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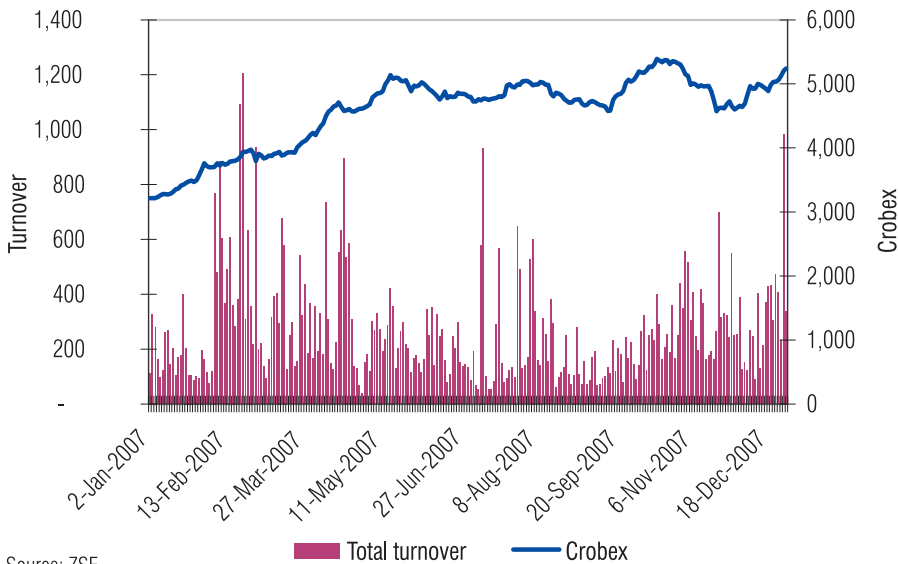
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Capital Market

In 2007, the Zagreb Stock Exchange recorded a turnover of HRK 66,487.9 million, which was a 35.5% increase compared to the total turnover in 2006. 376 issues of securities were actively traded, which was a 1.3% increase in comparison with 2006. Regular share turnover amounted to HRK 22,000.7 million, growing by 57.1% over the previous year. At the end of the year, the share index CROBEX was by more than two thirds higher than its value at the beginning of the year. Market capitalization was by 65.7% higher compared to 2006.

Chart 1.1: Changes in the Value of CROBEX and in the Turnover on the Zagreb Stock Exchange in 2007

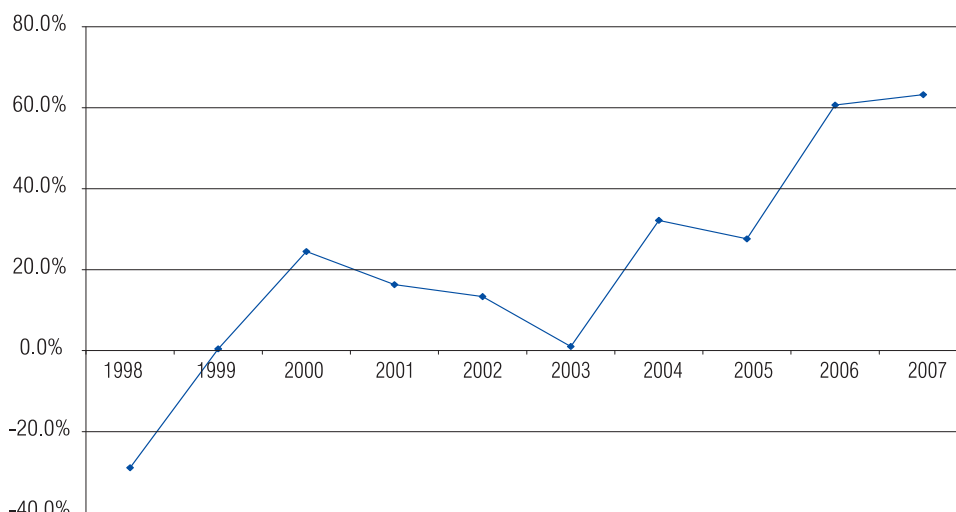


Source: ZSE

In 2007, trade in bonds among institutional investors totalled HRK 39,051.9 million, increasing by 32.9% compared to 2006. Regular turnover in bonds on the stock exchange amounted to HRK 758.5 million, rising by 23.5% in comparison to 2006.

