6% in 2012, while the share of operating lease decreased from 37.6% to 37.4%. The 2012 average value of newly concluded contracts in operating lease amounted to HRK 147.9 thousand, and in finance lease to HRK 209.9 thousand.

Chart 6.7 Leasing industry portfolio structure – comparison of the values of newly concluded contracts in the 2006-2012 period (in HRK million)



Source: Hanfa

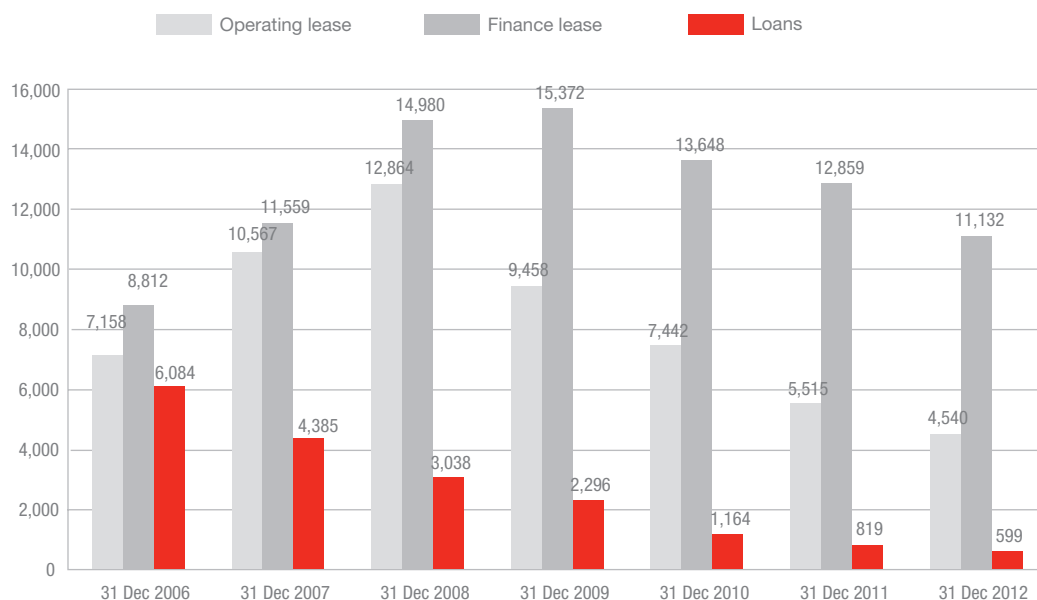
The loan portfolio has been decreasing constantly, as the Leasing Act prohibits leasing companies from concluding loan contracts, while the loan contracts that had been active until the day of the entry into force of the Leasing Act (21 December 2006) are held until the expiration, with no possibility of their extension.

Table 6.8 Number and value of active contracts in the leasing industry in 2011 and 2012

Investment type/as at	Number of active contracts as at			Value of active contracts as at (in HRK thousand)		
	31 Dec 2011	31 Dec 2012	Index 2012/2011	31 Dec 2011	31 Dec 2012	Index 2012/2011
Operating lease	64,601	54,129	83.79	5,515,251	4,539,943	82.32
Finance lease	69,992	62,857	89.81	12,858,894	11,131,505	86.57
Loans	4,300	3,084	71.72	818,849	598,683	73.11
TOTAL	138,893	120,070	86.45	19,192,994	16,270,132	84.77

Source: Hanfa

Chart 6.8 Leasing industry portfolio structure – comparison of the values of active contracts in the 2006-2012 period (in HRK million)



Source: Hanfa

The slowdown in investment activity in the period from 2009 to 2012 led to a change in the structure of the leasing industry portfolio, with the value of newly concluded contracts for plant, machinery, transport machines and equipment and property reducing significantly. Consequently, leasing operations in the several past years have been focused on the financing of passenger cars and commercial vehicles, which is also proved by the fact that in 2010, the share of vehicles (passenger and commercial) in the total value of newly concluded contracts in the leasing industry reached 58.6%, in 2011 it stood at 64.21%, and in 2012 at 61.9%.

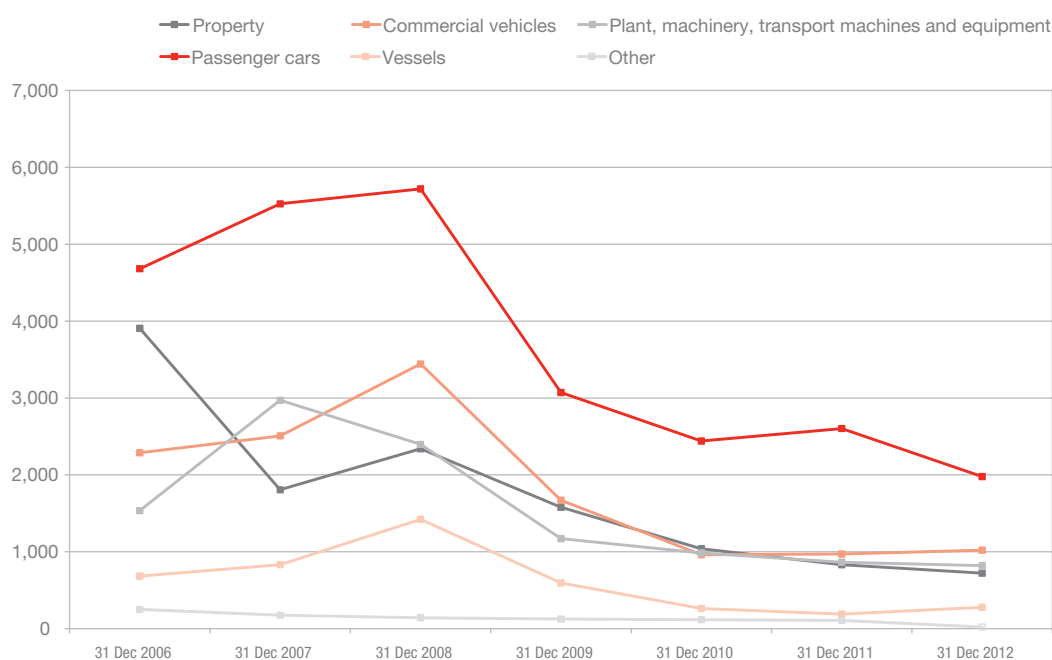
Table 6.9 Value of newly concluded contracts in the leasing industry by leased assets in 2011 and 2012 (in HRK thousand)

Leased asset	Value of newly concluded contracts in the period				
	1 Jan - 31 Dec 2011	Share	1 Jan - 31 Dec 2012	Share	Index 2012/2011
Property	831,243	14.94%	721,878	14.92%	86.84
Passenger cars	2,602,931	46.77%	1,978,143	40.87%	76.00
Commercial vehicles	970,400	17.44%	1,020,789	21.09%	105.19
Vessels	189,419	3.40%	278,136	5.75%	146.84
Aircraft	0	0.00%	2,966	0.06%	0.00
Plant, machinery, transport machines and equipment	864,397	15.53%	819,862	16.94%	94.85
Other	106,515	1.91%	18,042	0.37%	16.94
TOTAL	5,564,905	100.00%	4,839,815	100.00%	86.97

Source: Hanfa

In 2012, the largest number and value of newly concluded contracts by leased assets related to passenger cars, followed by commercial vehicles. The portfolio of newly concluded contracts by leased assets recorded a decrease in the total number of newly concluded contracts, as well as a decline in the total value of newly concluded contracts compared with the same period in the preceding year.

Chart 6.9 Leasing industry portfolio structure – value of newly concluded contracts by leased assets in the 2006-2012 period (in HRK million)



Source: Hanfa

The largest decrease (HRK 624.8m or 24.0%) in the value of newly concluded contracts was accounted for by passenger cars, while commercial vehicles, vessels and aircraft recorded an increase in the value of newly concluded contracts compared to the previous year.

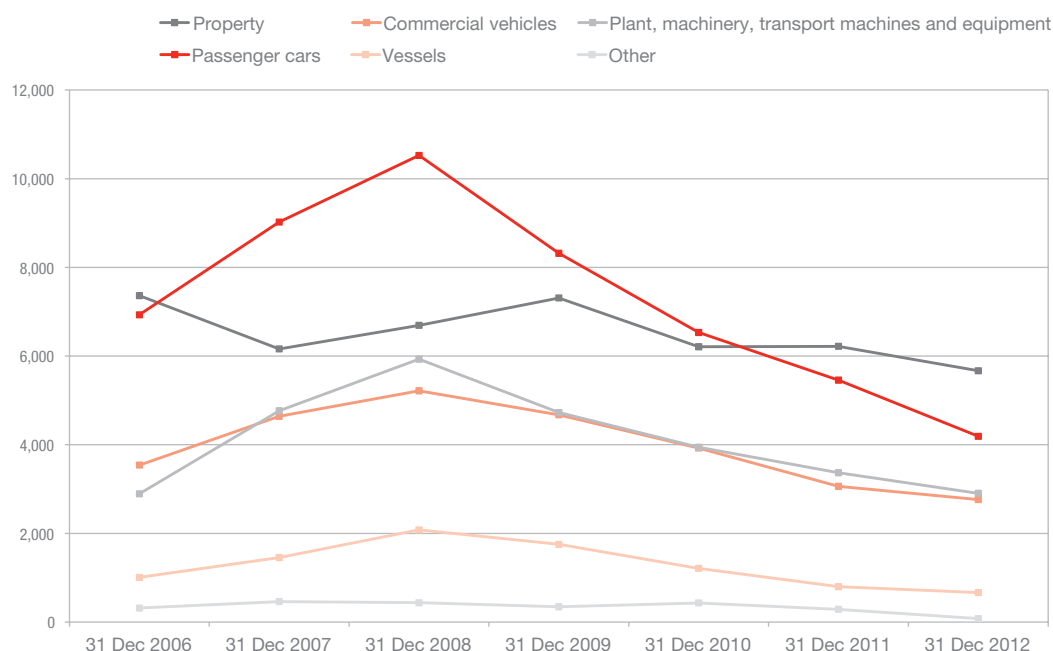
Table 6.10 Value of active contracts in the leasing industry by leased assets/loans as at 31 Dec 2011 and 31 Dec 2012 (in HRK thousand)

Leased asset / loan	Value of active contracts as at				
	31 Dec 2011	Share	31 Dec 2012	Share	Index 2012/2011
Property	6,218,879	32.40%	5,669,207	34.84%	91.16
Passenger cars	5,457,405	28.43%	4,190,676	25.76%	76.79
Commercial vehicles	3,061,713	15.95%	2,762,569	16.98%	90.23
Vessels	798,588	4.16%	664,819	4.09%	83.25
Aircraft	37,319	0.19%	4,234	0.03%	11.34
Plant, machinery, transport machines and equipment	3,368,468	17.55%	2,903,986	17.85%	86.21
Other	250,622	1.31%	74,642	0.46%	29.78
TOTAL	19,192,994	100.00%	16,270,132	100.00%	84.77

Source: Hanfa

As at 31 December 2012, property recorded the highest value of active contracts by leased assets/loans, amounting to HRK 5.7bn or 34.8% of the total value of active contracts, while the value of active contracts for passenger cars totalled HRK 4.2bn or 25.8% of the total value of active contracts.

Chart 6.10 Leasing industry portfolio structure – value of active contracts by leased assets in the 2006-2012 period (in HRK million)



Source: Hanfa

Until end-2010, the most significant share in the total value of the active contract portfolio had been accounted for by passenger cars, while property had made up the second largest share in the total portfolio.

6.1.5 Leasing Industry Indicators

6.1.5.1 Debt Indicators

The debt ratio measures the share of assets financed by external funds, i.e. the share of external assets in total assets. As at 31 December 2012, this ratio totalled 0.950, meaning that 95.0% of the total assets of the leasing industry were financed by external funds. This is in line with business practices of the leasing industry, as leasing operations are primarily financed by external sources. As at 31 December 2011, this ratio stood at 0.966.

6.1.5.2 Profitability Ratios

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

Return on assets (ROA) is a ratio that measures net profit against total assets of the leasing industry. As at 31 December 2012, the aggregate return on assets for leasing companies amounted to 0.4%. The negative value of the said ratio (-0.5 %) as at 31 December 2011 was due to the loss after the tax recorded in the leasing industry in the year 2011.

Return on equity (ROE) is a ratio that measures net profit against total equity of the leasing industry, i.e. it is a calculated rate of return on equity. As at 31 December 2012, the aggregate return on equity for leasing companies amounted to 8.40%. In the previous years, this ratio was negative due to reported losses after tax in the leasing industry, primarily due to the poor business performance of one leasing company.

6.2 Hanfa's Activities

6.2.1 Regulatory Activities

The Leasing Act is the main regulation governing the establishment, operation and termination of business operations of leasing companies, lease contracts, rights and obligations of entities engaged in leasing operations, financial reporting and risk management, as well as Hanfa's competence in carrying out supervision and implementing the provisions of the Leasing Act. Since its entry into force in December 2006, business operations of leasing companies have been aligned with its provisions and other relevant regulations applicable to leasing companies.

During 2012, Hanfa adopted the Ordinance on the addendum to the Ordinance on the content of documents to be submitted with an application for the issuance of approval to candidates for the position of member of the management board of a leasing company (Official Gazette 109/12). As the Leasing Act provides for Hanfa's power to decide that a candidate for member of the management board of a leasing company is obliged to present a programme of business operations of the leasing company, these amendments defined more detailed contents of the said program.



Pursuant to its statutory powers and at the request of parties to proceedings or persons who have proved their legal interest, in 2012 Hanfa issued five opinions on the application of the provisions of the Leasing Act. Two of these opinions clarified legal grounds for the submission of confidential data by leasing companies to courts in civil proceedings, while other opinions provided more detailed explanations of leasing operations, specific issues related to compensation costs for the lessee related to claims and leasing activities that may be carried out.

For the purpose of further improvement of the method of submitting financial statements and additional reports, pursuant to the Ordinance on the structure and content of financial statements and additional reports of leasing companies and on the manner of and time limits for their submission (Official Gazette 124/10), Hanfa issued the Technical instruction for the preparation and submission of financial statements and additional reports of leasing companies, providing a detailed explanation of the manner of submitting the said reports.

On 29 March 2012, the Ministry of Finance of the Republic of Croatia appointed a Working Group on Draft Proposal for the Leasing Act, that comprises Hanfa's representatives along with representatives of the Leasing Companies' Association and of the Ministry of Finance, and that held a series of working meetings during the year. The Leasing Act is to be adopted during the year 2013.

6.2.2 Licensing

In 2012, there were 25 companies registered to carry out finance and operating lease operations in the Republic of Croatia. This number remained unchanged compared to the previous year, with the only difference being that as at 31 December 2012, all the companies were registered to perform both operating and finance lease activities. Until 3 August 2012, ALD Automotive d.o.o. had been authorised to perform only operating lease operations, obtaining approval to also conduct finance lease operations in 2012. For the purpose of ensuring regular and proper operation of leasing companies, Hanfa assesses the suitability of potential management board members through the process of issuing approvals for the function of a management board member. In accordance with this, in 2012, a total of 21 decisions were issued granting approval for management board members of leasing companies. The rise in the number of the issued approvals for new management board members or for new terms of office for the existing board members is a result of the termination of the terms of office which lasted for four or five years, starting from the date of obtaining approval in the process of alignment of leasing companies with the Leasing Act, but also of certain changes in management boards of leasing companies at the discretion of their respective owners.

In accordance with its powers, Hanfa assesses prudential risks associated with potential acquirers of holdings in the ownership of leasing companies. In line with this, natural or legal persons intending to acquire a qualifying holding in the voting rights or capital of a leasing company are obliged to obtain Hanfa's prior approval. The approval must also be obtained by leasing companies prior to their acquisition of direct or indirect ownership of a holding, shares or other rights on the basis of which they acquire qualifying holdings in other legal persons.

During the year 2012, Hanfa adopted decisions in the proceedings brought as a result of the acquisition of qualifying holdings at the request of six intended acquirers. Four decisions were issued in the proceedings dealing with the acquisition of a qualifying holding in a leasing company, while one case dealt with the acquisition of a qualifying holding by a leasing company in another legal person. One case resulted in a decision on the suspension of the procedure for the acquisition of a qualifying holding in a leasing company, as the party withdrew their application.



