



HANFA

CROATIAN FINANCIAL SERVICES
SUPERVISORY AGENCY

ANNUAL REPORT

2020



REPUBLIKA HRVATSKA

HRVATSKA AGENCIJA

ZA NADZOR

FINANCIJSKIH USLUGA

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Foreword

After years dominated by optimism with our work focused on looking ahead to support the financial sector primarily through the regulatory framework in terms of new products and services, the necessity of digitalisation and monitoring technological innovation, in 2020 we had to focus on COVID-19 that brought to the world the biggest global economic crisis since World War II and thus affected millions of people worldwide. Aware that the effects of the pandemic will not remain in 2020 only, but will have a long-term impact on the economy and the entire financial sector, we promptly reacted as a responsible and flexible regulator. Thus, our first measures – extending the reporting deadlines for certain reports, relaxing reporting requirements and directing supervisory activities to off-site supervision – aimed at facilitating the work and streamlining the resources of our supervised entities so that they could adapt to the new situation and thus devote more time to consumers and users of their services, which had more questions to ask this time.

Financial markets showed the fastest and strongest response to the escalation of the COVID-19 pandemic. Under the circumstances of extreme uncertainty about the activity and speed of virus spread and the consequences that the pandemic will have on daily lives and thus the economic activity, a large number of conservative investors panically withdrew their money from investment funds. There was a decline in net assets of UCTIS, a rise in volatility, and in addition to general uncertainty and global negative developments in financial markets, also a decrease in the prices of most financial instruments. Therefore, our first intervention measure aimed at protecting the interests of investors was to temporarily suspend trading on the Zagreb Stock Exchange. In addition to Hanfa, economic and monetary policy makers also contributed to the stabilisation of the financial market, and in response to developments on the domestic bond market during 2020, a new UCITS Stability Fund was established, aimed at investing in sovereign debt securities with the goal of increasing the liquidity of these financial instruments. Through the stabilisation of the financial market, this contributed to the price recovery in the second half of 2020, so by the end of the year investors returned to the stock exchange, and a significant number of investment funds ended the year with slightly positive annual returns. New vibrancy on the capital market was brought by newly established ETFs, that is, exchange traded funds, which were admitted to the market at the end of the year and which equally benefit retail and institutional investors.

Just like investment funds, pension funds lost some of the value of the assets they manage due to market developments in the first half of the year. However, this loss was compensated in the second half of the year and the goal of preserving the value of insured persons' assets was achieved, which, given the positive annual yields, even increased slightly.



Ante Žigman,
President of Hanfa Board

Other Hanfa's supervised entities did not remain unaffected by the coronavirus crisis either. A high concentration of tourism and transport-related leasing contracts in the conditions of epidemiological social distancing measures and reduced mobility meant that a significant number of lessees would not be able to meet their obligations within the set deadlines due to limited business operations. Therefore, as early as the beginning of April, we recommended that leasing companies temporarily stop collection of receivables and try to reach an agreement with the lessees through rescheduling or moratoriums, which the companies did. At the same time, they were allowed to temporarily eliminate the obligation to form a value adjustment for these contracts. In this way, we mitigated the consequences of coronavirus crisis on business operations of both groups. Factoring companies also felt the negative economic consequences of the pandemic, so the consolidation that had started earlier continued with the significant transition of operations to the banking sector, whose total receivables for factoring increased by 43.3% compared to the previous year.

And as if the coronavirus pandemic was not challenging enough, the devastating earthquakes that hit central Croatia in 2020 significantly affected the operations of insurance companies, but did not destabilize them, which we actively contributed to. Although insurance companies faced the crisis with twice the solvency ratio required by the regulatory minimum, it was certain that the effect of coronavirus crises and the consequences of earthquakes would occur with a certain time lag. Therefore, we promptly reacted and temporarily banned insurance companies from the payment of profits earned in 2019, but also in previous years due to a possible double impact on their balance sheet; on the one hand due to a decline in the value of assets influenced by the pandemic, and on the other hand due to an increase in damage claims caused by earthquakes. In this way, their high capitalization and liquidity were maintained, and the interests of owners and shareholders, as well as the public interest of stability of the insurance sector were optimized. The insurance sector is of exceptional importance for the stability of the entire financial system in the Republic of Croatia.

Although in 2020 our attention and actions were more than usual focused on ensuring the continuity and stability of our supervised entities, given the challenges of the pandemic and earthquakes, we have never lost consumers from focus. The experience of earthquakes and handling related claims by insurance companies showed that insured persons were not necessarily acquainted with all insurance conditions in the pre-contractual process, which is expected in the context of fair treatment of consumers by companies. Through targeted supervision, analysis of insurance conditions and communication with insurance clients in the framework of claims handling, we detected that there was room for improvement of relation between companies and consumers and companies were instructed to improve it. In addition, financially educated users of financial services



were recognised as a factor that strengthens the financial industry and without whose trust it is certainly not sustainable. Therefore, we requested from pension companies to be more involved in strengthening financial literacy of Croatian citizens, which should influence more proactive and more intense individual planning of pension savings. Moreover, in order to bring finance-related topics closer to the citizens in the simplest and most user-friendly way, in 2020 we launched a special educational website called “Money for tomorrow” whose content we adjusted to all those who want to plan their future by thinking responsibly about money and standard of living.

Each crisis is certainly marked by more complex business conditions. This often means that business operations are not carried out through standard and defined processes, but are shifted to other forms instead. Thus, as a positive externality of coronavirus crisis, the shift of the financial sector towards digital business was significantly accelerated, but this entails significant technological risks which are becoming one of the fastest growing. But it wasn't only these risks that occupied our attention, but also old and well-known risks of fraud that have become even more pronounced and frequent in online business. Therefore, at the beginning of April we sent to all our supervised entities a circular letter in which we drew attention to the potential risk of financial crime, warning that it must not be tolerated and that the risk of money laundering and terrorist financing should be managed more carefully, to which we placed a special focus as regulator by establishing a special organizational unit in Hanfa. We made it clear that in times of crises frauds and deception of vulnerable people and companies can increase enormously, as well as the intensity and manners of money laundering, and that we will continue to focus our supervisory activities on the proper implementation of the Anti-Money Laundering and Terrorist Financing Act, because there can be no compromise regarding this matter.

Although the plans and goals that had been defined before the coronavirus crisis had to be set aside and we focused on the unplanned challenges caused by the pandemic, this did not hamper either us from the Board nor Hanfa employees from regularly carrying out our tasks, from actively participating as members or stakeholders in the work of domestic and international institutions and associations, from organising and participating in numerous international and domestic conferences and panels related to the capital market, corporate governance, insurance and new technologies, from successfully concluding the Twinning project with CNB and German and Dutch partners in Montenegro and the Twinning project for the National Bank of Serbia, as well as from actively contributing to Croatian Presidency of the Council of the EU where significant results were achieved in the field of non-banking financial services related to the framework for the recovery and resolution of central counterparties and crowd-funding services for business.

Despite all of this, our view of the financial services sector remains mainly forward-looking, so we are asking what is a sustainable future,



is it part of the integration of the capital market and how will it be influenced by, first and foremost, environmental, social and governance factors. The legislative framework for sustainable financing is imperative. It should be pointed out that investors will pay more attention to non-financial reporting, which will provide information on how a particular company deals with climate change, employees, customers and suppliers, as well as the corporate governance culture.

And as I said at the end of my foreword last year that I was certain that the year 2020 would be full of uncertainties related to the coronavirus crisis, I am certain that 2021, and the years after it, will not be the years of relaxation. However, the experience of 2020 gives us the right to believe that, as before, we will be ready to respond quickly and adequately to every challenge.



dr. sc. Ante Žigman
President of Hanfa Board





Photo: Hanfa

*In June 2020, Hanfa introduced its new online portal *Novac za sutra* (Money for Tomorrow), intended for financial education of citizens*

To mark the World Consumer Rights Day, Hanfa awarded the school whose students won the contest on sustainable spending with a smart bench – Jurica Jednačak, Member of Hanfa Board, at the award ceremony



Photo: Ministry of Economy, Entrepreneurship and Crafts



Photo: Matija Habljak/Pixsell

President of Hanfa Board Ante Žigman held a presentation on the role of the financial sector in creating a sustainable future and spoke about the integration of the capital market at EU level at the conference Zagreb – Banking and Financial Centre in the New Normal, November 2020



Hanfa in figures



1 Hanfa in figures

Supervised entities

40 pension funds	5 pension fund management companies	135 investment funds	23 investment fund management companies
6 investment firms	15 insurance companies	15 leasing companies	4 factoring companies
2 pension insurance companies	REGOS	ZSE	CDCC
Croatian Insurance Bureau			
Issuers, brokers, investment advisors, tied agents, insurance and reinsurance agents and brokers			

Financial overview



HRK 125.8 bn
net assets of pension
funds



HRK 22.9 bn
net assets of
investment funds



HRK 10.5 bn
gross written premium
of insurance
companies



HRK 67.6 m
total assets of
investment firms



HRK 19.7 bn
total assets of leasing
companies



HRK 325 m
total assets of
factoring companies



HRK 270.9 bn
market capitalisation
of the ZSE



HRK 443.4 bn
market value of
securities in the
depository

Hanfa's Activities



21

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



53

Hanfa Board held 53 meetings and issued 779 decisions



44

44 ordinances adopted, additionally regulating legislative provisions



9

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



33.000

Money for Tomorrow portal recorded 33 thousand views



>1000

more than 1000 attendees at presentations held as part of activities aimed at improving the level of financial literacy



10

Innovation Hub participated in 10 conferences and panel discussions and held meetings with more than 15 various entities



2

online training in the area of anti-money laundering and terrorist financing and a workshop with pension companies related to consumer protection took place in cooperation with the Croatian Chamber of Economy



5500

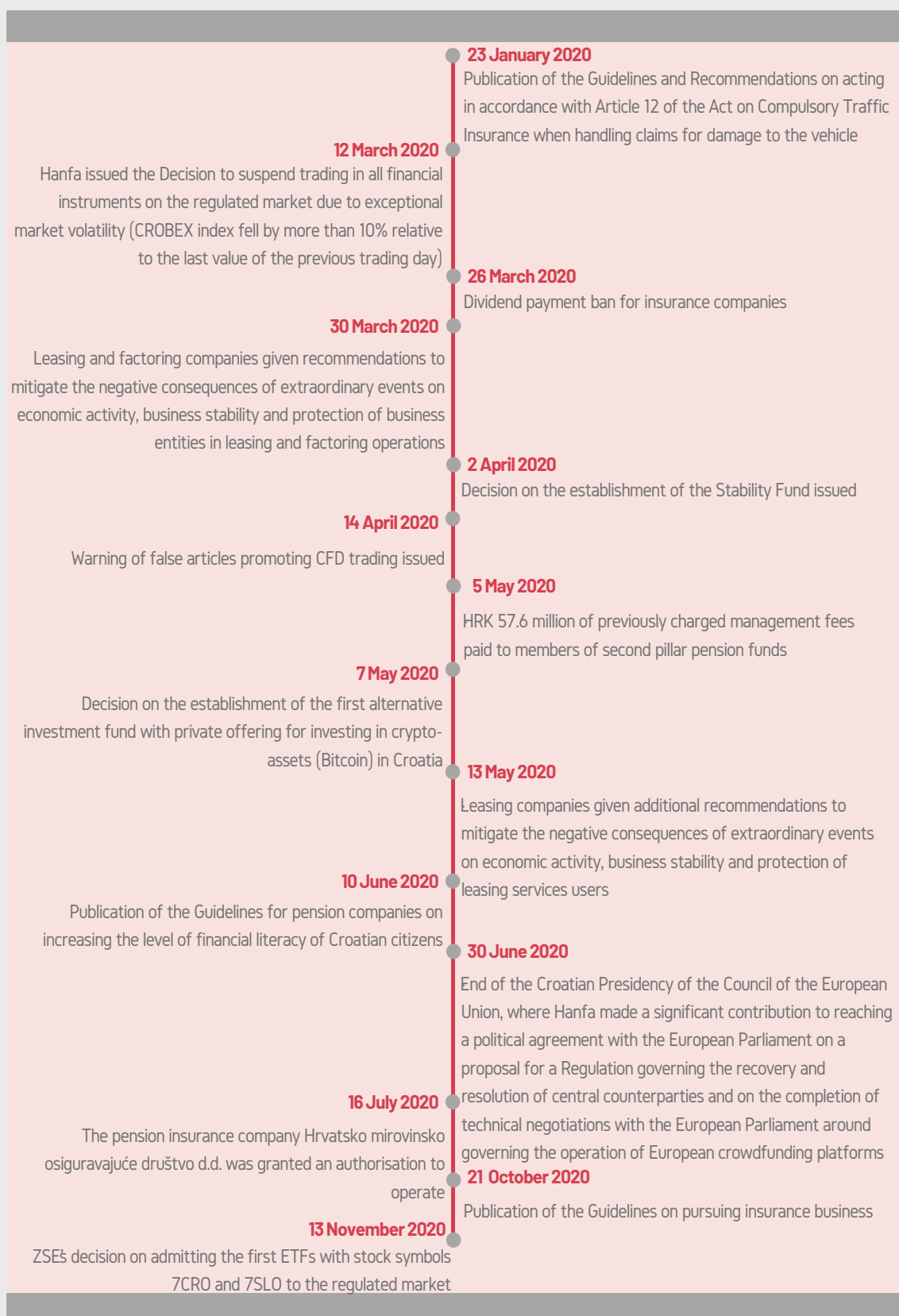
Hanfa's LinkedIn profile had 5500 followers at the end of the year



60

60 press releases delivered

Important dates





Trends in the financial services sector



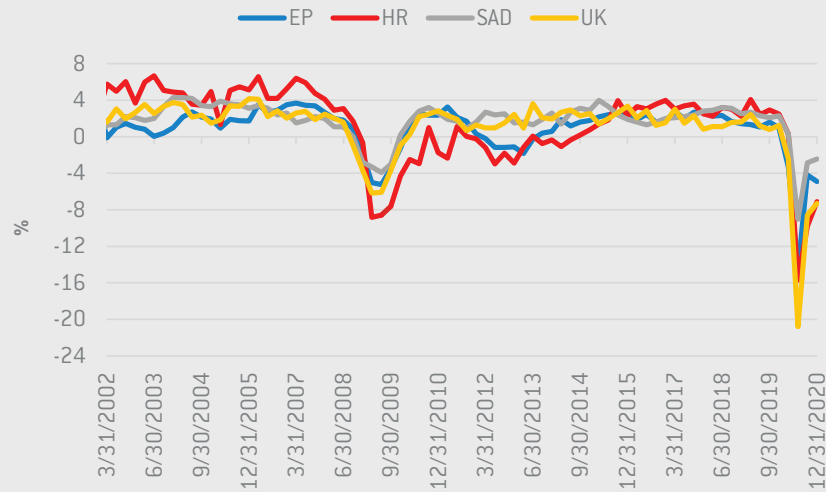
2 Trends in the financial services sector

The escalation of COVID-19 pandemic in 2020 had a very strong and immediate negative impact on global financial markets and the domestic market. Uncertainty associated with the pandemic itself, its duration and impact on global economies influenced the sentiment and risk appetite of investors who withdrew part of their assets invested in financial markets, and consequently the resulting sharp fall in the prices of financial instruments. Therefore, in the first three months of 2020, the financial services sector's assets decreased by HRK 9.5bn (4.3%) compared to the end of 2019, thereby temporarily halting the multi-year trend of its growth. Monetary and fiscal policy measures, as well as Hanfa's decisions, quickly stabilised the financial market and the fall in prices recorded in the first part of 2020 was almost entirely offset by positive trends in the second half of 2020. At the same time, in addition to positive market developments, inflows of investor funds into financial markets increased, so at the end of 2020 the assets of the financial services sector were by HRK 1.8bn (0.8%) higher than at the end of 2019, and they accounted for 31.6% of the total assets of the financial system, i.e. 58.9% of nominal GDP.

2.1 Macroeconomic developments and capital market

The coronavirus pandemic dominantly affected global economic and financial trends in 2020. With the escalation of the pandemic in Europe during March 2020, national economies gradually began to close down, to a larger or lesser extent, so that the introduction of epidemiological social distancing measures would limit the spread of the disease and preserve the health and lives of citizens. Consequently, economic activity decreased significantly in the second quarter of 2020 in all EU countries, and the domestic economy also recorded a sharp decline of 15.1% on the annual level. The relaxation of measures in the summer months in line with seasonal decline in virus virulence led to a slight recovery in economic activity. Already in autumn, however, the second wave of coronavirus spread announced that economies would close down once again by the end of 2020 in anticipation of finding a vaccine. Therefore, the annual decline in economic activity in Croatia in 2020 stood at 8.4%, which is the largest contraction of annual economic activity recorded so far (by 1 percentage point higher than the 2009 contraction), but still lower than expected. The slowdown in economic activity also had a negative impact on the domestic labour market, so that the rate of administrative unemployment, despite the support measures for the preservation of employment, was 9.5% at the end of December 2020. A decrease in economic activity, combined with a sharp decline in energy prices, led to pronounced deflation trends and the annual deflation rate at the end of 2020 stood at -0.3%. Due to the reduction in tax revenues and the implementation of numerous fiscal measures aimed at preserving jobs, the budget deficit amounted to -7.4% of GDP at the end of the year, while public debt increased by 15.9 p.p. and reached 88.7% of GDP, which entirely annulled the relative reduction of public debt achieved over the past 5 years.

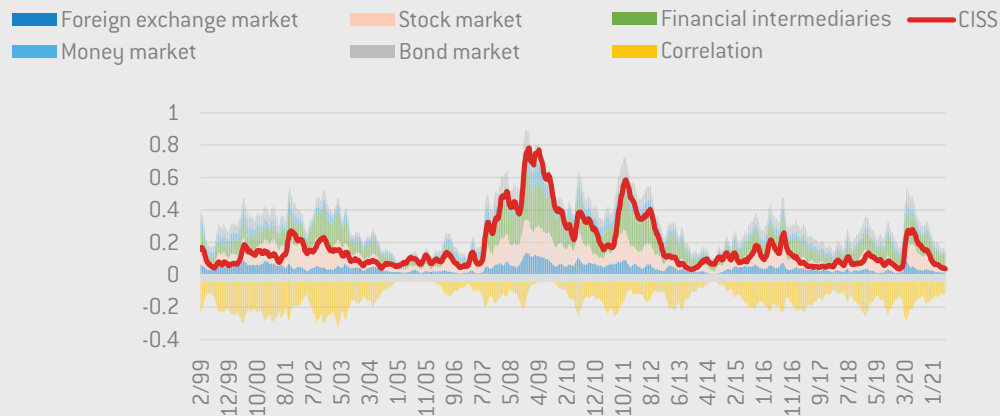
Figure 2.1.1 Annual real GDP growth rates



Source: Eurostat, St. Louis Fed

In 2020, in view of the escalation of the pandemic, global financial markets recorded a significant increase in uncertainty, so the indicator of systemic disturbance in financial markets during the second quarter of 2020 reached the levels at which it was in 2011 and 2012. Most of the global capital markets recorded significant price adjustments with an increase in the required returns on debt securities. However, rapid accommodative measures by governments and central banks stabilised disruptions in financial markets and by the end of the year the majority of financial markets restored most of the lost value in the expectation of economic recovery, but with an increasing level of uncertainty.

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

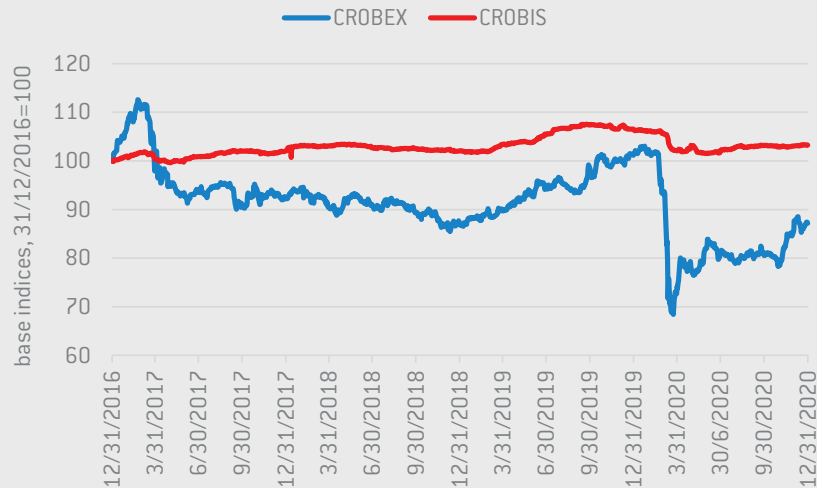


Source: ECB

Similar trends were recorded in the domestic capital market, as well. With the escalation of the pandemic, by mid-March 2020, the CROBEX domestic stock index lost 32.3% of its value in relation to the end of the previous year, reaching a level of 1,364.98 points. In such circumstances of extraordinary volatility, on 12 March 2020, Hanfa reacted by temporarily suspending the trading in all financial instruments on the regulated market of the Zagreb Stock Exchange (hereinafter: ZSE) in order to protect investors. Although

trends on the ZSE in the second half of 2020 stabilised, and the prices of financial instruments increased, the CROBEX stock index concluded the year 2020 at a level of 1,739.29 points, which was by 13.8% lower than at the end of 2019. At the same time, the CROBIS bond index concluded the year with 112.36 points and a relatively mild decrease of 2.8% compared to 2019.

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



Source: ZSE

Increased volatility on the ZSE in 2020 resulted in a 4.5% increase in total turnover compared to 2019, amounting to HRK 3.1bn. The largest part relates to share turnover, which amounted to HRK 2.9bn, i.e. 5.5% more than in the previous year. At the end 2020, there were 104 shares admitted to trading on the ZSE, 15 shares fewer than in 2018. Twenty stocks were delisted during the year, while five stocks were admitted to the market¹. As in the previous years, in spite of the rise in the turnover, the domestic capital market remained below the average recorded by comparable countries, considering a relatively small portion of shares actively traded in the total number of admitted issues. The turnover of the ten most traded shares accounted for 57.7% of the share turnover, i.e. 52.6% of the total turnover on the ZSE. At the end of 2020, the market capitalisation of shares reached HRK 137.4bn or 37.1% of the GDP, which is a 7.2% decrease relative to end-2019.

Turnover on the domestic bond market amounted to HRK 255.7m in 2020, i.e. 12.6% less than in 2019. Out of 26 bond issues admitted to trading on the ZSE, 10 were corporate bonds, while the remaining 16 were government bond issues. In 2020, the Ministry of Finance successfully refinanced the maturity of government bonds with a total nominal value of HRK 5.0bn and EUR 1.0bn, which were issued in 2010 with an interest rate of 6.75% and 6.5% respectively, by issuing three new government bonds with a total nominal value of EUR 2.2bn and HRK 5.0bn with an interest rate of 0.75%, 0.25% and 1.25% respectively. Borrowing with significantly lower interest rates is primarily the result of an increase in Croatia's credit rating, which returned to the investment level BBB- in 2019. At the end of 2020, the market capitalisation of bonds reached HRK 133.5bn, which is a 15.3% increase relative to end-2019.

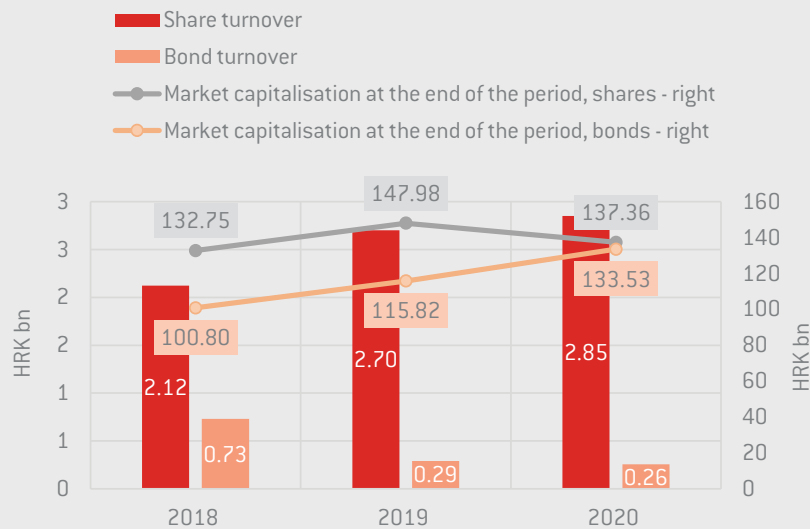
¹ Shares of Čiak Grupa d.d. were admitted to the Official Market, while shares of Modra špilja d.d., VIS d.d., The Garden Brewery d.d. and HELIOS FAROS d.d. were admitted to the Regular Market.

At the end of 2020, the ZSE introduced trading in ETFs connected with leading regional stock indices. One of the ETFs is tied to CROBEX10tr (index of 10 most liquid shares of the ZSE), and the other one to SBITOP (index of 11 most liquid shares of Ljubljana Stock Exchange). By the end of 2020, the ETFs' turnover amounted to HRK 21.9 m.

ETF

Exchange traded Fund – *ETF* – is a set of financial instruments, i.e. a fund that can be traded on a stock exchange. *ETFs* may relate to various types of assets, from shares to currencies or raw materials.

Figure 2.1.4 Turnover and market capitalisation on the ZSE



Source: ZSE

2.2 Investment services

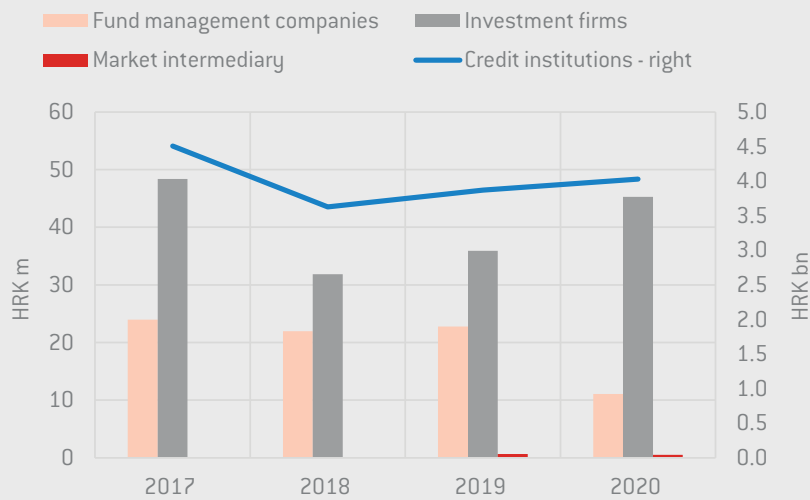
Investment services providers

At the end 2020, investment services and those related to investment services were provided by six investment firms (one firm less than in the previous year²), seven investment fund management companies and 13 credit institutions, same as in 2019.

Investment service providers generated HRK 4.1bn in revenues from the provision of investment services by the end of 2020, which is an increase of 4.0% compared to the previous year. The largest part of these revenues was generated by credit institutions (HRK 3.7bn or 89.6% of total revenues) from dealing on own account. Revenues from brokerage services (receipt and transfer and execution of client orders) amounted to HRK 119,6 m, an increase of 8.4% compared to 2019. The largest part of these revenues was generated by credit institutions (79% of total revenue from brokerage services). Income from underwriting of financial instruments and/or placing of financial instruments with or without a commitment basis (agency) amounted to HRK 58.0 m, while income from portfolio management amounted to HRK 17.1 m, being by 42.6% lower than in 2019. Traditionally, the vast majority of income from the distribution of investment products stems from the sale/distribution of domestic UCITS that account for more than 90% of the total value of distributed investment products.

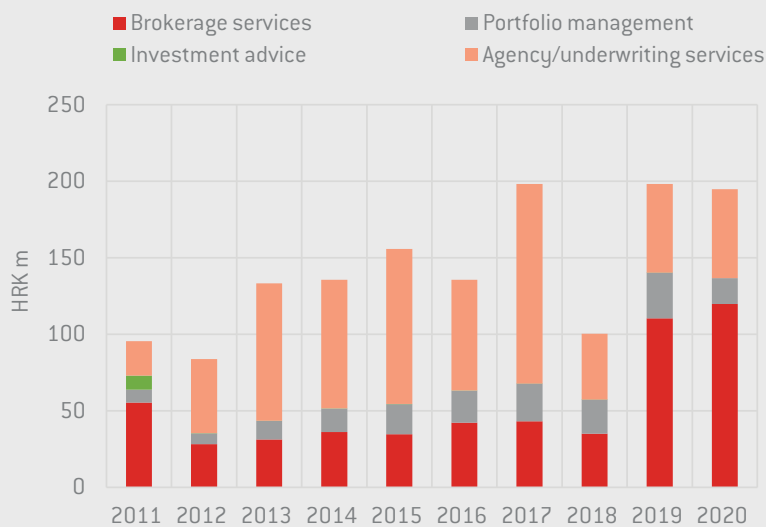
² The company FALCON BROKERI d.o.o. ceased to operate at its own request.

Figure 2.2.1 Total income of investment services providers



Source: Hanfa

Figure 2.2.2 Income of investment services providers per service type

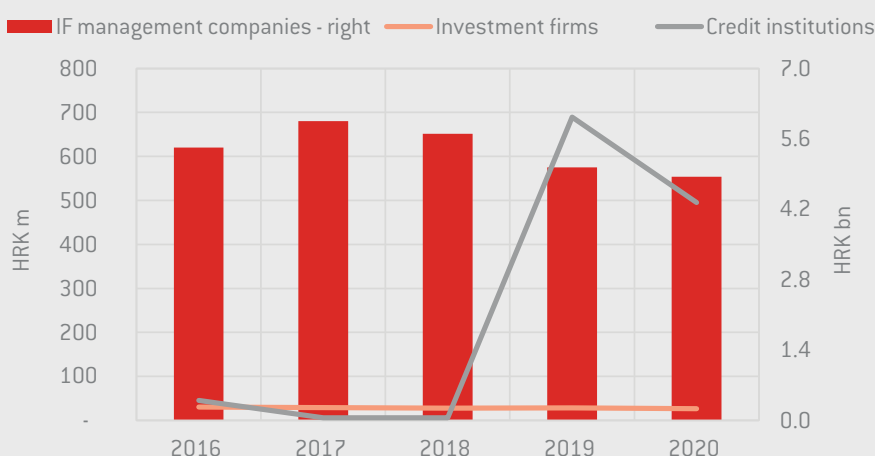


Source: Hanfa

At the end of 2020, the total value of assets managed by legal entities authorised to provide investment services amounted to HRK 5.4bn, which was 6.6% less than in the previous year in view of market price corrections recorded due to the pandemic outbreak and the withdrawal of some investors. Investment fund management companies managed 90.3% of total assets under management (a 3.7% decrease on an annual basis), credit institutions managed 9.2% (a 28.1% decrease on an annual basis), while investment firms managed only 0.5% of assets (a 7.8% decrease on an annual basis).



Figure 2.2.3 Value of assets under management



Source: Hanfa

Other than by companies registered in Croatia and licensed by Hanfa, investment services in Croatia may also be directly provided by companies from EU Member States, provided they have previously notified Hanfa of their intention to directly provide investment services. These companies are not subject to Hanfa's supervision; the legality and regularity of their operation in accordance with the legal framework of the country of their origin are supervised by competent supervisory authorities of respective EU Member States. Hanfa keeps a register of these companies, publicly available on its website, according to which at the end of 2020, there were 974 companies from EU Member States that had notified Hanfa of their intention to provide investment services in Croatia directly.

However, investment services are often offered via the internet by service providers from third countries with questionable legality or regularity of business operations. These providers often promote and distribute complex and high-risk financial instruments, such as contracts for difference (CFDs) or binary options, intended solely for speculative trading. Since these cases often involve mere fraud, Hanfa regularly informs the public about such investment service providers through warnings on its website, as well as through educational materials which warn users of the services concerned that trading through such online platforms puts them at high risk that may result in a complete loss of money invested. One such brochure on possibilities of fraud in the financial markets and how to identify them during online trading in financial instruments was produced and published by Hanfa at the end of 2020.

Investment funds

Open-ended investment funds with public offering

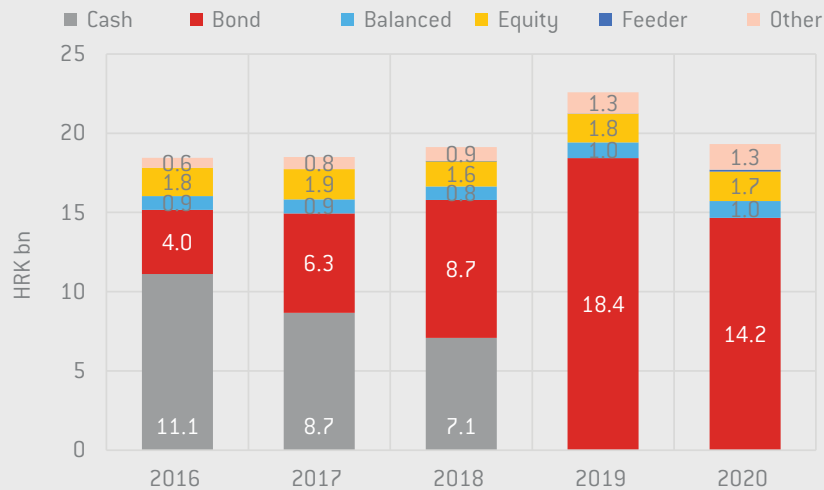
At the end 2020, there were 96 active open-ended investment funds with public offering (hereinafter: UCITS) in Croatia, and their assets amounted to HRK 18.2bn, a 19.3% decrease relative to 2019. The decline in assets is the result of the coronavirus pandemic that, amid high uncertainties, caused some of the investors to panically withdraw from the funds and negative market trends. In March 2020 alone, units in UCITS worth HRK 7.7bn were purchased. Units in bond funds were most purchased (92.2% of all purchases), primarily because of the investor structure in the UCITS cat-

STABILITY FUND

An open-ended investment fund with public offering (UCITS) whose purpose is to jointly invest assets, collected through a public offering of units in the Fund, primarily by purchasing transferable debt securities and money market instruments issued or guaranteed for by the Republic of Croatia. The Fund was established with the aim of providing investors with adequate liquidity of invested funds and achieving adequate return on funds invested and increasing the liquidity of transferable debt securities and money market instruments issued or guaranteed for by the Republic of Croatia.

egory in question, which is predominantly comprised of retail investors (at that moment they accounted for about two thirds of all investments). In times of growth, investing in investment funds is considered a kind of alternative to bank savings when the surplus of funds from bank accounts is poured mainly into bond investment funds (given the pronounced conservatism of domestic retail investors), but in times of crisis, the transfer of funds is reversed which results in a decrease in the value of funds' assets. This is one of the most significant reasons for the decline in net assets of bond funds on the domestic market. With monetary actions of the central bank and the formation of a special open-ended investment fund with public offering with the aim of buying sovereign debt securities, the domestic bond market stabilised in mid-2020, and in the second half of 2020 the recovery of UCITS' yields followed, resulting in the return of investors. Thus, positive net payments to domestic UCITS, including bond funds, were made in the second half of 2020. The structure of UCITS continues to be dominated by bond funds whose assets amounted to HRK 14.2bn at the end of 2020 (a decrease of 23.2% compared to 2019), i.e. 77.7% of the total net assets of all funds. Assets of equity funds stood at HRK 1.7bn (a decrease of 7.9% compared to 2019), accounting for 9.1% in the structure of total assets of UCITS. Fund categorised as other funds held a 7.3% share in total assets (a 0.7% decrease in asset value relative to 2019), while balanced funds accounted for 5.2% of total assets of UCITS, with a 3.4% decrease in asset value on an annual level.

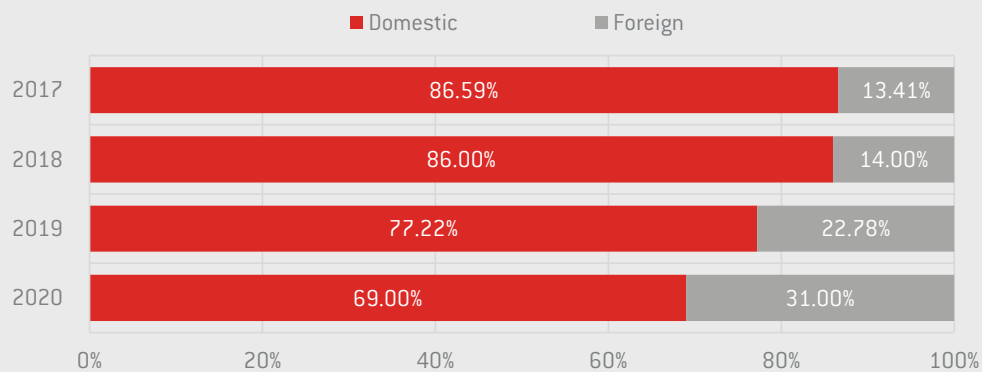
Figure 2.2.4 Net assets of UCITS



Note: Due to entry into force of the Money Market Funds Regulation, most money market funds took a different form at the beginning of 2019 and continued operating as short-term bond funds.

Source: Hanfa

Figure 2.2.5 Asset structure of UCITS by domicile



Source: Hanfa

Most of the assets of UCITS funds in 2020 continued to be invested in domestic debt financial instruments (62.2% of all investments), although investments in foreign markets (9.4% growth on an annual level) increased during 2020. Therefore, at the end of 2020, a little over HRK 13bn (69% of total assets) was invested in domestic financial instruments, HRK 5.9bn (31% of total assets) was invested in foreign financial markets. Greater diversification through an increase in the share of foreign investments reduces the exposure of UCITS to the concentration risk given their dominant exposure to sovereign bonds and liquidity risk, but at the same time slightly higher exposure to volatility and disturbances that may occur in foreign, particularly stock markets. In addition to increasing investments in domestic and foreign shares, in 2020 UCITS also increased holding the most liquid forms of assets such as money and deposits.

Figure 2.2.6 Asset structure of UCITS by investments type

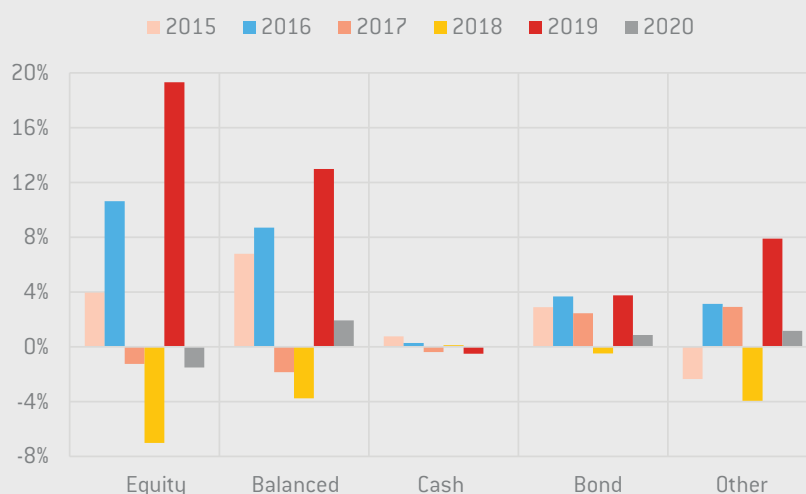


Note: MMI – Money market instruments. With the entry into force of Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds, out of 21 money market funds in Croatia, in 2020 all operated as short-term bond funds or other funds.

Source: Hanfa

Despite a very turbulent year on the financial markets, almost all categories of UCITS, with the exception of equity funds, achieved positive annual yields. Bond funds, the largest in size, achieved yields of 0.9% in 2020, while the yields of balanced and other funds amounted to 1.9% and 1.1%, respectively. Since stock markets suffered the greatest price adjustments, equity funds concluded the year, as expected, with a relatively small negative yield of -1.5%.

Figure 2.2.7 Average annual returns by fund type weighted by the share in assets



Source: Hanfa

Alternative investment funds

At the end 2019, there were 38 alternative investment funds, of which five with public and 33 with private offering. Compared to the previous year, the net assets of alternative investment funds with public offering decreased by 3.9%, while the assets of alternative investment funds with private offering rose by 5.3%.

Table 2.2.1 AIF assets by type (in HRK thousand)

Alternative investment funds	31/12/2019	Share	31/12/2020	Share	Absolute change	Relative change
Public offering	148,543	3.3%	154,397	3.3%	5,854	3.9%
Open-ended	–	–	25,360	0.5%	25,360	100.0%
Closed-ended	148,543	3.3%	129,037	2.7%	-19,506	-13.1%
real estate	148,543	3.3%	129,037	2.7%	-19,506	-13.1%
Private offering	4,326,112	96.7%	4,555,167	96.7%	229,054	5.3%
Open-ended	2,940,778	65.7%	3,247,672	69.0%	306,894	10.4%
Basic	1,302,776	29.1%	2,021,509	42.9%	718,732	55.2%
Special	1,638,002	36.6%	1,226,163	26.0%	-411,839	-25.1%
hedge fund	915,196	20.5%	732,565	15.5%	-182,631	-20.0%
multi asset	–	–	45,502	1.0%	45,502	100.0%
venture capital	684,847	15.3%	426,901	9.1%	-257,945	-37.7%
specialised AIF	–	–	20,994	0.4%	20,994	100.0%
for sovereign debt investment	37,959	0.8%	200	0.0%	-37,758	-99.5%
Closed-ended	1,385,334	31.0%	1,307,495	27.8%	-77,840	-5.6%
Basic	1,385,334	31.0%	1,307,495	27.8%	-77,840	-5.6%
Total	4,474,656	100.0%	4,709,564	100.0%	234,908	5.2%

Source: Hanfa

Fund established under a special act

The net assets of the Fund for Croatian Homeland War Veterans and Members of their Families amounted to HRK 965.2m on 31 December 2020, a 2.0% rise compared to the previous year. As at 31 December 2020, the unit value stood at HRK 529.47, a 3.5% increase on the annual level. These relatively low growth rates, compared to 2019 when they were 35.7% and 20.6% respectively, reflect negative market trends caused by the economic crisis due to COVID-19 pandemic in 2020.

Management companies

As at 31 December 2020, there were 23 registered companies managing investment funds, one company less than in 2019. Three of these companies managed UCITS only. Eleven companies managed alternative investment funds only, while nine companies managed both UCITS and alternative investment funds.