The CROBEX index recorded an extremely high rate of return in the previous two years, which was partly a result of increased interest of investors in investments in shares and investment funds which invest most of their assets in domestic shares, as well as of the public offerings of shares of INA in 2006 and of HT-Hrvatske telekomunikacije d.d. in 2007. The rapid growth of indices is indicative of emerging markets and similar growth has been recorded in Eastern European Countries. However, the Croatian market is, like a lot of markets of Eastern and South-Eastern Europe, relatively small and less liquid, and thus more exposed to sudden changes in stock prices.

Chart 1.2: Annual Rate of Return of CROBEX from 1998 to 2007



Source: ZSE



If we compare the results which would have been achieved by investing the amount of HRK 10,000 in shares comprising CROBEX, we can notice that the recorded profits significantly differ depending on the year of investment (e.g. 1998 and 1999), as a result of great differences in rates of return in initial years. However, each investment longer than 5 years has generated a positive rate of return so far.

Table 1.1: Comparison of Values of a HRK 10,000 Investment in CROBEX from 1997 to 2007

	2 Sep 1997		1998		1999		2000		2001		2002		2003		2004		2005		2006		2007	
1997	10,020.9																					
1998	7,157.2	7,142.3																				
1999	7,153.1	7,138.2	9,994.3																			
2000	8,900.1	8,881.5	12,435.2	12,442.3																		
2001	10,347.2	10,325.6	14,457.1	14,465.3	11,625.9																	
2002	11,725.8	11,701.3	16,383.2	16,392.6	13,174.9	11,332.3																
2003	11,851.3	11,826.6	16,558.6	16,568.1	13,315.9	11,453.6	10,107.0															
2004	15,658.1	15,625.4	21,877.4	21,889.9	17,593.2	15,132.7	13,353.5	13,212.1														
2005	19,975.3	19,933.6	27,909.4	27,925.4	22,443.9	19,305.0	17,035.3	16,854.9	12,757.2													
2006	32,107.3	32,040.3	44,860.1	44,885.9	36,075.2	31,029.9	27,381.8	27,091.8	20,505.2	16,073.5												
2007	52,390.3	52,281.0	73,199.4	73,241.4	58,864.8	50,632.3	44,679.5	44,206.4	33,458.9	26,227.5	16,317.3											
	2 Sep 1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007											

Source: ZSE

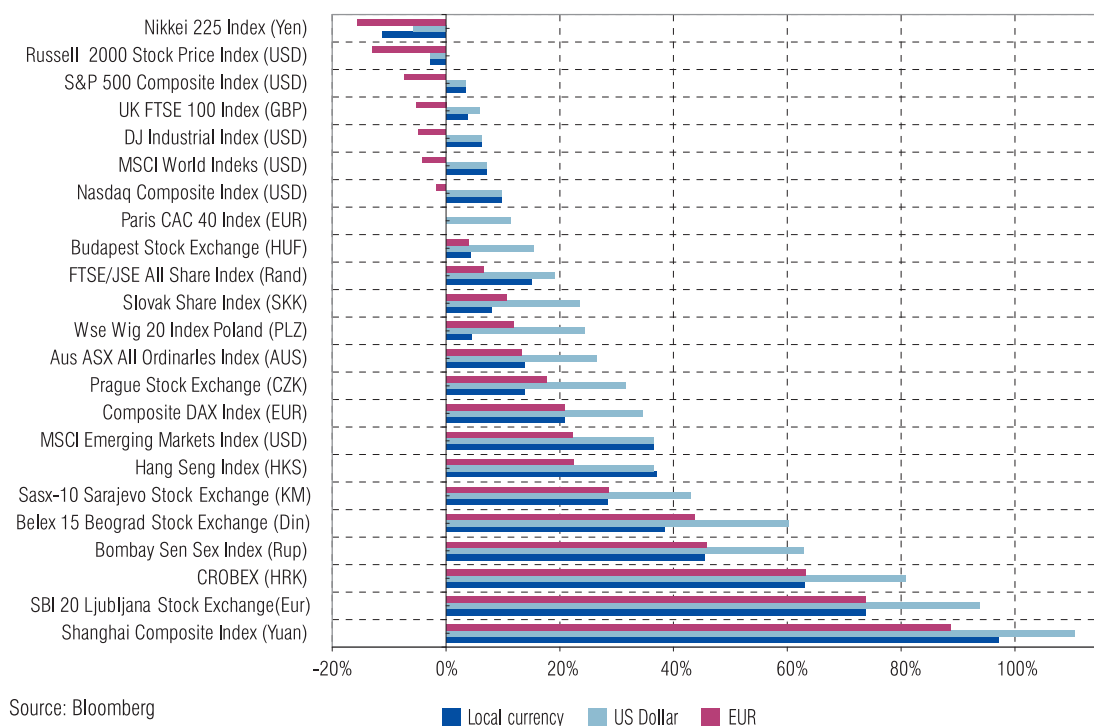
The CROBEX rate of return was in 2007 among the highest in the world and may be compared to rates of return recorded by emerging markets and South-Eastern European markets.