6.2.3 Supervision of Leasing Companies

During 2012, six on-site examinations were initiated in leasing companies, all focusing on risk management and the implementation of the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 25/12).

Furthermore, four on-site examinations initiated in 2011 were completed in 2012.

Within the framework of its competence, in addition to on-site examinations, Hanfa also carries out off-site examinations, initiated on the basis of financial statements and additional reports received. In this respect, following detected irregularities, six off-site examinations were initiated, focusing on the presentation and measurement of embedded derivatives in respect of operating lease contracts indexed to the Swiss franc and the euro.

Irregularities established in the course of supervision of leasing companies related to risk management, approval of financing under lease contracts, the content and form of lease contracts, the formation of value adjustment for impairment losses, inventory records, failure to apply the chart of accounts for leasing companies, classification of lease contracts, improper recording of embedded derivatives in respect of operating lease contracts, calculation of depreciation, calculation of exchange rate differences on lease contracts with the currency clause, entry of data on leased assets in the register of leased assets, preparation of financial statements and additional reports of leasing companies, and failure to establish a risk management system relating to money laundering and terrorist financing.

The said violations and irregularities resulted from a failure to comply with the provisions of the Leasing Act and regulations adopted under the Leasing Act, the Accounting Act and the International Financial Reporting Standards, the Act on the Prevention of Money Laundering and Terrorist Financing and the Companies Act (Official Gazette 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12 and 144/12).

Following the findings of examinations carried out in leasing companies, due to established violations of applicable regulations, in 2012, Hanfa adopted 13 decisions comprising measures aimed at the elimination of the violations and irregularities in the operation of supervised entities.

These decisions ordered and led to the elimination of violations and irregularities related to the recording of business events in leasing companies' business books (embedded derivatives, inventories, value adjustments for impairment losses, classification of lease contract, application of the prescribed chart of accounts) and to the improvement of the risk management and money laundering and terrorist financing system.

With respect to violations subject to misdemeanour provisions, in 2012, Hanfa initiated one misdemeanour procedure regarding the violation of the provisions of the Act on the Prevention of Money Laundering and Terrorist Financing.



Factoring

7 Factoring

7.1 Description of the Market⁶²

Factoring is an alternative model of financing businesses entities through the purchase of accounts receivable. Factoring services in the Republic of Croatia are provided by credit institutions and companies registered to provide factoring services. Companies registered to provide factoring services are supervised by Hanfa, in accordance with the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 140/05 and 12/12). In June 2012, the Association of Factoring Companies was established with the Croatian Chamber of Economy, on the initiative of companies registered to provide factoring services and Banking and other Financial Institutions Sector of the Croatian Chamber of Economy.

According to the data from statistical reports submitted by companies registered to provide factoring services known to Hanfa, as at 31 December 2012, there were 16 companies active in carrying on factoring business, while as at 31 December 2011, factoring operations were conducted by 18 companies (FTC usluge d.o.o., Maximum d.o.o., Par Lux d.o.o. and Weip Perfectus d.o.o. ceased to provide factoring services, while Novi faktor d.o.o. and Poba faktor started conducting factoring business in 2012.).

According to the reports submitted by companies registered to provide factoring services, as at 31 December 2012, the Croatian factoring market was dominated by domestic factoring (97.7% of total factoring receivables), with accounts receivable purchased being invoices of buyers from the Republic of Croatia, i.e. by recourse factoring (77.1% of total factoring receivables), with factors being entitled to the collection of payment from invoice sellers in the event that debtors become insolvent. As at 31 December 2012, the asset value in the factoring industry increased by 18.5% compared with 31 December 2011, due to a rise in the transaction volume relating to factoring operations and bills of exchange discounting operations.

In addition to conducting factoring business, companies registered to provide factoring services also engage in discounting of bills of exchange, i.e. purchasing bills of exchange serving as collateral in the trade in goods and services. Loans did not account for a significant share in operations of companies registered to provide factoring services.

The fact that the total ownership structure of companies registered to provide factoring services is dominated by direct

In accordance with the existing business practices, factoring operations carried out in the Republic of Croatia may be divided into domestic, export and import factoring operations. Domestic factoring covers factoring operations involving resident entities, whereas export and import factoring operations involve at least one non-resident entity. In terms of recourse, there are two types of factoring business: recourse ("non-standard") factoring and non-recourse ("standard") factoring. Recourse factoring is an agreement where the cedent guarantees the company registered to provide factoring services to pay

⁶² All the data and indicators relating to companies registered to provide factoring services relate only to companies known to Hanfa to be providing factoring services, which deliver to Hanfa Statistical Reports of Companies Providing Factoring Services.

resident ownership, as opposed to developments in the banking and the remaining financial sector, majority-owned by non-residents, makes the factoring industry unique in the Croatian financial market. Out of the 16 companies registered to provide factoring services, three were in direct non-resident ownership, while six companies were indirectly owned by non-residents. However, the share of these six companies in the total assets of factoring industry accounts for as much as 84.4%. A total of 15 companies operated as a limited liability company, and only one company operated as a joint stock company.

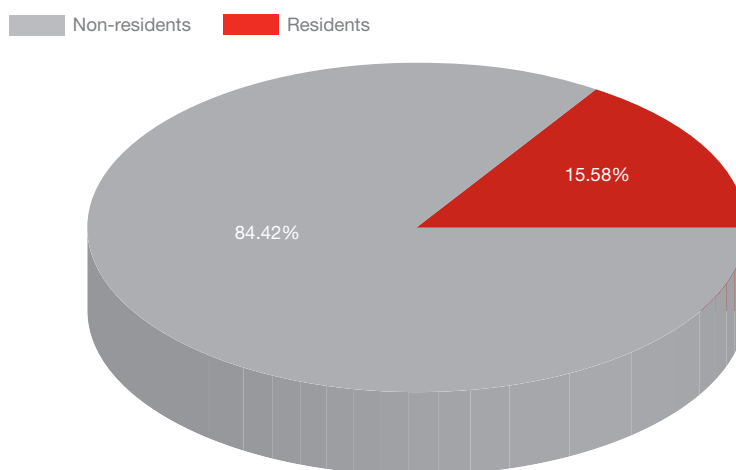
for the ceded accounts receivable, whereas in non-recourse factoring, the company registered to provide factoring services takes on the bad debt risk.

Table 7.1 Number of companies registered to provide factoring services in the 2007-2012 period

Description	31 Dec 2007	31 Dec 2008	31 Dec 2009	31 Dec 2010	31 Dec 2011	31 Dec 2012
Number of companies	12	13	16	19	18	16

Source: Hanfa

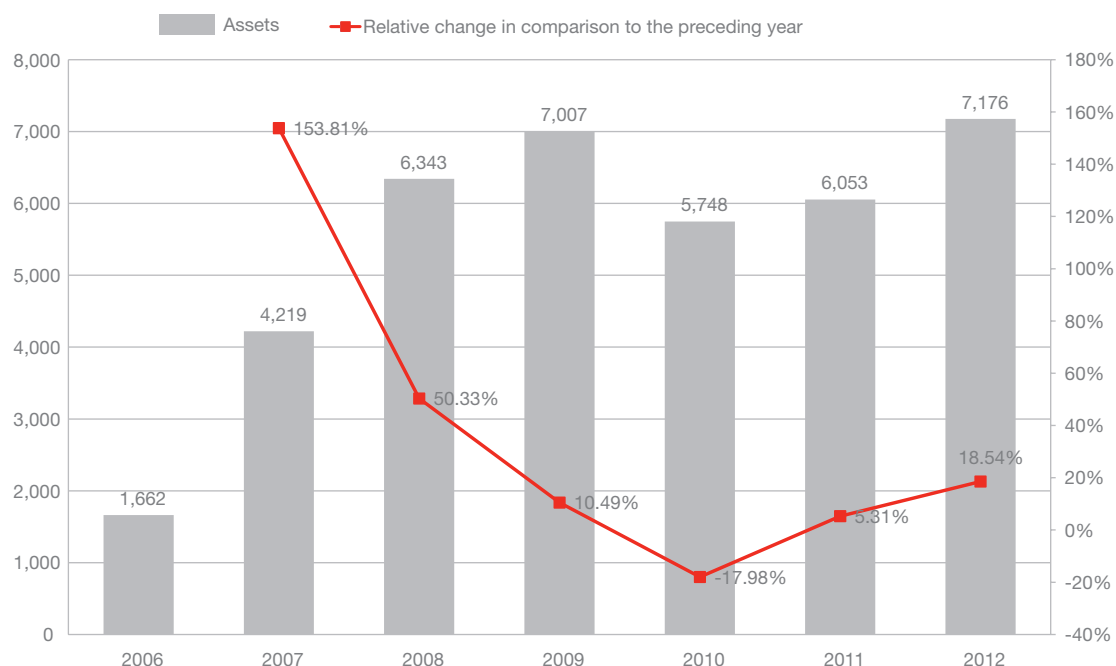
Chart 7.1 Asset structure of companies registered to provide factoring services by capital origin as at 31 Dec 2012



Source: Hanfa

In 2012, the value of assets of companies registered to provide factoring services increased by HRK 5.5bn or 331.6% in comparison with 31 December 2006. The assets grew in the period from 2006 to 2009, while in 2010, they declined by 18% compared with the preceding year. The value of assets resumed its upward trend in 2011 and 2012.

Chart 7.2 Aggregate assets of the factoring industry in the 2006-2012 period (in HRK million) and the relative change in comparison to the preceding year



Source: Hanfa

The Croatian factoring market is highly concentrated, with the share of the largest company by total assets accounting for 46.3% of the total assets of companies conducting factoring business as at 31 December 2012. The share of the top three companies by total assets accounted for 83.4% of total assets on the same date, while it stood at 82% on the same day of the previous year. There were nine companies registered to provide factoring services accounting each for less than 1% of the total assets of companies registered to provide factoring services in 2012, with the sum of their shares making up 2.4% of total assets.

Table 7.2 Assets changes and shares of companies registered to provide factoring services in 2011 and 2012 (in HRK thousand)

No.	Company	Assets as at 31 Dec 2011	Share	Assets as at 31 Dec 2012	Share
1	Erste factoring d.o.o.	2,662,251	43.98%	3,321,160	46.29%
2	Raiffeisen factoring d.o.o.	1,119,025	18.49%	1,597,326	22.26%
3	Prvi faktor d.o.o.	1,184,019	19.56%	1,064,176	14.83%
4	Adriatic Zagreb factoring d.o.o.	429,176	7.09%	631,257	8.80%
5	Croatia factoring d.o.o.	149,824	2.48%	144,231	2.01%
6	Fortis factoring d.o.o.	258,970	4.28%	139,961	1.95%
7	Finesa Credos d.d.	76,647	1.27%	101,988	1.42%

No.	Company	Assets as at 31 Dec 2011	Share	Assets as at 31 Dec 2012	Share
8	Factor Max d.o.o.	18,415	0.30%	61,623	0.86%
9	Afaktor-faktoring d.o.o.	51,981	0.86%	40,420	0.56%
10	Poba faktor d.o.o.	0	0.00%	31,803	0.44%
11	Other companies	103,087	1.70%	41,576	0.58%
	Total	6,053,395	100.00%	7,175,520	100.00%

Source: Hanfa

During the entire 2007-2012 period, Erste factoring d.o.o. recorded the largest share in the total assets of companies registered to provide factoring services, ranging from 44% to 63.6%. Prvi faktor d.o.o. accounted for the second largest share in total assets in the 2007-2011 period, taking third place and recording a 14.8% share of total assets in 2012. Adriatic Zagreb factoring d.o.o. was among the top three companies (taking third place) only in 2007, recording a 4.2% share of the total assets in the factoring industry, not appearing among the largest companies any more, and being replaced by Raiffeisen factoring d.o.o. in 2008. This company ranked second with respect to shares in total assets at the end of 2012, with its shares in the total assets of the factoring industry ranging between 9.7% and 22.3% in the period from 2007 to 2012.

Chart 7.3 Asset shares of the three largest companies registered to provide factoring services in the 2007-2012 period



Source: Hanfa

7.1.1 Asset Structure

As at 31 December 2012, the assets of companies registered to provide factoring services stood at HRK 7.2bn, recording an 18.5% increase compared to 31 December 2011, when they totalled HRK 6.1bn.

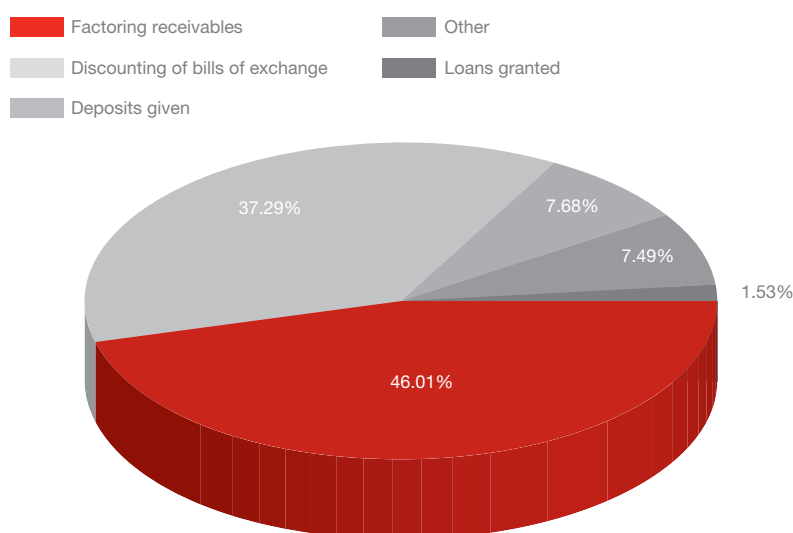
Table 7.3 Aggregate assets of companies registered to provide factoring services as at 31 December 2011 and 31 December 2012 (in HRK thousand)

ASSETS	31 Dec 2011	31 Dec 2012	Index 2012/2011
RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID	0	0	0.00
FIXED ASSETS	57,399	74,996	130.66
CURRENT ASSETS	5,963,602	7,057,666	118.35
Factoring receivables	2,892,300	3,301,595	114.15
Domestic factoring	2,786,071	3,224,128	115.72
Export factoring	18,282	14,027	76.72
Import factoring	87,947	63,440	72.13
Discounting of bills of exchange	1,711,683	2,675,706	156.32
Loans granted	77,280	109,637	141.87
Deposits given	866,411	550,778	63.57
Cash at bank and in hand	144,383	241,238	167.08
Other current assets	271,545	178,712	65.81
PREPAYMENTS AND ACCRUED INCOME	32,394	42,858	132.30
TOTAL ASSETS	6,053,395	7,175,520	118.54

Source: Hanfa

The assets of companies registered to provide factoring services consisted mostly of factoring receivables and discounting of bills of exchange, which recorded a significant growth relative to 2011.

Chart 7.4 Factoring industry asset structure as at 31 December 2012



Source: Hanfa

7.1.2 Liability Structure

Assets of companies registered to provide factoring services are mostly financed by loans from foreign banks and financial institutions.

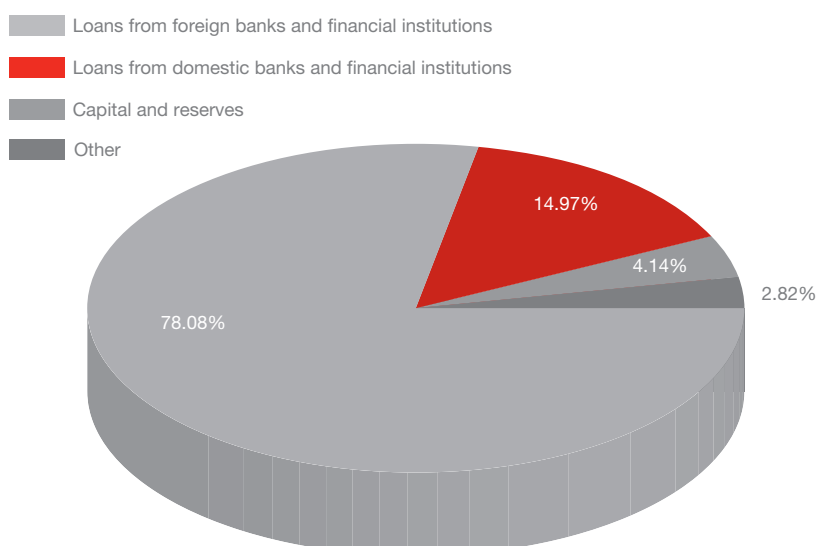
As at 31 December 2012, capital and reserves amounted to HRK 0.3bn, accounting for 4.1% of liabilities and recording a 15.4% increase compared to 31 December 2011.