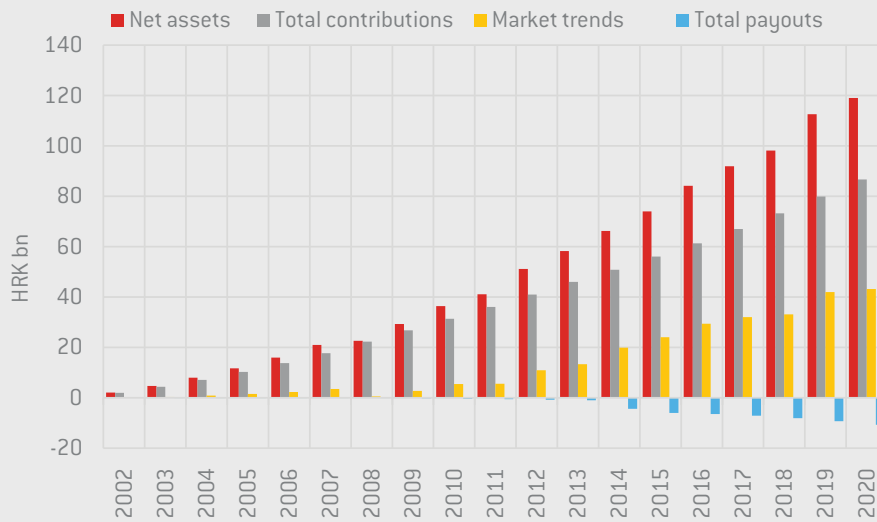
In 2020, investment fund management companies earned net profits in the amount of HRK 57.4 m, which was 2.2% less than in the previous year, mostly influenced by a decrease in net results from fund management, since revenues from fund management account for 93.2% of the total revenue of investment fund management companies, and they were reduced by 9.5%. Total assets of investment fund management companies amounted to HRK 273.1m at the end of 2020, a 3.6% decrease compared to 2015. At the end of 2020, capital and reserves of investment fund management companies decreased by 17.2% compared to the previous year due to payments of shares in profit.

2.3 Pension system

Mandatory pension funds (MPFs)

Relative stability of mandatory pension funds as long-term institutional investors was pronounced during 2020, the year marked by the pandemic. Although the price of units in pension funds fell with the escalation of coronavirus spreading and disruptions in the financial markets, market stabilization and recovery that occurred in the second half of the year, with continued contributions that did not significantly decrease in 2020, increased the net assets of mandatory pension funds by 5.7% on an annual level, so that at the end of 2020 they amounted to HRK 119.1bn. Since measures for the preservation of jobs partially offset the negative impact of the closure of the economy on the labour market, the number of members of mandatory pension funds increased by 2.3% compared to the end of 2019. At the end of 2020, mandatory pension funds had 2.1 million members. The majority of pension system members belong to category B mandatory pension funds (93.6% of all the insured persons), whose investment strategy is fairly balanced in line with risks taken. The 2019 legislative amendments according to which insured persons who fail to select the mandatory pension fund category by themselves, depending on their age, are classified in category A, resulted in an increase in the number of members of this, relatively riskier fund category (4.0% of all insured persons). Insured persons of the most conservative category C funds accounted for 2.4% of all insured persons at the end of 2020.

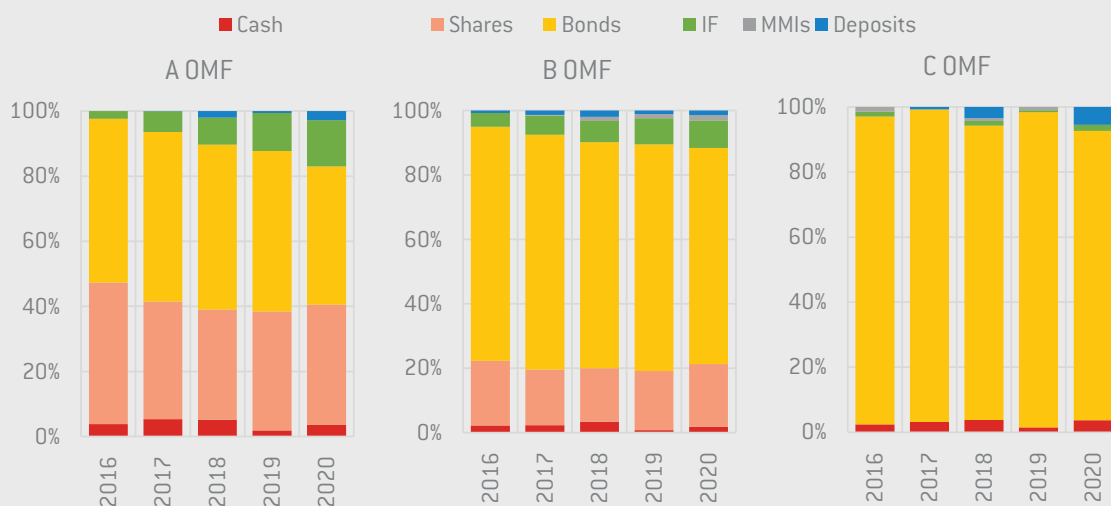
Figure 2.3.1 Net assets, total contributions, payments and market trends recorded by MPFs



Source: Hanfa

Investment structure of mandatory pension funds did not change significantly compared to the end of 2019. The greatest changes are evident in bond investments whose share decreased in total assets in all three categories of mandatory pension funds [-8 p.p. in category A funds, -3 p.p. in category B funds and -10 p.p. in category C funds]. As a consequence of a decrease in the share of the bond portfolio, an increase in the share of investments in money market funds, deposits and units in investment funds is noticeable, while the share of investments in stocks is at approximately at the same levels as in the previous year. In the future, some changes can be expected in the investment strategy primarily due to the environment of relatively low interest rates, but also due to legal changes from 2019, which brought about a greater degree of liberalisation of certain segments of the investment policy of mandatory pension funds. In particular, this means recognition of infrastructural projects as a new asset class, possibility to invest in transferable equity and/or debt securities serving for the financing or securitisation of infrastructural projects in the territory of the Republic of Croatia and investing in start-up projects, whose purpose is to encourage the development of the domestic SME market.

Figure 2.3.2 Mandatory pension funds' asset structure by investments type

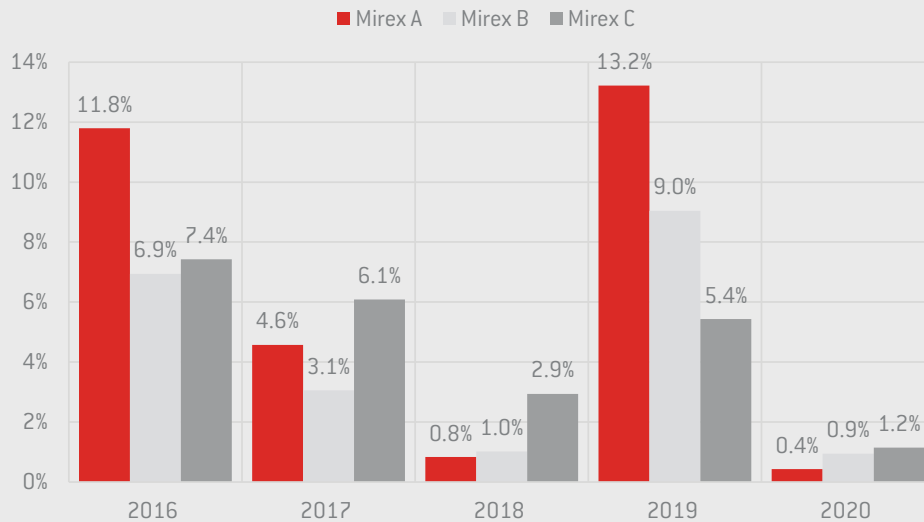


Note: IF – investment funds, MMIs – money market instruments

Source: Hanfa

Although their level is far below those achieved in 2019, all categories of mandatory pension funds achieved positive returns in 2020, despite significant price and volatility adjustments on domestic and foreign financial markets. This preserved the value of insured persons' assets, i.e. increased it by 0.43% for category A funds, 0.94% for category B funds and 1.2% for category C funds.

Figure 2.3.3 Mandatory pension funds' rates of return



Source: Hanfa

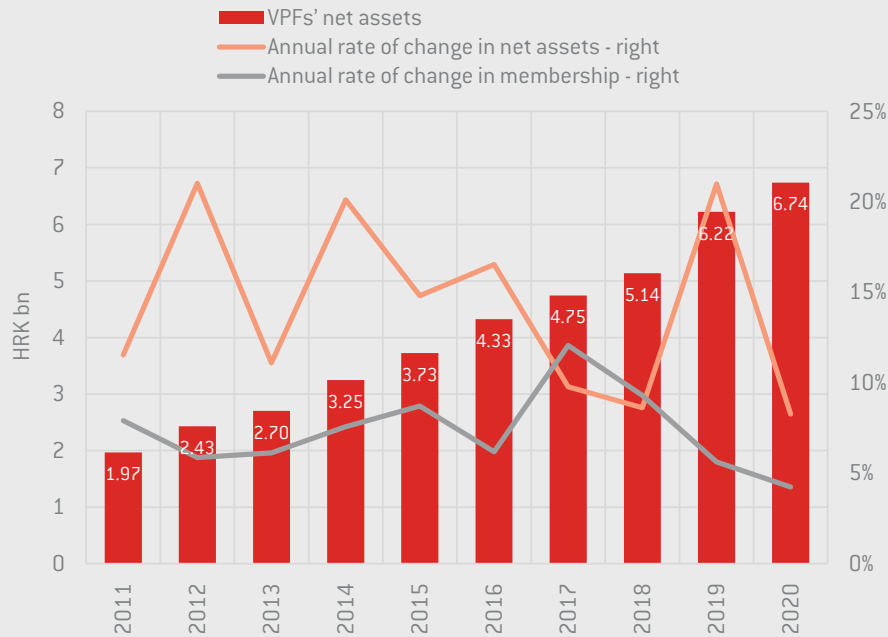
Voluntary pension funds (VPFs)

At the end of the very challenging 2020, net assets of voluntary pension funds (hereinafter: VPFs) amounted to HRK 6.7bn and were by 8.4% higher than in 2019. Of this amount, HRK 5.5bn referred to the net assets of open-ended voluntary pension funds (hereinafter: OVPF), while the net assets of closed-ended voluntary pension funds amounted to HRK 1.2bn. VPFs had 380,555 members at the end of the year, an increase of 4.2%. It is expected that the number of members of VPFs will probably continue to increase in the coming years, since this form of pension savings can be paid to members from the age of 55. Payment may, under certain conditions, be made through one of three modalities: i) through the pension fund in which the funds were saved, ii) by transferring the funds saved to a pension insurance company making the payment, or iii) transferring funds to a life insurance company which will then pay the pension. It is also possible to choose a combined payment (a part through the pension fund and a part through the insurance company), and it is important to note that a member can be paid a lump sum of up to 30% of the saved funds.

PAYMENT OF PENSIONS FROM VPFs

Payment of pensions from voluntary pension funds can be carried out by pension insurance companies, life insurance companies licensed or authorised by Hanfa and pension fund management companies, but only if chosen by a member and under certain conditions (up to a maximum of HRK 100,000).

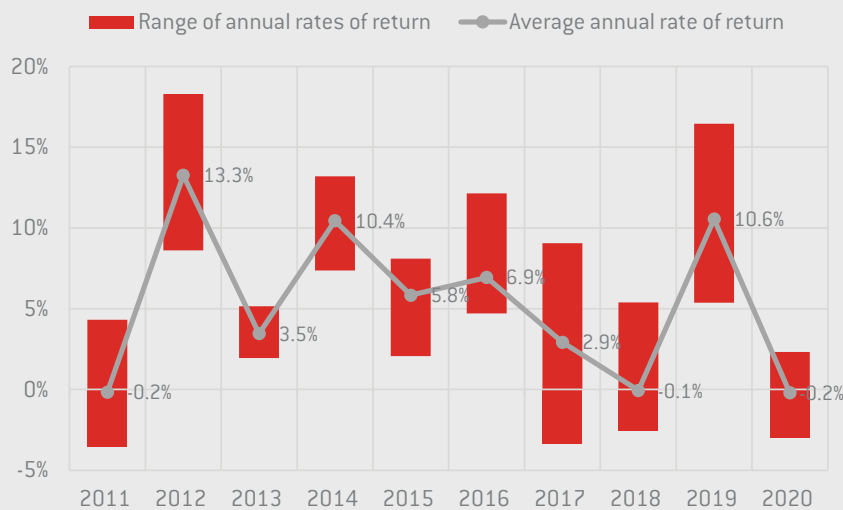
Figure 2.3.4 Voluntary pension funds' net assets and annual rates of change in their net assets and membership



Source: Hanfa

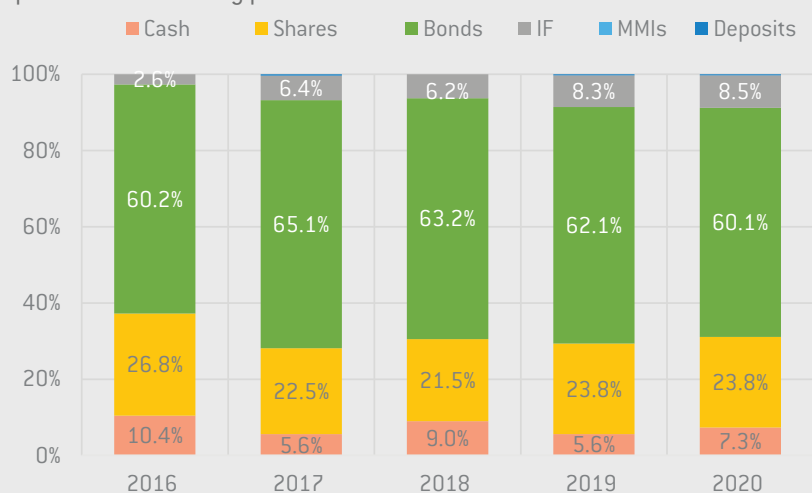
Voluntary pension funds, as well as mandatory ones, primarily invest most of their assets in domestic government bonds whose price is less volatile compared to equity investments. At the end of 2020, bond investments accounted for 60.1% of total investments of VPFs, which was 2.0 p.p. less than in 2019. At the same time, holding of funds by VPFs increased slightly, rising to 7.3% of all investments. Investments in shares accounted for 23.8% of total investments, staying at the same level as in the previous year. Given the negative market trends from the first half of 2020 which have not been fully compensated in certain segments of the domestic capital market by the end of the year, VPSs achieved returns ranging from -3.0% to 2.3%, significantly lower than those from 2019.

Figure 2.3.5 Voluntary pension funds' annual rates of return



Source: Hanfa

Figure 2.3.6 Open-ended voluntary pension funds' investment structure



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

Source: Hanfa

Pension companies

Five pension fund management companies operated in Croatia at the end of 2020. Three companies are authorised to manage mandatory and voluntary pension funds, one company is authorised to manage mandatory funds only, and one company is authorised to manage voluntary funds only. Profit after tax recorded by the pension companies in 2020 amounted to HRK 140.1 m, falling by 9.2% relative to 2019. The reasons for the decrease in the profit were somewhat lower management fees (due to legislative changes which introduced the reduction of fees, but also ensured that a part of the management fee charged by pensions companies is given back to beneficiaries through payments into the mandatory pension fund) and the increase in fund management costs.

Pension insurance companies

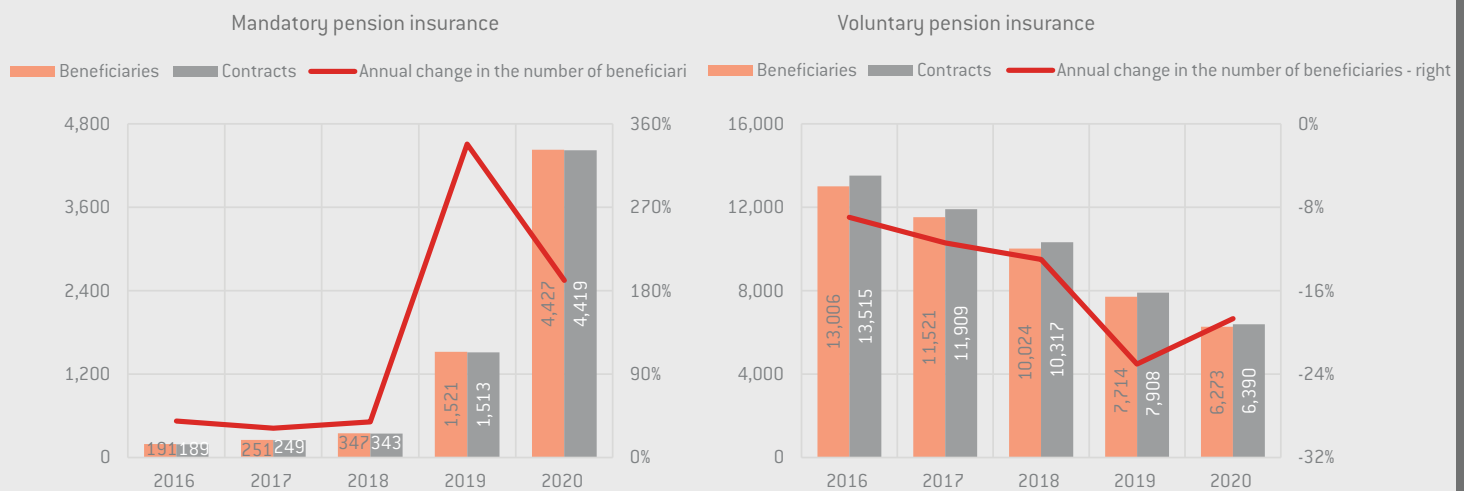
In mid-2020, Hanfa authorised the operation of a new pension insurance company owned by the Croatian Pension Insurance Institute. Consequently, a total of two pension insurance companies were active at the end of 2020, i.e. one more than in the previous year. Total assets of pension insurance companies amounted to HRK 1.4bn, increasing by 64.9% compared to the end of the previous year. This is the result of demographic trends, that is, continuous growth of new insured persons, particularly from the second pillar of pension insurance, which was aided by legal amendments making the pension supplement available even in the case of a combined pension payment from the mandatory pension insurance, i.e. the pension supplement is also paid together with the amount of funds saved under the second pillar of mandatory pension insurance. This was reflected in the significant increase and number of pension beneficiaries as well as pension insurance contracts, so that at the end of the year there were a total of 10,700 pension beneficiaries (15.9% more than in 2019) who signed 10,809 pension insurance contracts (14.7% more than in 2019). The number of beneficiaries/contracts from the mandatory insurance segment increased, while the number of voluntary insurance beneficiaries and contracts decreased, since the 2019 legislative amendments extended the possibility of payment of voluntary pension savings to pension funds and life insurance companies.

The most important item of pension insurance companies' assets are investments which amounted to HRK 1.3bn at the end of 2020 (increase of 59.4% on an annual basis). Most of the assets of pension insurance companies are invested in government bonds that at the end of 2020 accounted for as much as 73.7% of total investments. Such investment structure reflects legal provisions, i.e. the need to invest funds in accordance with the type and duration of expected future pensions of insured persons, taking

into account primarily the principle of security, but also the principles of quality, liquidity and profitability. At the same time, the pension insurance company's solvency was satisfactory since the capital adequacy required by the Act on Pension Insurance Companies³ was above all three legally prescribed thresholds at the end of 2020. Liabilities were dominated by technical provisions amounting to HRK 1.2bn (growth of 71.0% on an annual basis), the majority of which were formed for the payment of individual lifetime old-age pensions (70.4%).

Profit after tax recorded in 2020 by the pension insurance companies totalled HRK 8.9 m, growing by 54.5% compared with the previous year. The most important item is income from payments of pension companies, lump sum payments and payments of other persons amounting to HRK 723.6m at the end of the year, which was by 87.3% higher than in 2019. Expenses arising from pension contracts amounted to HRK 724.3 m, rising by 78.6% on an annual level.

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



Source: Hanfa

2.4 Insurance

At the beginning of the year, 16 insurance companies, three life insurance companies, five non-life insurance companies and eight composite insurance companies operated in Croatia. During the year, one non-life insurance company transferred its insurance portfolio to another company with its registered office in the Republic of Croatia, so at the end of 2020, the insurance sector consisted of 15 companies. This continued the process of consolidation in the insurance sector, which has been present for many years. Only five years ago, there were 26 active insurance companies in Croatia.

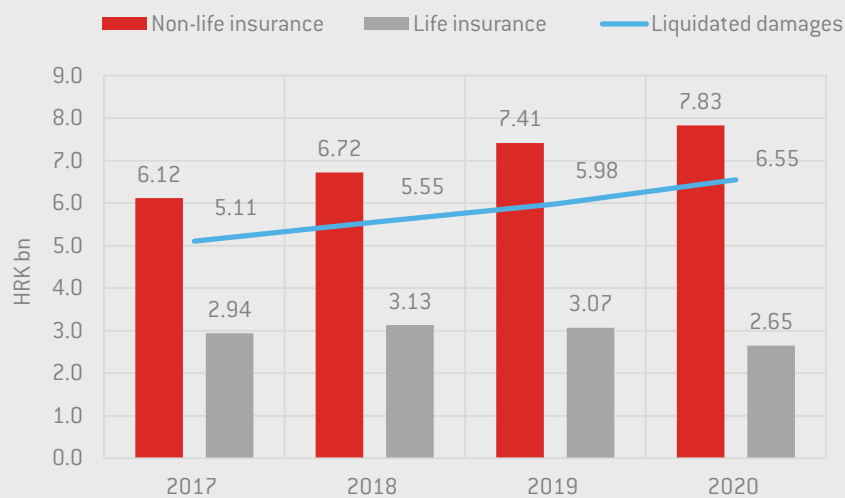
At the end of 2020, the total gross written premium stood at HRK 10.5bn, same as in 2019. In the non-life insurance category, the gross written premium grew by 5.6%, amounting to HRK 7.8bn, while in the life insurance category the amount of gross written premium decreased by 13.7% compared to 2019 and amounted to HRK 2.6bn. The growth of non-life insurance premium was primarily generated by the growth of the motor vehicle liability insurance (14.9%), fire and natural disaster insurance (7.5%) and other property insurance premium (7.3%), which was certainly influenced by the experience of devastating earthquakes. The fall of premium in life insurance is evident in all classes of life insurance, with the

3 Official Gazette, No 22/14, 29/18, 115/18

exception of annuity insurance, and it is the consequence of COVID-19 pandemic, i.e. its negative economic effects, changed housing loans conditions of banks as well as a long-term environment of low interest rates. This significantly influenced the policyholders' behaviour and habits and led to a decline in the attractiveness of life insurance products.

In 2020, claims settled reached HRK 6.5bn, increasing by 9.6% in comparison with 2019. The largest increase was recorded by claims settled for property insurance with earthquake coverage, which amounted to HRK 247.4m at the end of 2020, while in 2019 the amount was HRK 136.9 thousand only, and claims under life insurance contracts due to the regular maturity of policies, but also due to slightly higher amounts of early surrender.

Figure 2.4.1 Gross written premium and claims settled



Source: Hanfa

As at 31 December 2020, total assets of insurance companies amounted to HRK 47.5bn, growing by 4.6% in comparison with the previous year. The largest portion of the assets was accounted for by investments (74.8%), while technical provisions (61.7%) and capital and reserves (25%) accounted for the largest liability share. Government bonds are still the dominant investment form of insurance companies in the Republic of Croatia, amounting to 61% of total investments at the end of 2020 (a 3% decrease compared to 2019). Investment in property was the most represented type of investment among the remaining investment forms and made up 8.2% of total investments (a 7.1% increase compared to 2019). It was followed by investments in stocks and business shares with a 7.6% share in total investments (an increase of 8.2% relative to 2019) and investments in investment funds in the amount of 6.3% of total investments (a 27.8% increase relative to 2019). In 2020, the trend of growing investment in corporate bonds continued in search of somewhat higher yields (27.8% on an annual level).

The greatest impact on the profitability of insurance companies in 2020 is evident through a reduced volume of premiums for life insurance companies in view of significantly lower guaranteed rates of return under these contracts than in previous years. At the same time, the impact of early terminations of insurance contracts at the level of the insurance sector was not significant (the early termination rate stood at 3% and was slightly lower than in the previous year, while the amount of surrender value was higher by 13%). In addition, income from investments was reduced in view of volatile market developments in 2020, while payments of claims increased due to the maturity of the older life insurance portfolio as well as payments due to the earthquake. In spite of this, both life and non-life insurance companies generated profits in 2020, though not as high as in the previous year. Thus, the profit recorded by life insurance companies totalled HRK 141.5 m, 31.0% less compared to 2019, while non-life insurance companies

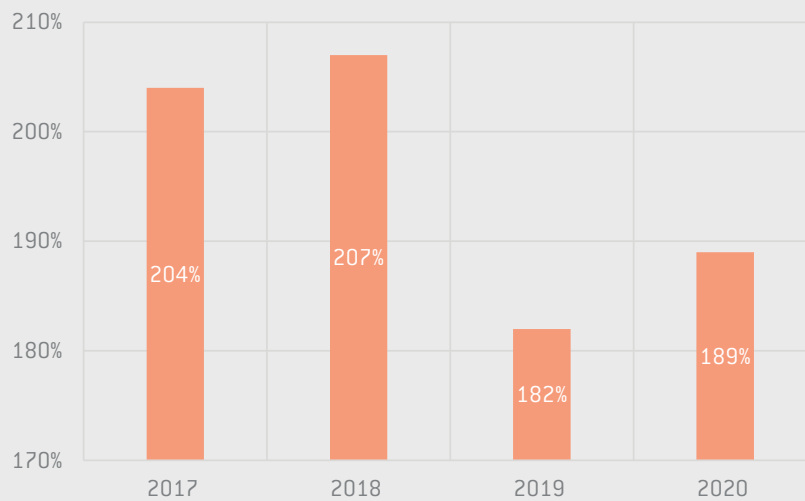
realised profit amounting to HRK 431.2 m, decreasing by 26.5% in comparison with the previous year.

Despite negative market trends in 2020 and declining profitability, the insurance sector remains highly capitalised. After a decrease in the first half of the year, the level of capitalisation remained stable in 2020 and stayed significantly above the regulatory minimum, as the median SCR ratio at the end of the year stood at 189% and was by 7 p.p. higher than in the previous year.

SCR

Solvency ratio represents the average ratio of eligible own funds to capital requirement (SCR or MCR, whichever is greater) of insurance companies.

Figure 2.4.2 Insurance companies' solvency ratio median



Source: Hanfa

Croatian Insurance Bureau

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

In 2020, the Bureau pursued activities of: an association of insurance companies, the national insurance bureau and other activities envisaged under international agreements on insurance against third-party liability of motor vehicle owners, the representation of Croatian insurance companies in international organisations, the Guarantee Fund management activities, the compensation body and the information centre, insurance statistics related activities and other activities of general and common interest for the insurance industry.

According to the balance sheet of the regular business operations, as at 31 December 2020, total assets of the Bureau amounted to HRK 11.1 m. At the same time, total liabilities stood at HRK 3.7m

GUARANTEE FUND

The Guarantee fund at the Croatian Insurance Bureau was established with the aim of protecting the victims of traffic accidents caused by uninsured and unknown motor vehicles, vehicles insured by insurance companies undergoing bankruptcy or companies that ceased to exist, as well as protecting the victims of accidents caused by uninsured motor-powered vessels and uninsured aircraft.

and sources of financing at HRK 7.4 m. The Bureau's income totalled HRK 8.4m or 2.0% more than in previous year, and was primarily made up of income from members. Expenses recorded by the Bureau amounted to HRK 8.4 m, falling by 1.5% relative to 2019, and were dominated by expenses for regular business activities. As at 31 December 2020, total assets of the Guarantee Fund amounted to HRK 15.1 m, increasing by 1.5% compared to the previous year.

Croatian Nuclear Insurance and Reinsurance Pool, EIG

As at 31 December 2020, four insurance companies from the Republic of Croatia were the members/founder of the CN POOL. Members/founders of the CN POOL jointly accept extraordinary risks with respect to insurance, co-insurance and reinsurance of nuclear plants, i.e. risks related to the exploitation of nuclear power for peacetime purposes. At the end of the year, total investments of the CN POOL amounted to HRK 77.3 m, and were allocated to cash in the account in the amount of HRK 7.6m (9.9% of investments), investments in investment funds in the amount of HRK 33.9m (43.9% of investments) and assets managed by an investment firm in the amount of HRK 35.8m (46.2% of investments). As at 31 December 2020, total technical provisions stood at HRK 75.5 m, increasing by 1% compared to the previous year. The total amount of settled claims was significantly lower than in 2019, so at the end of 2020, the CN POOL generated profit in the amount of HRK 43.5 thousand.

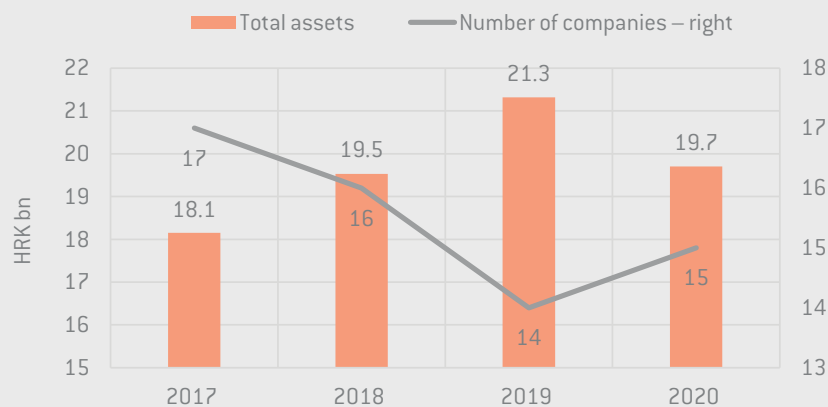
2.5 Non-bank financing

Leasing companies

The leasing sector was significantly affected by the economic crisis caused by the COVID-19 pandemic. The main reason for this is the high exposure to the tourism sector, i.e. related activities of trade, transport, accommodation and food service which were most affected by lockdown measures and the cessation of economic activity.

At the end of 2020, there were 15 leasing companies operating in Croatia, one more than in 2019. As at 31 December 2020, their total assets amounted to HRK 19.7bn, decreasing by 7.6% in comparison with the previous year. The most significant asset item, finance lease receivables, amounted to HRK 13.7bn, decreasing by 5% compared to 2019. The primary source of financing the operation of leasing companies, and thus the dominant item in liabilities, are liabilities for loans and credits from foreign banks and financial institutions, which amounted to HRK 14.2bn in 2020, which is 8.0% less than in 2019.

Figure 2.5.1 Number of leasing companies and their assets



Source: Hanfa

The profitability of leasing companies decreased significantly compared to 2019, primarily due to a sharp decline in the number and value of newly concluded contracts in both business segments. For operating lease, the number of newly concluded contracts decreased by 30.0%, while the value of such contracts decreased by 24.0% on an annual basis. An even more pronounced decline was recorded in the segment of financial lease, since the number of newly concluded contracts decreased by 40.7%, while the value of newly concluded contracts decreased by 37.6% compared to 2019. The reduction in new business operations, coupled with a drop in revenues under existing contracts and the associated increase in costs of value adjustments of these contracts in view of the difficult economic situation, resulted in a decline in profit after tax of as much as 70,4% on an annual basis. This halted a long-term positive trend of growth on the leasing market in the Republic of Croatia.

The value structure of all active contracts in 2020 was dominated by the vehicles segment (passenger and commercial vehicles), amounting to HRK 12.0bn, i.e. 73.8% of the value of all active contracts. As regards the sector division, most contracts are traditionally linked to business entities, amounting to HRK 11.8bn (72.7% of all active contracts) at the end of 2020, which is by 10.8% less than in 2019. Household sector recorded a slight increase at the annual level, with a 19.4% share in the total value of all active contracts.

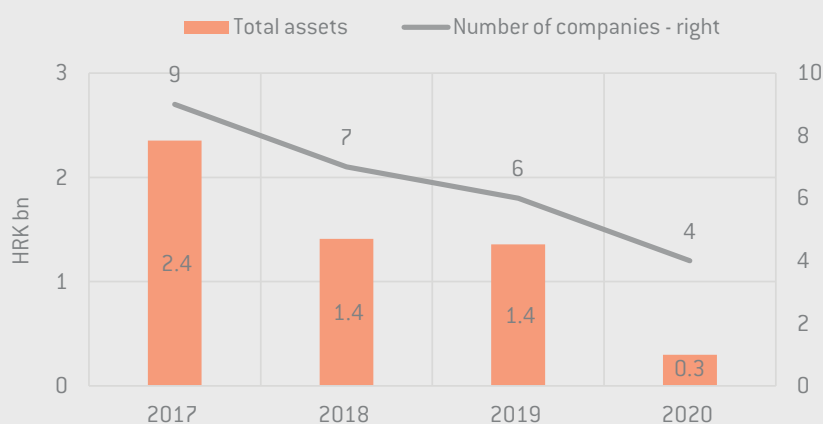
Factoring companies

After the consolidation of the factoring market was halted in 2019, it continued to a large extent in 2020, as a result of the negative economic effects of COVID-19 pandemic, but also of the significant transfer of operations to credit institutions and the banking sector. Total receivables for factoring operations in banks on 31 December 2020 amounted to HRK 1.8bn (increase of 43.3% compared to the previous year), or about ten times more than in factoring companies.

Total assets of factoring companies at the end of 2020 stood at HRK 325.2 m, a decrease of as much as 76.1% relative to 2019. Similarly, all segments of factoring operations recorded a significant decrease in the volume of transactions. The largest decrease in the volume of transactions was recorded by reverse factoring (87.9% on the annual basis), factoring including the discounting of bills of exchange recorded a 60.0% decrease in the volume of transactions, while for regular factoring operations the transaction volume decreased by 58.1% compared to 2019. Looking at all segments of factoring operations, the volume of transactions in 2020 amounted to HRK 993.7 m, which was by 68.1% less than in the previous year.

As at 31 December 2020, factoring companies' receivables amounted to HRK 178.8 m, of which HRK 116.1m related to factoring operations, HRK 24.4m related to factoring including the discounting of bills of exchange, while HRK 38.3m related to reverse factoring.

Figure 2.5.2 Number of factoring companies and their assets



Source: Hanfa

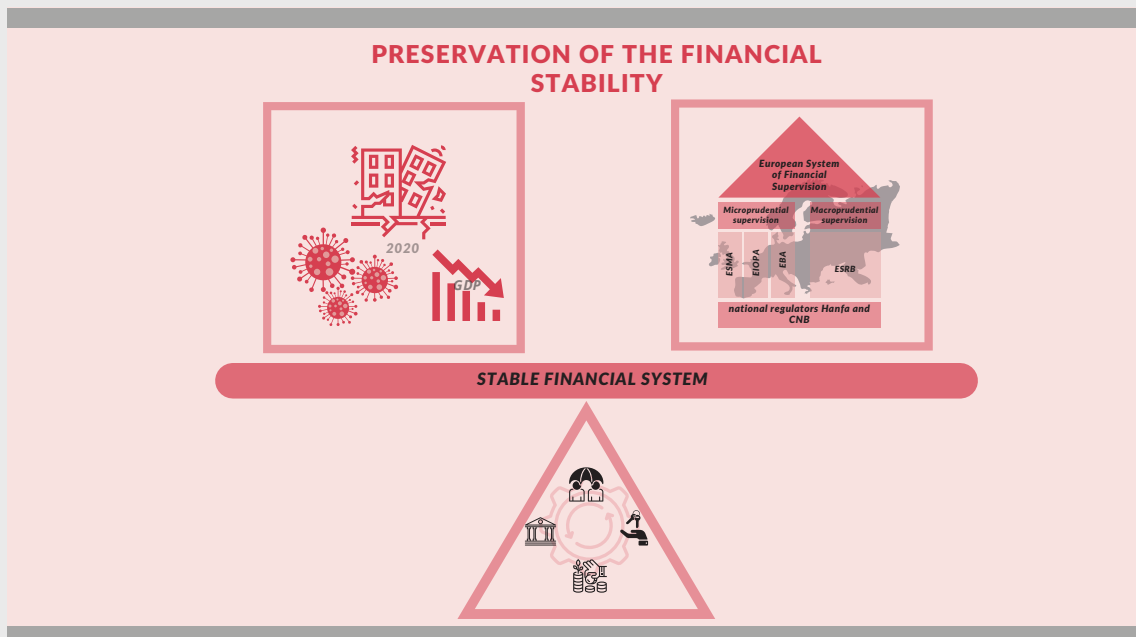


Supervisory activities



3 Supervisory activities

Hanfa, as a supervisory authority and in accordance with the Act on Hanfa, supervises business operations of stock exchanges and regulated markets, investment firms and securities issuers, brokers and investment advisors, tied agents, central depository and clearing company, insurance and reinsurance companies, insurance agents and brokers, investment and pension fund management companies, pension insurance companies, investment and pensions funds, Central Registry of Insured Persons, Fund for Croatian Homeland War Veterans and Members of their Families and legal persons carrying out leasing and factoring activities, unless these activities are carried out by banks within the scope of their registered activities. By carrying out off-site and on-site examinations, Hanfa verifies, on a continuous basis, whether supervised entities operate in accordance with laws and other regulations, risk management rules, internal by-laws and professional rules and whether they operate, in general, in a manner that ensures their proper functioning. While performing their supervisory tasks, Hanfa's employees follow the underlying principles such as independent, impartial and consistent conduct, high professional standards, responsibility, team work and proactivity. Those tasks are aimed at verifying legality and assessing safety and stability of supervised entities' business operations and their purpose is to protect financial services users' interests and public interests and to contribute to the stability of financial markets.



3.1 Microprudential supervision

Capital market

Market infrastructure entities and issuers admitted to the regulated market and MTF are supervised within the framework of capital market examinations. Systemic importance of market infrastructure entities and Hanfa's powers relating to the supervision of issuers require direct and continuous examinations in order for them to have a preventive effect. Capital market infrastructure entities are the ZSE as the sole operator of the regulated market and MTF, and the Central Depository and Clearing Company (hereinafter: CDCC) as the sole clearing and settlement services provider. Since they are irreplaceable capital market infrastructure entities, the supervision of their business operations and functioning are of extreme importance for the stability, growth and development of the capital market. By exercising off-site supervision of the ZSE and CDCC, Hanfa aims at preventing potential irregularities and illegalities in their business operations. As the authority supervising the capital market, Hanfa also carries out supervision of issuers whose securities are admitted to the regulated market as regards their treatment of regulated and other information, including the supervision of their financial statements. The off-site supervision of issuers involves the examination of timeliness in disclosing regulated and other information, its scope and contents, and compliance with relevant regulations, for the purpose of establishing effective regulated information handling process. In addition to its supervisory activities, Hanfa also carries out educational activities, organising workshops and presentations and directly communicating with issuers.

Supervision of capital market infrastructure

In 2020, Hanfa carried out ongoing off-site supervision of the ZSE's activities by collecting and analysing reports on business operations of the regulated market and MTF, submitted to Hanfa pursuant to the provisions of the Capital Market Act⁴. In addition, in October 2020, Hanfa started an on-site examination of the ZSE, focusing on measures aimed at ensuring a high level of cybersecurity⁵, obligations relating to reporting on cyber incidents⁶ and obligations relating to organisational requirements⁷. Moreover, during the year Hanfa supervised trading in financial instruments admitted to the regulated market and MTF in real time.

In accordance with the Ordinance on reporting actual or potential infringements of the Market Abuse Regulation⁸, the ZSE and investment firms submitted to Hanfa 15 reports relating to suspicions of market abuse and two reports relating to suspicions of insider dealing. Irregularities related to market abuse and Regulation (EU) No 596/2014 on market abuse⁹ were established in for cases, resulting in decisions imposing supervisory measures.

In 2020, Hanfa informed ESMA regularly of its supervisory activities and submitted to ESMA all notifications of temporary suspension of trading and/or removal from trading of financial instruments admitted to the regulated market, information on net short positions, data on duration-adjusted amount of sovereign debt instruments issued by the Republic of Croatia and data on failed settlements pursuant to Hanfa's Decision on reporting on failed settlements.

4 Official Gazette, No 65/18 and 17/20

5 Pursuant to Article 14 of the Act on Cybersecurity of Operators of Essential Services and Digital Service Providers (Official Gazette, No 64/18)

6 Pursuant to Article 21 of the Act on Cybersecurity of Operators of Essential Services and Digital Service Providers (Official Gazette, No 64/18)

7 Pursuant to Article 296 of the Capital Market Act (Official Gazette, No 65/18 and 17/20)

8 Official Gazette, No 60/16

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

In accordance with its obligations laid down by the Capital Market Act, in 2020 Hanfa carried out on-going supervision of the only clearing and settlement service provider, the CDCC. As part of the on-going off-site supervision in 2020, Hanfa analysed statements and financial reports received from the CDCC and verified their contents and timely submission. The supervision also included monitoring of the process of implementing EMIR¹⁰ and CSDR¹¹. As a prerequisite for the beginning of trading in ETFs on the ZSE, in 2020 Hanfa adopted decisions relating to the extension of the authorisation granted to the CDCC relating to ETFs, and amendments to the CDCC Rules and CDCC Instructions. In addition, it continuously supervised operations of the CDCC as the operator of the Investor Protection Scheme and analysed semi-annual and annual financial statements of the Scheme, which must be submitted pursuant to the Capital Market Act.

Supervision of issuers

During the year, Hanfa carried out 237 off-site examinations of issuers focusing on their handling of regulated information. The majority of the examinations (155) were related to the disclosure of regulated information, 35 examinations were related to the acquisition and/or disposal of issuers' shares by persons discharging managerial responsibilities in accordance with the Market Abuse Regulation, while 47 examinations were related to the acquisition and/or disposal of own shares of issuers. A total of 77 examinations included additional activities involving requests for statements or additional documentation from issuers. During 63 examinations additional activities were conducted as regards the disclosure of information in accordance with the Capital Market Act, ten examinations were carried out on the basis of publications via the media, while four examinations were carried out on the basis of complaints submitted to Hanfa.

Within the framework of these supervisory activities, during the year Hanfa also continuously monitored the disclosure of regulated information by issuers on the ZSE, in the Officially Appointed Mechanism for the central storage of regulated information (OAM) and other public platforms, by analysing the information concerned as regards their completeness and timely disclosure, their marking and signing¹² and the submission of insider lists.

During 2020, ten applications for prospectus approval were approved, of which nine applications related to single prospectuses and one to a divided prospectus (registration document / securities note and summary). Seven applications for prospectus approval were approved in relation to the admission of securities, one application was related to the issuance of securities, and two applications were related to the issuance and admission of securities to the regulated market. Two prospectuses related to the issuance / admission of bonds and eight prospectuses to the issuance / admission of securities to the regulated market. In addition, Hanfa received 47 notifications relating to prospectuses, mostly to base prospectuses and their final terms, from competent authorities of other Member States.