Table 1.2: Changes in World Stock Exchange Indices in 2007

Index (The Currency)	Index value in 2007				Change in % of index value in 2007		
	Initial	The highest	The lowest	Final	Domestic	US Dollar	Eur
Shanghai Composite Index (Yuan)	2,675.5	6,092.1	2,612.5	5,272.8	97.1%	110.6%	88.7%
SBI 20 Ljubljana Stock Exchange (Eur)	6,551.5	12,242.0	6,551.5	11,388.2	73.8%	93.7%	73.8%
CROBEX (HRK)	3,214.9	5,392.9	3,214.9	5,239.0	63.0%	80.9%	63.2%
Bombay Sen Sex Index (Rup)	13,942.2	20,375.9	12,415.0	20,287.0	45.5%	62.8%	45.9%
Belex 15 Belgrade Stock Exchange (Din)	1,675.2	3,304.6	1,704.4	2,318.4	38.4%	60.2%	43.7%
Sasx-10 Sarajevo Stock Exchange (KM)	2,868.2	6,040.6	2,868.2	3,685.2	28.5%	43.1%	28.5%
Hang Seng Index (HKS)	20,310.2	31,638.2	18,664.9	27,812.7	36.9%	36.5%	22.3%
MSCI Emerging Markets Index (USD)	912.8	1,338.5	1,052.0	1,245.6	36.5%	36.5%	22.2%
Composite DAX Index (EUR)	6,681.1	8,105.7	6,579.9	8,067.3	20.7%	34.6%	20.7%
Prague Stock Exchange (CZK)	1,588.9	1,936.1	1,593.6	1,808.6	13.8%	31.7%	17.7%
Aus ASX All Ordinaries Index (AUS)	5,645.9	6,853.6	5,484.5	6,423.7	13.8%	26.4%	13.3%
Wse Wig 20 Index Poland (PLZ)	3,285.5	3,917.9	3,173.9	3,431.7	4.5%	24.3%	11.8%
Slovak Share Index (SKK)	415.0	450.4	387.5	447.7	7.9%	23.5%	10.7%
FTSE/JSE All Share Index (Rand)	25,156.7	31,531.1	24,201.0	28,958.0	15.1%	19.1%	6.7%
Budapest Stock Exchange (HUF)	24,809.6	30,118.1	22,765.1	25,889.9	4.4%	15.4%	3.9%
Paris CAC 40 Index (EUR)	5,617.7	6,168.2	5,296.2	5,614.1	-0.1%	11.4%	-0.1%
Nasdaq Composite Index (USD)	2,415.3	2,859.1	2,340.7	2,652.3	9.8%	9.8%	-1.6%
MSCI World Index (USD)	1,483.6	1,682.4	1,407.0	1,588.8	7.1%	7.1%	-4.1%
DJ Industrial Index (USD)	12,480.7	14,164.5	12,050.4	13,264.8	6.3%	6.3%	-4.8%
UK FTSE 100 Index (GBP)	6,220.8	6,732.4	6,064.2	6,456.9	3.8%	5.9%	-5.3%
S&P 500 Composite Index (USD)	1,418.3	1,565.2	1,374.1	1,468.4	3.5%	3.5%	-7.3%
Russell 2000 Stock Price Index (USD)	787.7	855.8	760.1	766.0	-2.7%	-2.7%	-12.9%
Nikkei 225 Index (Yen)	17,225.8	18,262.0	14,837.7	15,307.8	-11.1%	-5.8%	-15.6%