Table 7.4 Factoring industry aggregate liabilities as at 31 December 2011 and 31 December 2012 (in HRK thousand)

Item	31 Dec 2011	31 Dec 2012	Index 2012/2011
CAPITAL AND RESERVES	257,267	296,799	115.37
LONG-TERM LIABILITIES	288,532	885,864	307.02
Loans from domestic banks and financial institutions	1,906	3,580	187.76
Loans from foreign banks and financial institutions	271,565	863,429	317.95
Other long-term liabilities	15,061	18,855	125.20
SHORT-TERM LIABILITIES	5,499,536	5,984,665	108.82
Loans from domestic banks and financial institutions	1,022,570	1,070,411	104.68
Loans from foreign banks and financial institutions	4,255,574	4,739,225	111.37
Other short-term liabilities	221,393	175,028	79.06
ACCRUALS AND DEFERRED INCOME	8,059	8,192	101.66
TOTAL LIABILITIES	6,053,395	7,175,520	118.54

Source: Hanfa

Chart 7.5 Factoring industry liability structure as at 31 December 2012



Source: Hanfa

Loans from domestic and foreign credit institutions have increased continuously since 2010. Although foreign banks and financial institutions account for the largest share in financing

companies registered to provide factoring services, this share has recorded a downward trend. As at 31 December 2009, it amounted to a significant 89%, dropping to 78% as at 31 December 2012.

Chart 7.6 The largest liability items as at 31 December 2012 and their movements from 2010 to 2012 (in HRK million)



Source: Hanfa

7.1.3 Financial Operating Results

Factoring industry net profit for 2012 stood at HRK 87.2m, increasing by 27.2% relative to 2011.

The 2012 total income of companies registered to provide factoring services was HRK 731m, decreasing by HRK 9.8m compared to the previous year, whereas total expenditures amounted to HRK 620.9m, declining by HRK 29.3m in comparison with the previous reporting period.

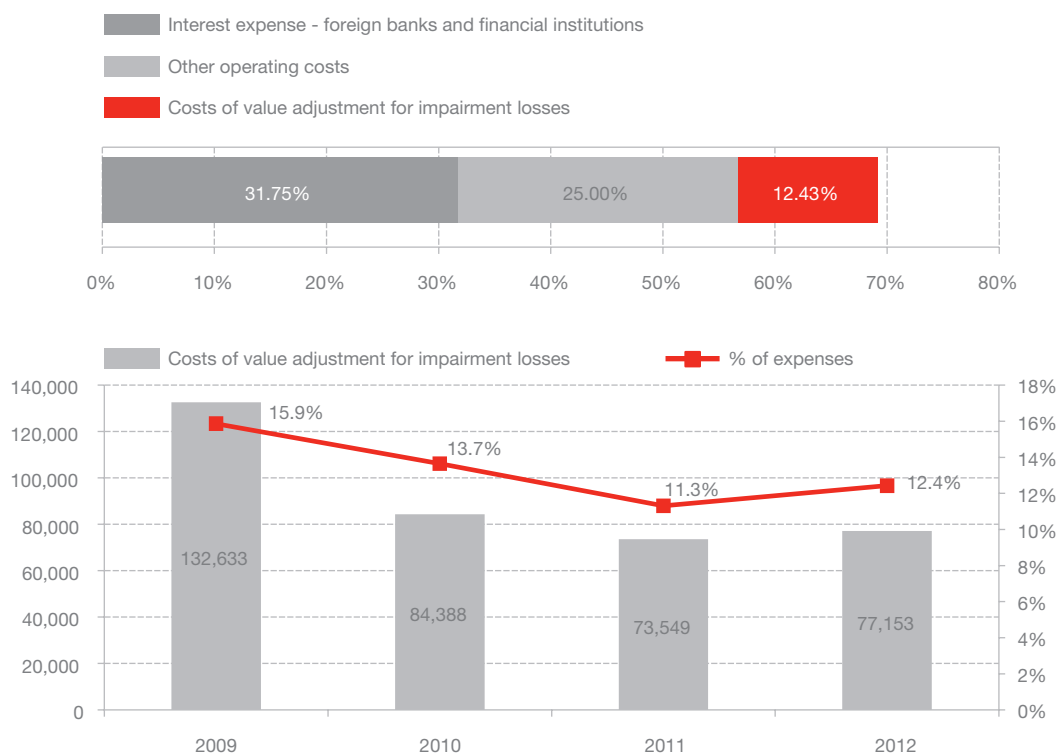
The largest share within the income structure was accounted for by interest income, which reached 58.6% of total income recorded in 2012. Income related to factoring operations and discounting of bills of exchange, which are the main activities of companies registered to provide factoring services, made up the largest share in interest income.

The major share (50.5%) of total expenses was attributable to other operating expenses, of which a 25% share was made up of other operating costs, mainly relating to negative exchange rate differences. Interest expense with foreign banks and financial institutions accounted for the largest (31.7%) share in total expenses (total interest expense made up 43.2% of total factoring industry expenses), followed by other operating costs and costs of value adjustment for impairment losses amounting to 12.4% of total expenses.

Expense items accounting for the largest shares in total expenses are shown in Chart 7.6.

Costs of value adjustment for impairment losses reflect the companies' investment risks, and their analysis for the 2009-2012 period shows that they peaked at HRK 132.6m in 2009, accounting for a 15.9% share in total expenses.

Chart 7.7 The largest expense items in 2012 and costs of value adjustment for impairment losses from 2009 to 2012 (in HRK thousand)



Source: Hanfa

Table 7.5 Aggregate profit and loss account of the factoring industry in the 1 Jan-31 Dec 2011 and 1 Jan-31 Dec 2012 periods (in HRK thousand)

Item	1 Jan-31 Dec 2011	1 Jan-31 Dec 2012	Index 2012/2011
Interest income	372,598	428,029	114.88
Interest expense	230,332	268,160	116.42
Interest profit/loss	142,267	159,870	112.37
Income from fees and commissions	84,656	100,360	118.55
Expenses on fees and commissions	32,345	39,315	121.55
Profit/loss on fees and commissions	52,311	61,044	116.69
Other operating income	283,518	202,619	71.47
Other operating expenses	387,524	313,414	80.88
Profit/loss on other income and expenses	-104,006	-110,795	106.53
Profit/loss before profit tax	90,572	110,119	121.58
Profit/loss after profit tax	68,527	87,191	127.24

Source: Hanfa

The 2012 rise in profit after taxation was mostly due to an increase in net interest income and in fees and commissions.

Table 7.6 Realised profit/loss of companies registered to provide factoring services in 2011 and 2012 (in HRK thousand)⁶³

Company	Profit/loss after profit tax as at 31 Dec 2011	Profit/loss after profit tax as at 31 Dec 2012	Index 2012/2011
Erste factoring d.o.o.	22,442	43,765	195.01
Raiffeisen factoring d.o.o.	28,032	17,944	64.01
Adriatic Zagreb factoring d.o.o.	11,086	11,499	103.73
Alfa net d.o.o.	6,124	5,188	84.72
Fortis factoring d.o.o.	2,629	4,582	174.28
Prvi faktor d.o.o.	10,004	2,344	23.42
Factor Max d.o.o.	1,300	1,959	150.67
Poba faktor d.o.o.	0	1,310	-
CEI Zagreb d.o.o.	1,077	1,014	94.16
Other companies	-14,169	-2,413	17.03
TOTAL	68,527	87,191	127.24

Source: Hanfa

A total of 14 out of 16 companies registered to provide factoring services reported a profit after taxation amounting to HRK 90.9 m. The remaining two companies recorded a loss in the amount of HRK 3.7m.

63 In 2012, Eurofakt d.o.o. reported a profit in the amount of HRK 489.

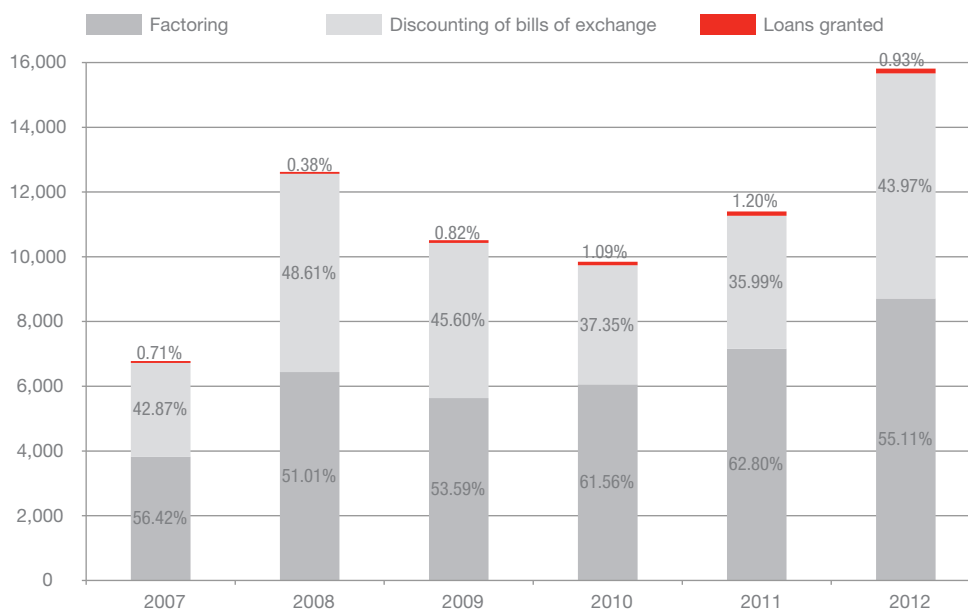
7.1.4 Transaction Volume

Transaction volume represents the cumulative amount of purchased invoices under factoring arrangements, the cumulative amount of discounted bills of exchange under arrangements involving discounting bills of exchange and the amount of granted loans.

From 1 January to 31 December 2012, companies registered to provide factoring services purchased invoices under factoring arrangements (domestic, export and import factoring) in the amount of HRK 8.7bn, at the same time purchasing bills of exchange under arrangements involving discounting bills of exchange in the amount of HRK 7bn. Within the same period of time, companies registered to provide factoring services granted loans totalling HRK 146.6m.

In the 2007-2012 period, the largest share in the transaction volume was attributable to domestic factoring operations, which reached their peak in 2011 with a 60.3% share. At the end of 2012, the share of domestic factoring operations decreased significantly, amounting to 53.3% and equalling its 2009 level. Compared to the two previous years, the share of transactions related to discounting of bills of exchange rose, reaching 44% of the total transaction volume and also getting back to its 2009 level.

Chart 7.8 Breakdown of transaction volume by activity from 2007 to 2012 in amounts (in HRK million) and in % of total transaction



Source: Hanfa

7.1.5 Factoring Industry Performance Indicators

7.1.5.1 The Debt Ratio

The debt ratio measures the share of assets financed by external funds, i.e. the share of external assets in total assets. As companies registered to provide factoring services finance the major share of their assets by loans granted by foreign and domestic banks, the 2012 aggregate debt ratio held steady compared to 2011, amounting to 0.96.

7.1.5.2 Profitability Ratios

Profitability ratios analysed together measure a company's overall operating efficiency. High profitability ratios are considered desirable.

Aggregate return on total assets (ROA) for companies registered to provide factoring services amounted to 1.2%, rising from 1.1% in 2011.

As at 31 December 2012, aggregate return on equity (ROE) amounted to 29.4%, having increased compared to 31 December 2011 when it stood at 26.6%.

7.2 Hanfa's Activities

7.2.1 Regulatory Activities

The regulatory framework for the supervision of companies registered to provide factoring services has been defined primarily by the Act on the Croatian Financial Services Supervisory Agency and other regulations related to the operation of these companies, such as the Accounting Act (Official Gazette 109/07 and 144/12) and the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 25/12). However, factoring agreements, rights and obligations of entities engaged in factoring operations, terms of establishment, business operations and termination of these operations, financial reporting, supervision of and risk management in companies registered to provide factoring services are not regulated by any special regulations. Taking this into account, the Croatian Parliament, at its session from 18 January to 16 March 2012, adopted a Decision entrusting the Government of the Republic of Croatia with the task of sending the Factoring Act for debate and adoption to the Croatian Parliament. In accordance with this Decision, on 8 December 2012, the Ministry of Finance established a Working Group for drafting the Factoring Act, consisting of representatives of Hanfa, Ministry of Finance, Association of Factoring Companies of the Croatian Chamber of Economy, Croatian National Bank and commercial banks. The Working Group started its activities in 2012.

Hanfa has been collecting Factoring Companies' Statistical Reports from companies known to Hanfa as companies providing factoring services outside credit institutions. The Reports have been collected on a semi-annual basis since 2006, and on a quarterly basis since 31 March 2011. The data from the Reports are aggregated and published on Hanfa's website.



Judicial Proceedings

8 Judicial Proceedings

Hanfa takes part in judicial proceedings on a regular basis, both as an authorised plaintiff in misdemeanour proceedings and as a defendant in administrative disputes upon a lawsuit filed over any of its administrative acts. Hanfa is authorised to prosecute misdemeanour offences falling within its area of competence and takes action, legally defined as part of its area of competence, in the course of misdemeanour proceedings through a person appointed as its representative. Acts issued by Hanfa are final and administrative disputes may be initiated against them, thus making Hanfa a party to such administrative disputes, where it regularly participates by filing a response to the lawsuit and by delivering its documents to the competent administrative court at its request.

In accordance with the provisions regulating criminal proceedings, Hanfa is authorised to bring criminal charges to the State Attorney's Office in cases where it has knowledge that a criminal offence to be prosecuted by virtue of the office has occurred.

With the aim of encouraging measures aimed at efficient functioning of the financial market and informing the public, Hanfa publishes on its website final court decisions regarding misdemeanour and administrative court proceedings which Hanfa is a party to. Court decisions are published in their entirety, with certain data on parties and their representatives being crossed out and made illegible for the purpose of protecting personal data and personality rights. In the course of this procedure, Hanfa follows the principles of anonimisation, contained in the Instruction on the method of anonimisation of court decisions and in the Rules on the anonimisation of court decisions by the Supreme Court of the Republic of Croatia. This is due to the fact that point 4 of Article 15 of the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 140/05, 154/11 – Regulation on the Amendment to the Act on the Croatian Financial Services Supervisory Agency, and 12/12) authorises Hanfa to encourage, organise and monitor, within the framework of its powers, measures aimed at efficient functioning of the financial market, whereas point 6 of the same Article stipulates that Hanfa has responsibility to inform the public of the functioning principles of financial markets.

Furthermore, the publication of court decisions in proceedings which Hanfa is a party to ensures the right of access to information to all natural and legal persons, at all times and under equal conditions.

8.1 Misdemeanour Proceedings

Within the framework of supervision of the capital, insurance and leasing markets, Hanfa established violations referred to in the Investment Funds Act (Official Gazette 107/95, 12/96, 114/01 and 150/05), the Capital Market Act (Official Gazette 88/08, 146/08 and 74/09), the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 25/12), the Insurance Act (Official Gazette 151/05, 87/08 and 82/09), the Act on Compulsory Insurance within the Transport Sector (Official Gazette 151/05, 36/09 and 75/09), the Act on the Takeover of Joint-Stock Companies (Official Gazette 84/02, 87/02, 120/02 and 02/07, and Official Gazette 109/07, 36/09 and 108/12) and the Accounting Act (Official Gazette 109/07 and 144/12), and in 2012, in accordance with its powers it brought 27 indictments before the competent misdemeanour courts or the Financial Inspectorate (with regard to misdemeanours referred to in the Act on the Prevention of Money Laundering and Terrorist Financing).

In 2012, Hanfa acted as an authorised plaintiff in misdemeanour proceedings initiated earlier.