The Capital Market Act sets out cases where persons proposing to offer securities to the public or admit them to trading on a regulated market are not obliged to publish a prospectus. In this respect, a total of

HANDLING REGULATED INFORMATION

Issuers with their registered offices in the Republic of Croatia whose securities are admitted to the regulated market in the Republic of Croatia are obliged to have adequate policies and procedures and take appropriate measures aimed at ensuring the existence of an effective regulated information management and handling process.

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

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

12 Pursuant to the Ordinance on the contents, form and manner of submitting regulated information to the Croatian Financial Services Supervisory Agency and the Official Appointed Mechanism for the central storage of regulated information (Official Gazette, 114/18)

41 notifications were received regarding the use of exemption from the obligation to publish a prospectus (issuance / admission to the regulated market). The exemptions relating to the issuance of securities were most often used in the following cases: an offer of securities addressed to fewer than 150 natural or legal persons per Member State, other than qualified investors (27), an offer of securities addressed solely to qualified investors (4), an offer of securities to existing or former board members or employees by their employer or by an affiliated undertaking (8) and other cases (2). The notifications relating to the use of exemption from the obligation to publish a prospectus in the case of issuance concerned shares (18), bonds (11) and structured products (11).

Three takeover bids were approved during the year, based on which the amount of HRK 90m was paid for deposited shares, less than in the previous year, when the payment totalled HRK 334m.

Pursuant to the Capital Market Act, Hanfa is authorised to collect, process and publicly disclose data received from issuers relating to corporate governance, implementation of the Corporate Governance Code (hereinafter: Code) and compliance with the Code. The new Code, adopted by Hanfa and the ZSE on 15 October 2019 and applied since 1 January 2020 improved the corporate governance framework. The questionnaire on the compliance with the Code, drawn up by Hanfa, provides share issuers¹³ answers as to whether they comply with each of the recommendation of the Code fully or partially or whether they fail to comply. In the case of failure to comply or partial compliance, they need to provide reasons therefore and a description of actions and measures substituting recommendations from the Code. Issuers' compliance with good business practice is analysed by individual corporate governance segments (leadership, duties of board members, appointment of board members, supervisory board and

ANNUAL REPORT ON CORPORATE GOVERNANCE

The 2019 Annual Report on Corporate Governance, drawn up by Hanfa, provided information for the first time on the compliance of issuers whose shares are admitted to the regulated market with individual chapters of the Code as well as their total compliance with the Code.

13 Except for issuers of closed-ended investments fund shares, as the Code does not apply to them.

PROSPECTUS

A prospectus is a document published by the issuer for the purpose of an initial offer of securities or admission of securities to the regulated market. It contains legal, business, financial and accounting information and information on the internal structure of the issuer, based on which investors make their investment decisions.

The issuer proposing to use the prospectus approved by Hanfa in the case where the Republic of Croatia is the home Member State for the issuance or offer of securities and/or for the admission of securities to the regulated market in another Member State (host Member State) is obliged to submit to Hanfa a request to notify the competent authority of the host Member State of prospectus approval (the so-called passporting out).

In the case where the Republic of Croatia is a host Member State, the prospectus approved by the competent authority of the home Member State has the same effect as the prospectus approved by Hanfa if the competent authority of the home Member State has submitted to Hanfa and ESMA a certificate of approval of the prospectus, attesting that the prospectus has been drawn up in accordance with the Prospectus Regulation, with an electronic copy of that prospectus and the translation of the prospectus summary into Croatian (the so-called passporting in).

its committees, management board, remuneration of board members, risks, internal control and audit, disclosure and transparency, shareholders and the general meeting, and stakeholders and corporate social responsibility]. According to 2019 data, issuers complied most with the following chapters of the Code: Leadership, Shareholders and the general meeting, Appointment of board members, Risks, and Internal control and audit; while they complied least with the chapters Remuneration of board members, Management board and Supervisory board and its committees.

Hanfa also supervised the compliance of issuers' financial statements with the relevant financial reporting framework with a view to ensuring consistent, transparent and high-quality financial reporting, and providing relevant and reliable information to investors and other capital market stakeholders. Furthermore, it carried out the on-going analysis of issuers' financial statements and external auditors' reports and monitored issuers' ad-hoc publications, contacting, where necessary, issuers regarding these matters. The establishment of financial statement supervision during 2019 and 2020 included the implementation of a project financed within the Structural Reform Support Programme of the European Commission, which provided Hanfa with technical assistance in the implementation of the supervision of issuers' financial statements, insight into different practices of European supervisory authorities and employee training. As a result of the project, in 2020 Hanfa carried out the process of selecting a sample serving for the 2019 financial statement supervision, based on the method of assessing individual risk for each issuer and on the random sampling method in accordance with the project provided by the Guidelines on enforcement of financial information. During the sampling procedure, Hanfa took account of issuers who include the IFRS priorities, defined on an annual basis by ESMA as European Common Enforcement Priorities (hereinafter: ECEP14), in their financial statements to a significant extent. This procedure also involves the adoption of a decision relating to whether the selected issuers will be subject to full-scope or targeted supervision. Following the sampling procedure, full-scope examinations of three issuers began, and are still underway.

The 2020 supervision focused on the impact of COVID-19 on issuers' business operations. In this respect, ESMA issued a number of public statements aimed at ensuring the consistent application of IFRS Standards in extraordinary circumstances arising due to COVID-19 implications on issuers' activities. One of them is the Public statement on implications of the COVID-19 outbreak on the half-yearly financial reports, issued on 20 May 2020, containing ESMA decision to ensure focused examinations of a certain number of issuers at EU Member State level in order to identify the scope of impact of the COVID-19 pandemic on their business operations. This resulted in the monitoring of issuers' disclosures relating to risk exposure, accounting estimates, asset value adjustment and COVID-19 implications on issuers' business activities. Hanfa carried out focused examinations of two issuers, based on which no irregularities were established.

In addition, ESMA issued recommendations to issuers regarding their business activities in view of the COVID-19 impact on financial markets. In this respect, in March 2020, Hanfa requested issuers to submit their statements on all significant information relating to COVID-19 implications on their fundamentals, prospects or financial situation. This information will be taken into account when selecting a sample that will serve for the 2020 financial information supervision.

Hanfa also carried out analyses of certain financial information disclosed by nine issuers. On the basis of the analyses, further explanations were required from some issuers relating to changes in the presentation of certain positions in financial reports between two reporting periods, presentation of financial risks, application of IFRSs (IFRS 24 Related Party Disclosures, IFRS 37 Provisions, Contingent Liabilities and Contingent Assets, IFRS 36 Impairment of Assets), etc.

Issuers submit their annual and quarterly financial statements in three different formats, namely PDF, XLS and XML, and are obliged to present equivalent financial information in all these formats. A compari-

FULL-SCOPE AND FOCUSED SUPERVISION

Full-scope supervision, i.e. unlimited scope examination of financial information, implies the evaluation of the entire content of financial information to identify issues or areas that need further analysis and to assess whether the financial information complies with the relevant financial reporting framework. On the other hand, focused supervision is the evaluation of pre-defined issues in financial information.

14 The ECEPs for 2019 were IFRS 16 Leases, IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IAS 12 Income Taxes.

son of financial information presented in annual financial statements for 2019 in PDF and XLS format carried out during the year showed differences in the majority of issuers (69%). Only 3% of them explained the differences in their Notes contained in the form; 10% provided unsatisfactory explanations, while the remaining 87% of the issuers provided no explanation for the differences. Most of the differences perceived were the result of non-uniform classification of financial information by the issuers and mistakes occurring when entering certain positions. Hanfa drew the attention of the issuers to the existing differences, requested the differences to be corrected in future financial statements and will continue to monitor the compliance of audited financial statements and prescribed forms.

The Guidelines on alternative performance measures have been in force since 1 July 2020, with the aim of promoting the usefulness and transparency of alternative performance measures included in regulated information. During 2020, Hanfa carried out the analysis of the application of the Guidelines in annual financial statements for 2018 and 2019 and quarterly statements for the first quarter 2020, and in other disclosures by selected issuers for 2019. Based on the analysis and deficiencies established in the application of the Guidelines, on 18 December 2020 Hanfa issued its own Guidelines on the presentation of alternative performance measures.

Hanfa continuously informed issuers of novelties relating to financial information supervision by publishing written notifications and organising relevant trainings. Together with the ZSE and the CDCC, it participated in the organisation of the 11th educational congress for issuers, held in June 2020, where it presented the regulatory framework for the European Single Electronic Format (ESEF), that presents a new format for annual reports of issuers.

Investment services

Corrective supervisory activities

Supervision of delegated internal audit tasks

In 2020, Hanfa carried out off-site examinations of investment fund management companies which had delegated internal audit tasks, as part of the companies' control functions, to external auditors. Special emphasis was placed on the companies which had delegated internal audit tasks to the internal auditor who carried out these tasks for several companies at the same time, the purpose of which was to verify the consistency of the treatment of individual companies.

The off-site examination established that following the audit of each individual area, the majority of the management companies that had delegated internal audit tasks received written reports on the internal audit that were more exhaustive, i.e. more detailed than annual reports, which Hanfa finds to be a good business practice. A recommendation was therefore issued for the companies that did not follow such practice, relating to the preparation of additional/periodical reports by the internal audit, that would describe in more detail the examined areas and that would be submitted to the companies following the audit of each area.

Furthermore, the examination found that the internal audit, apart from the legally prescribed audit of remuneration policy and the prevention of money laundering and terrorist financing, focused on an extremely small segment of business operations. Considering the size of the companies and number of funds they manage, Hanfa finds this to be an inadequate practice. The companies in question were therefore requested to introduce appropriate changes for the purpose of improving the quality of tasks performed by the internal audit.

Hedge fund supervision

In 2020, Hanfa carried out off-site examinations of six alternative investment fund management companies, which managed 12 hedge funds at the end of the year. The examinations established no illegalities

or irregularities that would require the drawing up of supervisory reports. However, due to deficiencies in their business procedures, the companies were given written recommendations for the purpose of improving the quality of their business operations and mitigating risks they are exposed to.

Supervision of UCITS liquidity risk management

As early as in 2019, ESMA's Investment Management Standing Committee put forward the proposal for a common supervisory action with EU financial regulators on UCITS liquidity risk management, in which Hanfa took part as well. At the beginning of 2020, an agreement was reached as regards the plan, scope, methodology and uniform questionnaire for performing the common supervisory action. The action was conducted in companies which had established a liquidity risk management system with respect to the implementation of internal acts and the functioning of the system in practice. It was performed in two stages consisting of data collection and the in-depth analysis of the data, on a sample of UCITS management companies. The results of the exercise showed, in essence, that the management companies' data analysis processes prior to investing were not adequately documented or formalised. In addition, analyses were carried out of redemption policies, availability and reliability of data, and control mechanisms in the process concerned.

Following the exercise, the companies were informed of the main supervisory findings and were requested to, taking account of the proportionality principle, carry out pre-investment liquidity analyses, lay down and document the investment process adequately, establish an adequate reporting system, ensure the inclusion of other control functions in the liquidity management process and document the escalation process and the process of launching a new product properly.

Supervision of actions taken in accordance with the Decision to permanently restrict the marketing, distribution or sale of contracts for differences (CFDs) to retail clients

On 25 July 2019, pursuant to ESMA guidelines, Hanfa adopted the Decision permanently prohibiting the sale of binary options and restricting the sale of riskier contracts for differences (CFDs) to retail clients, as these are non-standardised products traded on OTC market with a complex and non-transparent price-forming system. In this respect, in 2020 Hanfa carried out the off-site examination of EU investment firms which provide their services in the territory of the Republic of Croatia on the basis of prior notification submitted by the foreign competent authority. The focus was placed on services relating to

the sale of CFDs considering the above-mentioned decision, and on warnings of risks arising from the contracts in question. Pursuant to the supervisory findings, four EU investment firms failed to comply fully with the decision or showed insufficient transparency of data based on which the compliance with the decision could be verified. As a result, Hanfa contacted competent authorities of the investment firms in question regarding the irregularities established.

CONTRACTS FOR DIFFERENCES

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

HEDGE FUNDS

Hedge funds are alternative investment funds that trade in relatively liquid assets and make extensive use of more complex trading, portfolio-construction and risk management techniques in an attempt to improve performance, such as short selling, leverage, and derivatives, which classifies them into a high-risk investment fund category. Even though the very name of these funds indicates the notion of "financial hedging", it should not be understood as such in this context, as financial hedging techniques are actually used for the purpose of mitigating exposure to various financial risks, while hedge fund management strategies often imply large risk exposures.

Supervision of the functional independence of economic cooperation funds' asset valuation

In 2020, Hanfa completed on-site examinations started in 2019 of four companies managing venture capital investment funds with private offering, which manage five economic cooperation funds (hereinafter: ECFs). ECFs are open-ended venture capital investment funds with private offering, established under the Regulation of the Croatian government and operating pursuant to the Alternative Investment Funds Act (hereinafter: the AIFA). A total of five ECFs were established, four of which will have ceased operating by the end of 2021, while one will stop operating at the beginning of March 2023. The aim of the examinations was to verify the functional independence of the valuation of ECFs' assets from the asset management process. The examinations established that in all the four companies the asset valuation process was not organised in such a way to be functionally independent from the asset management process, since the organisational units responsible for ECF asset management activities also carried out fair value assessments of individual fund investments, contrary to the provisions of the AIFA.

As a result, Hanfa adopted a decision ordering the ECF management companies to eliminate the illegalities and improve the business process in question. All the companies acted in accordance with Hanfa's decisions and eliminated the illegalities and irregularities established.

In 2020, Hanfa also conducted off-site examinations of a UCIT management company and an alternative investment fund management company, having established that the companies' own funds had fallen below the legal minimum. One of the companies carried out recapitalisation before a supervisory measure was issued, while the other company was ordered by Hanfa to adjust the level of its own funds to legal provisions. The company acted in accordance with the measure imposed.

Pension savings

Corrective supervisory activities

In 2020, Hanfa carried out four on-site examinations of pension companies, focusing on the business process relating to the provision of information to voluntary pension fund members at their retirement, while the examination of one pension company also included the inspection of its investment process and pension fund asset investments, prevention of money laundering and terrorist financing, and international restrictive measures.

Based on the examination findings, a warning was issued to one of the pension companies due to its failure to establish a business process relating to the combined pension payments and failure to provide adequate information on pension payment options to members of pension funds they manage. Two pension companies were given recommendations relating to the improvement of procedures and processes intended for work control and training of sales representatives; the companies were also ordered to establish mechanisms for communicating with sales representatives in the case where complaints are submitted by fund members with respect to their work. Furthermore, one pension company was ordered to ensure the provision of comprehensive and full information to voluntary pension fund members at their retirement, the improvement of the process relating to the reception and recording of fund members' complaints, the conclusion of contracts on business cooperation with representatives offering pension schemes and the operation of the compliance function, as well as to establish procedures, measures and processes intended for work control and training of sales representatives. Finally, one pension company was ordered to improve its business processes relating to the adoption of individual investment decisions and their on-going monitoring and documenting, adoption of an asset investment strategy and monitoring of its realisation, monitoring of pension fund asset investments in financial derivatives, and conflicts of interest management; and to improve its internal acts and business procedures relating to the prevention of money laundering and terrorist financing.

In addition to the above-mentioned on-site examinations, in 2020 Hanfa also carried an off-site examination of a pension company relating to the manner of calculating management fees. The supervisory procedure established a mistake in calculating the basis for the calculation of the management fee, which was rectified by the company during the examination. Due to the illegality established, Hanfa issued a decision containing a warning as the supervisory measure imposed on the pension company.

Preventive supervisory activities

At the beginning of 2020, preventive supervisory activities were focused on pension companies managing voluntary pension funds as regards the unification of the form of informative pension calculation. This was due to the fact that, following the amendments to the Ordinance on requirements to be met in order to be entitled to receive retirement benefits arising from voluntary pension insurance, on the register of members, and on cancellation of payments into and out of voluntary pension funds,¹⁵ pension companies were given a 30-day deadline to adjust their business operations in the area relating to informative pension calculation for fund members. Prior to the expiry of the adjustment deadline, pension companies were requested to submit new forms, for which Hanfa had previously provided instructions, in order for them to be adjusted and aligned with the Ordinance.

Due to the COVID-19 pandemic and the Zagreb earthquake, for the purpose of ensuring the continuity of pension companies' business operations and at the same time protecting the interests of pension fund members, Hanfa took a series of actions and measures in order to disburden pension companies' operation in extraordinary circumstances. The measures taken included decisions on the sufficiency of documentation signature by one member of the pension fund management board only, on the extension of deadlines for submitting reports to members of the Association of Pension Companies and Pension Insurance Companies for 30 days and on facilitation of the delivery and submission of documents and of communication between pension companies and Hanfa, that was carried out by electronic means. For the purpose of gaining a prompt insight into the measures aimed at ensuring the continuity of operation and protecting the functioning of the pension market, pension companies were requested to provide information on their business continuity plans and on any restrictions they encountered in their business activities. In addition, by monitoring currency exposure of pension funds and analysing the implications of the COVID-19 pandemic on the net value and structure of pension funds' assets, Hanfa took precautionary actions to identify potential problems and take steps for the purpose of preventing the interests of pension fund members and safeguarding the stability of the pension system.

In June 2020, Hanfa adopted the Guidelines for pension companies on increasing the level of financial literacy of Croatian citizens, in order to improve, develop and unify current procedures and business practices of pension companies regarding the provision of information and increasing the level of financial literacy of the existing and future pension fund members. The purpose of the Guidelines was to ensure stronger public presence and recognisability of pension companies and pension funds, as well as of notions related to their functioning, thus enhancing the confidence of insured persons in the pension system, which finally contributes to its long-term sustainability.

15 Official Gazette, No 2/20

Actions taken by pension companies in accordance with the Guidelines for pension companies on increasing the level of financial literacy of Croatian citizens

In mid-2020, Hanfa adopted the Guidelines for pension companies on increasing the level of financial literacy of Croatian citizens, which all pension companies obeyed, having informed Hanfa of their activities, which they carried out by themselves or in cooperation with the Association of Pension Companies and Pension Insurance Companies (hereinafter: the Association), aimed at increasing the understanding of the pensions system and savings by Croatian citizens.

Efforts taken by pension companies, in particular in joint projects with the Association, led to a significant progress in making Croatian citizens familiar with notions and topics related to the pension system in comparison with the previous period. During this process, some pension companies showed greater public presence and put in greater efforts to make the public acquainted with basic terms related to financial literacy. Despite the extremely difficult circumstances in 2020, the participation by pension companies in improving financial literacy of citizens was significant and visible, both through their cooperation with educational institutions and through the press or web portals and various social networks.

In 2020, pension companies made their own efforts, but also cooperated with the Association, in order to help citizens gain knowledge on financial literacy that can enable them to make savings for their retirement. These attempts help raise the awareness of citizens as regards their finances in old age and provide them with knowledge on pension savings options, as well as on rights they will acquire at their retirement within the pension system of the Republic of Croatia.

Since this system is neither simple nor automated as it was at times when pension contributions were made only to the current Pillar I, it is important to educate citizens on options they are offered at their retirement. It is therefore necessary to give them insight into possibilities and advantages of savings in all the three pillars of the pension system at the working age and to educate them on possibilities, rights and selection options when reaching the retirement age.

Pension companies should therefore, on their own, but also in cooperation with the Association, educate citizens in order for them to have sufficient knowledge and relevant data required for selecting the most favourable option within the pension system.

According to pension companies' reports, in 2020 they conducted 11 large media campaigns on the importance of pension savings, in accordance with the Guidelines. In addition to the media campaigns in the press and on their own online platforms and channels, they also organised around ten workshops and conferences. Apart from their own activities, pension companies cooperated with the Association on a number of projects, including, in particular, the following:

- the MAFIN campaign (Mala akademija financija – Small Academy of Finance), intended for primary school students, parents and teachers, in cooperation with the Faculty of Economics and Business in Zagreb, Ministry of Science and Education, Education and Teacher Training Agency and the Croatian daily "Večernji list"
- print and digital campaign titled "Moja mirovina" (My Pension), published by the Croatian daily "24 sata"
- print and digital campaign titled "THINK FIN – financije za svakog" (THINK FIN – Finance for All), including an informative virtual adviser, designed for the first time on Viber application
- cycle of radio shows on the Poslovni FM radio
- the Association launched a digital platform titled "mirovinskifondovi.hr", enabling Croatian citizens to obtain in one place simple information on the pension system, mandatory and voluntary pension funds and their pensions. The platform contains guides, analyses, reviews and reports which should help them design sound pension schemes.

In June 2020, Hanfa also launched its own educational website titled “Novac za sutra” (Money for Tomorrow), where it deals with special topics relating to the importance of savings for the future and for better pensions. Hanfa will continue monitoring the implementation of the Guidelines by pension companies and encouraging new ideas and campaigns, for the purpose of protecting the best interests of citizens and ensuring long-term sustainability of and confidence in the pension system.

MyPension.hr

The beginning of 2020 saw the completion of the project titled “The Role of Pension Awareness and Promoting Pension Savings” started in 2019, in which Hanfa participated actively. The project was financed within the Structural Reform Support Programme of the European Commission, applied for by the Ministry of Labour, Pension System, Family and Social Policy and Croatian Pension Insurance Institute. Other participants in the project from the Republic of Croatia, apart from Hanfa, were the Ministry of Labour, Pension system, Family and social Policy, the Croatian Pension Insurance Institute, the Central Register of Insured Persons (Regos) and the Association of Pension Companies and Pension Insurance Companies.

The project was primarily focused on the establishment of an online platform titled “MyPension.hr”, which aims to provide all insured persons with a single point of information on all three pension pillars. The platform should enable citizens to use its services in a simple and understandable manner to quickly find unified information on the estimated future pension earnings from all three pillars.

The final product of the project was a document providing details on all prerequisites that need to be met and steps that need to be taken in order to establish the platform and ensure its operation in the future. The completion of the project was followed by the beginning of the establishment of the platform, with Regos having been appointed as the institution managing it. Considering the complexity of the entire project, the establishment of the platform is expected to last several years.

Insurance

Corrective supervisory activities

In 2020, Hanfa carried out two on-site examinations, one of which was a targeted examination that began in 2019 and ended in 2020, while the other was a full-scope examination that started in 2020. The following were subjects of the examinations: valuation of the best estimate for life insurance business, adequacy of internal procedures, practices and activities that have an impact on the protection of interested parties, adequacy of the product monitoring and management system, adequacy of premium and provisioning process according to accounting regulations and sufficiency of claim provisions for risk type 10.01¹⁶, adequacy of the anti-money laundering and terrorist financing system and cyber security management system, outsourcing and business continuity plans. A decision was adopted ordering the company to eliminate illegalities established, considering its failure to act in accordance with certain articles of the PRIIP Regulation¹⁷ and Delegated PRIIP Regulation¹⁸ that lay down the format and content

16 Insurance of owners or users of motor vehicles against liability for damage to third parties

17 Regulation (EU) 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs), OJ L 352

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

of the key information document (KID), which may lead to difficulties in understanding product characteristics and the misleading of policyholders (retail investors), and consequently to their potential losses. Pursuant to Article 7(6) of the Act Implementing the PRIIP Regulation¹⁹, Hanfa was obliged to publish information on the measures imposed on its website.

In 2020, Hanfa carried out five off-site examinations, of which two began in 2019, and three in 2020. Subjects of the examinations were the manner of concluding insurance contracts, organisation of the business process relating to the processing and settlement of claims, adequacy of internal procedures, practices and activities that have an impact on the protection of interested parties and investment risk management. Within the off-site examination procedures, two decisions were issued ordering the companies to eliminate illegalities established.

According to one of the decisions, the company failed to act in accordance with the previous decision; therefore, measures to eliminate illegalities and irregularities established in the claim processing and settlement procedure were imposed again. The other decision imposed measures to eliminate illegalities relating to the harmonisation of pre-contractual documentation with legal provisions.

Preventive supervisory activities

For the purpose of consumer protection, Hanfa carried out six on-site examinations involving mystery shopping, three of which were related to insurance intermediaries. The subject of the examinations was the consistency in the provision of services covering distribution of health insurance and life or annuity insurance where the policyholder bears the investment risk. Following the examinations, two decisions were issued ordering the elimination of illegalities and irregularities established as regards the business process of insurance distribution and provision of pre-contractual information.

In 2020, Hanfa continuously supervised and verified regular financial, supervisory and other reports that insurance companies were obliged to submit. In addition, it received and verified the completeness of financial and statistical reports submitted by pension insurance companies, the Croatian Insurance Bureau, the Croatian Nuclear Pool and persons authorised to conduct insurance and/or reinsurance business. As part of its preventive activities in 2020, Hanfa also held individual meetings with audit firms that carry out statutory audit and audit of reports submitted by insurance companies and pension insurance companies for Hanfa's purposes in order to exchange opinions and material facts related to individual companies.

For the purpose of contributing to the stability of insurance companies' business operations, mitigating consequences of extraordinary circumstances relating to the impact of the COVID-19 pandemic on their activities, and protecting interests of policyholders and the stability of the financial system in the Republic of Croatia, Hanfa adopted 13 decisions banning insurance companies from paying dividends until 30 April 2021.

KEY INFORMATION DOCUMENT (KID)

KID is a pre-contractual document provided to a potential investor buying insurance-based investment products or when contracting an insurance product which offers a maturity or surrender value and where that maturity or surrender value is wholly or partially exposed, directly or indirectly, to market fluctuations. It contains key information, in particular as regards the nature and features of the product, including whether it is possible to lose capital, the costs and risk profile of the product, as well as relevant performance information, and certain other specific information which may be necessary for understanding the features of individual types of product.

¹⁹ Act Implementing Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products (Official Gazette, No 112/18)

Within the framework of their own risk management system, insurance companies are obliged to carry out the Own Risk and Solvency Assessment (ORSA) at least once a year. In addition to submitting their regular ORSA reports, insurance companies should carry their Own Risk and Solvency Assessment following any significant change in their risk profile, i.e. in the case of any significant change occurring in their business operations affecting their risk profile. Due to new circumstances caused by the pandemic, four out of 15 insurance companies conducted an extraordinary assessment of risk exposure and submitted their extraordinary ORSA reports to Hanfa. Following the analysis and evaluation of the reports, Hanfa continued communicating with the companies in order to increase the ability to assess the impact of the newly arisen situation.

Furthermore, in 2020 Hanfa provided insurance companies with recommendations for maintaining the continuity of business operations, financial stability and solvency position, and for mitigating risks they are or may be exposed to. The recommendations relating to business continuity took account of the provision of information to employees, distributors and clients and of possibilities of concluding distant insurance contracts. The other recommendations related to investments, solvency position and risk profile of insurance companies. The following were some of the more important recommendations:

- amendments and adjustments to rights and obligations arising from insurance contracts and postponement of insurance premium enforcement measures relating to policyholders who had duly met their contractual obligations until 31 December 2019 and who faced difficulties in or were temporarily unable to continue paying their insurance premium in an orderly manner
- provision of the possibility to pay loan / down payment instalments for life insurance policyholders for up to 180 days, where applicable
- decisions determining that no receivable value adjustments would be made for clients who were unable to continue paying their insurance premium in an orderly manner as a result of the pandemic and whose insurance coverage was withheld and who failed to meet their obligations as of April 2020
- as regards investments, increased caution and abstention from new investments and from increasing investments in assets not admitted to the regulated market and in assets that are not or that have not been traded regularly
- as regards the solvency position of insurance companies, Hanfa drew the attention to the importance of calculating or at least assessing solvency capital requirements (SCR) of the company for each quarter, taking account of the circumstances occurring due to the pandemic. It requested the submission of additional information on SCR components submitted within quarterly reports and on reasons that had an impact on the change in capital requirement level compared to the previous reporting period.
- as regards risk profiles of insurance companies, inclusion of relevant circumstances or economic assumptions relating to the COVID-19 pandemic in future ORSA reports

In addition to the recommendations given, Hanfa also established an extraordinary reporting process for insurance companies, partly relating to the collection of more detailed data on settled life insurance claims for the purpose of monitoring the surrender rate, amount of surrender values and changes in average surrender values of the insurance company.

In addition, in 2020, Hanfa set up monthly monitoring of insurance companies' liquidity, with an emphasis on monitoring portions of the companies' liquid assets and cash flow sustainability. For the purpose of assessing liquidity risk, insurance companies were requested to submit information on the assessment of the COVID-19 impact on liquidity, on potential significant lapses in the following six months, on the decrease in the sale of insurance policies and on the asset disposal plan in the case of jeopardised liquidity. The reports submitted showed that insurance companies did not expect any liquidity issues in the short term.

Following the earthquake that struck Zagreb in March 2020, Hanfa carried out an additional survey and analysis of the insurance market relating to earthquake insurance, which showed that gross claims

incurred for 2020 totalled HRK 795.26m (a 70% rise), with an increase in the number of new insurance contracts (32%) and in gross written premium (30%). All insurance companies had special reinsurance programmes covering earthquake insurance and, considering the exposure and intensity of the earthquake, they were sufficient to cover claims above the retention limit. The gross claims incurred had therefore no significant impact on the solvency and profitability of insurance companies. Hanfa continued monitoring intensively the earthquake-related issues, in particular after the earthquake in December 2020, that left devastating consequences for Sisak and Petrinja.

A significant impact on business operations of companies pursuing motor vehicle insurance business was also made by the decision adopted by the Supreme Court of the Republic of Croatia on 15 June 2020, relating to a change in the Orientation criteria and amounts for determining the level of fair monetary compensation for non-pecuniary damage of 29 November 2002, which increased the accepted amounts denominated in monetary units (kuna) by 50%. Hanfa analysed the impact of the change in the Orientation criteria and amounts for determining the level of fair monetary compensation for non-pecuniary damage on technical results of two insurance companies. The impact was quantified and described in detail by risk types, types of claim provisions and years when the damage occurred. The companies also informed Hanfa of all activities planned, paying special attention to qualitative and quantitative effects on price lists (for risk types affected by the said increase in the level of fair monetary compensation) and to the impact on the SCR ratio of the companies.

For the purpose of preparations for future significant events on the financial market relating to the envisaged adoption of the euro as the official currency in the Republic of Croatia, Hanfa carried out an analysis of the impact of euro adoption on the solvency position of insurance companies.

Supervisory activities in cooperation with EIOPA and other national supervisors

In cooperation with the competent supervisory authority of a Member State, Hanfa participated in a joint follow-up on-site examination of a subsidiary of a Croatian insurance undertaking in the Member State relating to the claim processing and settling procedure, focusing on irregularities and illegalities established in the preceding on-site examination.

Hanfa's employees took part in 13 colleges of supervisors of insurance groups organised by competent supervisory authorities of Member States, aimed at exchanging information and data on insurance companies belonging to an insurance group and pursuing insurance business in other Member States.

In 2020, EIOPA continued collecting data, opinions and analyses for the purpose of the Solvency II Directive review. Hanfa participated in the collection of data from insurance companies relating to the assessment of the review costs, including the provision of opinions and analyses on the impact of proposed changes. EIOPA requested information from the industry on two occasions (on the second occasion in the light of the COVID-19 pandemic). The request for information was sent to a representative sample of insurance companies subject to Solvency II obligations. The sample included seven insurance companies on the Croatian market. Hanfa validated data submitted by these companies, while on the basis of results obtained from all EEA countries, EIOPA updated its Opinion on the 2020 Review of Solvency II.

Non-bank financing

Corrective supervisory activities

Leasing

During 2020, Hanfa completed an off-site examination of a leasing company that started in 2019 and related to the calculation of interest rates under lease contracts. The examination found illegalities and irregularities in the calculation of interest rates for lessees, and was followed by a decision ordering their elimination, the calculation of interest rates in a clear and understandable manner and reporting on

activities the company had taken in respect of all lessees whose contractual obligations had been altered unilaterally, in an unfounded and non-transparent manner.

In addition, eight more off-site examinations relating to the calculation of interest rates under lease contracts were launched in 2020. Supervisory reports were drawn up for four off-site examinations which found irregularities in the calculation of interest rates in the 2008–2020 period. One of the off-site examinations established no illegalities or irregularities, while three examinations are still underway. At the end of 2020, Hanfa initiated an off-site examination of a leasing company focusing on the application of the zero floor clause under lease contracts.

Factoring

In 2020, Hanfa carried out two on-site examinations of factoring companies focusing on the compliance with the provisions of the Factoring Act²⁰ as regard business operations, risk management and financial reporting, and on the application of the Anti-Money Laundering and Terrorist Financing Act²¹. One of the examinations was followed by a decision determining that illegalities and irregularities established had been eliminated, while the other examination is still underway.

Preventive supervisory activities

Due to the COVID-19 pandemic and its impact on business operations of non-financial companies and the entire economic activity, in 2020 Hanfa issued recommendations for leasing companies (on two occasions – in March and May) aimed at facilitating the financial position for lessees who had duly met their obligations arising from lease contracts prior to the pandemic. Hanfa recommended leasing companies not to take enforcement measures or charge default interest against such lessees and to approve deferred payments for periods longer than three months. On the other hand, leasing companies were not obliged to make value adjustments for receivables under those leasing contracts. Hanfa also supported all steps taken by leasing companies benefiting lessees from areas hit by earthquakes that caused serious material damage in 2020. During the entire year, Hanfa collected data on the number and value of rescheduling requests and approvals (deferred payments) relating to lease contracts. In March 2020, similar recommendations were also issued for factoring companies.

Since leasing and factoring companies are required to submit to Hanfa regular reports, including financial, additional and audit reports, during 2020, Hanfa continuously carried out supervision and verification of all elements of their regular reporting, and it requested numerous additional reports, information and documentation, which were also subject to analysis and off-site supervision.

Prevention of money laundering and terrorist financing

Hanfa supervises the implementation of measures, activities and procedures aimed at the prevention and detection of money laundering and terrorist financing. The Amendments to the Anti-Money Laundering and Terrorist Financing Act²², which entered into force on 1 January 2020, extended the scope of entities supervised by Hanfa. Hanfa therefore became responsible for supervision of entities engaged in the provision of exchange services between virtual currencies and fiat currencies and custodian wallet services. The Amendments to the Anti-Money Laundering and Terrorist Financing Act imposed the obligation on these entities to contact Hanfa before they start carrying out such activities. By the end of 2020, Hanfa was contacted by 14 companies engaged in the provision of exchange services between virtual currencies and fiat currencies and custodian wallet services.

20 Official Gazette, No 94/14, 85/15, 41/16

21 Official Gazette, No 108/17, 39/19

22 Official Gazette, No 39/19

Hanfa recognised the importance of and need for strengthening the anti-money laundering and terrorist financing system, establishing therefore in 2020 a separate organisational unit – the Anti-Money Laundering Office. In cooperation with other organisational units, the Office was involved in examinations of supervised entities, focusing at verification of the compliance of their internal acts with the Anti-Money Laundering and Terrorist Financing Act and accompanying ordinances, due diligence measures and reporting of suspicious transactions.

In 2020, Hanfa launched five examinations of investment firms, UCITS management companies, insurance companies and providers engaged in exchange services between virtual currencies and fiat currencies and custodian wallet providers.

Four of the examinations were carried out on site, while one was conducted off site. Following the on-site examinations carried out in 2020, Hanfa adopted two decisions ordering the elimination of illegalities and irregularities established. Illegalities and irregularities established during one of the examinations were eliminated by the supervised entity prior to the adoption of the decision ordering the supervisory measure, while the off-site examination resulted in Hanfa's recommendations for the supervised entity. Supervisory activities carried out within the framework of one examination are still ongoing.

Hanfa's activities also included preparation for the 5th round of evaluation of the Republic of Croatia by MONEYVAL²³. The evaluation covers technical compliance with the FATF²⁴ Recommendations and assessment of the anti-money laundering and terrorist financing system in accordance with the objectives of the Methodology for assessing technical compliance with the FATF Recommendations. Hanfa collected relevant documentation and completed questionnaires containing data from its scope of competence, and submitted them to the Croatian Anti-Money Laundering and Terrorist Financing Office. Hanfa's cooperation with other supervisory authorities continued within the framework of the Inter-Institutional Working Group on the Prevention of Money Laundering and Terrorist Financing. The most important issues were related to the upcoming MONEYVAL evaluation.

At the end of 2020, in cooperation with the Croatian Chamber of Economy, Hanfa organised an online annual educational programme on the prevention of money laundering and terrorist financing for its supervised entities. The programme covered issues relating to national risk assessment, assessment of risks related to the COVID-19 pandemic, and development of regulations and practices in the anti-money laundering and terrorist financing area.

VIRTUAL CURRENCIES

Virtual currency is a digital representation of value not issued nor guaranteed by a central bank or a public authority, is not necessarily attached to a legally established currency and does not possess a legal status of currency or money, but is accepted by natural or legal persons as a means of exchange and it can be transferred, stored and traded electronically.

CUSTODIAN WALLET SERVICES

Custodian wallet service implies safekeeping of private cryptographic keys on behalf of clients for the purpose of holding, storing and transferring virtual currencies.

MACROPRUDENTIAL POLICY

Macroprudential policy is a policy comprising measures, instruments and activities necessary to maintain the stability of the financial system as a whole by strengthening financial system resilience and preventing and mitigating systemic risks.

3.2 Macroprudential supervision

Systemic risk is any risk the system is exposed to, which can exert a negative impact on the functioning of a part or of the entire financial system, producing at the same time a serious negative effect on the real economy. Monitoring and prevention of the materialisation of systemic risk, always pres-

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

24 Financial Action Task Force

ent in the system, is one of the main tasks of macroprudential policy, which aims to prevent the excessive build-up of risk resulting from external factors and market failures to smoothen the financial cycle (time dimension); to make the financial system more resilient and limit contagion effects (cross-section dimension); and to encourage a system-wide perspective in financial regulation to create the right set of incentives for market participants (structural dimension). Unfavourable circumstances that arose at the beginning of the year, when sudden and rapid spread of the coronavirus in a short period caused an economic slowdown, led to increased probability of systemic risk materialisation with the possibility of disturbances in the financial system. The escalation of the COVID-19 pandemic had therefore a significant impact on Hanfa's macroprudential activities during the year.

DIVIDEND PAYMENT BAN

For the purpose of stabilising business operations and providing additional liquidity support, protecting interests of insured persons and maintaining an adequate level of system capitalisation, on 26 March 2020 Hanfa temporarily banned insurance companies from paying dividends.

One of the most important macroprudential decisions adopted by Hanfa was a measure imposed on 26 March 2020, temporarily (until 30 April 2021) banning insurance companies from paying dividends from profits realised in 2019, but also in previous years. Prior to imposing the ban, in mid-March 2020 Hanfa recommended insurance companies to reduce and limit any unnecessary operating and investment costs, including the payment of bonuses and incentives. This decision was adopted for the purpose of stabilising business operations and providing additional liquidity support, protecting interests of insured persons and, finally, maintaining an adequate level of system capitalisation. Considering the extraordinary market circumstances and importance of the insurance industry for the domestic financial sector, the measure indirectly helped preserve financial stability. At the end of March 2020, insurance companies accounted for 22% of the domestic financial services sector, or for 7% of the entire Croatian financial system. The stability of the insurance sector is therefore extremely important for the stability of the entire Croatian financial system, particularly considering a significant connection with other parts of the financial system through concentration of investments in domestic sovereign debt securities. In 2020, Hanfa continuously and thoroughly monitored market developments in order to assess the impact of negative trends caused by the coronavirus crisis on insurance companies' solvency and liquidity. The analyses showed that insurers' solvency and liquidity positions remained relatively stable in spite of negative trends, due to high capitalisation levels and adequate liquidity of the sector prior to the crisis, also contributed to by the absorption capacity of the temporary ban on dividend payments.

Another important macroprudential measure comprised recommendations for leasing companies, relating in the first phase (end-March) to deferred principal payment for a three-month period for clients whose creditworthiness had been seriously compromised due to a loss or reduction of income, as well as for clients whose income had been significantly reduced in comparison with their total income in the preceding period. In May, Hanfa issued another set of recommendations for leasing companies, that included the possibility to approve grace periods longer than three months, discontinuation of the charging of accrued interest in the grace period and of default interest to lessees who had received approval for differed payments, and termination of all enforcement procedures during the grace period agreed for clients who had previously duly met their obligations. In addition to protecting customers, Hanfa issued these recommendations in an attempt to facilitate, within the scope of its legal powers, business operations of leasing companies. In this respect, the companies were allowed to adopt a decision releasing them from the obligation to classify these receivables as non-performing placements and to make value adjustments in respect thereof.

With the aim of stabilising the domestic bond market, at the beginning of April 2020, Hanfa approved the establishment of the Stability Fund. It is an open-ended investment fund with public offering (UCITS), whose purpose is collective investment primarily in transferable debt securities and money market instruments issued or guaranteed by the Republic of Croatia and in units of UCITS established in the territory of the Republic of Croatia which invest their assets mostly in bonds and to a lesser extent in depos-

its²⁵. The main benefit of the Fund, from the macroprudential perspective, is the building of an additional liquidity buffer on the bond market as the Fund has a potential to purchase sovereign bonds in the amount of HRK 500m.

During the challenging 2020, Hanfa cooperated intensively with other macroprudential policy makers at the European and national level. The carrying out of macroprudential policy at the EU-level has been entrusted to the European Systemic Risk Board (ESRB), whose recommendations contribute significantly to the process of developing institutions and instruments for implementing macroprudential policy in Member States. The work of the ESRB during the pandemic year was marked by an increase in issued recommendations, whose purpose was to mitigate effects of the coronavirus crisis²⁶. Hanfa followed the recommendations on an on-going basis and acted accordingly, continuously cooperating with other regulatory authorities in the Republic of Croatia meeting within the Financial Stability Council. In 2020, the Council held two meetings, with Hanfa's representatives actively participating therein, pursuant to the Act on the Financial Stability Council²⁷. Topics discussed at the meetings covered relevant financial sector developments, monitoring of the COVID-19 effects on the economy and regulatory activities of institutions whose representatives are members of the Council. The Council identified, discussed and assessed systemic risks, ensured cooperation and exchange of information among competent authorities, considered activities related to the fulfilment of requirements from the ESRB recommendations and carried out other tasks laid down by the Act on the Financial Stability Council.

In 2020, Hanfa continued regularly informing the public of the main risks to financial sector stability and of measures for mitigating those risks in its publication Macroprudential Risk Scanner. It also carried out a prudential examination of the resilience of the financial services sector to rather unlikely, but possible disturbances. Results of the simulation showed that even in the most conservative scenario the level of estimated losses suffered by funds in 2020 would be lower of the level of profits realised in 2019, while insurance companies' balance sheets would absorb the shock produced in financial markets.