Source: Bloomberg

Chart 1.3: Rate of Return of World Indices in 2007



Public Offering of Shares of HT-Hrvatske telekomunikacije d.d. Zagreb

Pursuant to the Decision on the sale of shares of HT-Hrvatske telekomunikacije d.d. through a public offering, 23,142,412 ordinary shares of HT-Hrvatske telekomunikacije d.d. were offered for sale to the public by the Government of the Republic of Croatia, with a possibility of additional allocation of shares to the maximum amount of 3,471,361 shares. The issuing agents were Erste&Steiermärkische bank d.d., Rijeka and Hrvatska poštanska banka d.d., Zagreb. The global coordinator and bookrunner was JP Morgan Securities Ltd.

The shares which included the right of priority and preferences (preferential offer) were offered to the Croatian citizens in the maximum amount whose total selling price did not exceed HRK 38,000. As a result of the large interest of the Croatian citizens, that amount was subsequently proportionally reduced to a maximum of HRK 16,695.

The remaining shares were offered for sale to natural persons, domestic legal persons and foreign investors (in which case they did not include any right of priority and preferences) who could buy them by submitting binding non-preferential offers and indicative non-preferential offers, pursuant to the decision of the Government of the Republic of Croatia.

The public offering of shares was successfully completed and the offered shares were sold by the Government of the Republic of Croatia at the price of HRK 265 per share. After the shares had been sold, HT-Hrvatske telekomunikacije d.d. listed them in the first quotation of the Zagreb Stock Exchange on 5 October 2007. On the same day, the shares were also listed in the London Stock Exchange.

Table 1.3: Public Offering of Shares of HT-Hrvatske telekomunikacije d.d.

Issuing agent	Total number of preferential offers	Total offered amount for preferential offers (in HRK)	Total sum paid for preferential offers (in HRK)
Erste&Steiermärkische bank d.d.	138,948	4,710,465,436.5	4,574,970,028.1 (or 97.1%)
Hrvatska poštanska banka d.d.	234,753	8,008,033,962.4	7,629,866,578.7 (or 95.3%)
Total	373,701	12,718,499,398.9	12,204,836,606.8 (or 96.0%)
Issuing agent	Total number of non-preferential offers	Total offered amount for non-preferential offers (in HRK)	Total sum paid for non-preferential offers (in HRK)
Erste&Steiermärkische bank d.d.	1,036	170,837,177.2	129,749,012.2 (or 75.3%)
Hrvatska poštanska banka d.d.	1,582	181,805,331.2	142,924,168.2 (or 79.0%)
Total	2,618	352,642,508.4	272,673,180.4 (or 77.3%)

Source: HANFA



The Agency, as the supervisory body, monitored the overall public offering procedure. The supervisory procedure was carried out at HT-Hrvatske telekomunikacije d.d., Erste&Steiermärkische bank d.d. (as the issuing agent) and HPB d.d. (as the issuing agent), with respect to the initial public offering of ordinary shares of HT-Hrvatske telekomunikacije d.d.