8.1.1 Capital Market, Investment Firms and Investment Fund Management Companies

Within the framework of supervision of the capital market, following the established misdemeanours committed in this area, Hanfa brought ten indictments against misdemeanour perpetrators in 2012, namely two indictments relating to violations referred to in the Act on the Takeover of Joint-Stock Companies, two indictments relating to violations referred to in the Capital Market Act, five indictments relating to violations referred to in the Investment Funds Act and one indictment relating to violations referred to in the Investment Funds Act and the Accounting Act. Indictments related to the violations referred to in the Act on the Takeover of Joint-Stock Companies were brought against three legal persons and five responsible persons in these legal persons, and against five natural persons, due to their failure to act in accordance with a decision issued by Hanfa within the time limit defined in the decision, and due to the fact that they acquired shares which are the subject of the takeover bid during the takeover procedure, contrary to the provisions of the Act on the Takeover of Joint-Stock Companies.

Indictments relating to violations referred to in the Capital Market Act were brought against one natural and one legal person, as well as against its responsible person, due to market manipulation. An indictment was also brought against a member of an investment firm's supervisory board due to his failure to notify Hanfa of his disposal of issuer's shares. Due to violations referred to in the Investment Funds Act, indictments against six legal and 15 responsible persons were brought on the grounds that: they carried on activities contrary to the provisions of the Investment Funds Act, the total fund cost indicators exceeded the amounts stipulated in the said act, and they failed to take into account investment limitations and business procedures as stipulated in the legislative framework. Misdemeanours related to accounting referred to the failure to apply the International Financial Reporting Standards in accordance with the Accounting Act.

8.1.2 Insurance Market

In 2012, eight indictments were related to violations referred to in the Act on Compulsory Insurance within the Transport Sector, namely the conclusion of insurance contracts contrary to this act and insurance terms and conditions, i.e. insurance premium price lists. Due to the violations referred to in the Act on Compulsory Insurance within the Transport Sector, one insurance company and its responsible persons were indicted.

In addition, Hanfa brought six indictments due to violations referred to in the Insurance Act, of which one was brought against an insurance company for allowing insurance representation and insurance/reinsurance brokerage business to be conducted by persons lacking authorisation issued by the supervisory authority, and another against legal persons for conducting insurance representation business without authorisation issued by the supervisory authority, as well as against responsible persons within these companies. The remaining indictments brought due to violations referred to in the Insurance Act related to misdemeanour proceedings against a member of the supervisory board of an insurance company due to his failure to inform Hanfa of his appointment in management and supervisory boards in other legal persons, and against members of the insurance company management board due to their failure to fulfil their obligations in accordance with the Insurance Act, i.e. their failure to ensure the compliance of the operation of the insurance company with the Insurance Act.

One indictment was also brought due to violations referred to in the Accounting Act and the Insurance Act, with the violations referred to in the Accounting Act relating to the failure to apply the International Financial Reporting Standards in accordance with the said Act.

Furthermore, one indictment was brought due to the violations referred to in the Act on the Prevention of Money Laundering and Terrorist Financing. The indictment was brought before

the Financial Inspectorate against one legal and three responsible persons due to their failure to prepare the annual education and training programme in the field of preventing and detecting money laundering and terrorist financing in accordance with the Act on the Prevention of Money Laundering and Terrorist Financing, and for receiving a cash payment in the amount exceeding HRK 105 thousand.

8.1.3 Leasing

Within the framework of supervision of leasing companies, Hanfa established a misdemeanour committed with respect to the Act on the Prevention of Money Laundering and Terrorist Financing and brought one indictment before the Financial Inspectorate. The indictment was brought against one legal and four responsible persons due to their failure to conduct, in a timely manner, due diligence with respect to clients with a high risk or a potential high risk concerning money laundering and terrorist financing, and due to their failure to inform, in a timely manner, the Anti-Money Laundering Office of the appointment of the authorised person and his deputy.

8.2 Administrative Disputes

In the course of 2012, a total of 50 administrative disputes were initiated over administrative acts (decisions and resolutions) of Hanfa, following the filing of complaints with the relevant administrative court. Pursuant to the Administrative Disputes Act (Official Gazette 20/10 and 143/12), Hanfa provided responses and submitted the requested files to the relevant administrative court based on which the complaints had been filed. Out of 50 administrative disputes, 43 were related to administrative acts covering capital market issues, namely the takeover of a company – renewal of the procedure, publication of a takeover bid, acknowledgement of the status of a party to the proceedings and supervision of business operations. Four administrative disputes were initiated with respect to the leasing market, all for the purpose of eliminating established irregularities. The remaining three administrative disputes referred to the insurance market, namely the conduct of insurance representation business without authorisation, and elimination of irregularities established during on-site and off-site examinations. In the course of 2012, no administrative disputes were initiated on the grounds of Hanfa's failure to adopt an appropriate administrative act upon the request of a party (the so-called administrative silence).

8.3 Criminal Charges

In the course of 2012, within the framework of its regular business activities, Hanfa established that there were grounds for suspicion that one criminal offence had been committed, and filed one criminal charge against three natural persons. The said criminal offence is defined by the Act on Criminal Offences against the Capital Market (Official Gazette 152/08), containing provisions related to usage, disclosure and recommendation of inside information.





Cooperation and Consumer Protection

9 Cooperation and Consumer Protection

9.1 Hanfa's Activities in the European Supervisory Authorities and Activities Related to the EU Accession

After the Republic of Croatia signed the EU Accession Treaty on 9 December 2011, Hanfa acquired observer status in the European Supervisory Authorities (ESAs), in charge of the financial system at the EU level, namely in the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA), lasting until the date the Republic of Croatia gains full membership of the European Union.

The President or a member of the Board of Hanfa regularly participate in meetings of ESMA's and EIOPA's Board of Supervisors. Until the date of accession, Hanfa's representatives participate in the work of these institutions as observers and have no voting rights.

At the operating level, Hanfa's staff participated in a series of seminars and trainings organised by EIOPA and ESMA, in order to become acquainted with these institutions' business operations. In the second half of 2012, Hanfa's employees took part in the work of EIOPA's committees (Information Technology and Data Committee, Internal Governance, Supervisory Review and Reporting Committee, Financial Requirements Committee, Insurance Groups Supervision Committee, Equivalence Committee, Financial Stability Committee, Internal Models Committee). They also participated in the work of ESMA's Financial Innovation Standing Committee, which is in charge of the analysis of capital markets with a special emphasis on new financial services.

In 2012, Hanfa and the Croatian National Bank jointly participated in the activities of the European Systemic Risk Board (ESRB), which is responsible for macroprudential supervision of the financial system at the EU level, and supported by the European Central Bank, European authorities in charge for the financial system (ESMA, EIOPA and EBA – European Banking Authority), as well as central banks and Member States' regulatory authorities.

During 2012, Hanfa was engaged in the notification procedure involving the submission to the European Commission of lists and contents of Croatian regulations implementing into the national law EU directives which are to become effective on the date of accession of the Republic of Croatia to the European

ESMA was established on 1 January 2011 by Regulation (EU) No 1095/2010 of the European Parliament and of the Council and is the legal successor of the Committee of European Securities Regulators (CESR). It is an independent supervisory authority of the European Union and is part of the European System of Financial Supervisors (ESFS). ESMA contributes to the stability of the EU financial system by ensuring the integrity, transparency, efficiency and orderly functioning of financial markets, and by enhancing investor protection.

EIOPA was established on 1 January 2011 by Regulation (EU) No 1094/2010 of the European Parliament and of the Council and is the legal successor of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). It is an independent supervisory authority of the European Union and is part of the European System of Financial Supervisors (ESFS). EIOPA's responsibilities are to support the stability of the EU financial system by ensuring the integrity, transparency, efficiency and orderly functioning of financial markets, and by protecting policyholders, pension scheme members and

Union. Hanfa was responsible for notifying the European Commission of subordinate regulations falling within the field of its competence, and relating to capital markets, insurance and occupational pensions.

During the previous year, Hanfa' staff participated in the meetings and preparation of documents for the meetings of subcommittees on the implementation of the Stabilisation and Association Agreement between the European Communities and their Member States and the Republic of Croatia, namely the Subcommittee on Economic and Financial Matters and Statistics, which was held on 19 June 2012 and the Subcommittee on the Internal Market, Market Competition, Trade, Industry, Customs and Taxation, held on 3 July 2012.

Hanfa was also involved in the preparation of the self-assessment report on Croatia's progress towards the EU accession, in the drawing up of a report for the European Commission regarding the fulfilment of obligations relating to Negotiation Chapter 9 – Financial Services, and in the drafting of the Programme of the Government of the Republic of Croatia for the Adoption and Implementation of the *acquis communautaire* for 2013.

9.2 Cooperation with Croatian and Foreign Supervisory Authorities and International Organisations

Pursuant to Articles 16 to 18 of the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 140/05 and 154/11), Hanfa cooperates with Croatian and foreign regulatory authorities whose scope of activities and competence are linked to the supervision of financial services and financial markets, as well as with international organisations representing such authorities.

Hanfa cooperates with the Croatian National Bank on an on-going basis, pursuant to the Agreement on Cooperation signed in September 2006, defining the content and form of mutual cooperation in exercising legal powers of the two institutions. Based on this agreement, a Working Committee for Financial System Supervision was established with the purpose of coordinating procedures and activities of the Croatian National Bank and Hanfa, including the coordination of supervisory procedures and exchange of information.

In 2012, the Agency also cooperated with other Croatian institutions, primarily with the Ministry of Finance, Ministry of Foreign and European Affairs and Ministry of the Interior.

As for cooperation with foreign supervisory authority, Hanfa is a signatory to 31 bilateral and multilateral cooperation agreements in the area of supervision of the capital market, insurance market

beneficiaries. When carrying out its tasks, EIOPA acts independently, objectively and in the sole interest of the European Union.

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



and pension funds. Pursuant to those agreements Hanfa cooperates with foreign regulatory authorities in course of its supervisory procedures and investigative actions, exchange of experience related to the regulatory framework and practice in certain issues.

As a member of the International Organisation of Securities Commissions (IOSCO), Hanfa was involved in the preparation of a series of documents, and it uses the IOSCO Multilateral Memorandum of Understanding continuously while carrying on its supervisory activities. Hanfa is also a member of the European Regional Committee and of the Emerging Markets Committee within IOSCO.

In September 2012, representatives of International Monetary Fund visited Hanfa within the framework of their regular mission.

9.3 Prevention of Money Laundering and Terrorist Financing and International Restrictive Measures

Hanfa's Committee for the Prevention of Money Laundering and Terrorist Financing was established on 29 March 2007. Its main objectives include addressing various issues relating to the prevention and detection of money laundering and terrorist financing, as well as cooperation with other competent government authorities.

In 2012, Hanfa continued its cooperation with the Anti-Money Laundering Office and, within the framework of the Action Plan for the Prevention of Money Laundering and Terrorist Financing, it drew up two semi-annual reports on undertaken activities in this area. Over the previous year, Hanfa also submitted data to the Anti-Money Laundering Office related to the reporting to the Government of the Republic of Croatia and the European Commission.

Hanfa's representatives actively participate on an on-going basis in meetings and activities of the Inter-Institutional Working Group on the Prevention of Money Laundering and Terrorist Financing, and in 2012 they kept cooperating with all the institutions within the said working group.

Hanfa was involved in the preparation of documents for the 4th round of evaluation of the Republic of Croatia carried out by experts from the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). The 4th round of evaluation was conducted in November 2012, and Hanfa's employees took part in the meetings held during the evaluation.

Hanfa also participates in the project involving the preparation of the Preliminary National Money Laundering Risk Assessment, run by experts from the International Monetary Fund. The preparation of a comprehensive money laundering and terrorist financing risk assessment is an obligation of each state, in accordance with the new recommendations issued by the Financial Action Task Force on Money Laundering (FATF) in February 2012.

For the purpose of ensuring full implementation of supervisory measures in the area of the prevention of money laundering and terrorist financing, in 2012 Hanfa continued to educate its employees by organising tailor-made internal education. Hanfa's employees also took part as lecturers in external trainings on the prevention of money laundering and terrorist financing.

In accordance with the Decision on the method of implementing international measures restricting asset disposal (Official Gazette 78/11), and in connection with the Act on International Restrictive Measures (Official Gazette 139/08), within the framework of its supervisory activities, Hanfa also supervises the implementation of international measures restricting asset disposal and provides

adequate information to its supervised entities on relevant documents and regulations relating to entities subject to international restrictive measures.

9.4 Consumer Protection

From 1 January to 31 December 2012, Hanfa received 187 consumer complaints, which represents a 1% increase relative to 2011.

A total of 64% of these complaints were submitted by natural persons, 17% by legal persons, 11% of complaints were submitted by unknown persons (anonymous complaints), while 9% of the submitted complaints did not fall within Hanfa's competence.

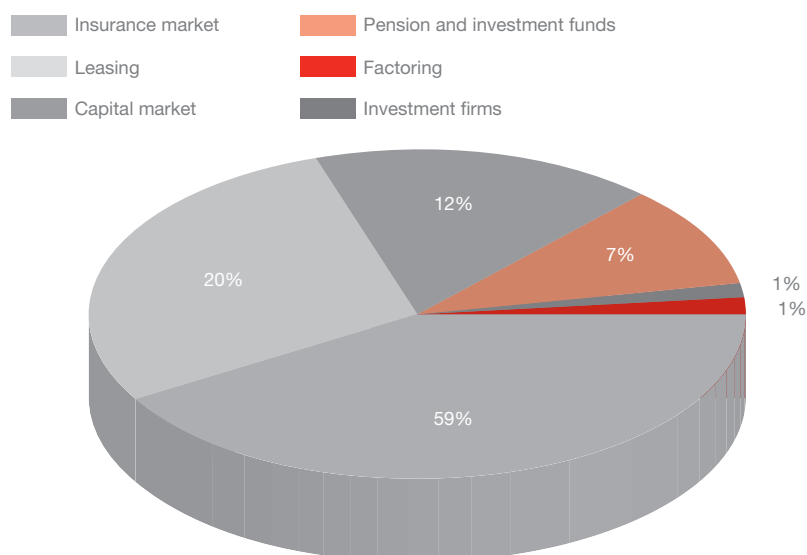
Table 9.1 Consumer complaints submitted to Hanfa in 2012

Type of complaint	Number
Natural persons	119
Legal persons	31
Anonymous	21
Outside Hanfa's competence	16
TOTAL	187

Source: Hanfa

The highest percentage of received complaints referred to the insurance market, followed by those relating to the leasing market, as shown in the following chart:

Chart 9.1 Structure of consumer complaints by industry



Source: Hanfa

The chart shows that 79% of all the complaints related to the insurance and leasing market. In 2011, a total of 57% of all complaints related to these two markets.

In 2012, Hanfa actively participated in drawing up a National Strategic Framework for Financial Literacy, which contains general explanations and guidelines for raising the level of financial literacy in the Republic of Croatia.

As part of its legal obligations, Hanfa continuously informs the general public of its role and functioning of the financial system by publishing various information and notices, replying promptly to inquires submitted by financial services users, media and the public concerned, and by carrying out other activities (such as participation of Hanfa's employees as lecturers in expert meetings and seminars or publishing drafts subordinate regulations within Hanfa's competence and inviting the public to submit their comments).

Official complaints submitted to Hanfa in 2012 included those submitted following certain activities of entities supervised by Hanfa, those which do not fall within Hanfa's competence and other types of general inquiries and complaints. In addition to clarifying issues and terms related to financial services, Hanfa provides information on its activities in addressing certain issues and informs the financial services users of its competence with respect to such issues. In cases where Hanfa is not authorised to provide an answer to a certain inquiry or complaint, it refers the submitter to relevant competent authorities.

Where appropriate, following the reception of complaints and in accordance with the relevant regulations, Hanfa may initiate on-site or off-site examinations. The examinations may be followed by warnings to supervised entities about irregularities established and by elimination of such irregularities, relating to either the provision of financial services or consumer protection. Due to an insufficient understanding of contract terms and conditions, which can sometimes be very complex, and of characteristics of particular financial products, disputes between the provider and user of financial services may arise. A significant number of complaints submitted to Hanfa in 2012 were primarily due to the lack of knowledge concerning contractual relationships, general functioning of financial services and consumers' failure to meet contractual obligations, which resulted in contract termination, warnings, occurrence of additional costs, etc. This points out, among other things, to the need for more intensive financial education. The National Strategic Framework for Financial Literacy should lay a foundation for future cooperation among all participants in the financial education aimed at raising the level of financial literacy of the public, and should provide a basis for systematic financial education in the Republic of Croatia through various forms of formal and informal financial education.