FINANCIAL STABILITY COUNCIL

The Financial Stability Council is an interinstitutional body that shapes macroprudential policy of the Republic of Croatia. It is composed of representatives of institutions that are key to preserving financial stability in the Republic of Croatia – Hanfa, the CNB, the Ministry of Finance of the Republic of Croatia and the State Agency for Deposit Insurance and Bank Rehabilitation.

Measures taken to preserve financial stability

The outbreak of the coronavirus and its rapid spread to the rest of the Asian continent and then to the entire world laid additional emphasis on the importance of coordinated action by economic policy makers within each country, as well as on the significance of cooperation among national regulators and international supervisory authorities. The escalation of the pandemic in Europe made it clear that epidemiological measures taken by governments and public authorities, that brought certain segments of economies to a complete halt for the purpose of suppressing the virus, would result in a significant decline in economic activity. These measures needed therefore

25 In addition, the Fund can make investments in transferable debt securities and money market instruments issued or guaranteed by another Member State or OECD member country, the CNB or central bank of another Member State or OECD member country or public international authority the majority of Member States belong to; and transferable debt securities and money market instruments admitted to the regulated market within the meaning of laws and regulations governing the capital market.

26 More information on recommendations and work of the ESRB in 2020 can be found in the chapter on international cooperation.

27 Official Gazette, No. 159/13

to be followed by the adoption of a series of other measures of a fiscal, monetary and prudential (macro and micro) nature, in order to minimise negative effects on the economy caused by the closure.

Given the high degree of integration of Member State economies, various measures implemented by one Member State can have an impact on other Member States through positive or negative spillovers. That is why the ESRB initiated the collection of information on measures taken by the EU²⁷ Member States, Iceland, Liechtenstein and Norway as soon as the health crisis began. This also covered measures imposed by the European Supervisory Authorities, primarily EIOPA, applied in the euro area and/or the entire EU. The collection of information was formalised at the end of May 2020 in the form of the Recommendation on monitoring the financial stability implications of debt moratoria, and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID19 pandemic (ESRB/2020/828; hereinafter: the Recommendation).

The Recommendation is divided into two parts: Part A, providing a conceptual framework for monitoring the financial system stability implications of the measures by national macroprudential authorities; and Part B, laying down detailed templates for reporting to ESRB measures taken, with a special emphasis on cross-sectoral and cross-border implications. The document describes the expected action by national macroprudential authorities and other institutions to contain and mitigate economic consequences of the health crisis. One of the main benefits of the Recommendation is the creation of a centralised database of all the measures implemented in the European Economic Area and its updating on a quarterly basis; which enables a detailed analysis of the measures adopted and more effective monitoring of their possible cross-border effects.

The analysis of the measures²⁹ adopted by the end of 2020 shows that at end-2020 almost half of the measures taken related to deferred payments and fiscal measures of importance for financial stability. According to the first assessments, available fiscal support packages related to the COVID-19 pandemic total around 14% of the joint GDP of Member States (more than EUR 2,400bn)³⁰. This includes public guarantees on loans, public loans, direct grants and tax measures. By September 2020, the reported uptake of these programmes was about 4% of Member States' total GDP. In addition to fiscal measures to support the economy, national regulators also imposed a large number of measures of a microprudential and macroprudential nature whose purpose was to facilitate operation of financial institutions in conditions of potentially increased operational risk and to preserve the stability of national financial systems. Almost 20% of all the measures imposed in Member States due to the coronavirus pandemic were therefore of a prudential nature.

Differentiation of the measures by country reflects a different level of exposure to the pandemic: countries that were affected by the pandemic more severely, experiencing longer economic closures caused by more intense spread of the virus and more stringent measures, recorded higher amounts of fiscal support programmes and larger shares in their usage. The data also show that deferred payments were related to pre-crisis private debt levels, revealing that rescheduling was on average more often approved to entities with larger debts prior to the beginning of the crisis. With about 50 measures it has adopted, Croatia ranks in the upper part of distribution and belongs to a group of countries with number of measures reaching above the median and average EU-level (Figure 1)³¹.

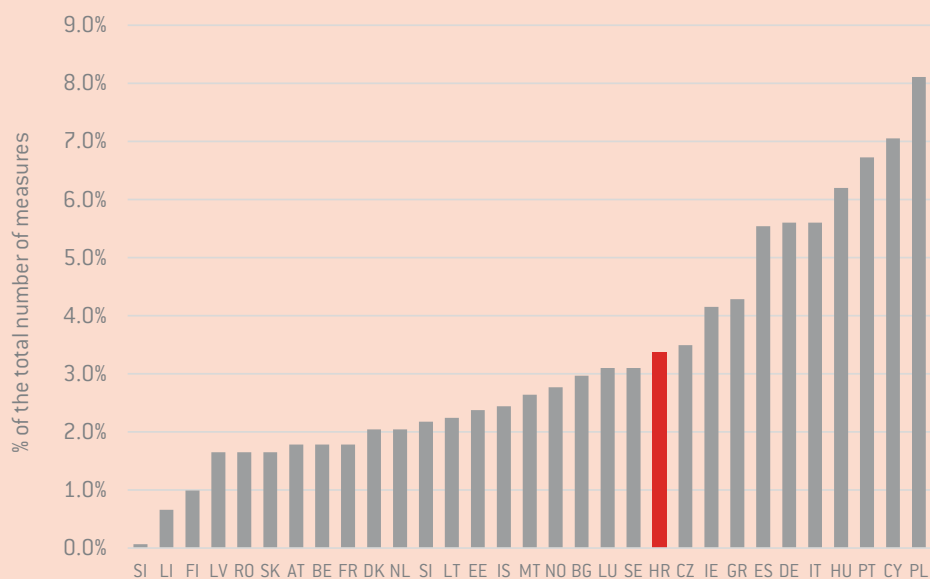
28 The text of the Recommendation is available here.

29 The majority of the measures have been published and are available here.

30 According to the report *Financial stability implications of support measures to protect the real economy from the COVID-19 pandemic*, available here.

31 The median is 40, and the average number of measures at EU-level is 49.

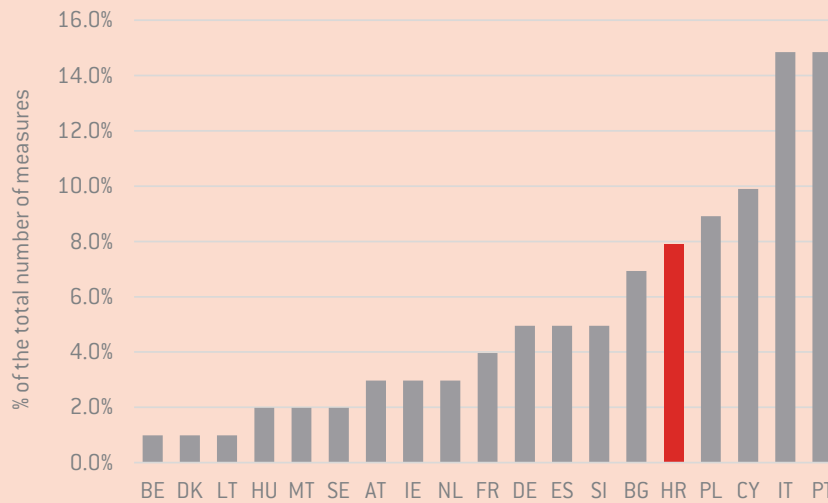
Figure 1 Number of measures by country shown as a share in the total number of measures, in %



Sources: ESRB and Hanfa

As regards the number of measures implemented, both segments of the financial sector, credit institutions and financial services sector, were equally represented at the European level. The largest part of the measures to support the financial services sector (about 38%) was intended for insurance companies. It needs to be pointed out that EU insurance regulators provided a prompt response to the pandemic, as the first measures intended for insurance companies were adopted even before the introduction of epidemiological measures, as early as in the first half of March. Hanfa, just like other regulators, monitored market developments closely and took measures intended for the insurance sector. For instance, in order to safeguard the stability of business operations of insurance companies and provide additional liquidity support, it banned insurance companies from paying dividends. This decision was adopted prior to the ESRB Recommendation on restriction of distributions during the COVID-19 pandemic (ESRB/2020/7), published in May 2020, recommending national regulators to discourage insurance and reinsurance companies, investment firms, credit institutions and central counterparties from distributing profits. The set of measures intended for the insurance sector was updated on an on-going basis. In addition to adopting measures related to reporting requirements and dividend distribution, national regulators also imposed other measures of a microprudential nature, including measures to support liquidity, certain requirements regarding the supervision of companies, organisation of weekly teleconferences with insurance companies, etc. For instance, insurance companies in Croatia were recommended, where applicable, to postpone premium payment deadlines for policyholders, to postpone enforcement measures, to provide for the possibility to pay loan / down payment instalments for life insurance policyholders for up to 180 days and to enable all customers to conclude their contracts online. Viewed by the total number of the measures intended for this sector, Croatia ranks in the very top (Figure 2)

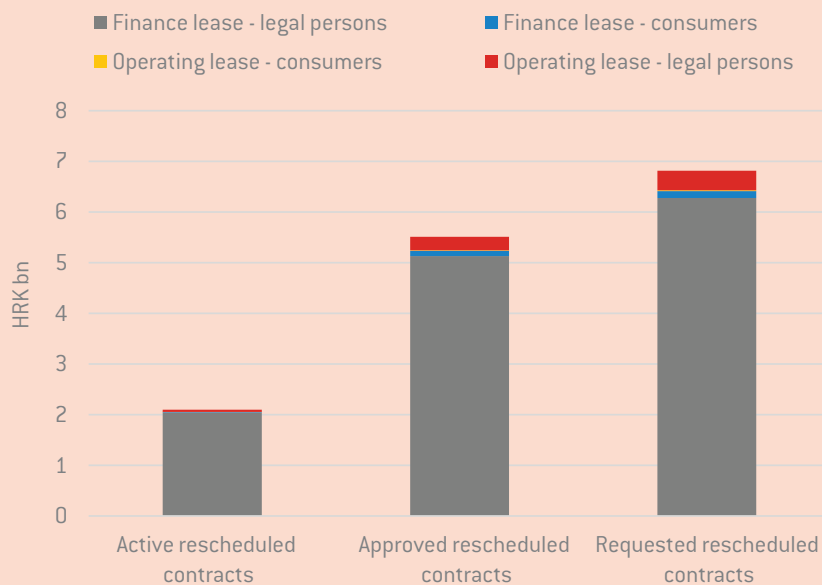
Figure 2 Number of measures intended for the insurance sector by country shown as a share in the total number of measures for the insurance sector, in %



Sources: ESRB and Hanfa

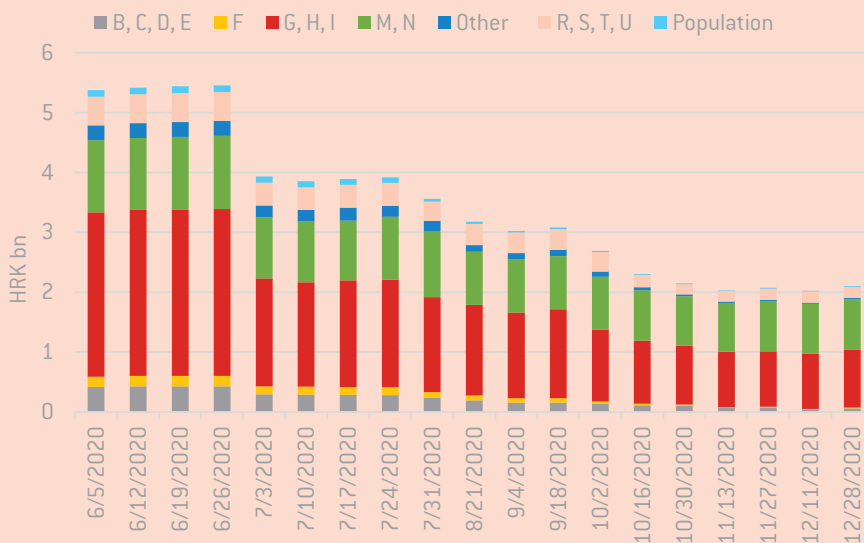
During 2020, Hanfa also issued a series of other measures and recommendations to reduce negative economic effects of the COVID-19 pandemic on sectors it supervises, financial services users and the entire economy, some of which are part of recommendations published by the European financial market regulators EIOPA and ESMA. One of the most important measures and recommendations for taking actions aimed at mitigating negative effects on the stability of business operations of lessees and at protecting them was Hanfa's recommendation for leasing companies not to take enforcement measures against lessees who had until then met their obligations properly, and to provide for the possibility to approve grace periods longer than three months. As regards deferred receivables from users of these services who had encountered financial difficulties, leasing companies were relieved of the obligation to form value adjustments for such contracts. Leasing companies provided a quick response to Hanfa's recommendations and approved 81% of rescheduling requests by the end of December 2020. The value of active rescheduled contracts was reduced by half by the end of December in comparison with the beginning of July, showing that the reaction by the regulator and leasing companies enabled leasing services users to adjust to the fulfilment of their obligations in new, stressful circumstances at an individual level. At the end of December, the value of active rescheduled contracts reached HRK 2.17bn, accounting for 11% of the value of active contracts at that moment (Figure 3). Broken down by lessees' activities, the structure of approved rescheduled contracts was dominated by lessees from trade, transportation and accommodation services. At the end of December, 57% of all active rescheduled contracts and 46% of their value was related to trade, transportation and storage, accommodation and food service activities (G, H, I activities). This distribution of rescheduled contracts strongly reflects the contraction of tourism activities following the outbreak of the pandemic (Figure 4) and, as a consequence, reduced income of lessees engaged in these activities.

Figure 3 Value of active, requested and approved rescheduled contracts at the end of 2020



Source: Hanfa

Figure 5 Structure of active rescheduled contracts by lessees' activities



Note: Data include leasing companies undergoing winding-up proceedings. Lessees' activities are classified in accordance with NKD 2007 classification (National Classification of Economic Activities), meaning that B, C, D and E relate to manufacturing, mining and quarrying and other industries; F relates to construction; G, H and I relate to trade, transportation and storage, accommodation and food service activities; M and N relate to professional, scientific and technical activities and administrative and support service activities; and R, S, T and U relate to other service activities.

Source: Hanfa

In addition to tolerating reasoned and justified report publication delays, for the purpose of facilitating the new situation and reducing issuers' operating costs, Hanfa adopted a decision relieving them from the obligation to pay their fees for the entire 2020, thus saving them around HRK 4m. Apart from these, Hanfa also took a series of other measures, informing other macroprudential policy makers at the European and national level of all decisions regularly, on a quarterly basis.



Normative activities



4 Normative activities

As regards normative activities, Hanfa actively participates in working groups for drafting laws regulating the provision of financial services and independently adopts by-laws within the area of its competence, which includes, in addition to ordinances, decisions, guidelines, recommendations and opinions on the application of regulations. Hanfa's regulatory activities go hand in hand with EU regulatory activities, ensuring the application of EU standards in the provision of financial services by service providers in the Republic of Croatia. In 2020, Hanfa was very active in working groups of the Ministry of Finance for the adoption of by-laws from almost all areas of competence; Hanfa Board adopted a total of 44 ordinances and one set of guidelines. All of the by-laws were preceded by professional and public consultation process through the e-Consultation portal.

4.1 Capital market and investment services

Legislative activities

Due to the continued need to align the Croatian regulatory framework of the capital market with that of the EU, which has been extremely dynamic over the past few years, in 2020 Hanfa participated in the drafting of a series of legislative acts continuously aligning the capital market in the Republic of Croatia with EU regulations.

The beginning of 2019 saw the adoption of the Act implementing the Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation³². Among other things, the objective of this Act is to launch a sustainable securitisation market that will improve the financing of the EU economy while ensuring financial stability and investor protection through the identification of a general securitisation framework. The Act gave Hanfa and the CNB new competences regarding licensing and supervision of entities engaged in securitisation.

Hanfa also participated in the drafting of the Act amending the Act implementing Regulation (EU) 2016/1011 on indices used as benchmarks³³ providing for the direct application of Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks (OJ L 317, 9.12.2019) [hereinafter: Regulation (EU) 2019/2089]. Regulation (EU) 2019/2089 provides for two new types of benchmarks aimed at encouraging the EU's transition towards sustainable finance, namely EU climate transition benchmarks and EU Paris-aligned benchmarks.

During the year, Hanfa participated in drafting the Proposal of the Act amending the Capital Market Act³⁴, which ensures further harmonisation of the capital market in the Republic of Croatia with EU regulations. The novelties and amendments introduced by this draft act are primarily related to the further alignment

SECURITISATION

Securitisation is a process in which a lender, e.g. a bank, transforms the loans it owns (e.g. mortgages) into securities that can be sold to investors. Investors then receive the returns generated by these loans.

32 Official Gazette, No 63/20

33 Official Gazette, No 46/21

34 The Act amending the Capital Market Act is expected to be adopted in 2021.

of the Croatian capital market regulatory framework with the *acquis*, in particular as regards the transposition of Directive (EU) 2019/2034³⁵ laying down specific prudential requirements for the initial capital of investment firms, supervisory powers and instruments for the prudential supervision of investment firms by competent authorities and disclosure requirements for competent authorities in the area of prudential regulations and supervision. The provisions of Directive (EU) 2021/338³⁶, which bring certain relief to investment service providers, are also transposed in order to accelerate recovery from the crisis caused by the COVID-19 pandemic.

At the end of the year, the new Act on the Resolution of Credit Institutions and Investment Firms³⁷ was adopted regulating the rules, procedures and tools for the resolution of these companies, the powers and tasks of resolution and competent authorities and the establishment, financing and use of the resources of the resolution fund and its management. In this regard, the Act prescribes a new division of resolution powers in such a way that the CNB shall be a resolution authority for credit institutions that are not part of a group and groups in which at least one member of the group is a credit institution, and Hanfa shall be a resolution authority for investment firms that are not part of a group and groups in which at least one member of the group is an investment firm, and none of the members of the group is a credit institution. The Croatian Deposit Insurance Agency shall continue to manage the resolution fund.

By-laws

In 2020, pursuant to the provisions of the Capital Market Act³⁸, Hanfa adopted 13 ordinances in the field of the capital market. The ordinances mainly concerned the current and future reporting and supervisory obligations of capital market participants³⁹, especially issuers, data reporting services providers and persons trading in OTC derivatives.

One of the most important ordinances concerning a wide range of stakeholders is the Ordinance on corporate governance related information that needs to be submitted by issuers to the Croatian Financial Services Supervisory Agency, and on the form, time limits and manner of its submission⁴⁰. Since the Corporate Governance Code, developed in cooperation with the European Bank for Reconstruction and Development and the ZSE, was adopted in October 2019, this Ordinance prescribes detailed information regarding the application of the Corporate Governance Code that must be submitted to Hanfa.

Ordinance on the minimum contents and form of the information document in case of an exemption from the obligation to publish a prospectus⁴¹ enables the transparency of securities issue offered to the public, for which the issuer is not obliged to draw up a prospectus in accordance with the Capital Market Act. The Ordinance regulates the minimum contents and form of the information document and the manner of publication and updating of the information contained in that document.

35 Directive (EU) 2019/2034 of the European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU (Text with EEA relevance) (OJ L 314, 5.12.2019)

36 Directive (EU) 2021/338 of the European Parliament and of the Council of 16 February 2021 amending Directive 2014/65/EU as regards information requirements, product governance and position limits, and Directives 2013/36/EU and (EU) 2019/878 as regards their application to investment firms, to help the recovery from the COVID-19 crisis (Text with EEA relevance) (OJ L 68, 26.2.2021)

37 Official Gazette, No 146/20

38 Official Gazette, No 65/18, 17/20

39 The list of ordinances adopted by Hanfa in 2020 is provided in the Appendix.

40 Official Gazette, No 59/20

41 Official Gazette, No 87/20

Ordinances on reporting breaches or suspected breaches of the provisions of Regulation (EU) No 1286/2014 or Regulation (EU) 2015/2365⁴² provide secure channels for reporting by the so-called whistle-blowers to Hanfa in relation to breaches of regulations governing key investor information, i.e. the transparency of securities financing transactions and their reuse.

4.2 Investment funds

By-laws

Alternative investment funds

In 2020, Hanfa adopted three new ordinances governing the operation of alternative investment fund managers (hereinafter: AIFM) and five ordinances amending the existing ordinances⁴³. This further aligned the regulatory framework for the operation of alternative investment fund managers with the legal framework amended by the Act amending the Alternative Investment Funds Act⁴⁴. One of the more important ordinances is the Ordinance on the criteria for assessing requirements for membership of the management and supervisory board of an AIFM and for membership of the supervisory board of a closed-ended AIF with external managers⁴⁵, laying down in more detail the conditions for the experience of a member of the management board of an AIFM, harmonising the list of documents to be submitted in proceeding with other Hanfa ordinances, and amending the provisions on the evaluation of candidates for a member of the management board of an AIFM. Furthermore, the Ordinance amending the Ordinance on the structure and contents of annual and semi-annual reports and other reports of alternative investment funds⁴⁶ introduced a new supervisory report to monitor the currency exposure under the conditions of high volatility in capital markets caused by the COVID-19 pandemic.

Pursuant to a new Hanfa's authority referred to in Article 207 of the Alternative Investment Funds Act to prescribe in more detail the manner of conduct of management companies and depositaries when the prior approval for the selection of the depositary is revoked, the Ordinance amending the Ordinance on exercising depositary functions with respect to AIFs⁴⁷ prescribes that the previous depositary is still obliged during the transitional period to continue carrying out activities for which there are no legal obstacles or circumstances which indicate that the continuation of such activities would jeopardise the interests of the UCITS or investors in the AIF, and prescribes the time limits for that transitional period. One important novelty is that this Ordinance prescribes the obligation that the scope and manner of carrying out the duties of a depositary during the transitional period and liability for damages are regulated by a contract on the exercise of the duties of a depositary, which contributes to legal certainty in the event of the withdrawal of Hanfa's prior approval to the selection of a depositary.

Open-ended investment funds with public offering

The Ordinance on fees charged by a management company to investors⁴⁸ management companies are prescribed the obligation of transparent and clear publication of the method used to calculate the performance fee, as well as the dynamics by which it is calculated and charged.

42 Official Gazette, No 84/20 and 132/20

43 The list of ordinances adopted by Hanfa in 2020 is provided in the Appendix.

44 Official Gazette, No 126/19

45 Official Gazette, No 136/20

46 Official Gazette, No 98/20

47 Official Gazette, No 139/20

48 Official Gazette, No 139/20

As with alternative investment funds, the Ordinance amending the Ordinance on the structure and contents of annual and semi-annual reports and other reports of UCITS⁴⁹ fund introduced a new supervisory report for the purpose of monitoring currency exposure under conditions of high volatility on capital markets caused by the COVID-19 pandemic, while the Ordinance amending the Ordinance on exercising depositary functions with respect to UCITS⁵⁰, in the same manner as for AIFs, prescribes the conduct of a management company and a depositary when the prior approval for the selection of a depositary is revoked.

4.3 Pension system

Legislative activities

Hanfa is part of the working group of the Ministry of Finance drafting the Proposal for the Act implementing the Pan-European Personal Pension Product Regulation (PEPP)⁵¹, which allows for the creation of a personal pension product of a long-term nature which will take into account environmental, social and management factors, as much as possible. This pension product should be simple, safe, transparent, consumer-friendly and transmissible across the EU and it should have a reasonable price and complement existing schemes in the Member States.

By-laws

During the year, the most significant Hanfa's normative activities in relation to pension system participants were directed towards efficient and comprehensive provision of information to members, Hanfa and the entire investment public. Seven ordinances were adopted during the year, as well as one set of guidelines additionally governing the operations of pension system participants.⁵²

In order to improve, develop and standardize existing actions and business practices of pension companies with regard to provision of information and financial literacy to the existing and future members of pension funds, i.e. the general public, Hanfa adopted the Guidelines for pension companies for the strengthening of financial literacy of Croatian citizens. The purpose of the Guidelines is to ensure a greater public presence and recognition of pension companies and pension funds and of the concepts associated with their operation. Since the general public still largely perceives pension companies as inadequately open institutions, and the concepts related to the pension system are still insufficiently known to the public, pension companies should aim to increase public recognition, improve visibility and clear and comprehensive communication of their activities. The Guidelines cover the strategies for the implementation of activities aimed at strengthening financial literacy, the substantive coverage and segmentation of these activities in accordance with identified target groups, as well as outsourcing, financing and reporting on them.

Mandatory pension funds

With respect to the obligations of pension companies regarding the provision of information to members, the Ordinance on marketing, informative prospectus and other information for members of mandatory pension funds⁵³ prescribes a uniform data representation structure to ensure that informative prospec-

49 Official Gazette, No 98/20

50 Official Gazette, No 139/20

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

52 The list of ordinances adopted by Hanfa in 2020 is provided in the Appendix.

53 Official Gazette, No 2/20

tuses of mandatory pension funds are easy to read and understand and that they focus on the information relevant to fund members. Therefore, this Ordinance introduces the obligation to draw up a clear table at the beginning of the information prospectus which must contain data on fees and costs, investment objectives and the target structure of the pension fund portfolio, a brief overview of the allocation of pension fund assets along with the list of investments of pension fund assets in infrastructure projects and equity securities whose share in the issue exceeds ten percent, as well as information on the risk profile and risk exposure and the historical returns of the fund. Amendments to this Ordinance of July 2020⁵⁴ exclude the securities issued or guaranteed by the Republic of Croatia, the EU or the OECD from the obligation to disclose information.

The Ordinance amending the Ordinance on the structure and contents of annual and semi-annual reports and other reports of mandatory pension funds⁵⁵ introduced a new supervisory report to monitor the currency exposure of mandatory pension funds under conditions of high volatility in capital markets caused by the COVID-19 pandemic.

Voluntary pension funds

The Ordinance amending the Ordinance on the structure and contents of annual and semi-annual reports and other reports of voluntary pension funds⁵⁶ also introduced a new supervisory report to monitor the currency exposure of voluntary pension funds, same as with mandatory pension funds.

Pension insurance companies

The Ordinance amending the Ordinance on the structure and contents of financial statements and additional reports of a pension insurance company⁵⁷ prescribes additional reports for a pension insurance company: report on the calculation of asset management fee, report on the review of the number of beneficiaries and contracts by pension type and category, and report on the review of payments of pensions and remittances received by pension type and category.

4.4 Insurance

Legislative activities

The Act amending the Insurance Act⁵⁸ amended the provisions relating to the calculation of the minimum capital requirement, the conditions to be met by insurance companies in order to qualify as small companies and the amounts involved in high risks so that amounts in HRK were replaced by amounts in EUR. Furthermore, the draft act prescribes an obligation to obtain prior approval from Hanfa to perform the function of a member of the supervisory board of an insurance company and the conditions for the refusal to grant an authorisation to perform the function of a member of the supervisory board, the termination of authorisation to perform the function of a member of the supervisory board, and the revocation of authorisation to perform the function of a member of the supervisory board. This ensures a standard for performing the function of a supervisory board member by means of an immediate review of these conditions in view of the role and importance of the supervisory board in an insurance company. Finally, the draft act also expanded the circle of insurance intermediaries by giving leasing companies the possibility to carry out insurance distribution activities.

54 Official Gazette, No 80/20

55 Official Gazette, No 98/20

56 Official Gazette, No 98/20

57 Official Gazette, No 98/20

58 Official Gazette, No 63/20

In 2020, Hanfa participated in the drafting of the Act amending the Insurance Act⁵⁹, as part of the working group of the Ministry of Finance. In order to fulfil the obligation to consistently apply the Solvency II Directive⁶⁰, these legislative amendments provide for stronger cooperation and mutual notification of supervisory authorities of EU Member States, and Hanfa is given the power to prescribe the minimum content of the recovery plan for insurance companies via an ordinance.

By-laws

On the basis of provisions of the Act amending the Insurance Act⁶¹, in 2020 Hanfa adopted 10 ordinances regulating business operations of insurance companies and insurance distribution companies in the Republic of Croatia⁶². The most significant ordinances govern the licensing of an acquirer of a qualifying holding in an insurance company, members of the management board and the supervisory board of an insurance company and the requirements for carrying out key functions in an insurance company. The Ordinance on the requirements for performing the function of a member of the management board and a member of the supervisory board of an insurance and/or reinsurance company and an authorised representative of a branch of an insurance and/or reinsurance company⁶³ prescribes in more detail the procedure for prior verification of the conditions and issue of authorisation for members of supervisory boards of insurance companies.

4.5 Other normative activities

Legislative activities

In 2020, Hanfa also participated in the drafting of a series of legislative acts relating directly and indirectly to its supervised entities.

As part of the working group of the Ministry of Economy, Hanfa participated in the preparation of the Act implementing Regulation (EU) 2017/2394 of the European Parliament and of the Council of 12 December 2017 on cooperation between national authorities responsible for the enforcement of consumer protection laws and repealing Regulation (EC) No 2006/2004⁶⁴, which prescribes coordination and cooperation of a series of institutions in the Republic of Croatia, for the sake of consistent and efficient protection of consumer interests.

In 2020, experts from Hanfa also participated in working groups for the drafting of the Act amending the Credit Institutions Act⁶⁵, the Act amending the Deposit Insurance Scheme Act⁶⁶ and the Act on the compulsory winding-up of credit institutions⁶⁷.

59 Official Gazette, No 133/20

60 Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) OJ L 335/1, as last amended by Directive (EU) 2019/2177 of the European Parliament and of the Council of 18 December 2019 amending Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), Directive 2014/65/EU on markets in financial instruments and Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money-laundering or terrorist financing [OJ L 334, 27. 12. 2019]

61 Official Gazette, No 63/20

62 The list of ordinances adopted by Hanfa in 2020 is provided in the Appendix.

63 Official Gazette, No 102/20

64 Official Gazette, No 54/2020

65 Official Gazette, No 146/20

66 Official Gazette, No 146/20

67 Official Gazette, No 146/20

During the year, the Ministry of Finance also established a working group to draft a proposal of the Act on the issue of covered bonds and the public supervision of covered bonds of credit institutions⁶⁸ transposing Directive (EU) 2019/2162⁶⁹ into the Croatian legal system. This act will introduce the legal framework on the issue of covered bonds in the Republic of Croatia and covered bond public supervision.

The most important cross-sectoral regulation in whose drafting Hanfa participated in 2020 is most certainly the Act implementing Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector and Regulation (EU) No 2020/852 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088⁷⁰, setting out a general framework for sustainability-related disclosures in the financial sector and adopting harmonised transparency rules for financial market participants and financial advisers regarding the inclusion of sustainability risks and taking into account adverse sustainability impacts in their business processes, making investment decisions and providing investment advice, and providing sustainability-related information in relation to financial products.

SUSTAINABLE INVESTMENT

Održivo ulaganje je ulaganje u gospodarsku djelatnost kojom se:

Sustainable investment means an investment in an economic activity that:

- 1. contributes to environmental objectives ("E")*
 - 2. contributes to social objectives ("S")*
 - 3. does not significantly harm any of those environmental or social objectives, and*
 - 4. invests in companies that follow good governance practices ("G"), in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.*
-

68 The act is expected to be adopted in 2021.

69 Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU (OJ L 328, 18.12.2019)

70 The act is expected to be adopted in 2021.



Licensing and training



5 Licensing and training

The licensing procedure is the first step in the process of continuous supervision and ensuring the legality, regularity and suitability of the work of institutions in the financial services sector, as well as persons providing these services. In licensing procedures, Hanfa verifies compliance with the regulatory requirements for the establishment of companies, such as the level of initial capital and conditions regarding organisational requirements of companies. Furthermore, when licensing members of management boards and supervisory boards of Hanfa's supervised entities, before issuing the authorisation, it verifies the good repute of the candidate, work experience, expertise and other requirements laid down by law and subordinate legislation. Holders of qualifying holdings must also prove their good repute, financial status and the origin of the funding for the proposed acquisition through a procedure before Hanfa. In addition, Hanfa carries out numerous other licensing procedures and issues approvals and authorisations. In this regard, Hanfa also organises professional training and examination procedures to acquire appropriate knowledge and qualifications of natural persons engaged in activities within Hanfa's jurisdiction.

5.1 Licensing

In 2020, Hanfa carried out a total of 211 licensing procedures, which included the issuance of numerous authorisations (authorisations for operation and extensions of already granted authorisations, authorisations to perform the function of a member of the management board and a member of the supervisory board, the acquisition of a qualifying holding, status changes, the takeover of the insurance portfolio, delegation of tasks to third parties, outsourcing of jobs and functions), licensing of insurance and reinsurance distribution activities and decisions on the termination of licenses (Table 5.1.1).

Table 5.1.1 LicensingSource: Hanfa

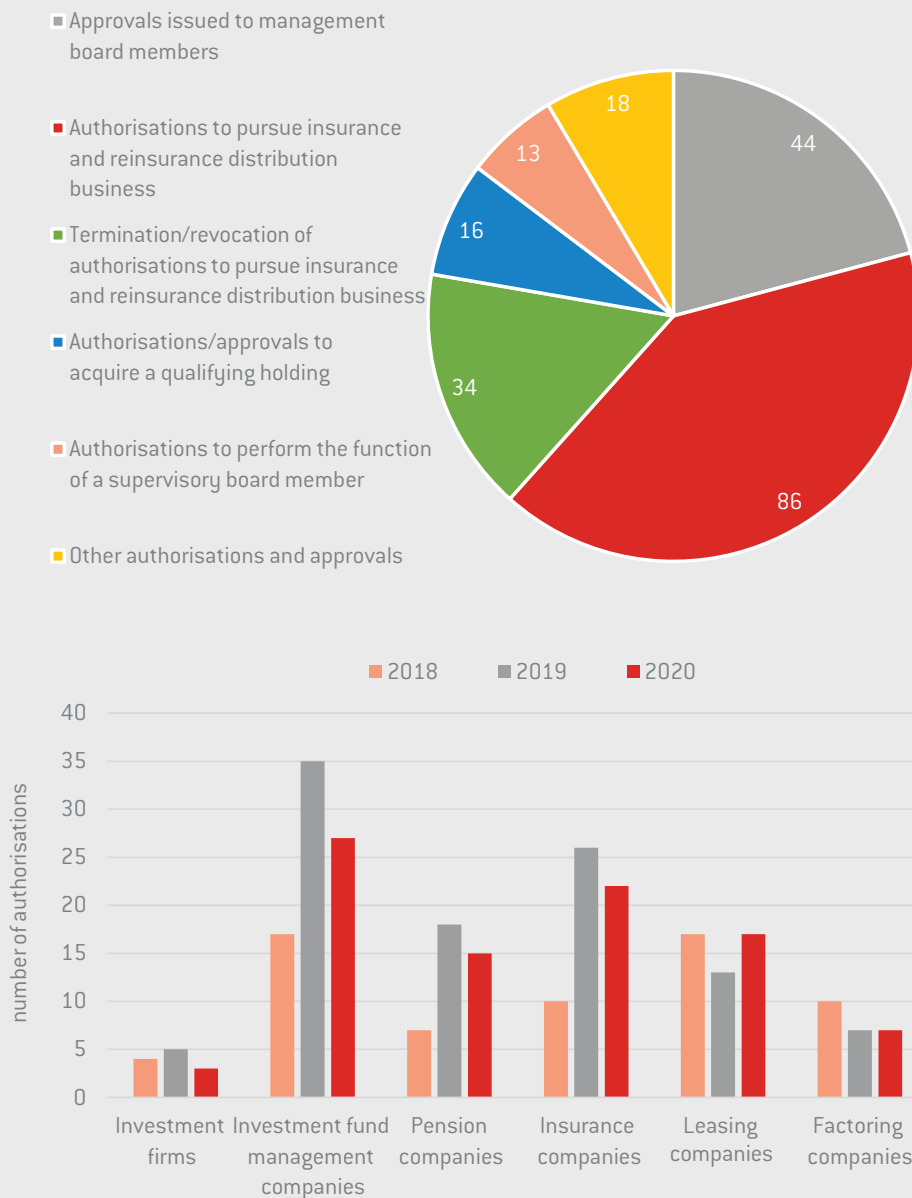
Authorisations, approvals and licences issued	2018	2019	2020
Approvals for the appointment of management board members of investment firms	4	5	1
Prior approvals issued to credit institutions	3	2	0
Revocation of authorisations issued to investment firms	0	0	1
Authorisations/approvals for the appointment of management board members of investment fund management companies	11	24	12
Authorisations/approvals for the acquisition of a qualifying holding in an investment fund management company	1	7	11
Authorisations issued to investment fund management companies for delegating tasks to third persons	2	1	1
Approvals issued to investment fund management companies for acquiring another company	0	0	1
Authorisations to extend the authorisation to perform ancillary activities, namely portfolio management and investment advice in relation to financial instruments	0	0	1
Authorisations for large AIFMs (new managers)	0	0	1
Authorisations for large AIFMs (change of category of the existing AIFMs)	0	0	1
Authorisations for medium-sized AIFMs (change of category of the existing AIFMs)	3	0	0
Authorisations for medium-sized AIFMs (new managers)	0	3	0
Authorisations for the appointment of management board members of mandatory/voluntary pension companies	5	4	1

Authorisations, approvals and licences issued	2018	2019	2020
Authorisations for the appointment of supervisory board members of mandatory pension companies	2	12	5
Authorisations issued to pension insurance companies	0	0	1
Authorisations for outsourcing tasks or functions of a pension insurance company	0	0	6
Authorisations to perform the function of a management board member of a pension insurance company	0	2	2
Authorisations to perform the function of a management board member of an insurance company	5	19	12
Approvals issued to an insurance company for the portfolio takeover	0	0	2
Certificates and authorisations to perform duties of a certified actuary	5	7	0
Authorisations to perform the function of a supervisory board member of an insurance company	0	0	8
Authorisations issued to insurance representation crafts to pursue insurance distribution business	60	46	56
Authorisations issued to insurance agencies to pursue insurance distribution business	19	14	20
Authorisations issued to insurance and reinsurance brokerage crafts to pursue insurance and reinsurance insurance business	0	1	1
Authorisations issued to insurance and reinsurance brokerage companies to pursue insurance and reinsurance brokerage business	2	6	9
Termination/revocation of the licence issued to an insurance representation craft	24	21	28
Termination/revocation of the licence issued to an insurance representation agency	7	16	6
Termination/revocation of the licence issued to an insurance and reinsurance brokerage craft	0	0	0
Termination/revocation of the licence issued to an insurance and reinsurance brokerage company	0	2	0
Termination/revocation of the licence issued to a natural person to pursue insurance distribution business	1	0	0
Termination/revocation of the licence issued to a credit institution	0	0	1
Approvals to perform the function of a management board member of a leasing company	14	7	12
Approvals to acquire a qualifying holding in a leasing company	3	6	3
Withdrawal of authorisation to carry out leasing operations	0	0	2
Approvals for a status change issued to a factoring company	1	0	1
Approvals to perform the function of a management board member of a factoring company	3	5	4
Approvals to acquire a qualifying holding in a factoring company	6	2	2

Same as in the previous year, the largest number of applications for authorisations in 2020 concerned the area of insurance distribution, namely applications for authorisations and the termination/revocation of authorisations for performing insurance and reinsurance distribution activities (56.9% of all applications for authorisations, Figure 5.1.1).

It is also evident that trends from previous years continue, since in 2020 the largest number of licence applications were submitted by investment fund management companies and insurance companies, while traditionally the smallest number of applications relates to investment firms.

Figure 5.1.1 Authorisations and approvals issued



Source: Hanfa

Capital market

In 2020, Hanfa issued one approval to perform the function of a member of the management board of an investment firm, and the application was related to the re-appointment of an existing member of the management board. The authorisation to perform all approved investment services and activities and ancillary services related thereto issued to one investment firm was revoked (at the firm's own request). Furthermore, in 2020 Hanfa conducted a process of establishing a new investment firm, which included the authorisation process for an investment firm, four procedures of issuing approval to management board members and one authorisation procedure for the acquisition of a qualifying holding. However, all six procedures were suspended at the request of the applicant.

Investments

In 2020, two authorisations were issued to alternative investment fund management companies in the large AIFM category. Authorisations for large AIFMs were issued to a new company Invera Equity Partneri d.o.o. and the existing company CGS Capital d.o.o., which changed its category from medium-sized AIFM to a large AIFM.

In addition, a total of 12 authorisations were issued for performing the function of management board members of investment fund management companies. Two of these were issued to perform the function of a member of the management board of a UCITS management company, four authorisations were issued to perform the function of a member of the management board of a UCITS and AIF management company, while six authorisations were issued for the function of an AIFM management board member. In one case, the procedure for authorisation to perform the function of a member of the management board of an investment fund management company was suspended at the request of the applicant.

One investment fund management company was approved to extend its authorisation to carry out ancillary activities, namely portfolio management and investment advice in relation to financial instruments, which are carried out according to the provisions of the Capital Market Act.

Similarly, Hanfa authorised one investment fund management company to acquire another limited liability company. These companies are linked via the same owner, and the reason for the acquisition was the increase in liquidity and further strengthening of financial stability of the investment fund management company.

In 2020, 11 approvals were issued for the acquisition of a qualifying holding in investment fund management companies. Five of these approvals related to direct acquisition, while six related to indirect acquisition. These approvals were issued for the acquisition of qualifying holdings in InterCapital Asset Management d.o.o., for direct acquisition reaching 24.1% and indirect acquisition reaching 17.83%; in Inspire Investments d.o.o., for direct acquisition reaching 100% and for two indirect acquisitions, each reaching 50%; in CGS Capital d.o.o., for direct acquisition reaching 100% and for two indirect acquisitions, one of which of 90% and the other of 10%; in Prosperus – Invest d.o.o., for two direct acquisitions, one of which reaching 45%, the other reaching 10%; and in Maverick Wealth Management d.o.o., for indirect acquisition reaching 90% of the initial capital and voting rights. In one case, the procedure for granting authorisation for the direct acquisition of a qualifying holding was suspended, as it was withdrawn by the applicants during the proceedings.

During the past year, one authorisation was also granted to an investment fund management company for the delegation of internal audit tasks to a third party, and in one case the procedure for the authorisation to delegate administrative activities for the valuation of the assets of the AIF and the determination of the price of the units of the AIF to a third party was suspended because the applicant decided not to pursue the application submitted during the proceedings.

On the basis of their own decisions to cease their activities, Hanfa revoked the authorisation to manage UCITS issued to the company SQ Capital d.o.o. and the authorisation to perform the ancillary portfolio management activity issued to the company Auctor Invest d.o.o. In the same manner, the authorisation issued to the company Platinum Invest d.o.o. was revoked, after which the company changed its name and activities and is no longer subject to Hanfa's supervision.