Office of the Secretary
General and Financial
Statement of Hanfa

10 Office of the Secretary General and Financial Statement of Hanfa

Pursuant to the Act on the Amendments to the Act on the Croatian Financial Services Supervisory Agency of 25 January 2012 (Official Gazette 12/12), Hanfa is represented by the Secretary General, who coordinates and manages its business operations pursuant to the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 145/05 and 12/12) and the Statute of Hanfa.

The Secretary General is appointed by the Board for a six-year term of office, and may be reappointed. Hanfa's Secretary General was appointed by the Decision of the Board of 30 July 2012 after the end of the selection procedure following a public vacancy notice.

The Act on the Croatian Financial Services Supervisory Agency and the Statute of Hanfa provided for the establishment of the Office of the Secretary General, which is responsible for organising business activities in accordance with Hanfa's general acts, and for Hanfa's operation related to finances, accounting, human resources, IT and general administrative and technical activities. The Ordinance on internal organisation and job systematisation within the Croatian Financial Services Supervisory Agency organised the activities of the Office of the Secretary General into three units: Planning and Accounting Unit, General and Administrative Services Unit and Information and Communication Technology Unit. All the units were established on 1 September 2012.

In 2012, the Office of the Secretary General significantly contributed to the improvement of Hanfa's operation, both by upgrading its existing accounting and human resources procedures and modernising the IT system.

In the course of the previous year, Hanfa also enhanced its system for receiving and processing reports of supervised entities by introducing the advanced electronic signature for the submission of supervised entities' reports and by improving its off-site supervision processes through a higher quality of data and of tools for the analysis of data from supervised entities' reports.

Preliminary activities for reporting to EU institutions were undertaken, and the quality, form and content of reports for the purpose of reporting to third parties (primarily EU institutions) were defined through the implementation of advanced tools and reporting forms.

The project for the improvement of business continuity plan through the procurement and implementation of a disaster recovery site was launched in the last quarter of 2012. The project is supposed to ensure a high level of availability of all IT services with minimal data losses in case of a disaster, which at the same time represents a progress in the area of data security. Another project, namely for the improvement and additional informatisation of IT business processes also started in the last quarter of 2012.

The year 2012 also saw the commencement of activities related to the procurement and implementation of a piece of software for the archives and mail services office and to informatisation of key business processes through the integration of the existing systems.

This project is needed for the purpose of reaching the necessary level of IT support and business efficiency aimed at meeting growing business needs, some of which occur due to the alignment of business activities with EU regulations.



10.1 Financial Operations

In accordance with Hanfa's Statute, its financial operations fall within the competence of the Office of the Secretary General, and its business books are kept in accordance with regulations governing accounting for non-profit organisations.

In accordance with the provisions of Article 20 of the Act on the Croatian Financial Services Supervisory Agency, in 2012 Hanfa was financed by fees from assets and revenue of supervised entities and from fees charged for the provision of services.

The calculation and amount of fees and the manner of charging fees from assets and revenue of supervised entities charged by Hanfa in 2012 are laid down in the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency (Official Gazette 146/11). The type and amount of fees and administrative charges for the provision of services within Hanfa's competence are laid down in the Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency (Official Gazette 146/11, 52/12, 65/12 and 69/12).

In 2012, Hanfa recorded an income totalling HRK 42,763,248 and expenditure totalling HRK 39,710,136.

Table 10.1 Balance sheet of Hanfa as at 31 December 2012 (in HRK)

ASSETS	27,120,755
Non-financial assets	4,281,147
Financial assets	22,839,608
LIABILITIES	27,120,755
Payables	3,970,687
Own sources	23,150,068

Source: Hanfa

As at 31 December 2012, Hanfa's total assets amounted to HRK 27,120,755, with 84% being accounted for by financial assets and 16% being made up by non-financial assets. Total payables reached HRK 3,970,687, accounting for 15% of total liabilities, while own sources made up 85% of total liabilities.

Table 10.2 Income and expenses for 2012 (in HRK)

INCOME	42,763,248
Income pursuant to special regulations from other sources	42,139,155
Income pursuant to the Ordinance on the requirements for the acquisition and examination of professional knowledge needed to obtain authorisation for brokers and investment advisors	173,500
Income pursuant to the Ordinance on the type and amount of fees and administrative charges	6,466,393
Income pursuant to the Ordinance on the amount of the fee, and on the manner and time limits for payment of the fee for maintaining the register of leased assets	122,680
Income pursuant to the Ordinance on calculation, amount and charging of fees for 2012	35,376,582
Income from insurance companies	5,696,334
Income from insurance brokers and agents	152,789
Income from the Zagreb Stock Exchange	328,551

Income from the Central Depository and Clearing Company	1,032,908
Income from investment firms	48,117
Income from credit institutions	3,663,807
Income from pension fund management companies	14,273,723
Income from investment fund management companies (open-ended, closed-ended and real estate)	4,391,273
Income from leasing companies	4,680,820
Income from companies registered to provide factoring services	1,051,457
Income from pension insurance companies	56,802
Income from assets	477,104
Other income	146,989
EXPENSES	39,710,136
Expenses for employees	29,396,643
Material expenses	9,401,525
Expenses for compensating costs of employees	1,307,825
Expenses for services	5,682,612
Expenses for materials and energy	833,186
Other expenses	1,577,902
Depreciation expenses	724,646
Financial expenses	23,824
Other expenses	163,498

Source: Hanfa

10.1.1 Income

A total of 99% of income recorded in 2012 was accounted for by income pursuant to special regulations from other sources, realised from fees from assets and income of supervised entities, and from fees for the provision of services within Hanfa's competence. A major part of income realised pursuant to special regulations from other sources (84%) related to income pursuant to the Ordinance on the calculation, amount and charging of fees for 2012, while 15% of total income was generated pursuant to the Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency.

Table 10.2 shows that the largest share in total income (33%) was accounted for by income from pension fund management companies, a 13.32% share was made up of income from insurance companies, an 11% share referred to leasing companies, and a 10% share was accounted for investment fund management companies. Income from credit institutions made up 5.6% of total income, while income from the Zagreb Stock Exchange, Central Depository and Clearing Company, investment firms, factoring companies, pension insurance companies and insurance agents and brokers amounted to less than 3% of total Hanfa's income respectively.

Pursuant to the provisions of the Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency, Hanfa charges fees for services provided within its competence, pursuant to the powers laid down in acts regulating operation of its supervised entities.

Entities subject to the payment of the fees and administrative charges are Hanfa's supervised entities, including any other natural or legal persons who address Hanfa requesting it to take

measures from its scope of competence. The fees make a part of Hanfa's income, whereas administrative charges are paid into the State Budget of the Republic of Croatia.

A detailed overview of income from services provided in 2012 is presented in Table 10.3.

Table 10.3 Income from the provision of services within Hanfa's competence in 2012 (in HRK)

Basis for charging fees	Income
Act on the Takeover of Joint-Stock Companies	1,968,428
Capital Market Act	811,000
Investment Funds Act	475,000
Leasing Act	167,000
Insurance Act and Act on Compulsory Insurance Within the Transport Sector	2,671,583
Mandatory and Voluntary Pension Funds Act	238,000
Act on Pension Insurance Companies and Payment of Annuities Based on Individual Capitalised Savings	15,000
Act on the Croatian Financial Services Supervisory Agency (issuance of opinions and provision of copies of documents)	120,382
Total	6,466,393

Source: Hanfa

According to the data from the table above, the largest amount for the provision of services within Hanfa's competence was charged pursuant to the provisions of the Insurance Act and Act on Compulsory Insurance Within the Transport Sector (6.2% of total Hanfa's income), and the Act on the Takeover of Joint-Stock Companies (4.6% of total Hanfa's income).

10.1.2 Expenses

In 2012, Hanfa's expenses amounted to HRK 39,710,136, with the highest share in expenses being accounted for by expenses for employees (74%). Material expenses made up 24% of total expenses. Despite an increase in expenses related to Hanfa's membership of the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA), Hanfa's material expenses were by 10% lower than material costs planned for 2012.

Due to the accession of the Republic of Croatia to the European Union and obligations arising from Hanfa with respect to its membership of the said European supervisory authorities, a significant increase in costs and expenses is expected as of 2013, primarily due to Hanfa's contribution in EIOPA's and ESMA's budgets, participation of Hanfa's staff in their committees and trainings, IT development, etc.

Pursuant to the Act on Amendments to the Act on the Croatian Financial Services Supervisory Agency, excess of income over expenses at the end of a calendar year is paid into the State Budget. At the beginning of 2013, excess of income over expenses realised by Hanfa in the amount of HRK 3,053,112 was paid into the State Budget of the Republic of Croatia.



Council of the Croatian
Financial Services
Supervisory Agency

11 Council of the Croatian Financial Services Supervisory Agency

Pursuant to Article 11 of the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 145/05 and 12/12), Hanfa has a Council, acting as an externally advisory body.

The Council consists of nine members, three of them being appointed by the Government of the Republic of Croatia, and five by representatives of associations of supervised entities at the Croatian Chamber of Economy. The President of the Board of Hanfa is a member of the Council by virtue of his office.

Members of the Council:

President: Boris Galić, President of the Management Board of Allianz d.d. Zagreb

Members:

Boris Lalovac, Deputy Minister of Finance, Ministry of Finance of the Republic of Croatia,
Žana Pedić, Head of Financial System Division, Ministry of Finance of the Republic of Croatia,
Dubravko Štimac, President of the Management Board of PBZ Croatia osiguranje d.d. za upravljanje obveznim mirovinskim fondom,

Ivana Matovina, Director, Antares revizija d.o.o.,

Josip Glavaš, President of the Management Board of Erste Invest d.o.o.,

Ivan Tadin, President of the Management Board of Hita vrijednosnice d.d.,

Mirsad Latović, Member of the Management Board of Hypo-Alpe-Adria leasing d.o.o.,

Petar-Pierre Matek, President of the Board of Hanfa.

In 2012, the Council held three sessions (on 11 June, 14 September and 16 November), discussing issues related to legal and regulatory changes in financial industries.





Appendix

Appendix

Statistical Overview

Table A1 Number of investment funds (end of the period)

	2008	2009	2010	2011	2012
Open-ended investment funds	126	130	131	128	121
with public offering	98	103	101	103	96
cash	17	20	19	23	23
bond	14	10	9	8	8
balanced	19	20	20	18	18
equity	48	53	53	54	47
with private offering	26	25	23	18	18
cash	1	3	3		
bond	1	1	1	1	1
balanced	9	10	9	8	8
equity	15	11	10	9	9
Venture capital open-ended investment funds	2	2	7	7	7
Closed-ended investment funds	11	10	8	7	7
with public offering	4	4	4	4	4
with public offering for real-estate investments	7	6	4	3	3

Source: Hanfa

Table A2 Net assets of investment funds (in HRK thousand, end of period)

	2008	2009	2010	2011	2012
Open-ended investment funds	9,890,231	12,034,941	13,674,365	11,928,895	12,962,205
with public offering	9,322,244	11,406,884	13,007,723	11,490,705	12,615,617
cash	3,907,382	6,044,826	6,859,559	7,240,022	9,124,521
bond	510,977	554,761	1,180,904	723,421	446,683
balanced	2,150,291	1,929,278	1,945,398	1,361,556	1,107,755
equity	2,753,595	2,878,020	3,021,862	2,165,706	1,936,657
with private offering	567,986	628,057	666,642	438,190	346,588
cash	8,398	84,803	96,587		
bond	78,269	82,192	89,105	90,969	95,651
balanced	150,697	149,317	150,901	79,218	62,923
equity	330,623	311,745	330,049	268,003	188,014
Closed-ended investment funds	1,895,576	1,840,765	1,917,555	1,670,814	1,633,339
with public offering	1,298,848	1,309,651	1,402,567	1,217,383	1,285,090
with public offering for real-estate investments	596,729	531,114	514,989	453,431	348,249

Source: Hanfa

Table A3 Investment structure of open-ended investment funds with public offering as at 31 December 2012 (in HRK thousand)

Type of assets	Cash	Bond	Balanced	Equity	Total
Cash	438,576	47,874	80,625	124,484	691,559
Receivables	199,624	8,097	42,876	77,434	328,031
Securities and deposits	8,617,500	410,845	997,706	1,760,283	11,786,334
D o m e s t i c	8,591,715	221,532	547,589	550,642	9,911,478
Shares and GDRs	0	0	288,195	467,343	755,538
Government bonds	269,074	91,393	93,659	2,936	457,062
Municipal bonds	0	3,804	1,815	0	5,619
Corporate bonds	257,119	61,667	104,508	27,760	451,054
Closed-ended investment funds	0	0	1,067	372	1,439
Open-ended investment funds	99,969	1,743	28,219	30,246	160,177
Short-term securities	1,979,407	12,081	11,734	2,617	2,005,839
Deposits	5,986,146	50,844	18,392	19,368	6,074,751
F o r e i g n	25,785	189,313	450,117	1,209,641	1,874,856
Shares	0	0	209,591	1,000,009	1,209,600
Government bonds	0	79,029	87,605	59,359	225,993
Municipal bonds	0	0	0	0	0
Corporate bonds	0	62,346	46,370	51,490	160,205
Closed-ended investment funds	0	6,956	12,668	10,211	29,836
Open-ended investment funds	0	37,270	93,883	88,573	219,725
Short-term securities	25,785	3,712	0	0	29,497
Deposits	0	0	0	0	0
Other assets	0	0	101	61	162
TOTAL ASSETS	9,255,701	466,816	1,121,307	1,962,262	12,806,086
TOTAL LIABILITIES	131,180	20,133	13,552	25,605	190,470
Net assets	9,124,521	446,683	1,107,755	1,936,657	12,615,617
DERIVATIVES	34	263	219	1,390	1,907
REPURCHASE AGREEMENTS	110,198	0	0	1,001	111,198

Source: Hanfa

Table B1 Number of pension funds (end of period)

	2008	2009	2010	2011	2012
Mandatory pension funds	4	4	4	4	4
Open-ended voluntary pension funds	6	6	6	6	6
Closed-ended voluntary pension funds	15	15	15	15	17
Total	25	25	25	25	27

Source: Hanfa

Table B2 Pension funds' membership (end of period)

	2008	2009	2010	2011	2012
Mandatory pension funds	1,475,729	1,522,149	1,561,454	1,604,336	1,652,802
Open-ended voluntary pension funds	127,738	146,410	169,851	184,125	190,994
Closed-ended voluntary pension funds	17,285	17,733	17,618	18,155	23,146
Total	1,620,752	1,686,292	1,748,923	1,806,616	1,866,942

Source: Hanfa

Table B3 Net assets of pension funds (end of period, in HRK thousand)

	2008	2009	2010	2011	2012
Mandatory pension funds	22,590,933	29,264,636	36,328,054	41,067,099	51,133,725
Open-ended voluntary pension funds	799,665	1,144,809	1,472,212	1,642,130	1,987,416
Closed-ended voluntary pension funds	148,378	218,343	287,794	326,598	441,855
Total	23,538,977	30,627,788	38,088,061	43,035,827	53,562,996

Source: Hanfa

Table B4 Asset investment structure of mandatory pension funds (end of period, in HRK thousand)

Type of assets	2008	2009	2010	2011	2012
DOMESTIC ASSETS	20,920,792	26,572,709	32,580,847	36,473,475	45,095,783
Securities and deposits	20,633,823	26,181,820	32,396,114	36,103,618	44,313,250
Shares and GDRs	2,529,825	3,909,073	5,740,135	5,748,319	6,549,773
Government bonds	15,937,982	16,716,518	23,776,543	27,179,292	33,335,063
Municipal bonds	81,448	79,044	73,539	41,348	35,275
Corporate bonds	732,269	1,108,541	1,219,992	1,282,334	1,298,598
Closed-ended investment funds	56,909	69,272	67,927	21,869	16,396
Open-ended investment funds	373,285	1,031,757	550,914	1,033,923	896,621
Short-term securities	290,562	2,025,358	349,407	113,073	986,669
Deposits	631,543	1,242,256	617,655	683,459	1,194,854
Cash	265,500	375,189	111,361	228,283	531,306
Receivables	21,470	15,700	73,372	141,574	251,228
FOREIGN ASSETS	1,696,084	2,790,856	4,348,910	4,739,356	6,077,571
Shares	481,446	763,268	1,858,651	2,909,502	3,649,881
Government bonds	307,489	1,253,393	444,719	213,552	252,801
Municipal bonds	0	0	0	0	0
Corporate bonds	475,845	60,764	49,968	1,503	1,574
Closed-ended investment funds	0	0	0	0	0
Open-ended investment funds	431,303	713,432	1,995,571	1,614,799	2,173,314
Short-term securities	0	0	0	0	0
Deposits	0	0	0	0	0
TOTAL ASSETS	22,616,876	29,363,566	36,929,757	41,212,831	51,173,354
Net assets	22,590,933	29,264,636	36,328,054	41,067,099	51,133,725

Source: Hanfa

Table B5 Asset investment structure of voluntary open-ended pension funds (end of period, in HRK thousand)

Type of assets	2008	2009	2010	2011	2012
DOMESTIC ASSETS	744,502	981,424	1,283,511	1,503,137	1,780,000
Securities and deposits	727,049	962,589	1,255,358	1,462,983	1,728,871
Shares and GDRs	108,508	175,224	194,391	236,603	263,000
Government bonds	362,484	332,125	743,175	1,000,033	1,114,375
Municipal bonds	4,213	6,702	4,616	3,343	2,970
Corporate bonds	82,256	126,170	158,974	136,051	137,754
Closed-ended investment funds	3,061	3,283	5,403	2,053	1,539
Open-ended investment funds	9,031	102,878	31,654	40,773	101,961
Short-term securities	66,323	143,136	38,575	11,732	24,114
Deposits	91,172	73,071	78,571	32,395	83,158
Cash	17,290	15,778	27,618	27,475	36,960
Receivables	164	3,057	534	12,679	14,169
FOREIGN ASSETS	60,173	167,962	194,660	156,151	224,048
Shares	16,359	63,878	125,216	114,535	137,819
Government bonds	32,786	55,403	0	0	3,065
Municipal bonds	0	0	0	0	0
Corporate bonds	0	11,156	0	0	0
Closed-ended investment funds	0	0	0	0	0
Open-ended investment funds	11,027	37,526	69,444	41,616	83,164
Short-term securities	0	0	0	0	0
Deposits	0	0	0	0	0
TOTAL ASSETS	804,675	1,149,386	1,478,171	1,659,288	2,004,049
Net assets	799,665	1,144,809	1,472,212	1,642,130	1,987,416

Source: Hanfa

Table B6 Asset investment structure of voluntary closed-ended pension funds (end of period, in HRK thousand)

Type of assets	2008	2009	2010	2011	2012
DOMESTIC ASSETS	140,654	199,109	264,478	295,299	384,375
Securities and deposits	128,886	196,308	256,718	285,552	372,875
Shares and GDRs	11,803	20,880	26,180	43,664	51,530
Government bonds	60,146	53,846	149,603	181,256	234,688
Municipal bonds	94	243	85	0	0
Corporate bonds	12,370	19,222	21,485	22,160	15,204
Closed-ended investment funds	0	0	0	100	75
Open-ended investment funds	8,427	27,531	26,855	23,350	30,732
Short-term securities	18,654	50,529	13,060	4,237	21,657
Deposits	17,391	24,056	19,450	10,785	18,988
Cash	8,971	2,363	7,741	7,610	9,941
Receivables	2,798	438	19	2,137	1,559
FOREIGN ASSETS	9,997	19,599	23,744	33,662	58,575
Shares	1,863	11,926	22,112	20,364	35,003
Government bonds	7,035	5,459	0	0	5,001
Municipal bonds	0	0	0	0	0
Corporate bonds	0	1,159	0	0	0
Closed-ended investment funds	0	0	0	0	0
Open-ended investment funds	1,099	1,055	1,632	13,299	18,570
Short-term securities	0	0	0	0	0
Deposits	0	0	0	0	0
TOTAL ASSETS	150,651	218,707	288,222	328,961	442,949
Net assets	148,378	218,343	287,794	326,598	441,855

Source: Hanfa

Table C1 Share of insurance and reinsurance companies' assets in total assets (in HRK thousand)

Insurance and reinsurance companies	Life	Non-life	Total	Share in assets of all companies	Life	Non-life	Total	Share in assets of all companies	Total index 2011/2010
	31 Dec 2011				31 Dec 2011				
1	2	3	4 (2+3)	5	6	7	8 (6+7)	9	10
Agram životno osiguranje d.d.	1,412,066		1,412,066	4.42%	1,505,766	0	1,505,766	4.42%	106,64
Allianz Zagreb d.d.	2,040,841	1,277,861	3,318,702	10.40%	2,341,183	1,339,390	3,680,573	10.81%	110,90
Basler osiguranje Zagreb d.d.	1,711,308	459,367	2,170,675	6.80%	1,858,079	487,340	2,345,418	6.89%	108,05
BNP Paribas Cardif osiguranje d.d.		138,131	138,131	0.43%	0	179,763	179,763	0.53%	130,14
Croatia osiguranje d.d.	1,991,612	5,808,141	7,799,753	24.43%	2,113,558	6,041,412	8,154,970	23.95%	104,55
Croatia zdravstveno osiguranje d.d.		121,965	121,965	0.38%	0	123,216	123,216	0.36%	101,03
ERGO osiguranje d.d.		32,500	32,500	0.10%	0	32,027	32,027	0.09%	98,55
ERGO životno osiguranje d.d.	155,845		155,845	0.49%	173,719	0	173,719	0.51%	111,47
Erste osiguranje VIG d.d.	390,936		390,936	1.23%	488,102	0	488,102	1.43%	124,85
Euroherc osiguranje d.d.		2,842,529	2,842,529	8.90%	0	2,879,068	2,879,068	8.46%	101,29
Generali osiguranje d.d.	577,242	308,858	886,100	2.78%	663,799	358,425	1,022,224	3.00%	115,36
Grawe Hrvatska d.d.	2,247,299	401,052	2,648,351	8.30%	2,403,492	421,419	2,824,911	8.30%	106,67
Helios VIG d.d.	853,792	210,471	1,064,263	3.33%	875,990	248,183	1,124,173	3.30%	105,63
HOK osiguranje d.d.		300,684	300,684	0.94%	0	338,776	338,776	0.99%	112,67
Hrvatsko kreditno osiguranje d.d.		42,401	42,401	0.13%	0	45,534	45,534	0.13%	107,39
Izvor osiguranje d.d.		45,128	45,128	0.14%	0	73,242	73,242	0.22%	162,30
Jadransko osiguranje d.d.		1,766,551	1,766,551	5.53%	0	1,814,017	1,814,017	5.33%	102,69
KD životno osiguranje d.d.	35,103		35,103	0.11%	43,499	0	43,499	0.13%	123,92
Kvarner VIG d.d.	1,324,632	793,293	2,117,925	6.64%	1,421,952	728,055	2,150,007	6.31%	101,51
Merkur osiguranje d.d.	1,907,132	96,065	2,003,197	6.28%	2,122,066	93,314	2,215,379	6.51%	110,59
Societe Generale osiguranje d.d.	82,027		82,027	0.26%	108,986	0	108,986	0.32%	132,87
Sunce osiguranje d.d.		383,534	383,534	1.20%	0	373,639	373,639	1.10%	97,42
Triglav osiguranje d.d.	364,948	675,997	1,040,945	3.26%	418,020	639,627	1,057,647	3.11%	101,60
Uniqa osiguranje d.d.	639,992	298,470	938,462	2.94%	710,273	331,241	1,041,514	3.06%	110,98
Velebit osiguranje d.d.		136,285	136,285	0.43%	0	152,283	152,283	0.45%	111,74
Velebit životno osiguranje d.d.	48,589		48,589	0.15%	58,825	0	58,825	0.17%	121,07
Wüstenrot životno osiguranje d.d.				0.00%	42,653	0	42,653	0.13%	-
Croatia Lloyd d.d.		982,147	982,147	100.00%	0	907,770	907,770	2.67%	92,43
TOTAL insurance companies	15,783,364	16,139,283	31,922,647	100.00%	17,349,962	16,699,970	34,049,932	100.00%	106,66
TOTAL reinsurance companies		982,147	982,147	100.00%	0	907,770	907,770	2.67%	92,43
TOTAL	15,783,364	17,121,430	32,904,794		17,349,962	17,607,741	34,957,702	102.67%	106,24

Source: Hanfa

Table C2 Overview of gross written premium of life and non-life insurance (in HRK thousand)

Insurance and reinsurance companies	Life assurance		Non-life insurance		Share in premium of all companies in %		Share in premium of all companies in %		Total		Share in premium of all companies in %			
	1 Jan 2011 - 31 Dec 2011	1 Jan 2012 - 31 Dec 2012	1 Jan 2011 - 31 Dec 2011	1 Jan 2012 - 31 Dec 2012	1 Jan 2011 - 31 Dec 2011	1 Jan 2012 - 31 Dec 2012	1 Jan 2011 - 31 Dec 2011	1 Jan 2012 - 31 Dec 2012	1 Jan 2011 - 31 Dec 2011	1 Jan 2012 - 31 Dec 2012	1 Jan 2011 - 31 Dec 2011	1 Jan 2012 - 31 Dec 2012		
	2	3	4 (3/2)	5	6	7	8	9 (8/7)	10	11	12 (2+7)	13 (3+8)	14 (13/12)	
1													15	16
Agram životno osiguranje d.d.	200,740	203,283	101.27	8.25	8.26						200,740	203,283	101.27	2.25
Allianz Zagreb d.d.	373,394	410,015	109.81	15.36	16.66	652,158	679,339	104.17	9.73	10.34	1,025,552	1,089,354	106.22	11.23
Basler osiguranje Zagreb d.d.	200,788	200,421	99.82	8.26	8.14	210,754	203,581	96.60	3.14	3.10	411,542	404,001	98.17	4.50
BNP Paribas Cardif osiguranje d.d.	341,732	363,819	106.46	14.05	14.78	2,447,129	2,343,874	95.78	36.49	35.66	2,788,861	2,707,694	97.09	30.52
Croatia osiguranje d.d.				0.00	0.00	68,245	75,630	110.82	1.02	1.15	68,245	75,630	110.82	0.75
Croatia zdravstveno osiguranje d.d.				0.00	0.00	97,276	98,752	101.52	1.45	1.50	97,276	98,752	101.52	1.07
ERGO osiguranje d.d.				4.29	0.00	1,346	1,179	87.60	0.00	0.02	1,346	1,179	87.60	1.14
ERGO životno osiguranje d.d.	43,289	20,767	47.97	0.00	0.84				14.92	0.00	43,289	20,767	47.97	10.95
Erste osiguranje VIG d.d.	104,333	115,726	110.92	5.17	4.70				2.96	0.00	104,333	115,726	110.92	3.55
Euroherc osiguranje d.d.				10.12	0.00	1,000,198	976,173	97.60	2.19	14.85	1,000,198	976,173	97.60	4.30
Generall osiguranje d.d.	125,618	117,279	93.36	5.07	4.77	198,564	219,223	110.40	0.79	3.34	324,182	336,501	103.80	1.93
Grawe Hrvatska d.d.	245,928	250,733	101.95	0.00	10.19	146,752	140,971	96.06	2.63	2.14	392,680	391,703	99.75	1.93
Helios VIG d.d.	123,157	115,234	93.57	0.00	0.00	52,915	64,716	122.30	0.10	0.98	176,072	179,951	102.20	0.07
HOK osiguranje d.d.				0.00	0.00	176,673	185,725	105.12	0.28	2.83	176,673	185,725	105.12	0.20
Hrvatsko kreditno osiguranje d.d.				0.00	0.00	6,687	7,678	114.82	9.55	0.12	6,687	7,678	114.82	7.01
Izvor osiguranje d.d.				0.50	0.00	18,640	32,116	172.29	0.00	0.49	18,640	32,116	172.29	0.13
Jadransko osiguranje d.d.				7.69	0.00	640,079	627,013	97.96	3.90	9.54	640,079	627,013	97.96	4.90
KD životno osiguranje d.d.	12,268	15,849	129.19	10.49	0.64				0.44	0.00	12,268	15,849	129.19	3.12
Kvarner VIG d.d.	186,845	170,536	91.27	1.55	6.93	261,250	241,474	92.43	0.00	3.67	448,095	412,010	91.95	0.41
Merkur osiguranje d.d.	255,033	254,797	99.91	0.00	10.35	29,766	30,505	102.48	2.57	0.46	284,799	285,302	100.18	1.89
Societe Generale osiguranje d.d.	37,793	42,063	111.30	2.94	1.71				4.84	0.00	37,793	42,063	111.30	4.33
Sunce osiguranje d.d.				4.15	0.00	172,441	168,076	97.47	1.98	2.56	172,441	168,076	97.47	2.56
Triglav osiguranje d.d.	71,491	68,941	96.43	0.00	2.80	324,461	278,921	85.96	1.00	4.24	395,952	347,862	87.85	0.74
Unica osiguranje d.d.	100,850	93,749	92.96	0.33	3.81	132,810	132,340	99.65	0.00	2.01	233,660	226,089	96.76	0.09
Velebit osiguranje d.d.				0.00	0.00	67,108	65,241	97.22	0.02	0.99	67,108	65,241	97.22	0.01
Velebit životno osiguranje d.d.	8,009	11,124	138.90	1.78	0.45				0.00	0.00	8,009	11,124	138.90	0.47
Wüstenrot životno osiguranje d.d.				0.00	0.28				0.00	0.00		6,818		0.00
Croatia Lloyd d.d.				0.00	0.00	473,844	427,744	90.27	100.00	100.00	473,844	427,744	4.68	100.00
TOTAL insurance companies	2,431,268	2,461,154	101.23	100.00	100.00	6,705,252	6,572,527	98.02	100.00	100.00	9,136,520	9,033,681	98.87	100.00
TOTAL reinsurance companies				100.00	0.00	473,844	427,744	90.27	100.00	100.00	473,844	427,744	90.27	100.00
TOTAL	2,431,268	2,461,154	101.23	100.00	100.00	7,179,096	7,000,270	97.51	100.00	106.51	9,610,364	9,461,424	98.45	100.00

Source: Hanfa

Table C3 Profit or loss of insurance and reinsurance companies (in HRK thousand)

Insurance and reinsurance companies	Life		Non-life		Total		Index 2012/2011
	1 Jan 2011 -31 Dec 2011	1 Jan 2012 -31 Dec 2012	1 Jan 2011 -31 Dec 2011	1 Jan 2012 -31 Dec 2012	1 Jan 2011 -31 Dec 2011	1 Jan 2012 -31 Dec 2012	
1	2	3	4	5	6 (2+4)	7 (3+5)	8
Agram životno osiguranje d.d.	53,009	40,212		0	53,009	40,212	75.86
Allianz Zagreb d.d.	20,292	15,432	72,761	75,265	93,053	90,697	97.47
Basler osiguranje Zagreb d.d.	-52,308	-22,233	-57,839	-29,022	-110,147	-51,254	46.53
BNP Paribas Cardif osiguranje d.d.			4,051	8,104	4,051	8,104	200.03
Croatia osiguranje d.d.	4,647	8,381	74,020	110,044	78,667	118,425	150.54
Croatia zdravstveno osiguranje d.d.			3,162	2,988	3,162	2,988	94.50
ERGO osiguranje d.d.			-749	-984	-749	-984	131.41
ERGO životno osiguranje d.d.	-449	-1,497		0	-449	-1,497	333.72
Erste osiguranje VIG d.d.	5,026	8,289		0	5,026	8,289	164.93
Euroherc osiguranje d.d.		0	183,751	136,875	183,751	136,875	74.49
Generali osiguranje d.d.	796	2,981	1,833	1,628	2,629	4,609	175.31
Grawe Hrvatska d.d.	20,820	18,759	10,653	13,527	31,473	32,286	102.58
Helios VIG d.d.	23,480	14,424	9,280	8,528	32,760	22,951	70.06
HOK osiguranje d.d.			12,462	18,501	12,462	18,501	148.46
Hrvatsko kreditno osiguranje d.d.			-989	-484	-989	-484	48.93
Izvor osiguranje d.d.			-11,988	-13,352	-11,988	-13,352	111.38
Jadransko osiguranje d.d.			93,867	80,486	93,867	80,486	85.75
KD životno osiguranje d.d.	-8,568	-5,111			-8,568	-5,111	59.65
Kvarner VIG d.d.	-29,598	-1,101	-62,534	2,262	-92,132	1,162	-1.26
Merkur osiguranje d.d.	21,321	28,986	4,479	3,889	25,800	32,875	127.42
Societe Generale osiguranje d.d.	3,144	7,637			3,144	7,637	242.93
Sunce osiguranje d.d.			9,431	7,711	9,431	7,711	81.76
Triglav osiguranje d.d.	13,575	10,868	-12,888	-20,639	687	-9,771	-1.422.05
Uniqa osiguranje d.d.	1,214	5,081	42	487	1,256	5,568	443.36
Velebit osiguranje d.d.			-18,488	-5,376	-18,488	-5,376	29.08
Velebit životno osiguranje d.d.	-9,262	-6,814			-9,262	-6,814	73.57
Wüstenrot životno osiguranje d.d.		-5,463				-5,463	
Croatia Lloyd d.d.			28,851	26,669	28,851	26,669	92.44
Total insurance companies	67,139	118,830	314,317	400,440	381,456	519,270	136.13
Total reinsurance companies			28,851	26,669	28,851	26,669	100.00
TOTAL	67,139	118,830	343,168	427,109	410,307	545,939	133.59