Pension system

In 2020, Hanfa issued one authorisation to perform the function of a member of the management board and five authorisations to perform the function of a member of the supervisory board of the pension company.

During the year, Hanfa granted an authorisation to the Croatian Pension Insurance Company (Hrvatsko mirovinsko osiguravajuće društvo d.d.), as the second pension insurance company in the Republic of Croatia, along with Raiffeisen pension Insurance company. This company was also granted six authorisations for outsourcing and two authorisations to perform the function of a management board member in a pension insurance company.

Insurance

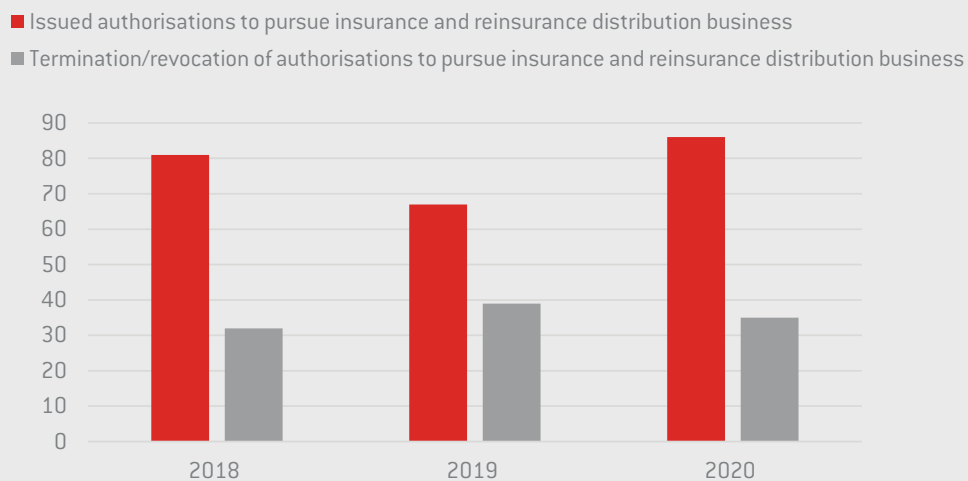
In 2020, the company GENERALI OSIGURANJE d.d. was granted authorisations to take over the insurance portfolio of the company IZVOR OSIGURANJE d.d. and a part of the portfolio of the company GENERALI zavarovalnica d.d., with its registered office in Ljubljana, i.e. all insurance contracts concluded by the company GENERALI zavarovalnica d.d. through the subsidiary GENERALI zavarovalnica d.d. Podružnica Zagreb za osiguranje. Following the takeover of the portfolio, authorisations to pursue insurance business issued to the company IZVOR OSIGURANJE d.d. ceased to be, by virtue of law.

The procedure initiated in 2019 following an application by the proposed acquirer EUROINS INSURANCE GROUP A.D. from Skopje (and other indirect proposed acquirers) for the authorisation to acquire a qualifying holding in the company Wüstenrot životno osiguranje d.d. was suspended in 2020. In 2020, Hanfa issued an authorisation to the company UNIQA Österreich Versicherungen AG from Vienna to directly acquire a qualifying holding in the company UNIQA osiguranje d.d., Zagreb, reaching 100% of the company's initial capital and voting rights.

Following legislative changes in 2020, that imposed the obligation to license members of supervisory boards of insurance companies, eight authorisations to perform the function of a member of the supervisory board of an insurance company were granted.

In the field of insurance and reinsurance distribution, 86 authorisations to pursue insurance and reinsurance distribution business were issued to insurance intermediaries, most of which were issued to insurance representation crafts. The authorisation to pursue insurance distribution activities was revoked for 34 insurance and/or reinsurance intermediaries, 28 of which referred to crafts and 6 to insurance agencies.

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



Source: Hanfa

Non-bank financing

Leasing companies

In 2020, Hanfa issued 12 approvals to perform the function of a member of the management board in leasing companies and three approvals to acquire a qualifying holding in leasing companies and revoked two licenses to conduct leasing activities.

As regards the procedures for the acquisition of qualifying holdings, in a joint administrative procedure Hanfa granted approval to the company Meta leasing GmbH for the direct acquisition of a qualifying holding reaching 100%, and to the companies Weinhandl & Co GmbH and NOVA Industriepark-Lobau GmbH, based in the Republic of Austria, for indirect acquisition of 50% of the initial capital and voting rights of the leasing company HETA Asset Resolution Hrvatska d.o.o. Zagreb.

Factoring companies

Four approvals for management board members in factoring companies were issued in 2020, and one procedure of issuing approval for a management board member was suspended. Furthermore, two approvals were issued to natural persons to acquire a qualifying holding in the factoring company ESC factoring d.o.o., reaching 17% in the company's initial capital and voting rights. An approval for status change was also granted to the company ERSTE & STEIERMARKISCHE BANKA d.d., which concerned the acquisition of the factoring company ERSTE FACTORING d.o.o. Zagreb.

5.2 Examinations and professional training

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

In 2020, Hanfa held two educational programmes and three examination cycles for candidates who applied for authorisation to provide information on investment products and services, carry out brokerage activities and provide investment advice services, to qualify as certified managers of pension funds and to acquire qualifications to manage pension insurance companies⁷¹.

The educational programme, conducted by expert trainers in the field of capital market, pension funds and pension insurance companies, including a large number of Hanfa's employees, was held in January and September 2020 and attended by an average of 12 participants. The examinations held in February, October and November were taken by 43 candidates, 29 of whom passed the examination. The pass level of 67% slightly improved compared to 2019, when 63% of candidates passed the examinations.

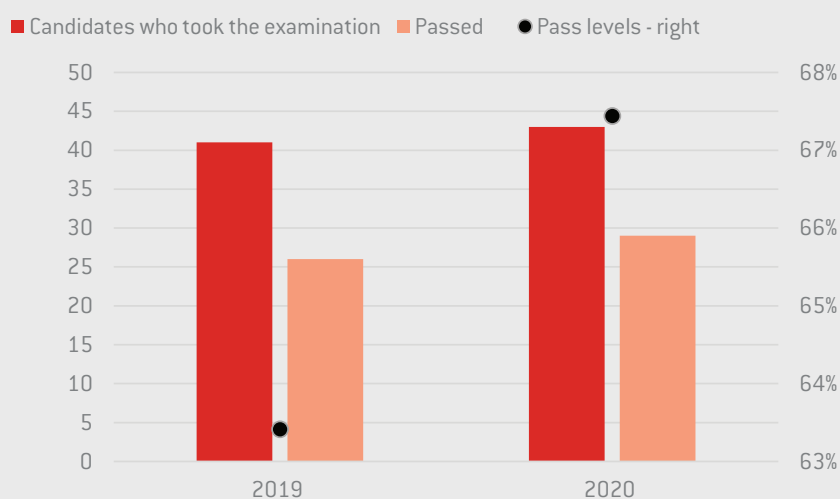
⁷¹ Pursuant to the Ordinance on the professional training and examinations taken in order to acquire qualifications to provide information on investment products and services, carry out brokerage activities and provide investment advice services [Official Gazette, No 99/2019] and the Ordinance on the educational programme and examination for certified managers of pension funds and managers of pension insurance companies [Official Gazette, No 99/2019]

Table 5.2.1. Examination results

		Examinations in 2019		Examinations in 2020	
Provision of information on investment products and services	Candidates who applied	3		1	
	Candidates who took the examination	3		1	
	Passed	2	67%	1	100%
	Failed	1	33%	0	0%
Brokerage activities	Candidates who applied	4		5	
	Candidates who took the examination	4		5	
	Passed	4	100%	2	40%
	Failed	0	0%	3	60%
Investment advice	Candidates who applied	24		33	
	Candidates who took the examination	18		33	
	Passed	11	61%	22	67%
	Failed	7	39%	11	33%
Certified pension fund managers	Candidates who applied	5		2	
	Candidates who took the examination	5		2	
	Passed	4	80%	2	100%
	Failed	1	20%	0	0%
Qualifications for managing pension insurance companies	Candidates who applied	5		2	
	Candidates who took the examination	5		2	
	Passed	5	100%	2	100%
	Failed	0	0%	0	0%

Source: Hanfa

Figure 5.2.1 Pass levels



Source: Hanfa

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

The examination involves tests of knowledge by the selected group of insurance, category of insurance intermediaries and ancillary insurance intermediaries and insurance or reinsurance products which intermediary intends to distribute, and it is carried out in accordance with the Ordinance on the fit and proper requirements of insurance distributors and reinsurance distributors and their entry in the register⁷².

In 2020, the examinations were held in a usual manner, but with the application of protective measures due to COVID-19 pandemic in accordance with the instructions of the Ministry of Science and recommendations of the Croatian Institute of Public Health. Since 2021, the examinations have been conducted online. Three examination terms were held, with a total of 658 candidates attending, and pass levels in 2020 were similar to those from the previous years.

In 2020, in accordance with the regulations in force, Hanfa continued to monitor the distributors' obligation regarding the on-going professional development and training (continuing training) for a minimum of 15 hours per year for employees of insurance companies, employees of reinsurance companies and intermediaries from Hanfa's register engaged in insurance distribution or reinsurance distribution activities, and a minimum of 10 hours per year for ancillary insurance intermediaries. The professional training for insurance intermediaries and ancillary insurance intermediaries needed for the purpose of the on-going fulfilment of the competence requirements may be provided by trainers who have obtained Hanfa's approval for their training plans and programmes. In 2020, Hanfa approved plans and programmes of seven companies that had met the requirements relating to the provision of the on-going training.

Table 5.2.2 Examinations for insurance and/or reinsurance distribution business

Examinations for insurance/reinsurance distribution business		2018		2019		2020	
		Number of candidates	%	Number of candidates	%	Number of candidates	%
Insurance and/or reinsurance distribution business	Candidates who applied	792		1,720		747	
	Candidates who took the examination	716		1,605		658	
	Candidates who passed at least one type of exam	582	81	1,410	88	565	86
	Failed	134	19	195	12	93	14

Source: Hanfa

Professional training for issuers

Together with the ZSE and the CDCC, Hanfa participated in the organisation of the 11th educational congress for issuers, held in June 2020, where it presented the regulatory framework for the European Single Electronic Format (ESEF), that presents a new format for annual reports of issuers.

In June 2020, training for issuer was held, presenting the new Corporate Governance Code, current governance practices and how the new governance framework will affect companies and segments of corporate governance, as part of a joint project financed by the European Bank for Reconstruction and Development and co-organised by the ZSE and Hanfa.

⁷² Pursuant to Article 10 of the Ordinance on the fit and proper requirements of insurance distributors and reinsurance distributors and their entry in the register (Official Gazette, No 16/19)



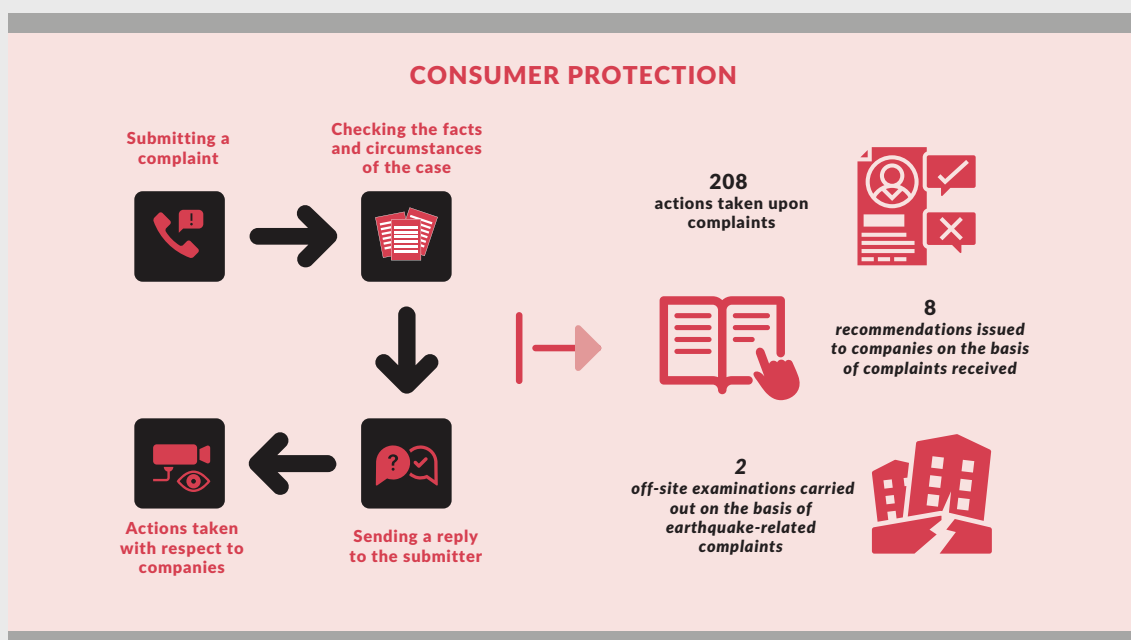
Consumer protection and improvement of financial literacy



6 Consumer protection and improvement of financial literacy

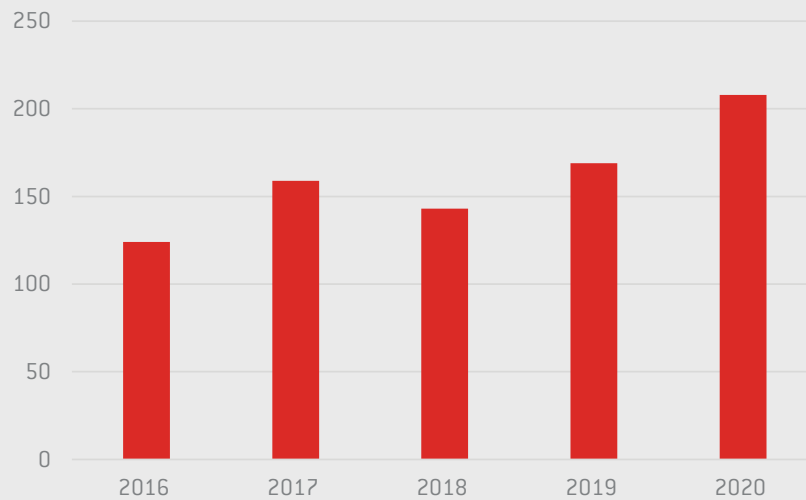
Hanfa's mission is to ensure a favourable environment for a stable financial system, build confidence among participants in the financial market and also to foster awareness of the benefits and risks associated with various types of financial products and services. In doing so, Hanfa pays special attention to the protection of collective interests of financial service users through its supervisory and regulatory procedures, but also by conducting educational activities aimed at raising the level of financial literacy of service users and the general public. This includes continuous training of target groups and the general public, independently and in cooperation with other stakeholders in this field, and communication with consumers through inquiries and acting upon their complaints.

6.1 Consumer Protection



Financial services users, natural and legal persons, regularly submit to Hanfa complaints indicating any potentially unlawful and improper conduct by its supervised entities. In 2020, Hanfa received 208 complaints from financial services users, which was by 39 complaints, i.e. 23.1% more than in 2019, and it was also the largest number of complaints received within one year. Hanfa acts upon each received complaint by verifying the indications from the complaint, requesting, if necessary, the relevant documentation and statement from the supervised entity to which the complaint relates and sends a reply to the complaint submitter within 30 days of its receipt. Although Hanfa is not authorised to arbitrate in matters of property and legal relations in individual cases of complaint recipients, as this is the responsibility of judicial bodies, acting upon complaints is an important and useful tool for monitoring the protection of consumer interests and ensuring the legality and stability of business operations of its supervised entities. In certain cases, the indications from a complaint may point to the existence of certain systemic problems or deficiencies in business processes with the supervised entity and the findings that Hanfa receives in this way may be very useful for undertaking corrective and preventive activities within its scope and jurisdiction.

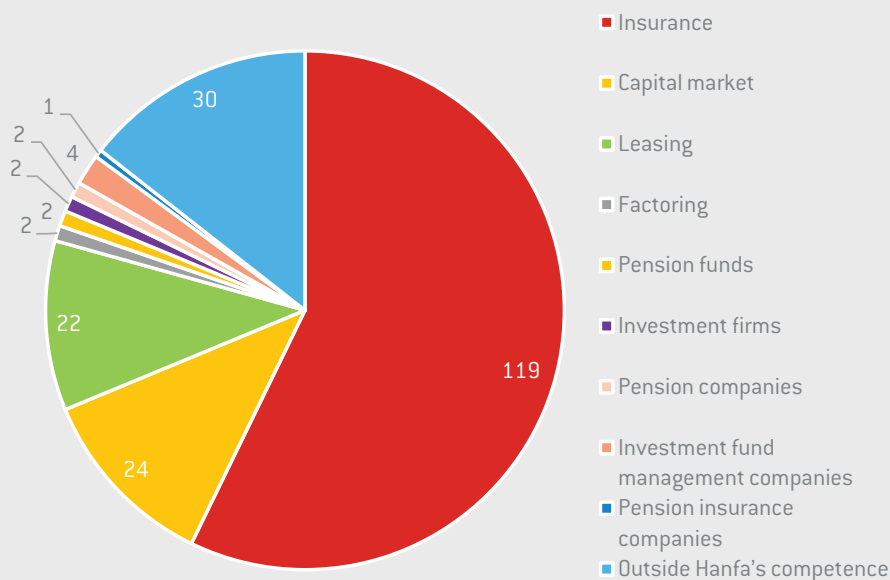
Figure 6.1.1 Number of received complaints



Source: Hanfa

Although in 2020 the largest number of complaints received referred to the insurance market in (119, i.e. 57.2%), it is noticeable that the trend of mildly decreasing their relative proportion in the total number of received complaints is continuing. The dominance of complaints related to insurance stems from a relatively large number of insurance contracts, i.e. more than 11 million at the end of 2020, and the number of insured natural persons, as well as the nature of this financial service, which may often lead to disputes with consumers related to their rights and obligations, such as the justification of claims and the amount of compensation.

Figure 6.1.2 Number of complaints sent by financial services users to Hanfa in 2020, by segments of financial services providers



Source: Hanfa

Therefore, as in previous years, the largest number of complaints submitted in relation to the conduct of insurance companies concerned the justification and/or amount of claims and the interpretation of the provisions of insurance contracts, in particular those relating to the possibility of their termination. However, given the devastating earthquakes that hit Croatia, in 2020 the number of inquiries, objections and complaints of insurance services users in relation to earthquake insurance increased significantly. Thus, compared to 2019, there was a 72% increase in the number of complaints related to property insurance on an annual basis, 55% of which referred to earthquake insurance. Therefore, in 2020, Hanfa initiated an off-site examination relating to the appropriate pre-contractual provision of information to policyholders on the meaning and consequences of contracting a deductible for their rights and obligations, as well as underinsurance, which ended in 2021. It was found that the policyholders had not been properly informed of and familiarised with the concept of deductible, nor the possibility of its redemption where possible, so the company was ordered to clarify this in detail under the terms and conditions of insurance and that, if concluded, the deductible should also be indicated in the insurance policy itself, with which the company complied. In addition, Hanfa issued a recommendation to all insurance companies on the need to better inform the users of insurance companies' services about the meaning and consequences of contracting a deductible. In addition to this procedure, on the basis of information from a complaint received due to the consequences of the earthquake, in 2020 Hanfa also initiated an off-site examination related to the improvement of the business processes of concluding land motor vehicle insurance contracts with respect to one insurance company, which ended with Hanfa's decision determining that the company had eliminated the illegalities identified during the supervisory procedure.

DEDUCTIBLE

Deductible, if agreed, implies the participation of the insured person in the amount of compensation. In 2020, On the basis of the indications in the complaints submitted due to the handling of complaints related to the earthquake, Hanfa initiated an off-site examination relating to the appropriate pre-contractual provision of information to policyholders on the meaning and consequences of contracting a deductible for their rights and obligations.

Earthquake insurance

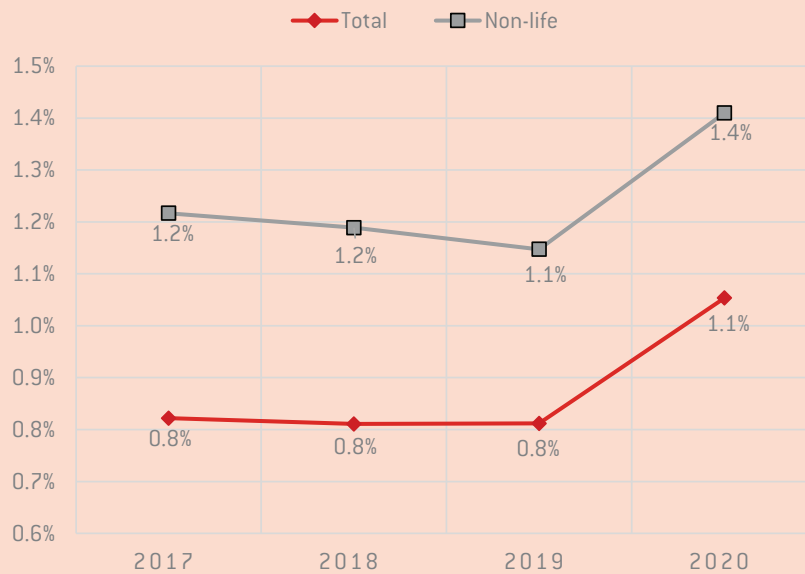
Most insurance companies do not include earthquake insurance in their "regular" property insurance contracts, which insure property from other more frequent risks (fires, floods, etc.), and most of the time insured persons have to contract it separately and pay additional premiums. Since the risk of earthquakes is less likely compared to other risks and entails higher costs, insurance policyholders generally did not show a great interest to contract it. Although most regions of Croatia are situated in seismic areas, a relatively long period without severe devastating earthquakes in Croatia probably led to a diminished interest of policyholders in concluding insurance contracts with the coverage of this additional risk.

The earthquake that struck Zagreb and its surroundings in March 2020, given its extreme devastation and the consequential cost of reconstruction (estimated at 23% of GDP), highlighted the importance of insuring property even from such unlikely risks. In 2020, 7,440 claims for earthquake risk coverage were settled at the national level, and insurance companies paid the gross amount of HRK 248 m. The gross value of claims paid by insurance companies amounts to only 0.3% of the estimated cost of renovation following the earthquake from March. Although insurance companies paid off multi-million amounts, this did not affect their stability and solvency as they have adequate reinsurance schemes.

Insurance contracts with earthquake risk coverage account for a very small share of the total number of insurance contracts, since only 100,000 such contracts were concluded annually in Croatia by 2020, and their amount of gross written premium reached an average of HRK 80m annually.

After the Zagreb earthquake, there was an increase in the insurance coverage of earthquake risk both in the number of new contracts and in the amount of gross written premium. At the end of 2020, the share of gross written premium for earthquake insurance in the total gross written premium stood at 1.1%, i.e. 1.4% in the gross written premium of all non-life insurance.

Figure 1 Evolution of the share of earthquake insurance GWP in non-life insurance GWP or in the total GWP by all classes of insurance



Source: Hanfa

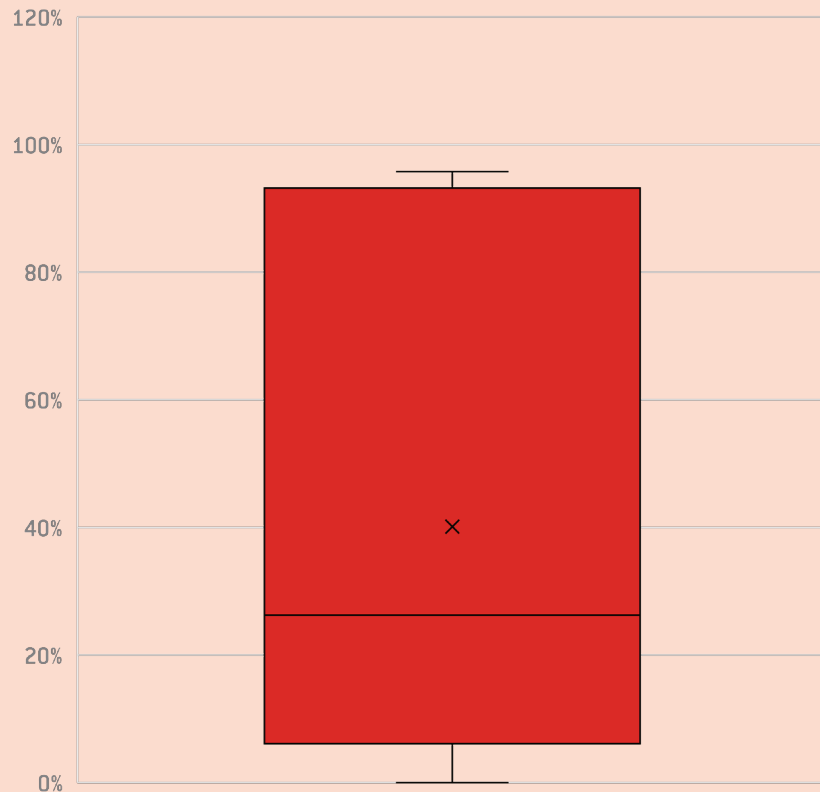
At the end of 2020, there were more than 140,000 insurance contracts at the national level covering the risk of earthquakes, which was an increase of 32% compared to 2019, while the amount of gross written premiums charged by 30%.

Since companies do not often encounter the handling of earthquake-related claims, in 2020 Hanfa conducted a comprehensive survey of insurance companies in relation to claims handling procedures under such contracts. Eleven insurance companies offering earthquake risk coverage participated in the survey. According to the information provided by the companies, more than 10,000 claims were submitted by the end of May 2020, accounting for almost one fifth of all insurance contracts covering the earthquake risk active on the day of the earthquake in the affected geographical areas.

However, the earthquake experience has highlighted, other than the need to insure property from this risk, that there are deficiencies in the process of contracting such insurance, and they relate to the proper provision of all pre-contractual information necessary for a full understanding of the coverage offered by such contracts. This includes the information on covering the damage caused by an earthquake only in cases of earthquakes with a magnitude greater than 5 on the Richter Scale, which in view of the devastation of the 2020 earthquake was not a reason for consumer disputes with companies. However, the number of complaints submitted by policyholders in relation to property insurance contracts rose noticeably in 2020, and more than half of them referred to earthquake-related claims. One issue that particularly stood out was the contracting of a deductible in such contracts, i.e. participation of insured persons in the coverage of damage (53% of all received earthquake-related complaints). Although, according to the survey data submitted by

insurance companies, on the day of the Zagreb earthquake more than one quarter of all active property insurance contracts covering earthquake risks for the geographical area in question had deductibles agreed, it turned out that policyholders rather often would not appropriately understand the meaning of the deductible or its impact on the amount of compensation, which was influenced by the fact that the provision of information on the deductible by insurance companies in the course of concluding insurance had not been clear and transparent enough.

Figure 2 Share of property insurance contracts covering earthquake risk with agreed deductible (as at 22 March 2020 in the earthquake-affected area)



Source: Hanfa, according to survey data submitted by insurance companies

Recognizing this problem, Hanfa created information material on deductible and its importance for contractual relations and published it on its website. In addition, based on the results of the survey on the conduct of insurance companies in the handling of claims connected with the earthquake, as well as the work on the received complaints of financial service users, a supervisory procedure with respect to one insurance company was initiated in 2020. The supervision was related to pre-contractual provision of information on property insurance contracts covering earthquake risk, in particular regarding the contracting of a deductible and underinsurance. Some irregularities were found during the supervisory procedure, and they were later eliminated by the company. Thus, the supervisory procedure resulted in amendments to the terms and conditions of property insurance contracts in relation to deductible and underinsurance and the design of the text in the insurance policy with respect to the property insurance contracts covered by the supervision. In relation to this issue, Hanfa issued a recommendation to all insurance companies on the need to better inform the users of insurance companies' services about the meaning and consequences of contracting a deductible.

Based on the information from the complaints received, in 2020 Hanfa also issued a recommendation to insurance companies concerning the document containing the damage inspection report, recommending that companies clearly state, when submitting the document, that it does not constitute a decision on the validity of the claim nor a vehicle repair order, but only a decision on the amount of damage, in order to prevent possible misunderstandings with the users of financial services.

With regard to the complaints received during 2020 relating to the issue of not receiving a response from insurance companies to complaints and objections from interested parties within the legal time limit of 15 days⁷³, the question of informing consumers about the options to terminate the contract and general communication with clients, Hanfa issued a recommendation to all insurance companies in October 2020 concerning these issues. This recommendation further warned the companies about the legal obligation to respond to complaints and objections by interested parties within the legally foreseen time limit, and pointed out the possibility of improving business processes related to the contractual provision of information to clients regarding the termination or expiry of contracts, as well as processes related to communication with clients during and after the claims handling, including the need for a clearer explanation of decisions on claims and objections/complaints.

In addition to the aforementioned recommendations, in November 2020, Hanfa issued a recommendation to all insurance companies regarding compliance and internal audit functions, recommending that these functions, when performing activities within their scope and competence, take into account the relevant case-law, since on the basis of the findings from the complaints, it was established that certain provisions of the conditions for land motor vehicle insurance of certain insurance companies were contrary to the provisions of the Civil Obligations Act⁷⁴. Hanfa therefore requested companies to send it their conditions for land motor vehicle insurance, compared them with respect to the provisions governing the insured person's obligation to undergo an alcohol test and to call the police after the occurrence of a covered risk, and published a comparative table on its website. The table is regularly updated in line with the notifications submitted by companies on amendments to their conditions for land motor vehicle insurance. In addition, in 2020, Hanfa issued four individual recommendations addressed to individual companies relating to potentially misleading advertising in marketing activities, the need for a more detailed clarification of the consequences of early repayment of the loan agreement for life insurance contracts in case of the death of the borrower, the need to provide information on the decision-maker with respect to a claim or objection/complaint of a financial service user and the need to carefully select external associates.

In addition to the increase in the number of complaints submitted by users of financial services regarding the conduct of insurance companies, in 2020, the number of received complaints on the operation of leasing companies also increased significantly (16 complaints more than in 2019, an increase of 266.7%). The increase in the number of complaints is partly linked to the conduct of leasing companies concerning the consequences of the COVID-19 pandemic, in respect of which Hanfa issued recommendations to companies. In view of the exceptional circumstances of the pandemic, Hanfa recommended to leasing companies not to take enforcement measures before the end of June 2021 towards the previously orderly lessees and to allow them to conclude a moratorium. Hanfa also relieved the leasing companies of the obligation to form value adjustments for such claims during that period. These recommendations were issued with the aim of facilitating the fulfilment of the lessees' obligations under extremely negative economic conditions while preserving the stability of leasing companies' operations.

Although in 2020 Hanfa received only one complaint related to pension insurance companies, in view of the increasing number of insured persons from the second pillar retiring, these complaints are expected to increase in the coming period. Therefore, at the end of 2020, Hanfa held a workshop for pension com-

⁷³ Article 378 of the Insurance Act (Official Gazette, No 30/15, 112/18, 63/20 and 133/20)

⁷⁴ Official Gazette, No 35/05, 41/08, 125/11, 78/15 and 29/18

panies and pension insurance companies, highlighting the importance of maintaining confidence in the pension system through a fair and transparent relationship with beneficiaries and raising the level of their financial literacy.

In 2020, Hanfa also received a relatively significant number of complaints falling outside the area of its competence (30 or 14.4% of all the complaints received), which mainly referred to the actions of companies for the repurchase of due receivables, which are not subject to Hanfa's supervision. If applicable, complaints that are not within Hanfa's competence are forwarded to other competent institutions, and senders of the complaints are notified about it.

Apart from individual communication with financial services users who turn to Hanfa by submitting complaints or sending inquiries, Hanfa also communicates with financial services users and the general public via announcements on its website. Three public warnings were issued in 2020, of which two refer to online trading platforms for CFDs, and one to a company not authorised by Hanfa to operate as an investment/brokerage firm, i.e. to provide services related to trading in financial instruments or consultancy on them. Since Hanfa is not responsible for supervising the legality of their business operations, it cannot influence the protection of the rights and interests of investors who establish a business relationship with such persons/companies. Such unlicensed service providers (platforms) are often involved in some form of investor fraud. In addition to the above-mentioned warnings, six informational flyers were published on occurrences, activities and products on the financial services market explaining the concepts interesting to the general public or drawing attention to potential risks (such as deductible in insurance contracts, driving under the influence of alcohol or loss of insurance rights).

Apart from its independent activities Hanfa actively cooperated with other institutions in the area of consumer protection, particularly through membership in the National Consumer Protection Council. Monitoring the protection of financial services users at the international level is achieved through work in committees of ESMA and EIOPA dealing with this issue, which includes, inter alia, reporting on consumer complaints and providing various quantitative and qualitative data and exchanging experiences with other Member States regarding the protection of consumers and users of financial services.

6.2 Educational activities

In 2020, despite the COVID-19 pandemic, Hanfa intensively conducted numerous educational activities aimed at raising the level of financial literacy of target groups and the general public. In accordance with the objective, the focus of educational activities was to inform consumers about the characteristics of financial products and services, their specificities and the rights and obligations of users. Despite the challenges in their implementation in view of the introduction of anti-pandemic social distancing measures in 2020, 31 educational activities were held, in which more than 1,000 participants directly participated and as many indirectly by watching the educational presentations on Facebook Live and YouTube channels. It is important to note that 60% of educational sessions were held online. Topics and content of education were adjusted depending on the age, prior knowledge and needs of persons who participated in the educational activities, but also on the current situation in the financial services market. At the beginning of each year, Hanfa announces a public call for proposals for cooperation in the field of educational activities. On the basis of the call, Hanfa cooperates with various stakeholders both in the current year and in further joint educational activities.

HANFA'S EDUCATIONAL ACTIVITIES

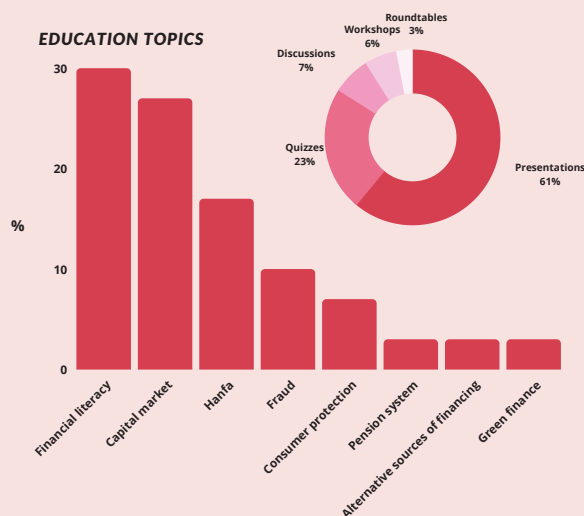
Despite the pandemic, in 2020 Hanfa held more than 30 various educational activities, 60% of which were online, in line with the adopted anti-pandemic measures.

CONSUMER EDUCATION

INTERNATIONAL EVENTS MARKED



EDUCATION TOPICS



In order to increase the level of financial literacy in Croatia, it is necessary that all stakeholders in the field of financial literacy cooperate. Hanfa, therefore, continued to cooperate in this field as a member in the National Consumer Protection Council and a member the Task Force for monitoring the implementation of measures and activities defined in the Action Plan for the Improvement of Financial Literacy, coordinated by the Ministry of Finance. It also continued to cooperate with the Croatian Chamber of Economy and the City Office for Education, Culture and Sports of the City of Zagreb in the implementation of the project titled “The more we know, the better we understand”, which included presentations in secondary schools in Zagreb. Hanfa also joined the Ministry of Economy, Entrepreneurship and Crafts and the Ministry of Science and Education in the prize competition for primary and secondary school students on the topic of “How to become a green consumer?”. The competition was launched on the occasion of the World Consumer Rights Day with the intention of encouraging students to be sustainable in consumption.

In 2020, Hanfa actively participated in marking other international events such as Mediation Week, World Investor Week, World Savings Day and International Fraud Awareness Week. On the occasion of World Investor Week, the first online public presentation was held for the general public on the topic of “Capital market fundamentals”, as well as presentations and workshops for students. The workshop related to simulation of trading in financial markets and presentation and analysis of achieved results. Input and output surveys were conducted within the workshop with students in order to check how such a modality of education improved their knowledge of the capital market. According to the results, students’ financial knowledge increased on average by 18% compared to their starting knowledge. International Fraud Awareness Week was marked by the second public online presentation on “Fraud in the financial services market” and the recording of the presentation was published on Hanfa’s website and YouTube channel. Online public presentations enabled direct education of the general public in all parts of Croatia, which is why it is planned to continue and further intensify this type of education. In addition to the aforementioned public online presentation, during the International Fraud Awareness Week a presentation was held within the framework of professional training of teachers, as well as a public online discussion in cooperation with students of the Faculty of Economics and Business in Zagreb, which was also published on Hanfa’s website and YouTube channel. Although planned, the marking of the World and European Money Week in March 2020 was cancelled due to the escalation of COVID-19 pandemic.

In 2020, Hanfa also launched a competition for the best student scientific and professional papers on selected topics in the field of finance. Such competitions are planned to be conducted regularly every year. The aim of this competition is to encourage students to engage in scientific and research work and gain insight into processes in financial markets, while at the same time improving cooperation with institutions of higher education. Within educational activities as part of the educational system, last year, Hanfa also intensified cooperation with teachers in the framework of their professional training.

In order to assess the efficiency and possible modification of the educational activities of Hanfa, as well as of all other stakeholders in this field, it is necessary to continuously monitor the level of financial literacy of citizens, especially young people, which, according to the latest OECD survey of the level of financial literacy in 2019, were assessed as least familiar with the world of finance. Therefore, in 2020, Hanfa launched a regular survey of the level of financial literacy among secondary school students. The survey is conducted within the framework of Hanfa's educational activities, and the findings and results will be used to adapt and design its educational programmes and other educational materials.

Hanfa continued to publish warnings, brochures and informative texts on its website, as well as publications intended for the professional public, and two animated and one audio-visual presentation. Hanfa also publishes educational texts suitable for the general public for the purpose of raising the level of financial literacy on the new portal – Money for Tomorrow. Money for Tomorrow is intended for the general public, people who want to

get informed about current issues on the financial services market, but also those who want to learn how to treat money responsibly and plan the future. The portal therefore publishes advice and recommendations for managing personal finances, trends and current developments on the financial market itself and the products offered, as well as warnings and anonymous user experience regarding the provision of financial services.

Hanfa also actively participates in meetings, workshops and other activities organised by the International Network on Financial Education of the Organisation for Economic Cooperation and Development (OECD/INFE) and the G20-OECD Task Force on Financial Consumer Protection. As part of these activities, in 2020 Hanfa participated in several financial literacy surveys via questionnaires (OECD/INFE questionnaire on the use of digital tools for the implementation of financial education, questionnaire on financial education in the workplace and OECD questionnaire on the implementation of measures related to the protection of financial service users in the context of COVID-19 pandemic). Based on these questionnaires, the OECD drafts and publishes reports and recommendations at international level, making participation in them extremely important for improving financial literacy and consumer protection in Croatia.

**NOVAC ZA SUTRA
(MONEY FOR TOMORROW)**

In 2020, Hanfa launched a specialised online portal (first of its kind in Croatia) called Money for Tomorrow, which presents topics related to finance and financial decision-making in a simple and comprehensible way.

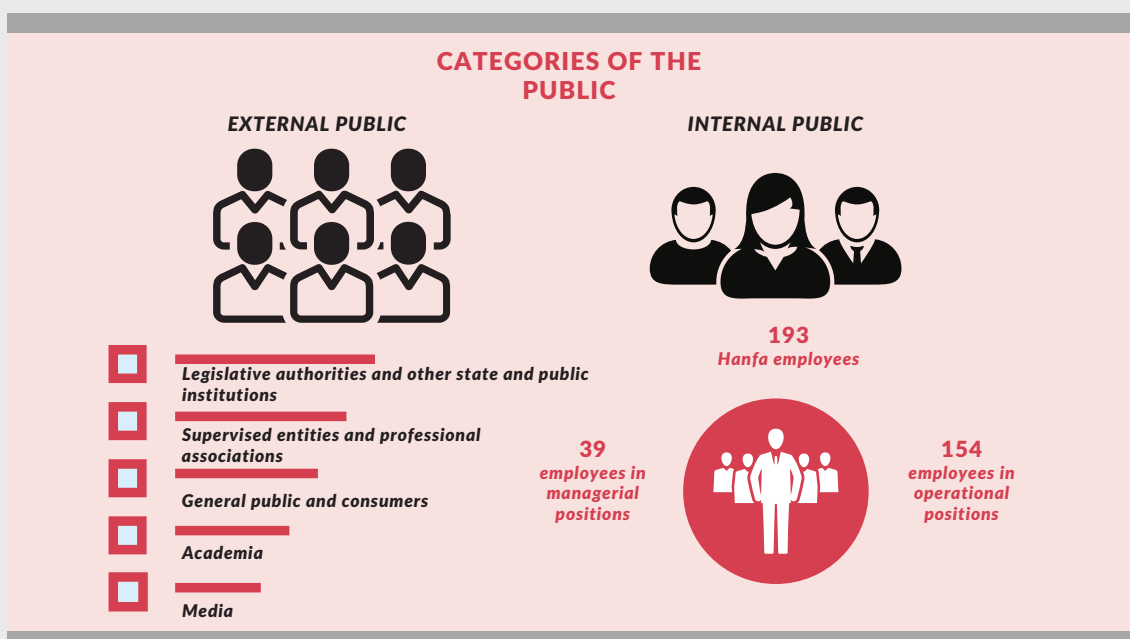


Communication activities



7 Communication activities

Communication and public relations are an important component of Hanfa's work and activities, particularly in times of the crisis caused by the COVID-19 pandemic and its negative impacts on the entire economy, including entities supervised by Hanfa. Timely and fast information and communication in such extraordinary circumstances were a key feature of communication activities during 2020, towards supervised entities, consumers and the general public. In addition, efforts in continuing education and raising the level of financial literacy remain some of the key communication goals.



7.1 Regulator's communication during the coronavirus crisis

The very position of regulator of the financial services sector gives Hanfa's communication exceptional importance, since every publication and decision of the regulator is considered by all market participants with great attention. This intensified in times of crisis, including the pandemic that marked 2020. In view of the extraordinary situation, within a very short time Hanfa adopted and communicated a set of instructions and guidelines for the conduct of supervised entities in exceptional circumstances, and some of these concerned the protection of the stability of the insurance market by temporarily banning insurance companies from the payment of dividends, recommendations for the conduct of leasing companies towards lessees who found themselves in a negative market position due to a slowdown in economic activity, the extension of reporting deadlines and changes in the internal organisation of business operations in order to facilitate communication with Hanfa and the reception of official documents owing to difficulties in the delivery of postal items due to the pandemic and damage to Hanfa's headquarters caused by the earthquake.