Source: Hanfa

Table C4 Net technical provisions of insurance and reinsurance companies (in HRK thousand)

Insurance and reinsurance companies	Technical provisions, net amount		Provisions for unearned premiums, net amount		Mathematical provisions, net amount		Provisions for claims outstanding, net amount		Provisions for bonuses and rebates, net amount		Equalisation provisions, net amount		Other technical provisions, net amount	
	31 Dec 2011	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011	31 Dec 2012
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Agram životno osiguranje d.d.	1,052,177	1,124,945	4,919	5,100	1,026,381	1,099,862	18,877	19,984						
Allianz Zagreb d.d.	2,244,980	2,428,114	264,194	273,169	1,501,407	1,677,024	477,787	476,184	1,243	1,350		35	349	350
Basler osiguranje Zagreb d.d.	1,903,065	1,918,630	104,502	101,420	1,538,396	1,562,745	259,041	253,408					1,126	1,057
BNP Paribas Cardif osiguranje d.d.	99,544	117,974			86,381	104,873	13,163	13,100						
Croatia osiguranje d.d.	5,294,303	5,371,450	903,067	888,821	1,816,417	1,920,031	2,551,392	2,543,045				1,726	23,427	37,827
Croatia zdravstveno osiguranje d.d.	56,195	54,591	44,846	44,202			6,469	6,890	4,880	3,500				
ERGO osiguranje d.d.	1,135	1,499	518	417			617	713						369
ERGO životno osiguranje d.d.	19,911	20,997			19,864	20,973	47	23						
Erste osiguranje VIG d.d.	312,406	363,333	108	95	310,609	360,528	1,889	2,709						
Euroharc osiguranje d.d.	1,495,286	1,465,955	539,826	533,123		0	955,460	932,240		236		357		
Generali osiguranje d.d.	686,979	736,108	73,908	70,967	504,970	556,799	105,134	107,008	2,967	1,333				
Grave Hrvatska d.d.	2,226,872	2,312,291	63,633	60,839	1,971,551	2,051,610	191,688	199,043						800
Helios VIG d.d.	753,089	736,227	15,084	17,195	675,309	660,023	62,338	58,596				358	413	
HOK osiguranje d.d.	212,832	229,384	84,042	88,755			127,870	139,907					920	722
Hrvatsko kreditno osiguranje d.d.	1,537	2,807	375	665			940	1,769	80	84	142	289		
Izvor osiguranje d.d.	12,315	23,483	9,451	12,740			2,864	10,743						
Jadransko osiguranje d.d.	841,068	831,881	328,272	325,139			512,796	505,968		645		129		
KD životno osiguranje d.d.	2,402	3,164	29	26	1,615	2,226	758	912						
Kvarner VIG d.d.	822,974	815,225	72,089	64,152	581,885	600,802	166,801	147,572					2,199	2,700
Merkur osiguranje d.d.	1,748,311	1,836,453	13,294	13,695	1,652,416	1,749,592	82,574	74,144			27	22		
Societe Generale osiguranje d.d.	38,488	51,648	7	91	36,078	48,118	2,403	3,440						
Sunce osiguranje d.d.	187,290	186,040	81,014	80,582			106,236	105,231	40	179		48		
Triglav osiguranje d.d.	601,164	595,626	129,450	120,394	233,611	249,822	223,774	208,338		130			14,329	16,941
Unica osiguranje d.d.	468,322	511,459	39,832	37,598	392,294	434,234	35,595	38,831	601	797				
Velebit osiguranje d.d.	76,854	83,842	28,256	27,860			48,367	55,982						
Velebit životno osiguranje d.d.	19,239	20,024	47	18	18,891	19,402	301	604					231	
Wüstenrot životno osiguranje d.d.		3,826		77		3,649		100						
Croatia Lloyd d.d.	375,587	20,803	37,312	37,495			295,057	294,088	218	280			43,000	44,000
Total insurance companies	21,178,738	21,846,973	2,800,763	2,747,138	13,121,311	13,121,311	5,954,981	5,906,485	9,811	8,253	527	3,019	42,581	60,766
Total reinsurance companies	375,587	20,803	37,312	37,495			295,057	294,088	218	280			43,000	44,000
TOTAL	21,554,325	21,867,776	2,838,075	2,784,634	13,121,311	13,121,311	6,250,038	6,200,573	10,029	8,534	527	3,019	85,581	104,766

Source: Hanfa

Table C5 Capital to solvency margin ratio of insurance and reinsurance companies as at 31 December 2012 (in HRK thousand)

Insurance and reinsurance companies	Capital (Article 94 of the Insurance Act)		Solvency margin (Articles 98 and 99 of the Insurance Act)		Solvency margin deviation (>=)	
	Life	Non-life	Life	Non-life	Life	Non-life
1	2	3	4	5	6 (2-4)	7 (3-5)
Agram životno osiguranje d.d.	198,762		54,562		-144,199	
Allianz Zagreb d.d.	178,280	245,908	89,893	104,611	-88,387	-141,298
Basler osiguranje Zagreb d.d.	160,841	87,597	75,925	39,886	-84,917	-47,711
BNP Paribas Cardif osiguranje d.d.		33,511		13,613		-19,898
Croatia osiguranje d.d.	124,593	593,960	90,183	363,430	-34,410	-230,530
Croatia zdravstveno osiguranje d.d.		57,911		17,891		-40,020
ERGO osiguranje d.d.		27,645		199		-27,445
ERGO životno osiguranje d.d.	33,442		1,745		-31,697	
Erste osiguranje VIG d.d.	51,816		18,361		-33,455	
Euroherc osiguranje d.d.		400,098		164,958		-235,140
Generali osiguranje d.d.	49,065	49,585	27,649	32,970	-21,416	-16,615
Grawe Hrvatska d.d.	182,872	76,717	92,758	24,304	-90,114	-52,413
Helios VIG d.d.	101,939	38,789	36,258	5,898	-65,681	-32,891
HOK osiguranje d.d.		46,575		34,209		-12,366
Hrvatsko kreditno osiguranje d.d.		33,224		691		-32,533
Izvor osiguranje d.d.		25,858		5,074		-20,784
Jadransko osiguranje d.d.		140,451		108,493		-31,958
KD životno osiguranje d.d.	24,033		2,066		-21,967	
Kvarner VIG d.d.	135,620	149,223	37,326	35,056	-98,294	-114,167
Merkur osiguranje d.d.	164,827	33,310	85,944	4,108	-78,883	-29,202
Societe Generale osiguranje d.d.	40,244		11,264		-28,980	
Sunce osiguranje d.d.		91,810		31,590		-60,220
Triglav osiguranje d.d.	49,899	67,122	14,504	53,021	-35,394	-14,101
Uniqa osiguranje d.d.	43,546	40,362	22,199	12,358	-21,347	-28,005
Velebit osiguranje d.d.		41,490		10,001		-31,489
Velebit životno osiguranje d.d.	34,269		1,398		-32,870	
Wüstenrot životno osiguranje d.d.	36,718		503		-36,215	
Croatia Lloyd d.d.		93,432		46,794		-46,638

Source: Hanfa

Table C6 Basic insurance-technical indicators – Life assurance

No.	Insurance and reinsurance companies	Claims ratio (%)		Expense ratio (%)		Combined ratio (%)		Return on investment (%)		Debt ratio		ROE (%)		ROA (%)	
		2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1	Agram životno osiguranje d.d.	80.41	84.02	20.61	23.61	101.02	107.63	4.92	4.47	0.78	0.78	20.65	13.60	3.75	2.67
2	Allianz Zagreb d.d.	89.84	93.31	33.64	34.40	123.48	127.71	6.51	6.51	0.92	0.89	14.60	6.11	0.99	0.66
3	Basler osiguranje Zagreb d.d.	127.22	95.29	35.14	30.81	162.36	126.10	4.83	2.15	0.93	0.88	-30.49	-8.97	-3.06	-1.20
4	BNP Paribas Cardif osiguranje d.d.														
5	Croatia osiguranje d.d.	101.76	97.68	27.56	27.83	129.32	125.51	5.45	5.13	0.94	0.94	4.19	7.04	0.23	0.40
6	Croatia zdravstveno osiguranje d.d.														
7	ERGO osiguranje d.d.														
8	ERGO životno osiguranje d.d.	93.86	118.36	18.85	40.41	112.71	158.77	8.70	19.28	0.78	0.80	-1.28	-4.18	-0.29	-0.86
9	Erekte osiguranje VIG d.d.	88.48	93.57	24.77	24.06	113.25	117.63	5.29	6.35	0.87	0.84	11.12	11.67	1.29	1.70
10	Euroherc osiguranje d.d.														
11	Generali osiguranje d.d.	83.44	81.15	44.75	45.53	128.19	126.68	6.40	5.26	0.93	0.90	2.05	4.71	0.14	0.45
12	Grawe Hrvatska d.d.	125.28	116.84	25.65	28.13	150.93	144.97	7.17	6.14	0.92	0.90	13.57	8.40	0.93	0.78
13	Helios VIG d.d.	79.88	84.26	55.07	56.73	134.95	140.99	8.07	7.41	0.85	0.83	21.70	10.41	2.75	1.65
14	HOK osiguranje d.d.														
15	Hrvatsko kreditno osiguranje d.d.														
16	Izvor osiguranje d.d.														
17	Jadransko osiguranje d.d.														
18	KD životno osiguranje d.d.	32.08	61.28	123.08	96.14	155.16	157.42	-7.25	11.33	0.31	0.43	-26.08	-17.14	-24.41	-11.75
19	Kvarner VIG d.d.	82.31	80.37	71.41	77.49	153.72	157.86	2.94	5.77	0.91	0.89	-19.07	-0.68	-2.23	-0.08
20	Merkur osiguranje d.d.	102.67	94.28	26.26	26.77	128.93	121.05	5.24	4.32	0.92	0.88	17.28	12.61	1.12	1.37
21	Societe Generale osiguranje d.d.	47.48	37.51	54.66	50.56	102.14	88.07	5.07	4.36	0.51	0.52	8.46	17.27	3.83	7.01
22	Sunce osiguranje d.d.														
23	Triglav osiguranje d.d.	85.91	96.68	21.65	22.72	107.56	119.40	6.55	7.55	0.88	0.85	44.94	21.78	3.72	2.60
24	Unica osiguranje d.d.	92.65	95.20	47.48	42.63	140.13	137.83	6.96	5.78	0.95	0.91	3.63	8.84	0.19	0.72
25	Velebit osiguranje d.d.														
26	Velebit životno osiguranje d.d.	38.71	42.76	150.61	116.71	189.32	159.47	-6.29	-0.74	0.46	0.40	-26.22	-16.17	-19.06	-11.58
27	Wüstenrot životno osiguranje d.d.														
28	Croatia Lloyd d.d.														
	TOTAL	96.58	93.12	34.59	35.38	131.17	128.50	5.73	5.24	0.90	0.87	4.46	5.64	0.43	0.68

Source: Hanfa

Table C7 Basic insurance-technical indicators – Non-life insurance

No.	Insurance and reinsurance companies	Claims ratio (%)		Expense ratio (%)		Combined ratio (%)		Return on investment (%)		Debt ratio		ROE (%)		ROA (%)	
		2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1	Agram životno osiguranje d.d.														
2	Allianz Zagreb d.d.	46.98	43.04	47.31	48.41	94.29	91.45	5.44	3.49	0.74	0.72	27.95	24.73	5.69	5.62
3	Basler osiguranje Zagreb d.d.	56.91	52.71	58.34	58.41	115.25	111.12	-10.87	-2.04	0.85	0.79	-45.04	-22.05	-12.59	-5.96
4	BNP Paribas Cardif osiguranje d.d.	50.16	36.42	52.96	59.76	103.12	96.18	5.54	3.99	0.76	0.75	13.79	21.75	2.93	4.51
5	Croatia osiguranje d.d.	57.78	58.79	45.55	44.51	103.33	103.30	3.56	3.44	0.74	0.73	5.10	7.27	1.27	1.82
6	Croatia zdravstveno osiguranje d.d.	60.41	62.20	34.97	37.77	95.38	99.97	2.05	3.25	0.51	0.50	5.60	5.11	2.59	2.43
7	ERGO osiguranje d.d.	44.87	47.68	263.96	331.06	308.83	378.74	5.61	5.81	0.13	0.12	-2.57	-3.36	-2.30	-3.07
8	ERGO životno osiguranje d.d.														
9	Erste osiguranje VIG d.d.														
10	Euroherc osiguranje d.d.	34.94	35.53	51.08	53.39	86.02	88.92	4.05	2.62	0.68	0.65	25.17	15.93	6.46	4.75
11	Generali osiguranje d.d.	49.10	50.18	58.10	66.05	107.20	116.23	6.03	5.22	0.84	0.84	3.86	2.88	0.59	0.45
12	Grawe Hrvatska d.d.	56.81	53.52	55.46	62.41	112.27	115.93	6.33	5.59	0.81	0.78	15.81	17.37	2.66	3.21
13	Helios VIG d.d.	30.94	45.43	84.32	80.81	115.26	126.24	4.41	5.11	0.83	0.79	35.60	20.06	4.41	3.44
14	HOK osiguranje d.d.	51.41	47.58	41.24	43.75	92.65	91.33	3.07	5.26	0.84	0.82	34.69	42.03	4.14	5.46
15	Hrvatsko kreditno osiguranje d.d.	99.95	69.79	202.15	199.21	302.10	269.00	4.46	4.67	0.16	0.22	-2.69	-1.35	-2.33	-1.06
16	Izvor osiguranje d.d.	109.33	68.38	101.02	92.69	210.35	161.07	7.07	5.14	0.40	0.64	-30.69	-33.32	-26.56	-18.23
17	Jaadransko osiguranje d.d.	37.06	36.92	51.69	52.69	88.75	89.61	3.15	2.73	0.61	0.60	15.93	12.41	5.31	4.44
18	KD životno osiguranje d.d.														
19	Kvarner VIG d.d.	66.23	49.88	101.54	86.27	167.77	136.15	-2.04	1.19	0.82	0.78	-30.43	1.45	-7.88	0.31
20	Merkur osiguranje d.d.	45.40	43.65	61.60	65.36	107.00	109.01	6.96	6.19	0.62	0.59	13.85	11.30	4.66	4.17
21	Societe Generale osiguranje d.d.														
22	Sunce osiguranje d.d.	70.90	63.85	33.95	38.71	104.85	102.56	6.18	3.81	0.65	0.64	7.54	6.04	2.46	2.06
23	Triglav osiguranje d.d.	62.15	67.13	47.28	51.19	109.43	118.32	2.24	4.73	0.87	0.88	-13.15	-21.81	-1.91	-3.23
24	Unica osiguranje d.d.	60.40	51.77	102.95	96.37	163.35	148.14	5.46	5.80	0.90	0.85	0.15	1.00	0.01	0.15
25	Velebit osiguranje d.d.	70.58	53.13	62.86	63.11	133.44	116.24	-1.57	1.74	0.86	0.79	-49.48	-14.36	-13.57	-3.53
26	Velebit životno osiguranje d.d.														
27	Wüstenrot životno osiguranje d.d.														
28	Croatia Lloyd d.d.	68.32	81.87	37.03	40.48	105.35	122.35	4.87	5.18	0.71	0.68	11.36	10.21	2.94	2.94
	TOTAL	51.31	50.55	50.05	50.88	101.36	101.43	3.41	3.29	0.73	0.71	7.97	9.21	2.00	2.43