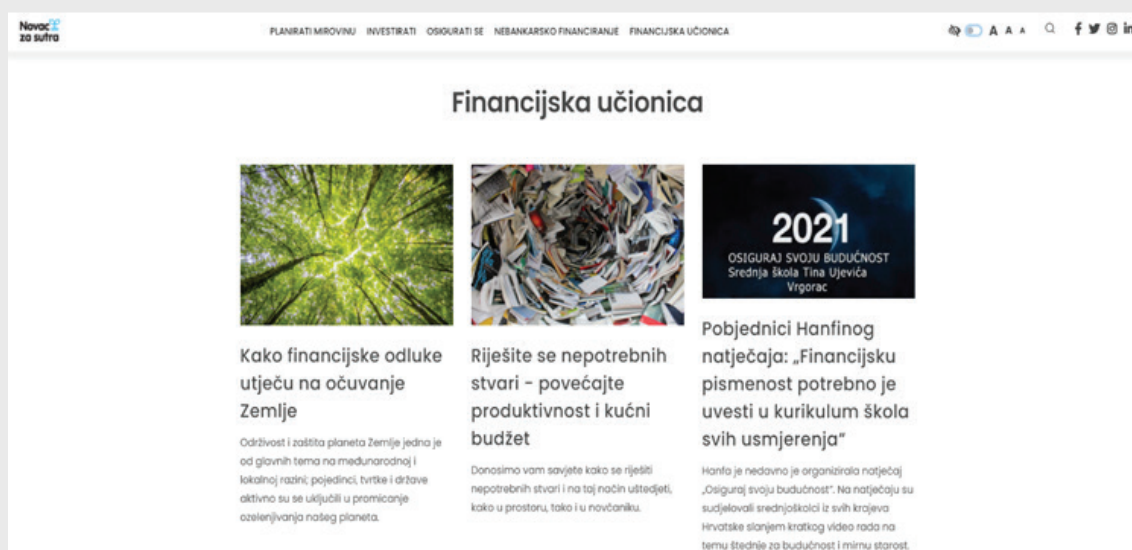
All these circumstances required efficient and rapid communication towards all segments of the public, both external and internal. The basic categories of the public with which Hanfa continuously communicates are: the general public and consumers, legislative authorities and other state and public institutions, entities supervised by Hanfa, professional associations and interest groups, academia, media representatives and the internal public. Hanfa adapts its communication activities and channels to the target category and to a specific event. It is important to highlight Hanfa's international role and its participation in the work of international institutions such as ESMA, EIOPA and ESRB, which, in addition to contributing in the professional sense, includes the transfer of information from these institutions to the domestic interested and professional audience.

7.2 Communication activities in 2020

In 2020, Hanfa's public relations activities were significantly marked by the COVID-19 pandemic, although the beginning of the year, in addition to regular communication activities, focused on a project to create a specialised online educational portal on financial topics within Hanfa's area of competence, such as capital market, insurance, pension and investment funds, leasing and factoring, called "Money for Tomorrow".

Despite extraordinary circumstances, in June 2020 the portal went live and was presented to the public, as the first specialised web portal of a regulator with the aim of conducting financial education and increasing the level of financial literacy in society.

Figure 7.2.1 New web portal dedicated to financial literacy – "Money for Tomorrow"



Source: www.novczasutra.hr

The launch of the web portal was accompanied by additional digital activities such as creating profiles with the same name on social networks (Facebook, LinkedIn, Instagram, Twitter), which made Hanfa fully involved in communication on these popular communication channels after the official LinkedIn profile had been opened.

In this way, with proactive communication, Hanfa became much closer to the public and average users of financial services, thus trying to increase the level of information and knowledge and, in the long run, influence better protection of financial service users and strengthening of the financial system as a whole.

As for classical media, about one hundred journalistic inquiries were answered during 2020, and about sixty press releases were published, as well as several interviews with the President and Members of the Hanfa Board. In mid-2020, amid favourable epidemiological conditions, a media conference was held presenting the educative portal “Money for Tomorrow” to the media and the public. Hanfa’s LinkedIn profile, which was initiated in 2018, had around 5,500 followers in 2020, which was twice as many than in the previous year. The website was updated daily and it provided numerous useful information for entities supervised by Hanfa and the general public.

Members of the Board also participated in expert conferences, presentations and panels, informing the professional and general public about the news related to all activities and functions of Hanfa. One of these conferences, titled “Capital market after the coronavirus crisis, an opportunity for companies and investors,” was organised by Hanfa itself, and the main topic was how to prepare companies and markets for the growth and raising of capital after the coronavirus crisis.

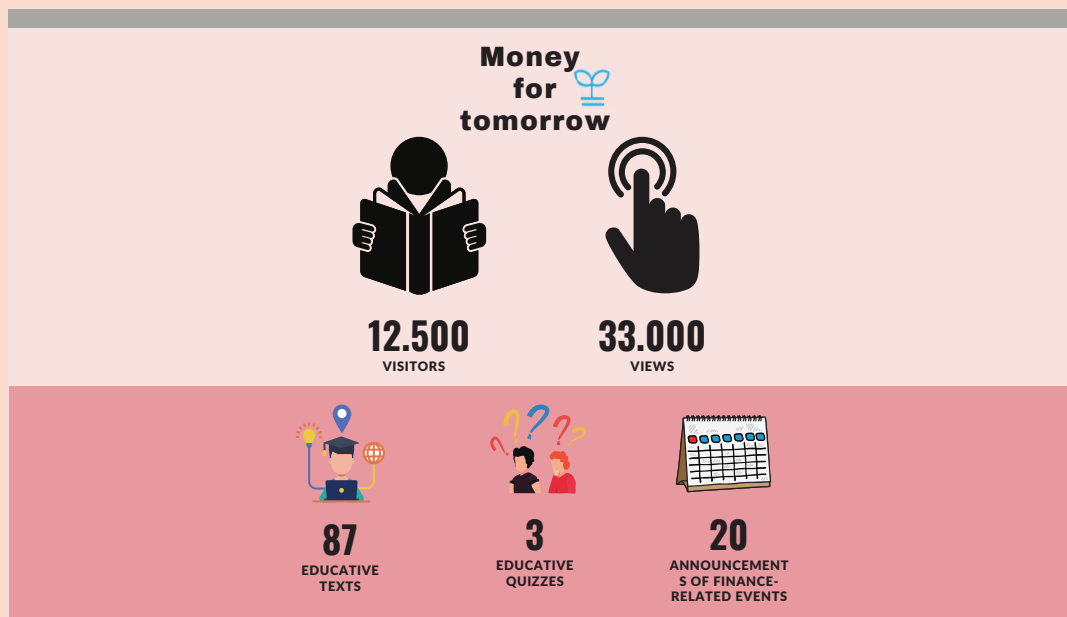
Hanfa communicates with all categories of the public in a continuous, professional and timely manner, with the aim of sustainable development and protection of the financial system and its participants and users, as well as long-term economic development of the Republic of Croatia.

“Money for Tomorrow” – a new web portal where consumers can obtain information on finance-related topics

In an effort to contribute to a better understanding of financial services and consumer rights and obligations, as well as to increasing the level of overall financial literacy, in 2020 Hanfa launched an educative online portal “Money for Tomorrow” (www.novaczasutra.hr). Although Hanfa regularly publishes on its website www.hanfa.hr a lot of important information that, besides the area of regulation and supervision, also refers to questions of consumer rights and other topics, the set-up of the new portal was approached with the aim of presenting its contents, visual identity, text layout, as well as the topics themselves in a simpler and more accessible way. This approach proved to be successful and in 2020 the new portal had around 12,500 visitors with more than 33,000 views.

About one hundred educational articles in connection with the capital market, pension and investment funds and pension insurance companies, insurance, leasing and factoring, as well as educational quizzes and announcements of interesting events were published on the educational portal “Money for Tomorrow” only last year. The site is organised according to the main areas of readers’ interest and covers the areas of pensions, investments, insurance and non-bank financing, as well as the financial classroom. In addition, the portal regularly publishes educational video materials, announcements of interesting educational and other events, quizzes and polls through which small-scale research on relevant topics is conducted. The portal is also a place for novel topics, such as cryptoassets, and in addition to content mostly written by Hanfa experts, analyses and reviews of external experts and analysts are occasionally published.

Figure 1 Visits to the Money for Tomorrow portal and its contents



Source: Hanfa

In addition, the “Money for Tomorrow” portal often describes real-life examples and draws attention to practical situations from everyday life that occur during the contracting and use of financial services. Through such real-life examples, consumers are informed about possible solutions to certain situations and disputes they may have with financial service providers or about their legal rights and obligations, as well as the rules and procedures when contracting or obtaining a financial service. This gives consumers feedback on whether they have in some cases acted well and whether they are right or not, which in turn contributes to the long-term financial education of citizens.

In order to bring the educational content of “Money for Tomorrow” as close as possible to a wide range of readers, the portal set up its profile on social networks, including Facebook, Twitter, Instagram and LinkedIn. In addition, these channels enable frequent and fast two-way communication with readers, as well as asking questions or proposing topics of particular interest to readers.

The latest OECD survey showed small, but still positive developments in the increase of financial literacy in Croatia. In the future, education will intensify, especially because of the importance of individual pension savings growth due to ageing population and the increasing supply of high-risk online speculative investment products and services that are extremely interesting to young people. The digitisation of services and the distance contracting of services require greater consumer knowledge and better pre-contractual information, as well as better planning of personal finances, i.e. the development of a revenue and expenditure plan.

7.3 Access to information

As regards the application of the Act on the Right to Access Information⁷⁵ in 2020, it should be noted that in addition to the regular proactive publication of regulated information, Hanfa also acted upon the requests of domestic natural and legal persons for access to information held by Hanfa.

Bearing in mind that the financial and general public are in due time informed about all relevant events and notified about all relevant information, Hanfa regularly publishes, among other things, decisions of public interest taken at Board meetings, warnings significant for the prevention of misuse, regulations classified according to the areas of its operation, registers, forms, databases and information on tenders and tender results. Hanfa regularly monitors the needs of the public and upgrades its website with data that make it easier for the public, as well as supervised entities, to be informed.

In 2020, Hanfa received three requests for access to information and handled them within the legal deadline, that is, it met the senders' requests and provided them with the requested information within the scope of its work and competence. The inquiries from the received requests concerned general information on Hanfa's operations, such as the adaptation of its work organisation to the new circumstances linked to the epidemiological situation, information on its socially responsible conduct and information on the work of specific segments of the financial services sector under Hanfa's competence (e.g. data on total revenues and total expenditures of insurance and leasing companies over longer periods).

In accordance with legal obligations, Hanfa submitted the Report on the implementation of the Act on the Right to Access Information to the Information Commissioner within the legal deadline, and the information from this report will form an integral part of the 2020 Annual Report of the Information Commissioner.

⁷⁵ Official Gazette, No 25/13 and 85/15



International cooperation



8 International cooperation

The COVID-19 pandemic significantly affected Hanfa's international cooperation activities, which focused on monitoring the impact of the pandemic on financial markets, as well as on finding appropriate measures and policies to reduce this impact. Hanfa's participation in the work of European Supervisory Authorities and international organisations was thus significantly intensified through increased number of online meetings and scope of work. Apart from the pandemic, the first half of 2020 was marked by Hanfa's participation in activities related to the Croatian Presidency of the Council of the European Union. Hanfa made a significant contribution to reaching a political agreement with the European Parliament on a proposal for a Regulation governing the recovery and resolution of central counterparties and on the completion of technical negotiations with the European Parliament regarding a Regulation governing the operation of European crowdfunding platforms. At the international level, Hanfa continued to be involved in the work of international organisations, primarily IAIS, IOPS and ESRB, and one thing that stands out is the re-election of the President of the Hanfa Board as a member of the IAIS Executive Committee representing the CEET region (Central and Eastern Europe and Transcaucasia) for a new term of two years. Technical international co-operation focused on the successful completion of Twinning projects in Montenegro and Serbia, while the strengthening of bilateral co-operation focused at the signing of ESMA's Memorandum of Understanding relating to the provision of advice, cooperation and exchange of information regarding the supervision of entities under the Alternative Investment Fund Managers Directive with supervisory authorities from Guernsey, Qatar and Japan.

COOPERATION WITH INTERNATIONAL INSTITUTIONS



8.1 Participation in the work of supervisory authorities and organisations

ESMA – European Securities and Markets Authority

Hanfa actively participates in the work of ESMA through its membership in ESMA Board of Supervisors and its standing committees, networks, working groups and subgroups.⁷⁶ President of Hanfa Board or his alternate participated in the work of ESMA Board of Supervisors, while Hanfa's employees took part in the work of 14 standing committees, five working groups, one group, 11 networks and one subgroup of ESMA. In 2020, the President of Hanfa Board was elected a member of ESMA's Advisory Committee on Proportionality, which is extremely important for developing capital markets such as Croatian. Given the importance of implementing the principle of proportionality in all regulations, after its establishment in March 2020 and its formal start of operation in July 2020, the Advisory Committee held six meetings by the end of the year, at which the President of Hanfa Board actively participated in the drafting of the Committee's work plan and programme. During the year, Hanfa also participated in 170 voting procedures via written procedure⁷⁷, by which ESMA took various decisions, and it complied with the provisions of eight guidelines issued by ESMA.

Due to the outbreak of the COVID-19 pandemic at the beginning of 2020, the standard dynamic cooperation between ESMA and national supervisory authorities intensified even further. During the year, 15 meetings of the Board of Supervisors⁷⁸ were held, as well as ten additional meetings dedicated exclusively to discussing the issues related to the market reaction to the pandemic. Such additional meetings also served to coordinate joint decisions on market stabilisation and facilitation of fulfilling regulatory obligations for market participants. As a response to difficult working conditions, ESMA and all competent authorities agreed to postpone certain reporting obligations, where possible, so that participants could focus on operational challenges and maintaining business continuity. ESMA and national supervisory authorities discussed the issues of orderly functioning of the market in terms of the sustainability of market infrastructure due to several times bigger volume of executed transactions and the high volatility of the prices of financial instruments. Such circumstances have led to the risk of default resulting from executed transactions, in particular short selling transactions. For the purpose of managing such risks, a decision was issued to prohibit the use of net short selling transactions, which was prolonged repeatedly during the year. Numerous public announcements were issued with instructions to market participants regarding maintenance of business continuity, timely corporate disclosure of information and financial reporting in connection with the impact of the pandemic on business operations, as well as suitable risk management, in order to strengthen investor protection. Market developments related to the outflow of assets from investment funds and impact on the liquidity of investment funds were also intensively monitored, while national supervisory authorities more frequently sent reports to ESMA on the movement of assets of investment funds and the use of liquidity management tools. This was necessary in order to react in time in the event of a systemic problem and the emergence of a risk of spillover of their illiquidity. In this regard, other EU bodies such as EIOPA, EBA and ESRB were consulted when taking joint decisions in order to establish coordinated action in all segments of financial markets. These activities have contributed to ensuring that the market infrastructure (trading and clearing for securities transactions venues) works well and

SHORT SELLING

Short selling is an investment strategy where investors borrow securities from other market participants with the intention of selling them simultaneously, speculating how the price of the securities (most often shares) will fall, with the intention of subsequently buying them at a lower price than the one at which they had sold them and thus making a profit.

⁷⁶ The list of ESMA committees, networks, working groups and subgroups in which Hanfa participates can be found in the Appendices.

⁷⁷ In 2019, Hanfa participated in 137 ESMA's written procedures.

⁷⁸ Six meetings were held in 2019, the usual number of meetings per year.

that no major and lasting disruptions were recorded. Representatives of Hanfa participated in various ESMA standing committees in the preparation and delivery of information related to the impact of the COVID-19 pandemic, and particular attention was paid to gathering information in the field of investment fund operations in relation to cash outflows and reporting on measures taken by the individual supervisory authorities in order to stabilise the operations of supervised entities. Hanfa's representatives commented on topics related to the pandemic, both at the meetings of the Board of Supervisors and at other working bodies of ESMA. Notwithstanding the activities related to addressing the impact of the pandemic on financial markets, a number of other regulatory and supervisory activities took place simultaneously in the context of the preparation of consultation documents related to the adoption of tier 2 regulations, the launch of public consultations, participation in public consultations of the European Commission, the issuing of recommendations, the implementation of joint supervisory activities by ESMA and national supervisory authorities and other tools intended to establish supervisory coordination at EU level, such as the updating of "Questions and answers" documents and the publication of guidelines in various areas of capital market.

In addition, topics that significantly marked the activities of ESMA and national supervisory authorities during the year were related to Brexit⁷⁹, the Capital Markets Union Action Plan and the development of technical advice in the field of sustainable finance and the legislative framework on markets in financial instruments (MIFID II legislative framework⁸⁰). As regards Brexit, the focus was placed on resolving the withdrawal with as little disruption as possible to the functioning of the market as a result of the transfer of UK companies to the EU territory and on decisions on the allowed temporary and limited continuation of services by UK companies holding market infrastructure until the operation on the EU territory is stabilised. With regard to sustainable financing, technical advice was drawn up for the European Commission on the content, methodology and manner of disclosing sustainability-related data, which will result in level 2 European Commission legislation elaborating the implementation of regulations as level 1 legislation. At the same time, public consultations were launched on the further strategy of sustainable financing in terms of creating a legislative framework for issuing green bonds and establishing a standardised framework for obtaining environmental, social and governance (ESG) indicators for financial instruments. A discussion was launched on the revision of the Non-Financial Reporting Directive (NFRD Directive⁸¹), which constitutes a key principle of success in the implementation of the sustainable finance concept. Hanfa provided comments on documents in these areas, in particular with regard to sustainable financing and the Capital Markets Union Action Plan, and it made proposals for elaboration taking into account the need to take into account the principle of proportionality, so that market players in smaller EU countries can respond to new regulatory requirements.

Hanfa also continued with activities for signing the ESMA Memorandum of Understanding relating to the provision of advice, cooperation and exchange of information regarding the supervision of entities under the Alternative Investment Fund Managers Directive⁸² (hereinafter: the MoU) with certain supervisory authorities from non-EU countries, that had started in 2019. The conclusion of such MoUs fosters cooperation in the area of the supervision of entities subject to the AIFMD⁸³. The emphasis was placed on

79 The withdrawal of the United Kingdom of Great Britain and Northern Ireland (UK) from the European Union is known as Brexit.

80 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, OJ L 173

81 Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (Text with EEA relevance), OJ L 330/1

82 Within the title of the MoU, the Alternative Investment Funds Managers Directive relates to Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010, OJ L 174

83 Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010, OJ L 174

investor protection, maintaining market and financial integrity, as well as confidence in the stability of the financial system. For Hanfa, this means the continuation of further initiatives related to international cooperation with regulators outside the EU. In February 2020, Hanfa signed MoUs with the Guernsey Financial Services Commission (GFSC) and with the Qatar Financial Centre Regulatory Authority (QFCRA), and in July 2020 with the Japanese Financial Services Agency (JFSA). Negotiations on the signing of the MoU with several other supervisory authorities from third countries were postponed in 2020 due to the situation with the COVID-19 pandemic, i.e. because Hanfa and other supervisory authorities with which Hanfa planned to sign the MoU focused their work primarily on the activities related to the pandemic and mitigating its effects on the market. Hanfa restarted negotiations at the end of the year and is expected to sign new MoUs in 2021.

EIOPA – European Insurance and Occupational Pensions Authority

HANFA's significant involvement in EIOPA's activities during the year included the participation of the President of Hanfa Board or his alternate at five regular, seven extraordinary and one strategic meeting of the EIOPA Board of Supervisors (BOS).⁸⁴ In addition, a member of Hanfa Board participated in the work of EIOPA's Supervisory Steering Committee, which held 11 meetings and one workshop. Work of the remaining two EIOPA's Steering Committees of EIOPA, the Policy Steering Committee (PSC) and the Risk and Financial Steering Committee (RFSC) was followed by other Hanfa's employees with proposals and comments on documents when necessary, primarily regarding the specificities of the Croatian insurance market. In addition, Hanfa participated in 105 written procedures by exercising its voting rights in the EIOPA Board of Supervisors. Hanfa employees also participated in the work of three committees and two subcommittees, three project groups, three cooperation networks and seven expert networks. These activities included the exchange of experience and supervisory practices and submission of relevant information, while Hanfa's work was coordinated with the work of other Member States' supervisory authorities. The President of Hanfa Board participated as a member of the EIOPA Mediation Panel in its duties of mediating disputes between national competent authorities in an impartial manner.

During the year, the strongest efforts of EIOPA and the competent supervisory authorities under its framework focused on analysis, planning, taking actions and measures and communication related to the impact of the COVID-19 pandemic on the financial market and the insurance and occupational pensions market, as well as continuous work on the preparation of the Opinion on the review of the Solvency II regulatory framework, which EIOPA was obliged to submit to the European Commission by the end of 2020. In addition, in order to protect consumers, strengthen supervisory convergence and protect financial stability in the insurance and occupational pensions sector, during the year EIOPA focused on being involved in the question of the need to establish a new relationship with the UK, the increasing impact of the global insurance market, digitalisation, sustainable financing and climate change, as well as new tasks and powers in the context of Pan-European Personal Pension Products (PEPP). Hanfa also participated in EIOPA's work aimed at multi-annual strategic objectives: improving the regulatory framework for business management and supervision, convergence towards high-quality supervision in the European Union, strengthening the financial stability of the insurance and occupational pensions sectors and effective and efficient implementation of EIOPA mandate, with constant adaptation to new priorities and needs.

PAN-EUROPEAN PERSONAL PENSION PRODUCT

Pan-European Personal Pension Product (PEPP) is a voluntary pension product that is transferable throughout the territory and complements national mandatory and voluntary pension insurance schemes.

⁸⁴ The list of EIOPA committees, networks, and project groups in which Hanfa participates can be found in the Appendices.

EBA – European Banking Authority

Under the new prudential framework for investment firms, EBA was mandated to develop 18 regulatory technical standards, three implementing technical standards and six guidelines in the field of the criteria and thresholds for investment firms to apply banking regulation, capital requirements and capital composition, supervisory review procedures, disclosure requirements, variable remuneration, governance, environmental, social and governance risks and supervisory convergence.

For the purpose of drafting these acts, EBA set up a new Investment Firms Subgroup, which included representatives from Hanfa as the prudential supervisor for investment firms. In the course of the year, two guidelines and drafts of the most important regulatory standards related to new regulatory requirements for investment firms were also prepared and published for public discussion. They should start to be applied from the second half of 2021. Within the framework of the activities of the above-mentioned sub-group, Hanfa's employees, together with representatives of the CNB, participated in the preparation of material for the meetings of the EBA Board of Supervisors.

ESRB – European Systemic Risk Board

In view of the exceptional circumstances caused by the pandemic, the work of the ESRB in 2020 was marked by an increased number of issued recommendations, aimed at responding to the materialisation of systemic risk at the beginning of the year. The General Board's decision of April 2020 introduced a crisis working mode, which entailed an increased frequency of meetings and focusing the main part of activities on five priority areas, where coordination between competent EU authorities is of particular importance for the protection of financial stability. During this period, several measures were adopted related to the consequences of credit guarantee schemes and other fiscal measures for the protection of the real economy on the financial system, market illiquidity and its consequences for asset managers and insurers, the effect of a pro-cyclical decrease in bond ratings on markets and entities in the entire financial system, restrictions on dividend payments, the purchase of shares and other system-wide payments, and liquidity risks arising from calls for margin payments. One of the results of such crisis work mode was the Recommendation on monitoring the financial stability implications of debt moratoria, and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID 19 pandemic. In addition to the national monitoring of the impact of the measures adopted on financial stability, the Recommendation also provides for regular quarterly reporting by national macroprudential authorities to the ESRB on these measures. Hanfa, as one of the macroprudential policy makers in Croatia, acted in accordance with the Recommendation, closely monitoring the implications of the measures on the stability of the financial system and cooperating with other supervisory authorities in the Republic of Croatia. Croatia was assessed by the ESRB as fully compliant with this Recommendation. In May, the Recommendation on restriction of distributions during the COVID-19 pandemic was issued, recommending national macroprudential authorities to discourage, within their powers, insurance and reinsurance companies, investment firms, credit institutions and central counterparties from distributing profits, at least until the beginning of 2021. In December 2020, the ESRB extended the above-mentioned Recommendation on restriction of profit distributions of certain financial institutions leading to a reduction in the amount or quality of own funds until 30 September 2021. However, it was pointed out that payments are still possible, but with extreme caution in the implementation of distributions, while the reduction must not affect the decrease in the solvency of companies below the conservative threshold set by their competent authority. Even before this ESRB Recommendation, Hanfa had issued a decision on a temporary dividend payment ban as it was necessary to ensure that insurance companies take all necessary measures to protect their capital position and remain able to fulfil all their commitments to clients.

Other recommendations include the Recommendation on identifying legal entities, issued with the aim of further promoting the use of the Legal Entity Identifier (LEI) for all parties in financial transactions. The ESRB recommends that competent authorities continue to make and systematise their efforts to pro-

mote the adoption and use of the LEI, using for this purpose the various regulatory or supervisory powers conferred on them by national or EU law. In a large part of its reporting forms, Hanfa already collects LEI data, and further activities related to compliance with this Recommendation will be carried out in 2021. During the year, Hanfa's employees regularly participated in the meetings of the Advisory Technical Committee and the Analysis Working Group, while a member of the Board participated in the meetings of the General Board.⁸⁵

IAIS – International Association of Insurance Supervisors

As the year was marked by the COVID-19 pandemic, the activities of IAIS from March to June 2020 also focused intensively on monitoring the pandemic and its impact on markets, regulators and supervised entities. The pandemic remained the main topic within the IAIS for the remaining part of the year. The President of Hanfa Board participated in six additional virtual meetings of the IAIS Executive Committee⁸⁶, which were organised primarily because of the need to discuss the pandemic and its impact on financial markets with an emphasis on insurance markets, insurance supervisors and the operation and implementation of IAIS activities. At these meetings, the President of Hanfa Board presented developments from the country and the region in view of his role as representative of the CEET region (Central and Eastern Europe and Transcaucasia) in the IAIS Executive Committee, and discussed and exchanged experience and views on the impact and consequences of the pandemic, as well as on the steps to be taken to mitigate its consequences and those necessary for the continuation of the work and implementation of the planned activities of the IAIS. The President of Hanfa Board or his alternate also participated in seven regular meetings of the Executive Committee, an annual dialogue of the Executive Committee with insurance market stakeholders and the General Meeting of the IAIS, which were mainly held in virtual form due to an extraordinary situation.

In October 2020, following the end of the two-year term, the President of Hanfa Board was re-elected by IAIS members from supervisory authorities of the CEET region to represent that region again in the IAIS Executive Committee for another two-year term. This re-election was confirmed by the members of the IAIS at the General Assembly held in December 2020. In November 2020, following the invitation by the Selection Committee, the President of Hanfa Board prolonged his term in this committee, as well.

During the year, Hanfa actively participated in the work of the Macroprudential Committee and the Fintech Forum, and its representatives were also appointed to the Macroprudential Supervision Working Group and the Audit and Risk Committee. It also participated in meetings of representatives from countries belonging to emerging markets and developing economies. Significant activities during the year involved regular participation in meetings of the committees mentioned, the preparation of various IAIS materials and documents, as well as discussion and exchange of information with other IAIS members. A noted example is the participation in the assessment of the compliance of the Croatian regulations relating to insurance within Hanfa's competence with the IAIS Insurance Core Principle 19 – Conduct of Business. After the IAIS expert team had performed the assessment, they established very strict compliance of Croatian regulations with the above-mentioned principle. Since the emphasis was on the pandemic over the course of the entire year, Hanfa repeatedly provided the IAIS with information on regulatory and supervisory measures and other policies it undertook in response to the crisis, thus participating in the creation of the IAIS database for the purpose of exchanging relevant information related to the pandemic among the IAIS members. Hanfa also participated in the project of assessing the impact of COVID-19 on the global insurance sector (COVID-19 Sector-Wide Monitoring project – SWM) by delivering the required data on the Croatian insurance market. Based on the collected data, the IAIS prepared an analysis and report on the impact of the pandemic on the global insurance market. Hanfa will participate in this project in 2021, as well.

⁸⁵ The list of ESRB committees and groups in which Hanfa participates can be found in the Appendices.

⁸⁶ The list of IAIS committees, forums and working groups in which Hanfa participates can be found in the Appendices.

In order to further draw IAIS's attention to the regional insurance market and to encourage discussion within the IAIS on topics of relevance to the region and further strengthen cooperation with insurance market regulators, Hanfa applied to host the IAIS Global Seminar. At the meeting of the Executive Committee held in December 2020, it was decided that Hanfa would host the Global Seminar scheduled to take place in Dubrovnik in 2022.

IOPS – International Organisation of Pension Supervisors

As an IOPS member, Hanfa participated in its work during the year through virtual meetings, including the IOPS General Meeting and the IOPS Technical Committee meeting, as well as two joint meetings of the IOPS and the Working Group on Private Pensions of the Organisation for Economic Cooperation and Development (OECD). In addition to the regular topics related to pension systems and their supervision, the emphasis at these meetings was placed on the effects of the COVID-19 pandemic on pension systems and on challenges in the supervision of pension systems in such circumstances.

By completing questionnaires and providing data and comments, Hanfa participated in the implementation of IOPS projects related to the analysis of supervisory measures in the context of the pandemic, cyber resilience, investment guarantees and supervision of pension funds' investments in infrastructure. Hanfa was also active in exchanging information with other IOPS members on various issues concerning the regulatory framework and supervision of capitalised pension savings. It also participated in the regular annual update of the data on the supervisory profile of the Croatian pension system, published in the joint database of IOPS, OECD and the International Social Security Association (ISSA), as well as the update of IOPS data on fees and costs of institutions providing services in the area of capitalised pension savings.

OECD – Organisation for Economic Cooperation and Development

Hanfa regularly cooperates with the OECD in terms of the collection of statistical and qualitative data on the system of capitalised pension savings. In the past year, Hanfa prepared and submitted data on investment structure, revenues, costs and membership in pension funds and the pension insurance company for the purpose of the joint database of the OECD, IOPS and World Bank. It also updated data relating to investment rules and investment restrictions published by the OECD in its regular annual publication. Data related to the capitalised pension savings in the Republic of Croatia are thus available in OECD statistical surveys and publications, including the regular annual publication "Pension Markets in Focus".

Hanfa also regularly cooperates with the OECD in the area of consumer protection, and in 2020 it joined its International Network on Financial Education (INFE). More details about Hanfa's participation in OECD activities with respect to the protection of financial services users can be found in Chapter 6 of this Report, which relates to consumer protection and financial literacy.

IOSCO – International Organisation of Securities Commissions

Throughout the year, Hanfa's participation in the work of IOSCO was realised through the participation of members of Hanfa Board in meetings of the Presidents Committee, the Growth and Emerging Markets Committee and the European Regional Committee, as well as through participation in written procedures of these committees. At the beginning of the year, Hanfa became involved in the work of the Financial Innovation Network and continued to be active in the MMoU Monitoring Group.⁸⁷ The most important activities of IOSCO in which Hanfa participated during the year were the exchange of information with other supervisory authorities on the basis of IOSCO MMoU relating to consultation and cooperation and exchange of information, participation in a technical assistance project related to the development of a

⁸⁷ The list of IOSCO committees and groups in which Hanfa participates can be found in the Appendices.

manual for the supervision of investment firms and asset / investment fund management companies and participation in marking the Global Investor Week. On the basis of IOSCO MMoU, Hanfa exchanged information with other regulators in order to assist in the implementation of supervisory activities. The technical assistance programme related to the development of a financial services supervisory manual was initiated at the end of the year and will continue to be implemented through 2021. In addition to Hanfa, the programme involves competent regulators from other countries from the near and wider region. The purpose of the programme is to draw up a supervisory manual for the implementation of on-site examinations, which includes steps such as preparation for examination, carrying out examination, post-examination activities and drawing up templates to be used in such activities. Although Hanfa has internal regulations on carrying out on-site and off-site examinations, this opportunity was used to exchange experiences with other supervisory bodies, as well as to potentially improve existing regulations through good practices presented by IOSCO trainers via online seminars. More details on activities marking the World Investor Week can be found in Chapter 6 of this Report, which relates to consumer protection and financial literacy.

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

In March 2020, the Twinning project “Strengthening of the institutional capacities of the National Bank of Serbia in the EU accession process” was successfully completed. At the invitation of the CNB, Hanfa participated in activities related to the area of insurance, which in the Republic of Serbia is supervised by the National Bank of Serbia. A team of experts from Hanfa took part in missions related to the transposition of the Solvency II Directive⁸⁸ and the Insurance Distribution Directive⁸⁹ into national law and the topics on the guarantee fund in insurance. The Twinning project focused on the preparation of the National Bank of Serbia for joining the European System of Central Banks upon the Republic of Serbia’s accession to the EU. A consortium of central banks from Germany, Croatia and Romania participated in the implementation of the project, including experts from the central banks of England, Austria, Portugal, Slovakia and Slovenia, as well as from the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – BaFin) and Hanfa. Apart from topics from the field of insurance, other activities covered by the project were from the fields of economic research, financial stability, the management of foreign exchange reserves, financial reporting, international cooperation, liberalisation of capital movement, protection of financial service users, accounting and IT reporting and management. The project achieved all planned objectives and successfully accomplished all 12 project activities within ten business areas of the National Bank of Serbia. This Twinning project was financed by the EU with EUR 800,000 and it lasted from September 2018 to March 2020.

In July 2020, the Twinning project to support Montenegrin institutions for supervision of financial services was successfully completed. Experts from central banks of Croatia, Germany and the Netherlands (CNB, German Central Bank, Central Bank of the Netherlands – DNB) and BaFin participated in the implementation of this project, in addition to experts from Hanfa. The project was called “Support to Regulation of Financial Services”, and through it the EU Member States provided technical assistance to Montenegrin financial regulators – the Capital Market Commission of Montenegro, the Insurance Supervision Agency of Montenegro and the Central Bank of Montenegro. The project was financed by the EU with the amount of EUR 1.41m and lasted from April 2018 to July 2020. All planned objectives and all project activities were successfully realised during that period. The aim of the project was to ensure the stability, sustainability and efficiency of financial services in Montenegro, to support private sector development and to

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

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

increase the competitiveness of the entire economy. The implementation of the project achieved harmonisation of Montenegrin legislation with the *acquis communautaire* in connection with financial services and strengthened the regulatory and supervisory capacities of Montenegrin institutions. The project was divided into three components: A – Banking, B – Insurance and C – Capital Market. Hanfa participated in the implementation of activities under Component B – Insurance, together with BaFin and the DNB, and in the implementation of activities under Component C – Capital Market, in cooperation with BaFin. In the context of insurance, Hanfa's activities focused on the implementation of the Solvency II Directive into the Insurance Act of Montenegro, the reporting system for supervised entities, and on on-site and off-site supervision of the insurance market. With respect to capital markets, activities focused on the preparation of the Act on Open-Ended Investment Funds with Public Offering, amendments to the Voluntary Pension Funds Act, ordinances in the field of capital market infrastructure, investment firms and prospectuses, as well as transfer of knowledge and practical experience in supervisory procedures, including transparency of securities issuers. During the course of the project, besides the transfer of knowledge by Croatian experts in Montenegro, study visits of Montenegrin experts to Hanfa were organized, and they also visited the ZSE, the Croatian Chamber of Economy, the Croatian Insurance Bureau and the Croatian Competition Agency, and met with representatives of insurance companies and investment fund management companies. This was another opportunity to transfer experience on business operations that are consistent with EU regulatory framework.

Due to the situation with the COVID-19 pandemic, no study visits to Hanfa could be organised during the year, nor visits by Hanfa's employees to regulators in other countries. Bilateral cooperation thus focused on exchanging information and experience with other supervisory authorities, as well as exchanging legislative solutions related to the area of supervision. Hanfa started negotiations with the Albanian Financial Supervisory Authority regarding the signing of an Agreement regulating the exchange of information necessary for the implementation of procedures under the competence of both regulators, including the procedures for supervision and licensing of their supervised entities and technical cooperation. Although the two institutions had already signed a similar agreement, it regulates the exchange of data only in the field of capital markets, while the new agreement should also cover the remaining two segments of the financial market under the competence of both institutions – the insurance market and the capitalised pension savings market. At the beginning of 2021, the negotiations were completed and the Agreement was signed.

International cooperation was also marked by the withdrawal of the UK from the EU, since the period from February to December 2020 was a transitional period during which UK companies providing services at the EU territory had to adapt taking into account the fact that from the beginning of 2021 they would become third country companies in relation to EU Member States. Hanfa cooperated with regulators from the UK in connection with service providers from the UK and Gibraltar who had provided their services directly on the basis of the so-called passport on the territory of Croatia before Brexit.

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

In 2020, Hanfa successfully completed the implementation of three projects approved and financed by the European Commission under the SRSP programme. The project "Integration and improvement of risk-based supervision" achieved the goal of improving risk-based supervision at cross-sectoral and systemic level, it improved the efficiency of the entire supervisory process and strengthened Hanfa's capacities in conducting supervision. The project "The improvement of risk-based supervision for the insurance sector" was successfully implemented. This project is a kind of complement to the previous project with a particular focus on more efficient use of existing supervisory tools, as well as on the introduction of new tools in the field of supervision of insurance companies. The project "Establishing supervision of issuers' financial statements" was also successfully completed. This project provided Hanfa with technical assistance in the implementation of supervision of issuers' financial statements, insight into various practices

of European supervisory authorities and employee training.

Through the SRSP programme, Hanfa was given approval for a project related to education of national European regulators in the field of insurance on the subject of supervision and Solvency II. The project will be implemented by EIOPA in cooperation with the European Commission and its implementation is expected to start in 2021. In addition, Hanfa continued to draft project proposals for which there is a possibility of applying for technical assistance from the EU, so in 2020 Hanfa and the CNB jointly applied with the project “The improvement of risk-based supervision of anti-money laundering and terrorist financing”. The project was approved by the European Commission under the Technical Assistance Instrument (TAI) and its implementation is expected to start in 2021.

SRSP AND TSI

SSRP is the EU Structural Reform Support programme established by the European Commission for the 2017 - 2016 period. It supported, through technical assistance, Member States in building more effective institutions, stronger administrative frameworks and efficient public administrations. Regulation (EU) 2021/240 established the Technical Support Instrument (TSI) for the period from 2021 to 2027. The TSI builds on the SRSP and is based on experience in capacity building in Member States acquired under that programme. The objective of the TSI is to promote the economic, social and territorial cohesion of the EU by supporting Member States' efforts to implement reforms. Its implementation is coordinated by the Directorate-General for Structural Reform Support (DG REFORM) of the European Commission.

Hanfa's participation in the Croatian Presidency of the Council of the EU

Hanfa participated in the Croatian Presidency of the Council of the EU in the first half of 2020, supporting the Ministry of Finance by providing expert advice and participating in the management of processes related to legislative proposals within its competence. During the Croatian Presidency, these legislative regulations were in the process of negotiation between the European Parliament and the Council (so-called trilogues) or in the process of reaching a general approach of the Council, i.e. harmonising the positions of the Member States preceding the trilogue. Hanfa employees participated in the Presidency activities as chairs, deputy chairs and members of the working groups on individual legislative proposals, and two Hanfa employees were temporarily employed in the Permanent Representation of the Republic of Croatia to the EU, working on matters related to financial services.

Taking into account the particularly challenging circumstances of the presidency at the beginning of the pandemic, significant results were achieved in the area of non-banking financial services (within the Council's Financial Services Working Group). During the Croatian presidency, trilogues with the European Parliament commenced as regards the proposal for a Regulation on a framework for the recovery and resolution of central counterparties, after more than three years of inability to reach an agreement on the matter. The negotiations were successfully concluded under the Croatian presidency, a political agreement was reached and technical work on the case was almost completed. Central counterparties are essential for the stability of financial markets as they assume counterparty risk by intermediating between the seller and the buyer and by providing a guarantee that the transaction can be completed. These rules aim to provide national authorities with appropriate tools to manage crises and address situations where central counterparties may encounter difficulties due to significant market disruptions, which may result in failure to fulfil their core function. In the event of financial difficulties, this regulation creates preconditions for preserving key functions of central counterparties, and thus for preserving financial stability. This also contributes to preventing the occurrence of circumstances in which it would be necessary for taxpayers to bear the costs of central counterparties' resolution.

During the Croatian presidency, technical negotiations with the European Parliament regarding the Proposal for a Regulation of the European Parliament and of the Council on European Crowdfunding

Service Providers (ECSP) for Business were also successfully completed. A political agreement was already reached on this Regulation during the previous (Finnish) presidency. Given that this Regulation constitutes the first regulatory framework for crowdfunding at EU level, the harmonisation of certain technical aspects of the Regulation was particularly challenging. It regulates the operation of providers of lending-based, as well as equity based crowdfunding services. The so-called crowdfunding package, finalised during the Croatian presidency, included amendments to the Markets in Financial Instruments Directive (MIFID II)⁹⁰, which were necessary to avoid the application of double rules to investment firms and credit institutions licensed under the Capital Market Act, which will be allowed to provide crowdfunding services under the new Regulation.

Trilogues with the European Parliament also began regarding the amendments to the Directive relating to insurance against civil liability in respect of the use of motor vehicles (MID Directive)⁹¹, an exceptionally important piece of legislation to ensure the protection of injured parties in traffic accidents. During the Croatian presidency, progress was made in bringing the views of the Council and the European Parliament closer, but no political agreement was reached and negotiations continued after the Croatian presidency had ended.

In addition to supporting the Ministry of Finance, during the Presidency Hanfa also provided support to the Ministry of Justice in connection with the Proposal for a Regulation on the law applicable to the third-party effects of assignments of claims.

Hanfa employees were also involved in preparations of the Ministry of Finance for meetings of the Financial Services Committee of the Council of the EU and meetings of the Economic and Financial Affairs Council during the Croatian presidency.

8.4 Innovation Hub

During the year, almost 20 various entities interacted with Hanfa's Innovation Hub. Unlike the previous year, in 2020 all the entities addressing the Innovation Hub were those that did not provide financial services directly, i.e. various technology providers and start-ups. Inquiries were diverse, and related mostly to information regarding terms and conditions for the provision of regulated services and procedures under Hanfa's competence, presentation of products (with Hanfa's feedback), meetings, interviews, presentations, etc. For the purpose of encouraging active cooperation with various stakeholders, representatives of the Innovation Hub actively participated in ten conferences and panel discussions. This included taking part in events in cooperation with the academic community, technological and start-up conferences, but also cooperation with the European Commission Representation regarding the organisation of a public discussion on the Digital Finance Strategy / FinTech Action Plan. At the end of 2020, Hanfa organised an international panel discussion under the title "The EU regulatory framework for crypto assets and DLT pilot regime: A balancing act or a regulation that could stifle innovation?", attended by industry representatives from France, Austria, Switzerland and Poland. As before, Hanfa representatives participated in the work of international bodies' committees dedicated to financial innovation, such as the IAIS Fintech Forum, ESMA Financial Innovation Standing Committee and the European Forum for Innovation Facilitators, and during the year they joined the work of the IOSCO Financial Innovation Network. Within the framework of the above-mentioned IAIS Forum and IOSCO Network, Hanfa representatives participate in operational working groups that analyse the implementation of the Distributed Ledger Technology (DLT) in the financial industry.

90 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, OJ L 173

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



Judicial proceedings



9 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 lawsuits filed against any of its administrative acts. In line with its statutory powers, Hanfa, as an authorised plaintiff, brings indictments to the Zagreb Municipal Misdemeanour Court (as the court having territorial and substantive jurisdiction) and to the Financial Inspectorate of the Ministry of Finance of the Republic of Croatia. Hanfa's employees actively participate in the misdemeanour proceedings by attending hearings, making reports and taking all other actions falling within Hanfa's competence. Cases handled by Hanfa within the framework of its competence are subject to the provisions of the General Administrative Proceedings Act, unless otherwise provided by law. Hanfa, as a body governed by public law, conducts administrative proceedings in one instance; administrative proceedings can therefore be initiated against Hanfa's acts, in which Hanfa as a party participates actively. In accordance with criminal procedural regulations, Hanfa files criminal charges to the State Attorney's Office in the event of a criminal offence that is prosecuted ex officio.

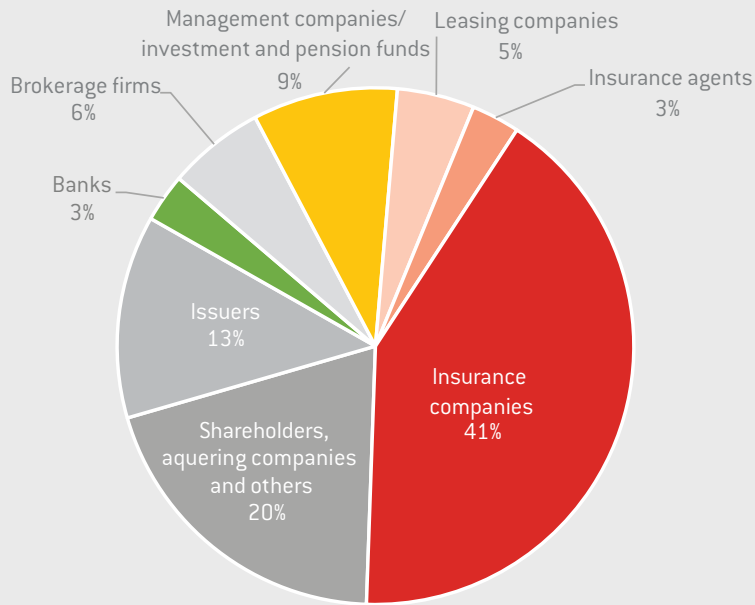
9.1 Misdemeanour proceedings

In 2020, Hanfa initiated two misdemeanour proceedings before the Municipal Misdemeanour Court in Zagreb. The proceedings resulted from consumer complaints relating to the insurance market following violations of the provisions of the Act on Compulsory Traffic Insurance⁹². The misdemeanours relate to the fact that perpetrators failed to submit to injured parties a reasoned offer or a reasoned reply to their insurance claim within the prescribed deadline, and to the fact that they failed to pay the amount of compensation or the uncontested part of the claim to the injured parties as an advance within the same deadline. In one of the procedures, a non-final judgement was passed finding the accused guilty and imposing fines on them. After the accused filed a complaint, the case was brought to the court of second instance. In the second procedure, a misdemeanour warrant was issued, also finding the accused guilty and imposing fines on them; however, the accused filed a complaint, thus continuing the proceedings.

Since its establishment on 1 January 2006 until 31 December 2020, Hanfa brought a total of 496 indictments serving as a basis for initiating misdemeanour proceedings.

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

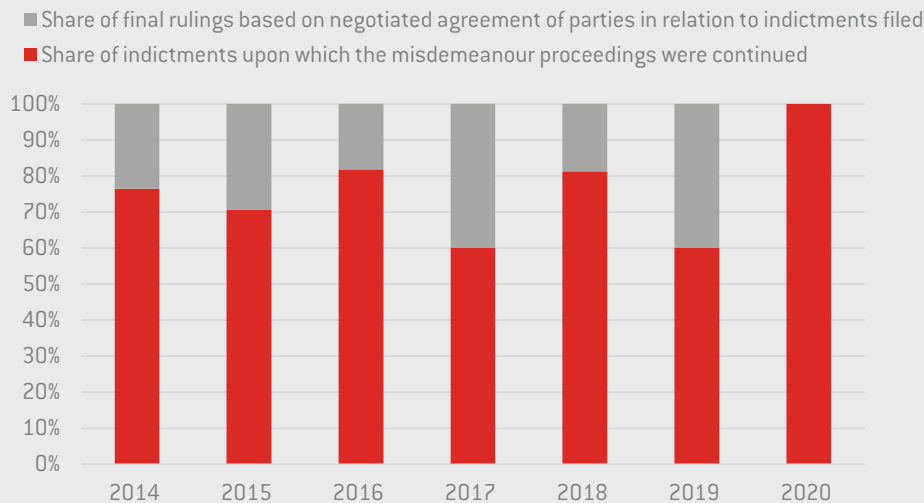
Figure 9.1.1 Misdemeanour proceedings by supervised entities in the period from 2006 to end-2020 (in %)



Source: Hanfa

The Misdemeanour Act93 provides for the possibility for the authorised plaintiff and defendant to negotiate terms and conditions for the admission of guilt and to agree on the type and amount of the sanction. The general tendency towards alternative dispute resolutions resulted in 26 final convictions in the period between 2014 and 2020.

Figure 9.1.2 Share of final rulings based on negotiated agreements in relation to indictments filed in the period from 2014 to 2020 (in %)



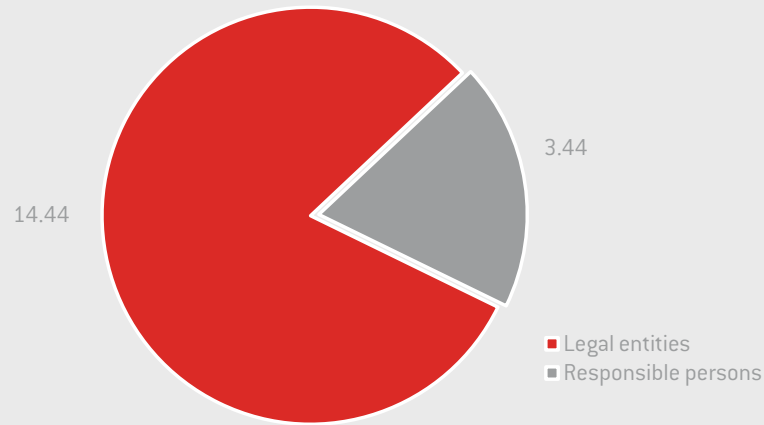
Note: Final rulings based on negotiated agreements for the year 2016 include an agreement concluded and confirmed that year, for which the indictment was filed in 2012, before negotiation between an authorised plaintiff and a defendant was provided for by the Misdemeanour Act.

Source: Hanfa

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

Between 2006 and 2020, based on Hanfa's indictments, competent courts and the Financial Inspectorate imposed fines within the framework of finalised misdemeanour proceedings in the amount of HRK 17.9m, which on average amounts to HRK 1.2m annually. Fines collected under final decisions are part of the revenue of the state budget. Hanfa is not authorised to initiate or carry out proceedings for the enforcement of final decisions. In accordance with provisions of the Misdemeanour Act, such proceedings are conducted by competent authorities at the request of the court or another competent authority which issued the decision, unless the court itself executes its decision.

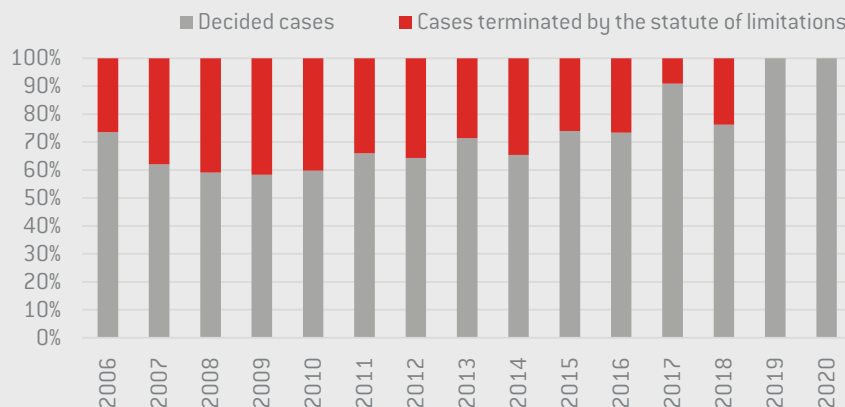
Figure 9.1.3 Amount of fines imposed per defendant for the 2006 – 2020 period (in HRK million)



Source: Hanfa

All relevant EU regulations governing the financial market that are part of the Croatian legal system lay continuous emphasis on the need for sanctions for violations relating to this area to be effective, proportionate and dissuasive. Such requests correlate with the general prevention, contained in provisions of the Misdemeanour Act, which aims to prevent other financial market participants from committing misdemeanours in future, for the purpose of promoting and preserving the stability of the financial system. It is therefore extremely important for prosecution in misdemeanour proceedings initiated by Hanfa not to become statute-barred, which occurred in past in a series of cases due to the slowness and inactivity of courts.

Figure 9.1.4 Share of cases terminated by the statute of limitations

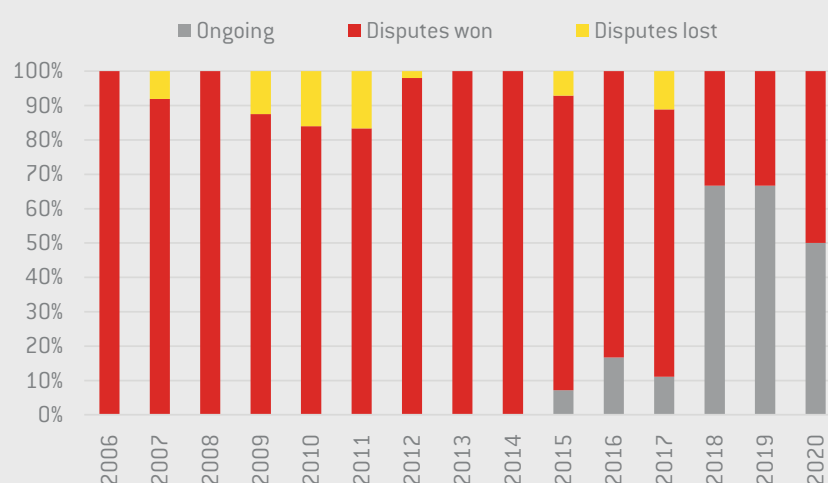


Source: Hanfa

9.2 Administrative disputes

Six administrative disputes were initiated against Hanfa's decisions by filing complaints with the Zagreb Administrative Court. Pursuant to the Administrative Disputes Act⁹⁴, Hanfa provided responses to the complaints and submitted to the court files requested. In proceedings initiated following these complaints and complaints filed in previous years, Hanfa's employees submitted reports and attended hearings before the Zagreb Administrative Court as the court with territorial jurisdiction in line with the plaintiff's residence. Out of the six administrative disputes, five were initiated against decisions relating to the insurance sector, while one dispute was initiated against a decision relating to the capital market. Three administrative disputes relating to the insurance sector were terminated by the adoption of a decision on the discontinuation of the proceedings as the plaintiffs withdrew their charges. The remaining proceedings are still underway.

Figure 9.2.1 Overview of outcomes of administrative proceedings by years in the 2006-2020 period (in %)



Source: Hanfa

9.3 Criminal charges

In 2020, Hanfa established that there were grounds for suspicion that criminal offences prosecuted by proposal had been committed, as a result of which a proposal was submitted to the State Attorney's Office to initiate criminal proceedings due to the criminal offence relating to the violation of secrecy of letters and other correspondence, described by and punishable pursuant to Article 142(1) of the Criminal Code⁹⁵.

Since its establishment on 1 January 2006 until 31 December 2020, Hanfa filed a total of 50 criminal charges to the State Attorney's Office.

9.4 Debt recovery actions

During 2020, a debtor became subject to insolvency proceedings, after which Hanfa, as a creditor, lodged its claim against the bankruptcy estate. Hanfa participates in three insolvency proceedings conducted

94 Official Gazette, No 20/10, 143/12, 152/14, 94/16, 29/17

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

before competent commercial courts in its capacity as a creditor for the purpose of recovering debts based on fees that supervised entities are obliged to pay to Hanfa. Civil procedures initiated against supervised entities were suspended due to the emergence of legal consequences of the initiation of the insolvency proceedings in accordance with the Insolvency Act⁹⁶ and Civil Procedure Act⁹⁷. The insolvency proceedings are still underway.

96 Official Gazette, No 71/15, 104/17

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



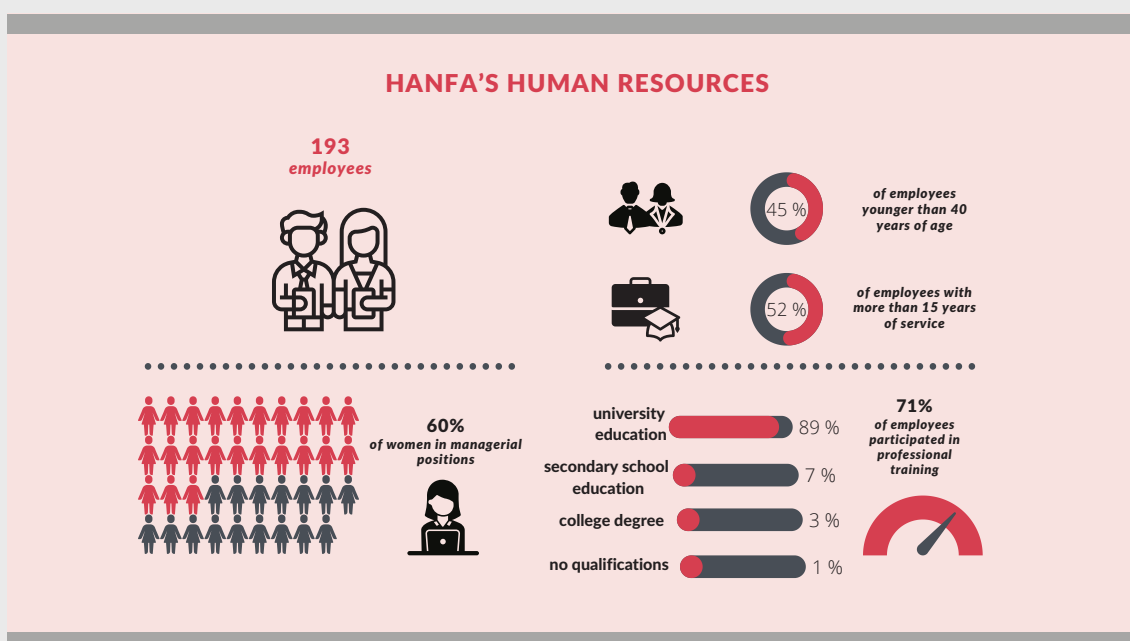
Hanfa's business operations



10 Hanfa's business operations

Human resources management is based on the development and on-going improvement of human resources functions aimed at the employment, professional development and retainment of employees who will contribute to the achievement of Hanfa's goals in accordance with its underlying principles by providing high quality and effective work. Development of the employees' competences and their progress in all aspects are its main priorities. Hanfa therefore continuously invests in professional training of its employees, which comprises seminars, certified educational programmes, postgraduate specialist and doctoral studies, etc. 2020 was an extremely challenging year considering the epidemiological situation and remote work, which was necessary due to such situation, and highly demanding from the aspect of HR management. Organisational changes carried out during the year adjusted therefore Hanfa's business operations to the current needs and circumstances.

10.1 Internal structure and human resources



Hanfa is governed by the Board, which consists of the President, Deputy President and three members. Since their appointment by the Croatian Parliament at the proposal of the Government of the Republic of Croatia at the beginning of 2018, the following has been the composition of Hanfa's Board: Ante Žigman, (President), Tomislav Ridzak, Antun Palarić, Ilijana Jeleč and Jurica Jednačak (members). Members of the Board rotate in the position of deputy president every 18 months.

At its meetings, the Board issues decision falling within Hanfa's scope of activity and competence. Decisions of the Board are taken by a majority of three votes, where the President and members of the Board may not abstain from voting. A total of 779 decisions were issued at 53 meetings held during 2020.

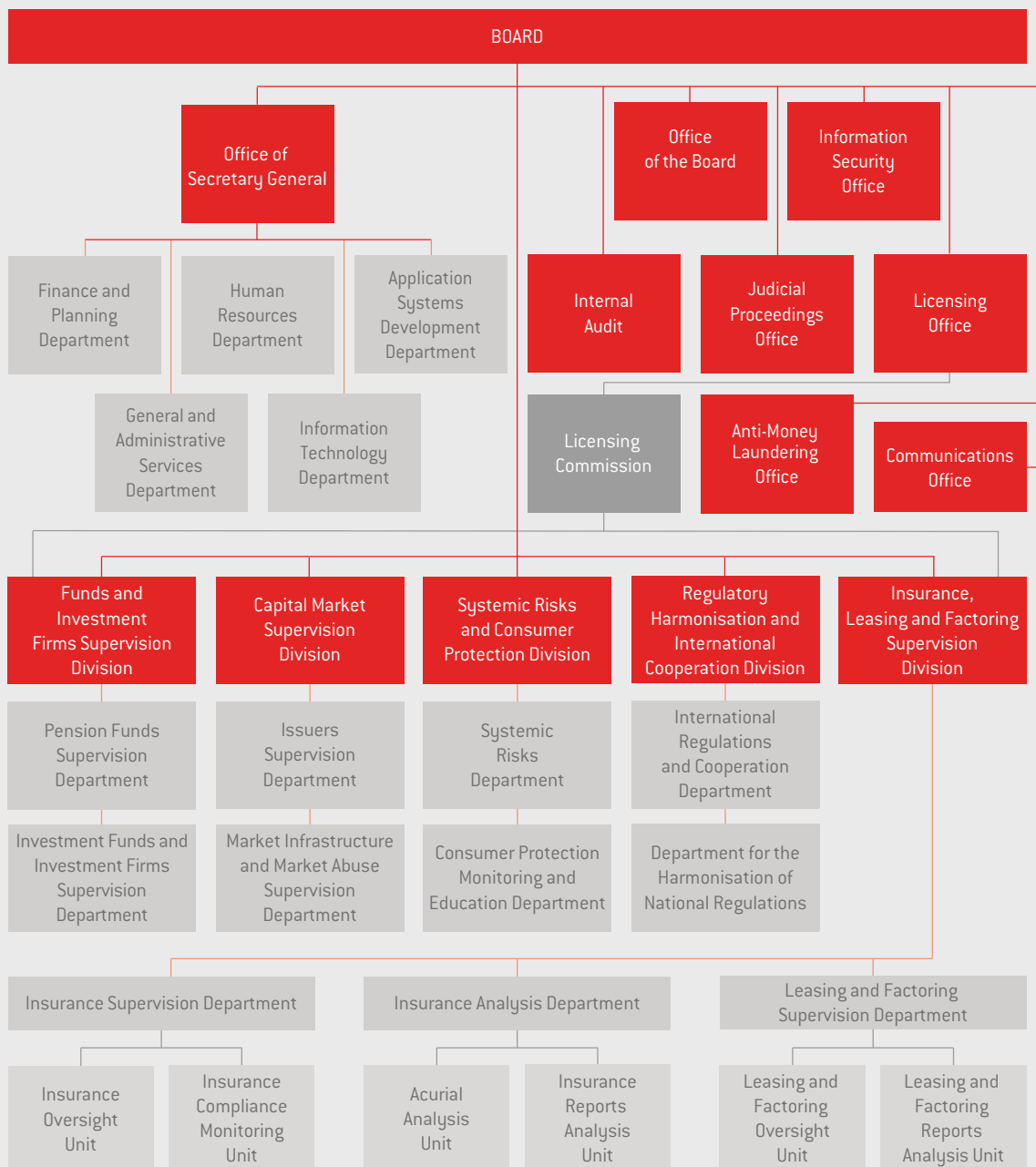
Hanfa's Council is its advisory body, consisting of nine members. Three of them are appointed by the Government of the Republic of Croatia, five by representatives of supervised entities' associations at the Croatian Chamber of Economy, whereas the President of the Board of Hanfa is a member of the Council by virtue of his office. The role of the Council is to provide opinions and expert and scientific advice for the

purpose of developing supervisory practice. In 2020, the following were members of Hanfa’s Council: Ante Žigman, Damir Vandelić, Kristijan Buk, Ivana Gažić, Josip Glavaš, Marko Juranić, Ivana Ravlić Ivanović, Ivana Žepić and Novka Simić. Last year, the Council held three meetings: on 10 June, 28 September and 30 November.

Hanfa’s Office of the Secretary General, that falls under direct authority of the Board, is in charge of ensuring Hanfa’s regular operations in the area of general and administrative services, finances, human resources and IT and application systems. Hanfa’s Secretary General is Vesna Kadić.

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

Figure 10.1.1 Hanfa’s internal structure

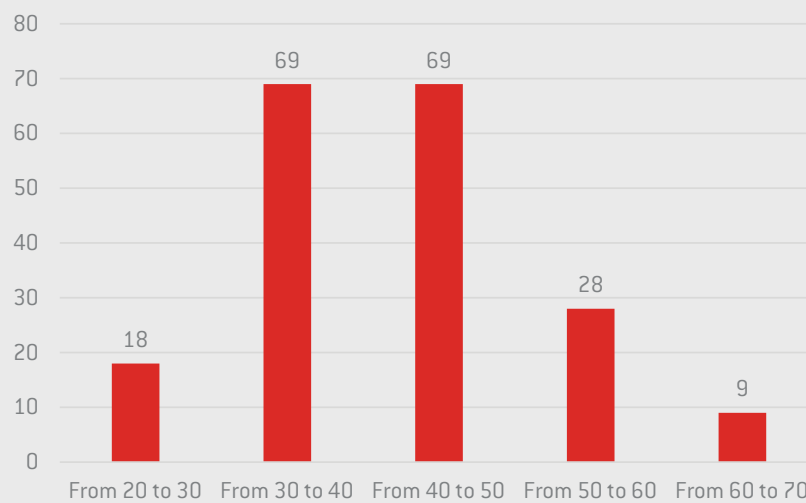


At the beginning of 2020, Hanfa carried out a partial structural reorganisation for the purpose of improving some of its functions. The Insurance Analysis Departments was established within the Insurance, Leasing and Factoring Supervision Division, while two units were established in each of its three departments. The Application Systems Development Department was established within the Office of the Secretary General. Two entirely new offices were established, namely the Communication Office and Anti-Money Laundering Office.

At the end of 2020, Hanfa had 193 employees, three of whom were fixed-term employees. In accordance with the previous slow-growing trend in the number of employees, in 2020 this number rose by 6 or 3%.

A larger share of female employees in managerial positions is in line with their larger share in the total number of employees, which points to the fact that Hanfa provides equal opportunities for women and men as regards leadership positions.

Figure 10.1.2 Number of employees by age



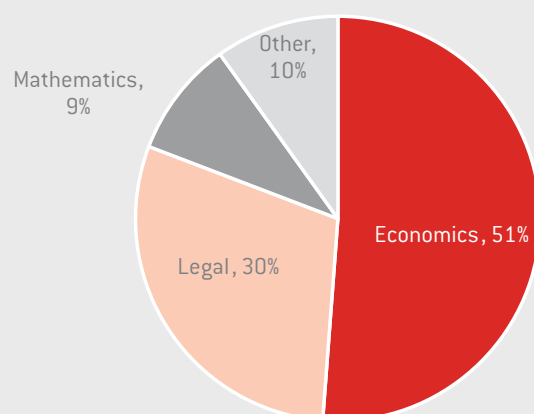
Source: Hanfa

As at 31 December 2020, the average age of Hanfa's employees was 42, while 45% of them were younger than 40 years of age. A total of 12% of the employees had up to 5 years of service, 36% of them had between 5 and 15 years of service, while 52% of them had more than 15 years of service. Such distribution of employee experience ensures a high level of accumulated knowledge and skills, as well as a gradual transfer of knowledge from more experienced to less experienced employees, which contributes to ensuring business continuity. The average length of service amounted to 16.2 years.

In 2020, Hanfa's employees received professional training mostly in the area of economics, law, IT and managerial skills. Each employee underwent two trainings on average, while 71% of the employees participated in at least one educational programme.



Figure 10.1.3 The most common professions of employees with a university degree



Source: Hanfa

10.2 Internal audit

Internal audit is carried out according to a plan drawn up on the basis of the requirements of the financial management and control system and the requirements arising from Hanfa's business operations, in accordance with the importance of business processes, risks and other parameters. In 2020, the Internal Audit Office carried out internal audits in the area relating to the off-site and on-site supervision of leasing and factoring companies, licensing activities, processes related to the administrative supervisory procedure, travel order processing, and compliance with the General Data Protection Regulation⁹⁸. Recommendations given by the internal audit contribute to improving the quality of business processes and increasing business efficiency.

10.3 Information security at Hanfa

In 2020, Hanfa, as an authority in charge of the financial market infrastructure, carried out an examination of cybersecurity measures taken by operators of trading venue essential services in accordance with the Act on Cybersecurity of Operators of Essential Services and Digital Service Providers. During the year, Hanfa took all the measures needed for the protection of its information system from cyber attacks. Measures for protecting classified information processed at Hanfa are taken pursuant to the Information Security Act⁹⁹. Hanfa also implements measures for protecting personal data which Hanfa processes pursuant to its legal obligations. The Information Security Office participated, together with the Insurance, Leasing and Factoring Supervision Division, in the on-site supervision of supervised entities' information system quality, cooperating with other organisational units in the fulfilment of Hanfa's obligations to European regulatory agencies. The Office also took part in the twinning project aimed at increasing the competence of the Montenegrin regulator, in the area covering the supervision of information system quality.

98 OJ L 119, 25. 5. 2018

99 Official Gazette, No 79/07

10.4 Hanfa's information systems

Given the escalation of the pandemic and the earthquake that struck Zagreb and its surroundings, 2020 brought a series of challenges that needed to be responded to by ensuring an adequate system support and software solutions. The main task was to ensure business continuity and enable remote work for Hanfa's employees. Changes needed to be introduced both to client equipment and network infrastructure, mobile devices, as well as remote support. The employees were enabled to work from home for the purpose of preventing the spread of the pandemic, responding to challenges and adjusting to the new circumstances.

In order to support new work patterns, teleconferencing and videoconferencing tools were introduced into the standard business environment. A higher data transfer rate was agreed within the framework of internet connection service procurement in order to ensure Hanfa's smooth operation, that generated heavier internet traffic due to the implications of the pandemic and remote access. All the employees that had lacked a laptop computer received one, and gained access to remote user support. In the period to come, Hanfa plans to further facilitate remote working for its employees, by ensuring their communication via mobile phones, and to increase security to an even higher level, which responds to challenges caused by remote working.

A new web page "novaczasutra.hr" was launched by Hanfa during the year, for the purpose of increasing the level of financial literacy of Croatian citizens.

In order to improve the quality of work of its employees, Hanfa completed the upgrading of the electronic content management system and of the office administration management system. In response to the outbreak of the pandemic, it also further upgraded the system for monitoring continuous training of insurance companies' employees who conduct insurance distribution business for insurance companies and of intermediaries entered in Hanfa's register.

The operation of the Information Technology Department underwent a reform, with the Application Systems Development Department having been established as a separate unit. The work of the IT departments was still governed by regular IT committee meetings, where completed, active and planned activities were revised on a periodic basis, and new priorities and requirements were defined where needed.

10.5 Hanfa's financial operations

Hanfa's accounting and financial operations are subject to the provisions of the Act on Financial Operations and Accounting of Non-Profit Organizations¹⁰⁰ and the provisions of subordinate regulations adopted under this Act.

As at 31 December 2020, Hanfa's total assets amounted to HRK 30.9m.

Table 10.5.1 Hanfa's abbreviated balance sheet as at 31/12/2020 (in HRK thousand)

ASSETS	30,920	Share in assets
Non-financial assets	8,407	27.2%
Financial assets	22,513	72.8%
LIABILITIES	30,920	Share in liabilities
Liabilities	8,398	27.2%
Own sources	22,522	72.8%

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

Source: Hanfa

100 Official Gazette, No. 121/14

In 2020, pursuant to Article 20 of the Act amending the Act on the Croatian Financial Services Supervisory Agency¹⁰¹, Hanfa financed its activities from fees from assets and income of supervised entities and fees for services provided. The calculation and amount of fees and the manner of charging fees from assets and income of supervised entities charged by Hanfa in 2020 are defined by the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency in 2020¹⁰², while the type and amount of fees for the provision of services falling within Hanfa's competence in 2020 are defined by the Ordinance on the type and amount of fees paid to the Croatian Financial Services Supervisory Agency¹⁰³. Total income in 2020 amounted to HRK 77.5m, while total expenses amounted to HRK 74.7m.

Income

Out of the total income generated in 2020, HRK 76.3m or 98.3% was accounted for by income received under special regulations, comprising income generated from fees from assets and income of supervised entities, fees for the provision of services falling within Hanfa's competence and other income under special regulations. Income from assets, income from donations and other income totalled HRK 1.2m, accounting for 1.7% of total income.

Table 10.5.2 Summary of income realised in 2020 (in HRK thousand)

Income type	77,553
Income received under special regulations	76,260
<i>Income generated under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2020</i>	72,500
<i>Income generated under Ordinance on the type and amount of fees paid to Hanfa</i>	3,633
<i>Other income received under special regulations</i>	127
Income from assets	8
Income from donations	256
Other income	1,029

Source: Hanfa

As in the previous years, the largest part of income generated under special regulations (95.1%) in 2020 consisted of income received under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2020, while 4.8% of income was received under the provisions of the Ordinance on the type and amount of fees paid to Hanfa. Other income received under special regulations accounted for 0.1%. The income structure is shown in Table 10.5.3.

Table 10.5.3 Income from fees in 2020 (in HRK thousand)

Income generated under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2020	Amount (in HRK thousand)	Share in total income (in %)
Income from pension companies	42,200	58.2%
Income from insurance companies and reinsurance companies	9,069	12.5%
Income from investment fund management companies	7,785	10.7%
Income from investment firms	4,633	6.4%
Income from leasing companies	4,569	6.3%
Income from the Central Depository and Clearing Company	1,483	2.0%

101 Official Gazette, No. 12/12

102 Official Gazette, No. 2/20

103 Official Gazette, No. 26/19

Income generated under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2020	Amount (in HRK thousand)	Share in total income (in %)
Income from issuers	1,018	1.4%
Income from insurance distributors and reinsurance distributors	644	0.9%
Income from the Zagreb Stock Exchange	418	0.6%
Income from companies managing funds established under special regulations	259	0.4%
Income from pension insurance companies	238	0.3%
Income from factoring companies	184	0.3%
Total	72,500	100.0%
Income generated under Ordinance on the type and amount of fees paid to Hanfa	Amount (in HRK thousand)	Share in total income (in %)
Income generated under the Insurance Act	1,393	38.3%
Income generated under the Capital Market Act	443	12.2%
Income generated under the Act on Open-Ended Investment Funds with Public Offering	436	12.0%
Income generated under the Act on the Takeover of Joint-Stock Companies	310	8.5%
Income generated under the Alternative Investment Funds Act	254	7.0%
Income generated under the Leasing Act	227	6.2%
Income from the maintenance of the Register of Leased Assets	153	4.2%
Income from fees charged for the training organised for brokers, investment advisers, certified pension fund managers, certified pension insurance company managers	105	2.9%
Income generated under the Act on Pension Insurance Companies	93	2.6%
Income generated under the Mandatory Pension Funds Act	84	2.3%
Income generated under the Factoring Act	78	2.1%
Income generated under the Act on Hanfa (issuance of opinions and copies)	52	1.4%
Income generated under the Act implementing EMIR	5	0.1%
Total	3,633	100.0%

Source: Hanfa

The largest share in income from supervised entities was accounted for by income from pension fund management companies, which amounted to HRK 42.2m, increasing by HRK 3.6m (9.4%) compared to 2019.

The largest part of income from services provided was generated by Hanfa under provisions of the Insurance Act, based on the examination of professional knowledge and the issuance of authorisations and licenses for insurance and reinsurance distribution business.

Total generation of income relative to Hanfa's 2020 Financial Plan amounted to 98.4%. Income under special regulations was lower in comparison with the Plan by HRK 1.6m, primarily due to the fact that certain supervised entities were exempt from paying the fee for 2020. Income from assets and other income exceeded the planned amount by HRK 393 thousand (due to larger income from refunds, fees generated within twinning projects Hanfa participated in, and larger income from positive exchange rate differences), while income from donations was generated in a 100% amount. Total income rose by 2.5% compared to 2019.

Expenditure

The largest share (65.2%) in the expenditure generated in 2020 was made up of employee expenses, which amounted to HRK 48.7m, increasing by HRK 6.3m or 14.8% compared to 2019. The increase in employee expenses resulted from the increased number of employees, the increase in the basis for cal-

culating salaries, and the secondment of employees to the Permanent Representation of the Republic of Croatia to the EU for the purpose of activities connected with the Croatian Presidency of the Council of the EU.

Material expenses made up 29% of total expenditure, decreasing by HRK 524 thousand (2.4%) relative to 2019. This decrease was due to the epidemiological situation caused by the coronavirus pandemic, as a result of which some activities were cancelled and/or postponed.

In 2020, Hanfa continued with the marking of the World Consumer Rights Day, within the framework of which it donated a smart bench to a school selected in a prize competition titled "How to Become a Green Consumer". In addition, in 2020, it continued giving student scholarships. These expenses are included in the donations group.

Table 10.5.4 Summary of expenditure realised in 2020 (in HRK thousand)

Expenditure type	74,697
Employee expenses	48,698
Material expenditure	21,635
<i>Costs for employees</i>	1,934
<i>Costs for external staff</i>	276
<i>Expenditure on services</i>	10,762
<i>Expenses on materials and energy</i>	1,851
<i>Other material expenditure</i>	6,812
Depreciation expenditure	3,053
Financial expenditure	91
Donations	157
Other expenses	1,063

Source: Hanfa

In comparison with Hanfa's 2020 Financial Plan, the expenditure realised last year was lower by HRK 3.7m or 4.7%. The largest savings were made on material expenses, due to the cancellation of meetings, business trips and events related to the Croatian Presidency of the Council of the EU, caused by the epidemiological situation. Certain planned fixed-term asset acquisitions were postponed or cancelled for the same reason, which resulted in a decrease in depreciation costs.

In 2020, Hanfa recorded surplus income over expenditure in the amount of HRK 2.9 m, which was transferred into the state budget of the Republic of Croatia on 9 March 2021, pursuant to the provisions of the Act amending the Act on the Croatian Financial Services Supervisory Agency.

On the basis of a self-assessment of the financial management and control system, carried out pursuant to the Fiscal Responsibility Act¹⁰⁴, in 2020, Hanfa prepared the 2019 Statement of Fiscal Responsibility. The self-assessment carried out in line with the prescribed criteria did not detect any deficiencies and/or irregularities in the system. The Statement, which confirmed a legitimate, intended and purposeful use of resources and effective and efficient functioning of the financial management and control system, within the financial limits determined by the financial plan, was delivered to the Croatian Parliament.

In accordance with the Act on Financial Operations and Accounting of Non-Profit Organisations, an external audit of Hanfa's 2020 financial statements was carried out, and the Independent Auditor's Report was published on Hanfa's website.