Source: Hanfa

Table D1 Total assets of leasing companies (in HRK thousand)

Item / Date	31 Dec 2011 ¹	31 Dec 2012
FIXED ASSETS	17,670,518	15,278,343
INTANGIBLE ASSETS	29,841	25,648
TANGIBLE ASSETS	7,179,109	6,246,508
Tangible assets in preparation (investments in progress)	47,438	64,583
Tangible assets leased out under an operating lease	7,023,836	6,084,128
Property	1,102,221	1,299,539
Passenger cars	3,872,561	3,105,950
Commercial vehicles	713,297	560,565
Vessels	724,072	590,133
Aircraft	7,685	7,441
Plant, machinery, transport machines and equipment	597,770	519,806
Other	6,229	695
Other tangible assets	104,335	93,583
Foreclosed assets	3,500	4,213
LONG-TERM FINANCIAL ASSETS	837,843	643,796
Investments in branches, associates and joint ventures	41,852	29,702
Investment in long-term securities	150,177	150,215
Long term loans	600,183	441,515
Long term deposits	14,735	14,926
Other long-term financial assets	30,896	7,439
LONG-TERM RECEIVABLES	9,491,059	8,228,626
Receivables under finance lease	9,490,769	8,228,369
Other long-term receivables	290	258
DEFERRED TAX ASSETS	132,666	133,765
SHORT-TERM ASSETS	7,649,499	6,658,270
INVENTORY	620,254	819,084
SHORT-TERM RECEIVABLES	4,805,353	4,151,004
Receivables under operating lease	241,355	186,438
Receivables under finance lease	4,354,914	3,781,356
State and other institutions receivables	82,082	35,182
Other short-term receivables	127,002	148,028
SHORT-TERM FINANCIAL ASSETS	1,828,188	1,224,666
Investments in branches, associates and joint ventures	0	0
Investments in securities	210,961	21,498
Loans granted	1,042,239	983,367
Deposits given	538,859	210,194
Other short-term financial assets	36,128	9,607
CASH AT BANK AND IN HAND	395,704	463,516
PREPAYMENTS AND ACCRUED INCOME	276,057	222,656
TOTAL ASSETS	25,596,075	22,159,270
Off-balance sheet items	4,470,495	9,027,980

¹ Data submitted in the reports as at 31 December 2012.

Source: Hanfa

Table D2 Total liabilities of leasing companies (in HRK thousand)

Item / Date	31 Dec 2011 ¹	31 Dec 2012
CAPITAL AND RESERVES	866.568	1.116.534
Subscribed capital	725.749	703.332
of which owned by non-residents	582.641	570.976
Revaluation reserves	12.453	12.453
Other reserves	2.263.468	2.469.783
Retained profit/loss brought forward	-2.003.673	-2.162.817
Profit/loss for the year	-131.429	93.783
PROVISIONS	95.492	127.511
LONG-TERM LIABILITIES	15.591.573	12.445.144
Foreign banks and financial institutions long-term loans	13.798.735	11.150.067
Domestic banks and financial institutions long-term loans	838.833	686.603
Liabilities for advances in respect of lease	5.326	6.948
Liabilities for deposits and guarantees in respect of lease	923.624	577.199
Liabilities for issued securities	0	0
Other long-term liabilities	11.215	17.348
Deferred tax liability	13.840	6.979
SHORT-TERM LIABILITIES	8.621.750	8.029.742
Foreign banks and financial institutions loans	7.655.848	7.005.463
Domestic banks and financial institutions loans	326.592	434.658
Liabilities for short-term securities	0	0
Liabilities for advances in respect of lease	50.343	50.184
Liabilities for deposits and guarantees in respect of lease	391.912	328.536
Other short-term liabilities	197.055	210.900
ACCRUALS AND DEFERRED INCOME	420.692	440.340
TOTAL LIABILITIES	25.596.075	22.159.270
Off-balance sheet items	4.470.495	9.027.980
CAPITAL AND RESERVES	740.026	270.108
Attributable to owners of the parent	740.026	270.108
Attributable to non-controlling interests	0	0

¹ Data submitted in the reports as at 31 December 2012.

Source: Hanfa

Table D3 Statement of comprehensive income of leasing companies (in HRK thousand)

Item/ Period	1 Jan - 31 Dec 2011 ¹	1 Jan- 31 Dec 2012
INTEREST INCOME	1,108,193	946,640
Interest income - finance lease	924,570	787,887
Interest income - loans granted	98,097	73,419
Other interest income	85,526	85,334
INTEREST EXPENSES	720,659	596,357
Interest expenses on credits from domestic banks and financial institutions	50,404	54,756
Interest expenses on credits from foreign banks and financial institutions	650,414	533,140
Other interest expenses	19,841	8,462
PROFIT/LOSS ON INTEREST	387,534	350,283
PROFIT FROM COMMISSIONS AND FEES	87,282	57,984
EXPENSES ON COMMISSIONS AND FEES	33,953	31,083
PROFIT/LOSS ON COMMISSIONS AND FEES	53,329	26,901
OTHER OPERATING INCOME	2,844,316	2,445,494
Income from operating lease	2,513,220	2,116,999
Profit from sale of assets - operating lease	117,042	117,996
Profit from sale of assets - finance lease	25,407	32,382
Profit from reimbursable lease expenses	20,005	17,641
Profit from exchange rate differences	7,092	5,966
Other income	161,550	154,509
OTHER OPERATING EXPENSES	2,760,102	2,407,947
Loss on sale of assets - operating lease	26,133	23,060
Loss on sale of assets - finance lease	1,939	11,637
Loss on reimbursable lease expenses	8,167	7,127
Loss on exchange rate differences	195,569	81,492
Costs for depreciation of assets under an operating lease	1,796,341	1,526,009
Costs for depreciation of other assets	22,126	16,337
Staff costs	241,762	223,872
Overheads and administrative operating costs	288,200	269,881
Other expenses	179,864	248,531
PROFIT/LOSS ON OTHER INCOME AND EXPENSES	84,214	37,547
PROFIT/LOSS BEFORE EXPENSES ON VALUE ADJUSTMENT FOR IMPAIRMENT LOSSES	525,077	414,731
Costs for value adjustment for impairment losses	638,343	244,931
PROFIT/LOSS BEFORE PROFIT TAX	-113,266	169,800
Profit tax	18,163	76,017
PROFIT/LOSS AFTER PROFIT TAX	-131,429	93,783
Attributable to owners of the parent	0	0
Attributable to non-controlling interests	0	0
OTHER COMPREHENSIVE INCOME	1,667	-1,856
Change in revaluation reserves (property, plant, equipment and intangible assets)	0	0
Unrealised gains/losses on financial assets available for sale	-1,053	-2,034
Gains/losses on hedging instruments in a cash flow hedge	2,426	-145
Actuarial gains/losses on defined benefit pension plans	0	0
Gains/losses arising from translation of financial statements relating to foreign operations	0	0
Profit tax on other comprehensive income	-294	-323
Total comprehensive income	-129,762	91,927
Attributable to owners of the parent	50,398	62,331
Attributable to non-controlling interests	0	0
Reclassification adjustments	0	0

¹ Data submitted in the reports for 1 Jan -31 Dec 2012.

Source: Hanfa

Table D4 Structure of the portfolio of active lease contracts by type and by leased asset/loan

	As at	31 Dec 2011 ¹		31 Dec 2012	
	Item	Number of active contracts	Value of active contracts (outstanding contract value / outstanding receivables) ² (in HRK thousand)	Number of active contracts	Value of active contracts (outstanding contract value / outstanding receivables) ² (in HRK thousand)
Operating lease	TOTAL	64,601	5,515,251	54,129	4,539,943
	Property	84	1,159,976	89	1,187,328
	Passenger cars	54,095	2,945,009	44,089	2,165,004
	Commercial vehicles	6,768	498,449	6,716	426,054
	Vessels	830	423,030	717	341,760
	Aircraft	1	682	1	2,389
	Plant, machinery, transport machines and equipment	2,600	482,447	2,370	416,914
	Other	223	5,657	147	494
Finance lease	TOTAL	69,992	12,858,894	62,857	11,131,505
	Property	1,098	4,427,953	1,068	3,932,316
	Passenger cars	41,972	2,475,689	36,214	2,017,001
	Commercial vehicles	15,744	2,557,584	15,377	2,334,897
	Vessels	797	346,677	731	308,411
	Aircraft	2	36,637	1	1,844
	Plant, machinery, transport machines and equipment	9,455	2,822,283	8,915	2,475,516
	Other	924	192,071	551	61,522
Loans	TOTAL	4,300	818,849	3,084	598,683
	Property	424	630,949	382	549,563
	Passenger cars	2,234	36,707	1,403	8,671
	Commercial vehicles	826	5,681	662	1,618
	Vessels	110	28,880	69	14,648
	Aircraft	3	0	3	0
	Plant, machinery, transport machines and equipment	686	63,738	555	11,556
	Other	17	52,894	10	12,627
TOTAL	TOTAL	138,893	19,192,994	120,070	16,270,132
	Property	1,606	6,218,879	1,539	5,669,207
	Passenger cars	98,301	5,457,405	81,706	4,190,676
	Commercial vehicles	23,338	3,061,713	22,755	2,762,569
	Vessels	1,737	798,588	1,517	664,819
	Aircraft	6	37,319	5	4,234
	Plant, machinery, transport machines and equipment	12,741	3,368,468	11,840	2,903,986
	Other	1,164	250,622	708	74,642

1 Data submitted in the report as at 31 December 2012.

2 Outstanding contract value of the operating lease portfolio structure refers to the amount of outstanding leases (excluding VAT) under operating lease contracts; this amount does not include the residual value.

Outstanding receivables refer to the outstanding amount of financing (outstanding principal) under finance lease contracts and loans, net of receivable value impairment.

Source: Hanfa

Table D5 Structure of newly concluded lease contracts by type and by leased asset/loan

	Period	from 1 Jan to 31 Dec 2011 ¹		from 1 Jan to 31 Dec 2012		
		Item	Number of newly concluded lease contracts	Value of newly concluded lease contracts (contract / financed value) ² (in HRK thousand)	Number of newly concluded lease contracts	Value of newly concluded lease contracts (contract / financed value) ² (in HRK thousand)
Operating lease	TOTAL		15,716	2,091,842	12,244	1,810,821
	Property		18	181,127	21	307,543
	Passenger cars		14,009	1,482,313	10,210	951,819
	Commercial vehicles		1,062	175,122	1,447	182,279
	Vessels		104	110,660	125	177,303
	Aircraft		0	0	1	2,966
	Plant, machinery, transport machines and equipment		434	141,321	439	188,872
	Other		89	1,298	1	39
Finance lease	TOTAL		14,940	3,473,063	14,429	3,028,994
	Property		116	650,116	77	414,334
	Passenger cars		9,896	1,120,618	9,187	1,026,324
	Commercial vehicles		2,897	795,277	3,214	838,510
	Vessels		134	78,759	174	100,833
	Aircraft		0	0	0	0
	Plant, machinery, transport machines and equipment		1,502	723,075	1,646	630,990
	Other		395	105,217	131	18,003
TOTAL	TOTAL		30,656	5,564,905	26,673	4,839,815
	Property		134	831,243	98	721,878
	Passenger cars		23,905	2,602,931	19,397	1,978,143
	Commercial vehicles		3,959	970,400	4,661	1,020,789
	Vessels		238	189,419	299	278,136
	Aircraft		0	0	1	2,966
	Plant, machinery, transport machines and equipment		1,936	864,397	2,085	819,862
	Other		484	106,515	132	18,042

1 Data submitted in the reports for the period 1 Jan - 31 Dec 2012.

2 Contract value of the operating lease portfolio structure refers to total contract value equalling the sum of leases (excluding VAT) under operating lease contracts; this amount does not include the residual value.

Financed value of the finance lease portfolio structure refers to the amount used for financing lessees (principal) under finance lease contracts concluded in the reporting period.

Source: Hanfa

Table E1 Aggregate balance sheet of companies registered to provide factoring services (in HRK thousand)

Item	31 Dec 2011 ¹	31 Dec 2012 ²
ASSETS		
RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID	0	0
FIXED ASSETS	57,399	74,996
CURRENT ASSETS	5,963,602	7,057,666
Accounts receivable	2,892,300	3,301,595
Domestic factoring	2,786,071	3,224,128
Export factoring	18,282	14,027
Import factoring	87,947	63,440
Discounting of bills of exchange	1,711,683	2,675,706
Loans granted	77,280	109,637
Deposits given	866,411	550,778
Cash at bank and in hand	144,383	241,238
Other current assets	271,545	178,712
PREPAYMENTS AND ACCRUED INCOME	32,394	42,858
TOTAL ASSETS	6,053,395	7,175,520
LIABILITIES		
CAPITAL AND RESERVES	257,267	296,799
LONG-TERM LIABILITIES	288,532	885,864
Loans from domestic banks and financial institutions	1,906	3,580
Loans from foreign banks and financial institutions	271,565	863,429
Other long-term liabilities	15,061	18,855
SHORT-TERM LIABILITIES	5,499,536	5,984,665
Loans from domestic banks and financial institutions	1,022,570	1,070,411
Loans from foreign banks and financial institutions	4,255,574	4,739,225
Other short-term liabilities	221,393	175,028
ACCRUALS AND DEFERRED INCOME	8,059	8,192
TOTAL LIABILITIES	6,053,395	7,175,520

1 Data for 18 factoring companies.

2 Data for 16 factoring companies.

Source: Hanfa

Table E2 Aggregate profit and loss account of companies registered to provide factoring services (in HRK thousand)

Item	1 Jan - 31 Dec 2011 ¹	1 Jan- 31 Dec 2012 ²
INTEREST INCOME	372,598	428,029
Interest income - factoring	185,651	210,105
Domestic factoring	178,224	204,419
Export factoring	2,897	1,764
Import factoring	4,530	3,923
Interest income - discounting of bills of exchange	121,415	163,857
Interest income - loans granted	3,617	8,820
Interest income - deposits given	32,708	25,204
Other interest income	29,207	20,043
INTEREST EXPENSES	230,332	268,160
Interest expenses - domestic banks and financial institutions	47,291	67,265
Interest expenses - foreign banks and financial institutions	177,787	197,104
Other interest expenses	5,254	3,790
INTEREST PROFIT/LOSS	142,267	159,870
INCOME FROM FEES AND COMMISSIONS	84,656	100,360
EXPENSES ON FEES AND COMMISSIONS	32,345	39,315
PROFIT/LOSS ON FEES AND COMMISSIONS	52,311	61,044
OTHER OPERATING INCOME	283,518	202,619
OTHER OPERATING EXPENSES	387,524	313,414
Service costs	38,327	41,975
Staff costs	39,578	39,048
Costs for value adjustment for impairment losses	73,549	77,153
Other operating costs	236,070	155,238
PROFIT/LOSS ON OTHER INCOME AND EXPENSES	-104,006	-110,795
PROFIT/LOSS BEFORE PROFIT TAX	90,572	110,119
Profit tax	22,046	22,928
PROFIT/LOSS AFTER PROFIT TAX	68,527	87,191

1 Data for 18 factoring companies.

2 Data for 16 factoring companies.

Source: Hanfa

Table E3 Transaction volume of companies registered to provide factoring services (in HRK thousand)

Item	1 Jan - 31 Dec 2011 ¹	1 Jan - 31 Dec 2012 ²
Factoring	7,160,731	8,714,317
Domestic factoring	6,869,792	8,433,628
Export factoring	119,146	138,314
Import factoring	171,793	142,375
Discounting of bills of exchange	4,103,693	6,952,660
Loans granted	137,157	146,560
TOTAL	11,401,581	15,813,537

1 Data for 18 factoring companies.

2 Data for 16 factoring companies.

Source: Hanfa

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