¹⁰⁴ Official Gazette, No. 111/18



Statistical overview of industries



11 Statistical overview of industries

Investment funds

Open-ended investment funds with public offering

Investment funds – UCITS						
	2015	2016	2017	2018	2019	2020
Number of funds	82	88	92	93	96	96
Net assets of funds, in HRK thousand	13,857,695	18,440,776	18,499,606	19,117,203	22,577,123	18,216,156

Issuance and redemption of units in UCITS, in HRK thousand						
	2015	2016	2017	2018	2019	2020
Issuance of units	23,669,357	22,139,754	18,108,512	11,496,927	11,498,262	8,830,386
Redemption of units	22,947,028	17,930,220	18,219,022	10,811,532	9,486,498	13,742,012

Asset structure of equity UCITS per asset type, in HRK thousand						
	2015	2016	2017	2018	2019	2020
Cash	117,648	188,563	187,921	155,063	191,965	160,011
Shares	1,445,965	1,568,137	1,640,305	1,356,601	1,513,730	1,402,870
Bonds	6,044	11,801	20,305	26,685	29,050	27,560
IFs	52,792	36,828	58,850	61,403	79,575	75,361
MMIs	–	–	–	–	–	–
Deposits	7,193	6,697	2,732	3,205	1,363	10,002

Asset structure of balanced UCITS per asset type, in HRK thousand						
	2015	2016	2017	2018	2019	2020
Cash	30,529	114,196	70,187	94,989	170,954	132,900
Shares	274,640	254,959	309,063	257,702	221,032	246,464
Bonds	342,711	301,746	379,825	390,711	438,988	432,432
IFs	126,465	117,048	127,699	113,786	146,212	154,773
MMIs	17,402	26,238	–	–	–	–
Deposits	15,843	49,514	7,664	27,948	15,459	–

Asset structure of bond UCITS per asset type, in HRK thousand						
	2015	2016	2017	2018	2019	2020
Cash	112,486	802,896	829,976	991,665	2,232,505	2,292,276
Shares	–	–	–	–	–	13,128
Bonds	1,276,443	3,020,783	4,982,146	7,491,015	14,408,996	10,600,488
IFs	11,007	22,021	53,664	37,221	87,145	113,888
MMIs	31,125	342,403	458,012	474,855	692,834	119,118
Deposits	45,610	110,150	80,003	291,476	1,797,672	1,569,641

Asset structure of money market UCITS per asset type, in HRK thousand						
	2015	2016	2017	2018	2019	2020
Cash	685,228	1,250,622	1,144,437	1,561,461	1,486	–
Shares	3	–	–	–	–	–
Bonds	1,073,291	2,552,431	1,173,673	1,949,331	–	–
IFs	33,253	41,214	49,792	21,411	–	–
MMIs	3,258,507	4,405,600	3,586,937	1,466,158	–	–
Deposits	4,296,871	3,706,160	2,800,701	2,421,975	6,600	–

Asset structure of other UCITS per asset type, in HRK thousand						
	2015	2016	2017	2018	2019	2020
Cash	62,300	54,533	92,020	39,281	173,691	159,567
Shares	7,841	26,649	46,346	17,670	50,558	81,401
Bonds	268,953	303,960	402,083	568,729	611,887	680,927
IFs	159,801	161,661	201,057	189,580	402,438	331,781
MMIs	101,884	56,603	–	–	–	200
Deposits	87,097	36,226	41,715	67,835	133,383	124,349

Asset structure of feeder UCITS per asset type, in HRK thousand						
	2015	2016	2017	2018	2019	2020
Cash				2,159	764	3,745
Shares				–	–	–
Bonds				–	–	–
IFs				17,312	14,476	111,062
MMIs				–	–	–
Deposits				–	–	–

Alternative investment funds – AIF

Investment funds – AIF						
	2015	2016	2017	2018	2019	2020
Number of funds	28	29	38	34	36	38
Net assets of funds, in HRK thousand	2,891,069	3,235,912	3,486,817	3,588,528	4,474,656	4,709,564

Investment firms

Investment firms						
	2015	2016	2017	2018	2019	2020
Number of firms	8	8	7	7	7	6
Portfolio management, in HRK thousand	32,236	30,158	29,169	27,934	28,524	26,312
Custody of financial instruments, in HRK thousand	412,357	646,154	691,026	677,305	952,431	1,822,577

Pension funds

Mandatory pension funds

Mandatory pension funds						
	2015	2016	2017	2018	2019	2020
Number of funds	12	12	12	12	12	12
Number of fund members	1,731,181	1,784,169	1,844,272	1,936,261	2,010,403	2,057,391
Category A	5,094	5,369	5,874	6,273	25,453	83,448
Category B	1,707,104	1,755,823	1,810,704	1,896,361	1,948,510	1,925,328
Category C	18,983	22,977	27,694	33,627	36,440	48,615
Net assets of funds, in HRK thousand	74,004,667	84,179,365	91,924,545	98,126,194	112,598,105	119,068,058
Total contributions (HRK thousand)	56,009,813	61,348,342	67,011,806	73,191,233	79,885,879	86,715,548
Total payments (HRK thousand)	-6,000,282	-6,522,907	-7,143,223	-8,143,581	-9,280,324	-10,788,978

Mirex values						
	2015	2016	2017	2018	2019	2020
Mirex A	114	128	133	135	152	153
Mirex B	218	234	241	243	265	268
Mirex C	110	118	125	129	136	138

Asset structure of category A MPFs per asset type, in HRK thousand						
	2015	2016	2017	2018	2019	2020
Cash	6,469	19,273	31,596	33,699	15,702	35,296
Shares	150,211	221,299	214,033	222,283	305,045	363,879
Bonds	223,241	255,773	308,956	332,626	411,578	417,817
IFs	35,435	11,901	37,767	54,301	97,084	139,857
MMIs	-	-	-	-	-	-
Deposits	7,200	-	307	13,000	5,000	26,801

Asset structure of category B MPFs per asset type, in HRK thousand						
	2015	2016	2017	2018	2019	2020
Cash	562,110	1,792,551	2,040,812	3,095,922	820,503	2,030,600
Shares	13,875,977	16,223,498	15,177,046	15,500,483	19,555,589	21,647,924
Bonds	52,801,140	58,741,529	64,105,360	65,269,705	74,555,257	74,374,498
IFs	4,398,076	3,442,194	5,252,268	6,040,680	8,582,871	9,554,559
MMIs	-	-	199,512	1,249,715	1,405,660	1,764,742
Deposits	668,049	616,071	1,195,812	1,811,324	1,165,028	1,622,544

Asset structure of category C MPFs per asset type, in HRK thousand						
	2015	2016	2017	2018	2019	2020
Cash	15,168	73,052	128,031	184,826	85,683	264,893
Shares	-	-	-	-	-	-
Bonds	2,177,674	2,896,107	3,809,899	4,388,270	5,499,820	6,394,115
IFs	3,004	46,266	-	69,079	33,321	134,428
MMIs	44,553	44,739	-	39,996	55,973	79,956
Deposits	42,051	-	30,467	169,001	-	397,005

Open-ended voluntary pension funds

Open-ended voluntary pension funds						
	2015	2016	2017	2018	2019	2020
Number of funds	6	6	8	8	8	8
Number of fund members	236,975	257,075	285,822	305,145	320,533	335,327
Net assets of funds, in HRK thousand	3,044,842	3,548,401	3,895,569	4,231,346	5,119,466	5,542,772
Total contributions during the year (HRK thousand)	386,781	464,138	548,789	624,305	727,137	718,688
Total payments during the year (HRK thousand)	-144,457	-144,677	-202,942	-250,782	-243,343	-247,513

Annual returns of OVPFs						
	2015	2016	2017	2018	2019	2020
AZ Benefit OVPF	5.04%	7.65%	3.80%	-0.07%	6.56%	-0.44%
AZ Profit OVPF	6.65%	5.13%	-3.37%	-2.53%	10.45%	-1.26%
Croatia osiguranje OVPF	2.07%	5.56%	2.10%	-1.52%	12.20%	0.39%
Croatia osiguranje 1000 A OVPF				5.23%	13.76%	0.82%
Croatia osiguranje 1000 C OVPF				2.45%	5.37%	1.76%
Erste Plavi Expert OVPF	6.88%	11.13%	4.31%	-2.09%	12.60%	-3.00%
Erste Plavi Protect OVPF	3.85%	6.62%	3.51%	5.40%	6.85%	0.42%
Raiffeisen OVPF	6.53%	6.68%	3.19%	1.61%	8.86%	-1.04%

Asset structure of OVPFs per asset type, in HRK thousand						
	2015	2016	2017	2018	2019	2020
Cash	126,693	420,911	236,344	401,078	318,790	423,805
Shares	751,869	951,369	877,886	910,732	1,216,157	1,319,016
Bonds	2,070,334	2,134,504	2,537,236	2,675,416	3,177,205	3,331,395
IFs	108,372	93,483	249,754	264,014	427,111	472,074
MMIs	-	-	-	-	-	-
Deposits	36,507	-	13,529	-	12,800	14,000

Closed-ended voluntary pension funds

Closed-ended voluntary pension funds						
	2015	2016	2017	2018	2019	2020
Number of funds	17	18	19	21	20	20
Number of fund members	28,778	29,237	30,387	40,482	44,569	45,228
Net assets of funds, in HRK thousand	681,211	777,088	849,556	908,054	1,101,694	1,198,075
Total contributions during the year (HRK thousand)	103,227	86,534	93,986	124,961	154,667	132,290
Total payments during the year (HRK thousand)	-36,886	-32,829	-34,480	-56,864	-37,454	-39,524

Asset structure of CVPFs per asset type, in HRK thousand						
	2015	2016	2017	2018	2019	2020
Cash	55,289	76,726	60,718	108,159	66,942	82,249
Shares	161,383	193,757	193,817	212,670	280,586	298,919
Bonds	434,434	456,569	534,282	533,800	635,612	641,920
IFs	29,271	42,667	60,449	58,831	117,674	199,950
MMIs	-	-	-	-	-	-
Deposits	2,650	-	2,041	-	4,260	-

Insurance companies

Insurance						
	2015	2016	2017	2018	2019	2020
Number of insurance and reinsurance companies	24	22	20	18	16	15
Gross written premiums, in HRK thousand	8,694,393	8,672,628	9,062,401	9,862,029	10,487,755	10,481,574
Claims settled, gross amounts, in HRK thousand	4,588,383	4,723,352	5,106,300	5,553,116	5,976,279	6,548,767

Gross written premium by insurance classes

in HRK thousand						
Code	Insurance class	2019	Share (%)	2020	Share (%)	Change (%)
01	Personal accident insurance	499,145	5	512,008	5	3
02	Health insurance	605,981	6	634,270	6	5
03	Insurance of land motor vehicles	1,244,009	12	1,304,833	12	5
04	Insurance of railway rolling stock	1,938	0	2,440	0	26
05	Insurance of aircraft	9,507	0	11,574	0	22
06	Insurance of vessels	158,864	2	171,075	2	8
07	Insurance of goods in transit	33,190	0	33,971	0	2
08	Insurance against fire and natural disasters	683,373	7	727,985	7	7
09	Other property insurance lines	768,496	7	824,665	8	7
10	Motor vehicle liability insurance	2,260,025	22	2,595,802	25	15
11	Aircraft liability insurance	4,003	0	4,494	0	12
12	Insurance against liability arising out of the use of vessels	37,966	0	37,667	0	-1
13	Other liability insurance lines	468,759	4	469,573	4	0
14	Credit insurance	383,123	4	255,817	2	-33
15	Suretyship insurance	11,536	0	13,810	0	20
16	Insurance against miscellaneous financial losses	140,059	1	121,429	1	-13
17	Legal expenses insurance	5,096	0	5,252	0	3
18	Travel insurance	106,251	1	100,958	1	-5
19	Life insurance	2,498,094	24	2,211,940	21	-11
20	Annuity insurance	11,653	0	14,461	0	24
21	Supplementary insurance linked with life insurance	130,507	1	125,446	1	-4
22	Marriage and birth insurance	4,281	0	3,855	0	-10
23	Life or annuity insurance where the investment risk is borne by the policyholder	421,898	4	291,751	3	-31
24	Tontines	–	–	–	–	–
25	Insurance with paid-up sum assured	–	–	–	–	–
Total non-life insurance (classes 01 – 18)		7,421,322	71	7,827,624	75	5
Total life insurance (classes 19 – 25)		3,066,433	29	2,647,453	25	-14
Total (classes 01 – 25)		10,487,755	100	10,475,070	100	-0

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

Leasing companies

Leasing companies	31/12/2015	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020
Number of leasing companies	21	19	17	16	14	15
Assets of leasing companies, in HRK thousand	17,626,251	17,904,585	18,149,656	19,526,659	21,320,617	19,704,217
Number of newly concluded contracts (from 1 January to)						
Operating lease	17,798	19,428	22,388	20,483	14,853	10,392
Finance lease	18,565	25,256	30,696	41,223	50,600	30,033
TOTAL	36,363	44,684	53,084	61,706	65,453	40,425
Value of newly concluded contracts, in HRK thousand (from 1 January to)						
Operating lease	1,504,247	1,744,661	1,595,112	1,493,608	1,640,408	1,246,705
Finance lease	3,625,340	4,763,030	5,717,928	7,320,667	8,543,535	5,336,236
TOTAL	5,129,588	6,507,691	7,313,041	8,814,275	10,183,942	6,582,941
Number of active contracts						
Operating lease	50,998	46,979	44,486	43,426	43,399	39,582
Finance lease	60,112	65,466	76,057	90,457	106,438	106,679
Loans	1,210	755	238	205	25	24
TOTAL	112,320	113,200	120,781	134,088	149,862	146,285
Value of active contracts, in HRK thousand						
Operating lease	3,356,963	3,201,019	2,928,944	2,523,613	2,616,111	2,431,243
Finance lease	10,308,096	10,803,204	10,949,997	12,425,489	14,438,107	13,823,383
Loans	75,793	43,018	23,842	15,263	562	332
TOTAL	13,740,852	14,047,241	13,902,783	14,964,365	17,054,781	16,254,958

Factoring companies

Factoring companies	31/12/2015	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020
Number of factoring companies	13	13	6	7	6	4
Assets of factoring companies, in HRK thousand	6,587,220	5,900,059	2,352,743	1,397,891	1,363,017	323,957
Transaction volume, in HRK thousand (from 1 January to)						
Factoring			2,394,857	1,721,668	1,869,816	783,628
Factoring including discounting of bills of exchange			1,914,769	500,620	213,476	85,402
Reverse factoring			1,036,558	1,004,048	1,029,198	124,674
Total			5,346,184	3,226,337	3,112,490	993,704
Receivables (in HRK thousand)						
Factoring			720,577	394,346	452,151	115,984
Factoring including discounting of bills of exchange			1,383,402	258,730	62,972	24,427
Reverse factoring			414,747	388,689	369,925	41,347
Total			2,518,726	1,041,765	885,048	181,757

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



Appendices



12 Appendices

Appendix 1 List of ordinances adopted in 2020

Ordinances adopted under the Capital Market Act

1. Ordinance amending the Ordinance on issuing work authorisation to investment firms, market intermediaries, third-country branches, register of persons authorised to perform services and activities under the Capital Market Act and status changes of investment firms (Official Gazette, No 132/2020)
2. Ordinance on reporting breaches or suspected breaches of the provisions of Regulation (EU) No 1286/2014 (Official Gazette, No 132/2020)
3. Ordinance amending the Ordinance on regular contributions of members, manner of funds' disposal and financial statements of the Investor Protection Scheme (Official Gazette, No 132/2020)
4. Ordinance amending the Ordinance on the contents and structure of issuers' annual report and on the form and manner of its submission to the Croatian Financial Services Supervisory Agency (Official Gazette, No 132/2020)
5. Ordinance on annual reporting to Hanfa on compliance with the provisions of Regulation (EU) No 648/2012, compliance with the provisions of Commission Delegated Regulation (EU) 2017/592 when establishing when an activity is considered to be ancillary to the main business, and on the use of exemptions from the application of position limits in commodity derivatives and economically equivalent OTC contracts and exemptions from the application of Articles 8 and 28 of Regulation (EU) No 600/2014 (Official Gazette, No 115/2020)
6. Ordinance on the structure, content, manner and deadlines for the submission of reports in case of an exemption from the obligation to register dematerialised securities with the central depository or other register prescribed by a special Act (Official Gazette, No 106/2020)
7. Ordinance on the content of application and documentation for the authorisation to work in a stock exchange (Official Gazette, No 98/2020)
8. Ordinance on the minimum contents and form of the information document in case of an exemption from the obligation to publish a prospectus (Official Gazette, No 87/2020)
9. Ordinance on reporting pursuant to Regulation (EU) No 2016/1011 on indices used as benchmarks (Official Gazette, No 87/2020)
10. Ordinance on the form, content, deadlines and manner of submitting reports on transactions and trading in financial instruments executed on the regulated market managed by the stock exchange (Official Gazette, No 87/2020)
11. Ordinance on reporting possible or actual violations of the Regulation (EU) 2015/2365 (Official Gazette, No 84/2020)
12. Ordinance on issuing authorisations, organisational requirements and supervisory reports of data reporting services providers (Official Gazette, No 84/2020)
13. Ordinance on corporate governance related information that needs to be submitted by issuers to the Croatian Financial Services Supervisory Agency, and on the form, time limits and manner of its submission (Official Gazette, No 59/2020)

Ordinances adopted under the Alternative Investment Funds Act

1. Ordinance amending the Ordinance on exercising depositary functions with respect to AIFs (Official Gazette, No 139/2020)
2. Ordinance on the criteria for assessing requirements for membership of the management and supervisory board of an AIFM and for membership of the supervisory board of a closed-ended AIF with an external manager (Official Gazette, No 136/2020)
3. Ordinance on the issuance of authorisation to AIFMs (Official Gazette, No 136/2020)
4. Ordinance amending the Ordinance on units of AIFs (Official Gazette, No 132/2020)
5. Ordinance amending the Ordinance on the structure and contents of annual and semi-annual reports and other reports of alternative investment funds (Official Gazette, No 31/2020)
6. Ordinance amending the Ordinance on types of alternative investment funds (Official Gazette, No 15/2020)
7. Ordinance amending the Ordinance on master and feeder alternative investment funds (Official Gazette, No 28/15) 15/2020)
8. Ordinance amending the Ordinance on the structure and contents of annual and semi-annual reports and other reports of alternative investment funds (Official Gazette, No 98/2020)

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

1. Ordinance amending the Ordinance on exercising depositary functions with respect to UCITS (Official Gazette, No 139/2020)
2. Ordinance on fees charged by a management company to investors (Official Gazette, No 139/2020)
3. Ordinance on issuing authorisation to and on acquisition of qualifying holdings in UCITS management companies (Official Gazette, No 136/2020)
4. Ordinance on the criteria for assessing requirements for membership of the management and supervisory board of UCITS management companies (Official Gazette, No 136/2020)
5. Ordinance amending the Ordinance on the structure and contents of annual and semi-annual reports and other reports of UCITS (Official Gazette, No 98/2020)

Ordinances adopted under the Mandatory Pension Funds Act

1. Ordinance amending the Ordinance on annual, quarterly and other reports of mandatory pension funds (Official Gazette, No 98/20)
2. Ordinance amending the Ordinance on marketing, informative prospectus and other information for members of voluntary pension funds (Official Gazette, No 80/20)
3. Ordinance amending the Ordinance on permitted investments and additional investment limitations relating to mandatory pension funds (Official Gazette, No 15/20)

Ordinances adopted under the Voluntary Pension Funds Act

1. Ordinance amending the Ordinance on the requirements for offering pension schemes within the voluntary pension insurance based on individual capitalised savings (Official Gazette, No 2/2020)
2. Ordinance amending the Ordinance on annual, semi-annual and other reports of voluntary pension funds (Official Gazette, No 98/2020)

Ordinances adopted under the Insurance Act

1. Ordinance on the requirements for issuing authorisations to acquire a qualifying holding in insurance companies or reinsurance companies (Official Gazette, No 136/2020)
2. Ordinance on the structure and content of financial and statistical reports of persons who have a license to perform insurance distribution business and/or reinsurance distribution business (Official Gazette, No 106/2020)
3. Ordinance on the requirements for performing the function of a member of the management board and a member of the supervisory board of an insurance and/or reinsurance company, authorised officer of an insurance and/or reinsurance company and an authorised representative of a branch of an insurance and/or reinsurance company (Official Gazette, No 102/2020)
4. Ordinance amending the Ordinance on the structure and contents of financial statements and additional reports of insurance companies and/or reinsurance companies (Official Gazette, No 98/2020)
5. Ordinance on the requirements for professional training and examination of professional knowledge required to perform duties of a certified actuary (Official Gazette, No 67/2020)
6. Ordinance amending the Ordinance on insurance statistical standards (Official Gazette, No 15/2020)
7. Ordinance amending the Ordinance on the requirements for issuing authorisations to acquire a qualifying holding in insurance companies and/or reinsurance companies (Official Gazette, No 15/2020)
8. Ordinance amending the Ordinance on the requirements for performing the function of a member of the management board and a member of the supervisory board of an insurance and/or reinsurance company, authorised officer of an insurance and/or reinsurance company and an authorised representative of a branch of an insurance and/or reinsurance company (Official Gazette, No 15/2020)
9. Ordinance amending the Ordinance on the conditions for performing a key function in an insurance company / reinsurance company (Official Gazette, No 15/2020)
10. Ordinance amending the Ordinance on reporting on material changes and reporting at request of the Croatian Financial Services Supervisory Agency (Official Gazette, No 15/2020)

Ordinances adopted under the Act on Pension Insurance Companies

1. Ordinance amending the Ordinance on the structure and contents of financial statements and additional reports of the pension insurance company (Official Gazette, No 98/2020)
2. Ordinance amending the Ordinance on capital adequacy of the pension insurance company (Official Gazette, No 98/2020)

Ordinances adopted under the Act on Hanfa

1. Ordinance on the calculation, level and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2021 (Official Gazette, No 147/2020)

Appendix 2: Hanfa's financial reports

Hanfa's balance sheet as at 31/12/2020 (in HRK)

Account from the Chart of Accounts	ITEM	ADP	As at 1 January	As at 31 December	Index (5/4)
1	2	3	4	5	6
ASSETS					
	ASSETS (ADP 002+074)	001	34,740,276	30,919,984	89.0
0	Non-financial assets (ADP 003+018+047+051+055+064)	002	8,168,646	8,407,062	102.9
01	Non-produced fixed assets (ADP 004+008-017)	003	777,235	588,979	75.8
011	Tangible assets – natural resources (ADP 005 to 007)	004	0	0	-
0111	Land	005	0	0	-
0112	Mineral resources	006	0	0	-
0113	Other tangible assets (natural resources)	007	0	0	-
012	Intangible assets (ADP 009 to 016)	008	3,711,659	4,316,880	116.3
0121	Patents	009	0	0	-
0122	Concessions	010	0	0	-
0123	Licences	011	2,575,990	3,169,061	123.0
0124	Other rights	012	1,135,669	1,147,819	101.1
0125	Goodwill	013	0	0	-
0126	Formation expenses	014	0	0	-
0127	Research and development	015	0	0	-
0128	Other intangible assets	016	0	0	-
019	Value adjustment for non-produced fixed assets	017	2,934,424	3,727,901	127.0
02	Produced fixed assets (ADP 019 019+023+031+034+039+042- 046)	018	7,286,602	7,656,569	105.1
021	Buildings (ADP 020 to 022)	019	3,564,810	3,564,810	100.0
0211	Houses	020	0	0	-
0212	Commercial buildings	021	3,450,670	3,450,670	100.0
0213	Other buildings	022	114,140	114,140	100.0
022	Plant and equipment	023	9,553,525	11,437,168	119.7
0221	Office equipment and furniture	024	8,493,022	10,305,203	121.3
0222	Telecommunications equipment	025	322,073	336,632	104.5
0223	Maintenance and security equipment	026	582,935	599,021	102.8
0224	Medical and laboratory equipment	027	0	0	-
0225	Instruments and machines	028	30,123	65,561	217.6
0226	Sports and musical equipment	029	0	0	-
0227	Machines and equipment for other purposes	030	125,372	130,751	104.3
023	Means of transportation (ADP 032+033)	031	684,267	273,709	40.0
0231	Means of road transportation	032	684,267	273,709	40.0
0232	Other means of transportation	033	0	0	-
024	Books, artwork and other exhibits (ADP 035 to 038)	034	152,751	152,751	100.0
0241	Library books	035	0	0	-
0242	Work of arts (in galleries, museums etc.)	036	152,751	152,751	100.0
0243	Museum exhibits and objects of natural rarities	037	0	0	-
0244	Other exhibits	038	0	0	-

Account from the Chart of Accounts	ITEM	ADP	As at 1 January	As at 31 December	Index (5/4)
1	2	3	4	5	6
025	Growing crops and live stock (ADP 040+041)	039	0	0	-
0251	Growing crops	040	0	0	-
0252	Live stock	041	0	0	-
026	Intangible produced assets (ADP 043 to 045)	042	4,538,956	4,778,394	105.3
0261	Software investments	043	4,538,956	4,778,394	105.3
0262	Works of art, literary and scientific works	044	0	0	-
0263	Other intangible produced assets	045	0	0	-
029	Value adjustment for produced fixed assets	046	11,207,707	12,550,263	112.0
03	Precious metals and other valuables (ADP 048)	047	0	0	-
031	Precious metals and other valuables (ADP 049+050)	048	0	0	-
0311	Precious metals and precious stones	049	0	0	-
0312	Archived books, works of art and similar valuables	050	0	0	-
04	Small inventory (ADP 052+053-054)	051	0	0	-
041	Small inventory on stock	052	0	0	-
042	Small inventory in use	053	402,629	650,810	161.6
049	Value adjustment for small inventory	054	402,629	650,810	161.6
05	Non-financial assets – work in progress (ADP 056 to 059+062+063)	055	80,277	126,479	157.6
051	Buildings – work in progress	056	0	0	-
052	Plant and equipment – work in progress	057	80,277	126,479	157.6
053	Means of transportation – work in progress	058	0	0	-
054	Growing crops and livestock – work in progress (ADP 060+061)	059	0	0	-
0541	Growing crops – work in progress	060	0	0	-
0542	Live stock – work in progress	061	0	0	-
055	Other intangible produced assets – work in progress	062	0	0	-
056	Other intangible assets – work in progress	063	0	0	-
06	Produced current assets (ADP 065+070+073)	064	24,532	35,035	142.8
061	Inventories for the pursuit of activities (ADP 066 to 069)	065	24,532	35,035	142.8
0611	Inventories for redistribution	066	0	0	-
0612	Materials inventory for regular needs	067	24,532	35,035	142.8
0613	Spare parts inventory	068	0	0	-
0614	Materials inventory for special needs	069	0	0	-
062	Production and products	070	0	0	-
0621	Production in progress	071	0	0	-
0622	Finished goods	072	0	0	-
063	Goods for resale	073	0	0	-
1	Financial assets (ADP 075 +083+100+105+125+133+142)	074	26,571,630	22,512,922	84.7
11	Cash at bank and in hand	075	24,887,265	20,404,605	82.0
111	Cash at bank (ADP 077 to 079)	076	24,874,861	20,398,344	82.0
1111	Cash in the account with domestic commercial banks	077	24,874,861	20,398,344	82.0
1112	Cash in the account with foreign commercial banks	078	0	0	-
1113	Interim account	079	0	0	-

Account from the Chart of Accounts	ITEM	ADP	As at 1 January	As at 31 December	Index (5/4)
1	2	3	4	5	6
112	Cash reserved	080	0	0	-
113	Cash in hand	081	12,404	6,261	50.5
114	Securities in hand	082	0	0	-
12	Deposits, guarantee deposits, employee receivables and receivables for prepaid taxes, and other (ADP 084+087+088+089+095)	083	789,907	758,402	96.0
121	Deposits with banks and other financial institutions (ADP 085+086)	084	0	0	-
1211	Deposits with domestic banks and other financial institutions	085	0	0	-
1212	Deposits with foreign banks and other financial institutions	086	0	0	-
122	Guarantee deposits	087	603,502	603,502	100.0
123	Employee receivables	088	28,051	5,102	18.2
124	Receivables for prepaid taxes and contributions (ADP 090 to 094)	089	5,471	1,536	28.1
1241	Receivables for prepaid taxes	090	5,471	126	2.3
1242	Value-added tax receivables	091	0	0	-
1243	Receivables for prepaid duties and customs duties	092	0	0	-
1244	Receivables for prepaid other taxes	093	0	0	-
1245	Receivables for prepaid contributions	094	0	1,410	-
129	Other receivables (ADP 096 to 099)	095	152,883	148,262	97.0
1291	Receivables for refundable benefits	096	13,347	10,719	80.3
1292	Receivables for damages	097	0	0	-
1293	Receivables for advance payments	098	113,844	110,227	96.8
1294	Other receivables	099	25,692	27,316	106.3
13	Loans (ADP101+102+103-104)	100	0	0	-
131	Loans to citizens and households	101	0	0	-
132	Loans to legal entities engaged in entrepreneurial activity	102	0	0	-
133	Loans to other entities	103	0	0	-
139	Impairment of loan receivables	104	0	0	-
14	Securities (ADP 106 +109+112+115+118+121-124)	105	0	0	-
141	Cheques (ADP 107+108)	106	0	0	-
1411	Cheques – domestic	107	0	0	-
1412	Cheques – foreign	108	0	0	-
142	Commercial papers and treasury bills (ADP 110+111)	109	0	0	-
1421	Commercial papers and treasury bills – domestic	110	0	0	-
1422	Commercial papers and treasury bills – foreign	111	0	0	-
143	Bills of exchange (ADP 113+114)	112	0	0	-
1431	Bills of exchange – domestic	113	0	0	-
1432	Bills of exchange – foreign	114	0	0	-
144	Bonds (ADP 116+117)	115	0	0	-
1441	Bonds – domestic	116	0	0	-
1442	Bonds – foreign	117	0	0	-

Account from the Chart of Accounts	ITEM	ADP	As at 1 January	As at 31 December	Index (5/4)
1	2	3	4	5	6
145	Options and other financial derivatives (ADP 119+120)	118	0	0	-
1451	Options and other financial derivatives – domestic	119	0	0	-
1452	Options and other financial derivatives – foreign	120	0	0	-
146	Other securities (ADP 122+123)	121	0	0	-
1461	Other domestic securities	122	0	0	-
1462	Other foreign securities	123	0	0	-
149	Value adjustment for securities	124	0	0	-
15	Shares and participations in equity (ADP 126+129-132)	125	0	0	-
151	Shares and participations in equity of banks and other financial institutions (ADP 127+128)	126	0	0	-
1511	Shares and participations in equity of domestic banks and other financial institutions	127	0	0	-
1512	Shares and participations in equity of foreign banks and other financial institutions	128	0	0	-
152	Shares and participations in equity of companies (ADP 130+131)	129	0	0	-
1521	Shares and participations in equity of domestic companies	130	0	0	-
1522	Shares and participations in equity of foreign companies	131	0	0	-
159	Value adjustment for shares and participations in equity	132	0	0	-
16	Income receivables (ADP 134 to 137+140-141)	133	0	0	-
161	Customer receivables	134	0	0	-
162	Receivables for membership fees and membership contributions	135	0	0	-
163	Receivables for income under special regulations	136	0	0	-
164	Receivables for income from assets (ADP 138+139)	137	0	0	-
1641	Receivables for income from financial assets	138	0	0	-
1642	Receivables for income from non-financial assets	139	0	0	-
165	Other receivables	140	0	0	-
169	Value adjustment for receivables	141	0	0	-
19	Prepayments and accrued income (ADP 143+144)	142	894,458	1,349,915	150.9
191	Prepayments	143	894,458	1,349,915	150.9
192	Accrued income	144	0	0	-
LIABILITIES AND OWN SOURCES					
	Liabilities and own sources (ADP 146+195)	145	34,740,276	30,919,984	89.0
2	Liabilities (ADP 147+174+182+190)	146	8,337,477	8,397,688	100.7
24	Liabilities for expenditures (ADP 148+156+164+168+169+170)	147	7,075,980	7,372,548	104.2
241	Liabilities for employees (ADP 149 to 155)	148	4,910,483	5,854,868	119.2
2411	Liabilities for salaries – net	149	1,756,066	1,992,230	113.4
2412	Liabilities for salary compensations – net	150	204,713	212,618	103.9
2413	Liabilities for salaries in kind – net	151	0	0	-
2414	Liabilities for tax and surtax on salaries	152	419,709	373,232	88.9
2415	Liabilities for contributions from salaries	153	593,429	646,480	108.9
2416	Liabilities for contributions on salaries	154	447,410	489,733	109.5
2417	Other liabilities for employees	155	1,489,156	2,140,575	143.7

Account from the Chart of Accounts	ITEM	ADP	As at 1 January	As at 31 December	Index (5/4)
1	2	3	4	5	6
242	Liabilities for material expenses (ADP 157 to 163)	156	1,942,723	1,243,880	64.0
2421	Costs for employees	157	77,492	72,888	94.1
2422	Remuneration for members of representative and executive bodies, committees etc.	158	0	0	-
2423	Remuneration for volunteers	159	0	0	-
LIABILITIES AND OWN SOURCES					
2424	Costs for external staff	160	0	5,419	-
2425	Liabilities towards domestic suppliers	161	1,239,894	573,036	46.2
2426	Liabilities towards foreign suppliers	162	583,548	501,912	86.0
2429	Other liabilities for financing operating expenses	163	41,789	90,625	216.9
244	Liabilities for financial expenses (ADP 165 to 167)	164	0	0	-
2441	Liabilities for interest on issued securities	165	0	0	-
2442	Liabilities for interest on credits and loans received	166	0	0	-
2443	Liabilities for other financial expenses	167	0	0	-
245	Liabilities for financial aid funds collected	168	0	0	-
246	Liabilities for penalties and damages	169	0	0	-
249	Other liabilities (ADP 171 to 173)	170	222,774	273,800	122.9
2491	Liabilities for taxes	171	0	0	-
2492	Liabilities for value-added tax	172	119,274	113,344	95.0
2493	Liabilities for prepayments, deposits, caution money received and other liabilities	173	103,500	160,456	155.0
25	Liabilities for securities (ADP 175+178-181)	174	0	0	-
251	Liabilities for cheques (ADP 176+177)	175	0	0	-
2511	Liabilities for cheques – domestic	176	0	0	-
2512	Liabilities for cheques – foreign	177	0	0	-
252	Liabilities for bills of exchange (ADP 179+180)	178	0	0	-
2521	Liabilities for bills of exchange – domestic	179	0	0	-
2522	Liabilities for bills of exchange – foreign	180	0	0	-
259	Value adjustment for securities liabilities	181	0	0	-
26	Liabilities for credits and loans (ADP 183+186-189)	182	0	0	-
261	Liabilities for bank credits and credits from other creditors (ADP 184+185)	183	0	0	-
2611	Liabilities for domestic credits	184	0	0	-
2612	Liabilities for foreign credits	185	0	0	-
262	Liabilities for commodity and other loans (ADP 187+188)	186	0	0	-
2621	Liabilities for domestic loans	187	0	0	-
2622	Liabilities for foreign loans	188	0	0	-
269	Value adjustment for liabilities for credits and loans	189	0	0	-
29	Accrued expenses and deferred income	190	1,261,497	1,025,140	81.3
291	Accrued expenses	191	286,155	272,354	95.2
292	Deferred income (ADP 193+194)	192	975,342	752,786	77.2
2921	Accrued income	193	693,925	727,094	104.8
2922	Deferred income	194	281,417	25,692	9.1

Account from the Chart of Accounts	ITEM	ADP	As at 1 January	As at 31 December	Index (5/4)
1	2	3	4	5	6
5	Own sources (ADP 196+199-200)	195	26,402,799	22,522,296	85.3
51	Own sources (ADP 197+198)	196	2,317,519	2,268,679	97.9
511	Own sources	197	2,317,519	2,268,679	97.9
512	Revaluation reserves	198	0	0	-
5221	Excess of income	199	24,085,280	20,253,617	84.1
5222	Income deficit	200	0	0	-
Off-balance sheet items					
61	Off-balance sheet items – assets	201	0	0	-
62	Off-balance sheet items – liabilities	202	0	0	-

Statement of Hanfa's income and expenditure for the period from 1 January to 31 December 2020 (in HRK)

Account from the Chart of Accounts	ITEM	ADP	Realised in the previous year	Realised in the reporting period	Index (5/4)
1	2	3	4	5	6
INCOME					
3	Income (ADP 002 +005+008+011+024+040+049)	001	75,687,331	77,553,552	102.5
31	Income from the sale of goods and provision of services	002	0	0	-
3111	Income from the sale of goods	003	0	0	-
3112	Income from the provision of services	004	0	0	-
32	Income from membership fees and membership contributions	005	0	0	-
3211	Membership fees	006	0	0	-
3212	Membership contributions	007	0	0	-
33	Income under special regulations (ADP 009+010)	008	74,147,105	76,260,308	102.9
3311	Income under special regulations from the state budget	009	0	0	-
3312	Income under special regulations from other sources	010	74,147,105	76,260,308	102.9
34	Income from assets (ADP 012+021)	011	4,239	8,563	202.0
341	Income from financial assets (ADP 013 to 020)	012	4,239	8,563	202.0
3411	Interest income from loans granted	013	0	0	-
3412	Income from interest on securities	014	0	0	-
3413	Interest on time deposits and demand deposits	015	178	222	124.7
3414	Income from default interest	016	0	0	-
3415	Income from positive exchange rate differences	017	4,061	8,341	205.4
3416	Dividend income	018	0	0	-
3417	Income from profits of companies, banks and other financial institutions under special regulations	019	0	0	-
3418	Other income from financial assets	020	0	0	-
342	Income from non-financial assets (ADP 022+023)	021	0	0	-
3421	Income from leases and rents	022	0	0	-
3422	Other income from non-financial assets	023	0	0	-
35	Income from donations (ADP 025+030+033+036+037)	024	255,942	255,725	99.9
351	Income from donations from the budget (ADP 026 to 029)	025	255,725	255,725	100.0
3511	Income from donations from the state budget	026	255,725	255,725	100.0

Account from the Chart of Accounts	ITEM	ADP	Realised in the previous year	Realised in the reporting period	Index (5/4)
1	2	3	4	5	6
3512	Income from donations from bodies of local and regional self-government	027	0	0	-
3513	Income from donations from the state budget for EU projects	028	0	0	-
3514	Income from donations from bodies of local and regional self-government for EU projects	029	0	0	-
352	Income from foreign governments and international organisations (ADP 031+032)	030	0	0	-
3521	Income from foreign governments and international organisations	031	0	0	-
3522	Income from EU institutions and bodies	032	0	0	-
353	Income from companies and other legal persons (ADP 034+035)	033	217	0	0.0
3531	Income from companies and other legal persons	034	217	0	0.0
3532	Income from companies and other legal persons for EU projects	035	0	0	-
354	Income from citizens and households	036	0	0	-
355	Other income from donations (ADP 038+039)	037	0	0	-
3551	Other income from donations	038	0	0	-
3552	Other income from donations for EU projects	039	0	0	-
36	Other income (ADP 041+044+045)	040	1,280,045	1,028,956	80.4
361	Income from damages and refunds (ADP 042+043)	041	611,782	557,122	91.1
3611	Income from damages	042	16,894	0	0.0
3612	Income from refunds	043	594,888	557,122	93.7
362	Income from the sale of fixed assets	044	198,000	224,500	113.4
363	Other income (ADP 046 to 048)	045	470,263	247,334	52.6
3631	Liability write-off	046	0	1,250	-
3632	Receivables written off	047	0	0	-
3633	Other income	048	470,263	246,084	52.3
37	Income from related non-profit organisations (ADP 050 to 053)	049	0	0	-
3711	Current income from related non-profit organisations	050	0	0	-
3712	Capital income from related non-profit organisations	051	0	0	-
3713	Current income from related non-profit organisations for EU projects	052	0	0	-
3714	Capital income from related non-profit organisations for EU projects	053	0	0	-
EXPENDITURE					
4	EXPENSES (ADP 055 +067+108+109+120+128+139)	054	68,998,733	74,696,617	108.3
41	Employee expenses (ADP 056+061+062)	055	42,410,947	48,697,664	114.8
411	Salaries (ADP 057 to 060)	056	32,176,194	37,000,079	115.0
4111	Salaries for regular work	057	31,536,197	36,557,602	115.9
4112	Salaries in kind	058	570,795	355,622	62.3
4113	Salaries for overtime work	059	69,202	86,855	125.5
4114	Salaries for extraordinary working conditions	060	0	0	-
412	Other employee expenses	061	5,067,342	5,801,283	114.5
413	Contributions on salaries (ADP 063 to 066)	062	5,167,411	5,896,302	114.1
4131	Contributions for health insurance	063	5,167,411	5,896,302	114.1

Account from the Chart of Accounts	ITEM	ADP	Realised in the previous year	Realised in the reporting period	Index (5/4)
1	2	3	4	5	6
4132	Employment contributions	064	0	0	-
4133	Pension insurance contributions paid by the employer	065	0	0	-
4134	Special contributions for stimulating employment of people with disabilities	066	0	0	-
42	Material expenses (ADP 068+072+077+082+087+097+102)	067	22,159,101	21,634,998	97.6
421	Employees' costs (ADP 069 to 071)	068	3,885,046	1,934,121	49.8
4211	Business trips	069	2,209,515	652,714	29.5
4212	Travel, field and separate maintenance allowance	070	927,916	873,724	94.2
4213	Employees' professional training	071	747,615	407,683	54.5
422	Remuneration for members of representative and executive bodies, committees etc. (ADP 073 to 076)	072	79,753	55,331	69.4
4221	Remuneration for regular activities	073	79,753	55,331	69.4
4222	Business travel costs	074	0	0	-
4223	Other costs	075	0	0	-
4224	Other remuneration	076	0	0	-
423	Remuneration to volunteers (ADP 078 to 081)	077	0	0	-
4231	Remuneration for regular operations	078	0	0	-
4232	Business travel costs	079	0	0	-
4233	Other costs	080	0	0	-
4234	Other remuneration	081	0	0	-
424	Remuneration to external staff (ADP 083 to 086)	082	0	220,307	-
4241	Remuneration for regular activities	083	0	220,307	-
4242	Business travel costs	084	0	0	-
4243	Other costs	085	0	0	-
4244	Other remuneration	086	0	0	-
425	Expenses for services (ADP 088 to 096)	087	10,339,929	10,762,470	104.1
4251	Telephone, postal and transport services	088	306,591	324,261	105.8
4252	Daily and investment maintenance services	089	1,619,338	1,693,677	104.6
4253	Promotional and information services	090	226,305	358,422	158.4
4254	Public utility services	091	1,472,910	1,293,076	87.8
4255	Leases and rents	092	3,049,479	3,488,238	114.4
4256	Health care and veterinary services	093	172,983	50,678	29.3
4257	Intellectual and personal services	094	1,712,892	1,207,538	70.5
4258	IT services	095	414,882	360,913	87.0
4259	Other services	096	1,364,549	1,985,667	145.5
426	Expenses for material and energy (ADP 098 to 101)	097	1,403,913	1,850,888	131.8
4261	Stationery and other material expenses	098	476,711	751,565	157.7
4262	Raw materials and consumables	099	0	0	-
4263	Energy	100	745,678	829,316	111.2
4264	Small inventory and car tires	101	181,524	270,007	148.7
429	Other material expenses (ADP 103 to 107)	102	6,450,460	6,811,881	105.6
4291	Insurance premiums	103	87,072	112,842	129.6

Account from the Chart of Accounts	ITEM	ADP	Realised in the previous year	Realised in the reporting period	Index (5/4)
1	2	3	4	5	6
4292	Representation	104	464,020	317,742	68.5
4293	Membership fees	105	5,896,368	6,375,797	108.1
4294	Participation fees	106	3,000	5,500	183.3
4295	Other material expenditure	107	0	0	-
43	Depreciation expenditure	108	3,283,270	3,052,869	93.0
44	Financial expenses (ADP 110+111+115)	109	104,023	90,968	87.4
441	Interest on securities issued	110	0	0	-
442	Interest on credits and loans received (ADP 112 to 114)	111	0	0	-
4421	Interest on credits received from banks and other creditors	112	0	0	-
4422	Interest on received commodity and other loans	113	0	0	-
4423	Interest on approved, unconsumed credits and loans	114	0	0	-
443	Other financial expenses (ADP 116 to 119)	115	104,023	90,968	87.4
4431	Banking and payment system services	116	67,000	44,918	67.0
4432	Negative exchange rate differences and currency clause	117	36,893	45,653	123.7
4433	Default interest	118	130	397	305.4
4434	Other material expenditure	119	0	0	-
45	Donations (ADP 121+125)	120	73,750	157,125	213.1
451	Current donations (ADP 122 to 124)	121	73,750	157,125	213.1
4511	Current donations	122	37,000	20,625	55.7
4512	Scholarships	123	36,750	136,500	371.4
4513	Current donations from EU funds	124	0	0	-
452	Capital donations (ADP 126+127)	125	0	0	-
4521	Capital donations	126	0	0	-
4522	Capital donations from EU funds	127	0	0	-
46	Other expenses (ADP 129+134)	128	967,642	1,062,993	109.9
461	Fines, penalties and indemnities (ADP 130 to 133)	129	0	0	-
4611	Compensation for financial losses given to legal and natural persons	130	0	0	-
4612	Penalties, storage charges and other	131	0	0	-
4613	Indemnities for employees	132	0	0	-
4614	Agreed fines and other compensations for damage	133	0	0	-
462	Other financial expenses (ADP 135 to 138)	134	967,642	1,062,993	109.9
4621	Net book value and other expenses for retired and disposed fixed assets	135	51,114	91,541	179.1
4622	Receivables written off	136	0	0	-
4623	Expenses for other tax levies	137	8,277	8,638	104.4
4624	Other expenses	138	908,251	962,814	106.0
47	Expenses for the funding of related non-profit organisations (ADP 140 to 143)	139	0	0	-
4711	Current expenses for the funding of related non-profit organisations	140	0	0	-
4712	Capital expenses for the funding of related non-profit organisations	141	0	0	-
4713	Current expenses for the funding of related non-profit organisations for EU projects	142	0	0	-

Account from the Chart of Accounts	ITEM	ADP	Realised in the previous year	Realised in the reporting period	Index [5/4]
1	2	3	4	5	6
4714	Capital expenses for the funding of related non-profit organisations for EU projects	143	0	0	-
	Production and finished goods inventory at the beginning of the period	144	0	0	-
	Production and finished goods inventory at the end of the period	145	0	0	-
	Increase in production and finished goods inventory (ADP 145-144)	146	0	0	-
	Decrease in production and finished goods inventory (ADP 144-145)	147	0	0	-
	TOTAL EXPENSES (ADP 054-146 or 054+147)	148	68,998,733	74,696,617	108.3
	EXCESS OF INCOME (ADP 001-148)	149	6,688,598	2,856,935	42.7
	INCOME DEFICIT (ADP 148-001)	150	0	0	-
5221	Excess of income – transferred	151	17,396,682	17,396,682	100.0
5222	Income deficit – transferred	152	0	0	-
	Income tax liabilities	153	0	0	-
	Surplus income available in the following period (ADP 149+151-150-152-153)	154	24,085,280	20,253,617	84.1
	Deficit of income for the coverage in the following period (AOP 150+152-149-151+153)	155	0	0	-
Additional data					
11	Cash at the beginning of the year	156	21,961,298	24,887,265	113.3
11-payables	Total inflows of cash at bank and in hand	157	95,869,553	96,378,789	100.5
11+receivables	Total outflows of cash at bank and in hand	158	92,943,586	100,861,449	108.5
11	Cash at the end of the period (ADP 156+157-158)	159	24,887,265	20,404,605	82.0
	Average number of employees at the end of the reporting period (whole number)	160	182	191	104.9
	Average number of employees' working hours (whole number)	161	169	196	116.0
	Number of volunteers	162	0	0	-
	Number of volunteered hours	163	0	0	-
Value of realised investments in new fixed assets		ADP	Realised value		Index [5/4]
			in the same period last year	in the reporting period	
051	Buildings – work in progress	164	0	0	-
052	Plant and equipment – work in progress	165	80,277	46,202	57.6
053	Means of transportation – work in progress	166	0	0	-
054	Growing crops and livestock – work in progress (ADP)	167	0	0	-
055	Other intangible produced assets – work in progress	168	0	0	-
056	Other intangible assets – work in progress	169	0	0	-
Item		ADP	As at 1 January	At the end of the reporting period	Index [5/4]
	Inventories	170	24,532	35,035	142.8
	Control sum (ADP 160 to 170)	171	105,160	81,624	77.6