The Agency paid particular attention to the subscription of shares on the basis of powers of attorney which citizens of the Republic of Croatia gave to other persons to subscribe shares on their behalf and for their account. The Agency determined that particular persons had given power of attorney to a very large number of persons. In this regard, on the basis of the list of powers of attorney given to authorised persons to, on behalf of authorising persons and for their account, submit binding offers to buy shares of HT and to undertake all other actions needed to buy the said shares, the Agency invited authorised persons with ten or more powers of attorney to provide answers, either in writing, by telephone or personally at the Agency's premises, about their relationship with the authorising person, award, if any, offered for signing the power of attorney and the manner of establishing contact with the authorising person for the purpose of obtaining power of attorney. The Agency also required the invited persons to provide other information with respect to powers of attorney given for participating in the public offering of shares of HT-Hrvatske telekomunikacije d.d.

Table 1.4: Number of Powers of Attorney per Person

Number of powers of attorney per person	Number of persons
5-9	725
10 and more	66
Total	791

Source: HANFA

Before and during the initial public offering procedure, the Agency gave warnings regarding the misuse of powers of attorney for the purchase of shares in the preferential offer. After the public offering procedure was over, it took adequate legal measures against persons who disobeyed the rules for the purchase of shares in preferential offer.

The Agency filed criminal charges to the State Attorney's Office against 17 persons on reasonable suspicion of their having committed a criminal offence pursuant to:

- Article 154, paragraph 1 and 2 of the Securities Market Act
- Article 224, paragraph 1 of the Criminal Code
- Article 337, paragraph 3 of the Criminal Code¹.

Authorised Companies

Income from Fees and Commissions in 2007

In 2007, authorised companies reported an income from fees and commissions to the amount of HRK 584.3 million, with brokerage companies recording HRK 250.8 million (42.9%), and banks recording HRK 333,5 million (57.1%) of the income. The largest share (48.7%) in the structure of income from fees and commissions was accounted for by income from purchase and sale of securities by order of the customer, with brokerage companies accounting for HRK 185.1 million (65.0%), and banks for HRK 99.5 million (35.0%). Income from purchase and sale of securities by order of the customer at the same time comprised the largest share of income for brokerage companies (73.8%) and banks (29.8%). A similar share in the structure of income from fees and commissions to banks was made up by income from business of issuing agents (26.6%) and income from operations related to custody of securities (25.0%). The largest income from fees and commissions was reported by Zagrebačka banka d.d. and Raiffeisenbank Austria d.d., and by Auctor d.o.o. and Fima-vrijednosnice d.o.o. among brokerage companies.

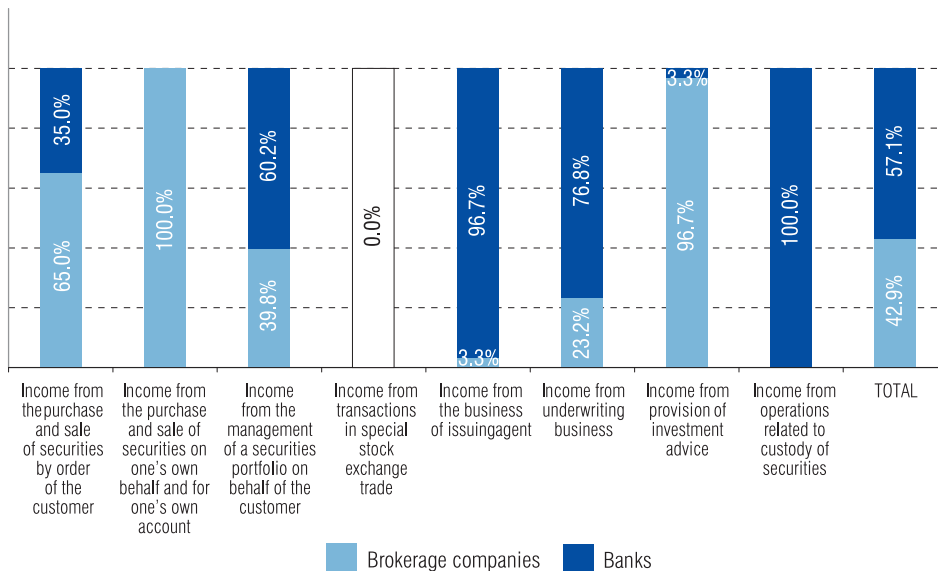
Table 1.5: Total Income from Fees and Commissions in 2007 (in HRK thousand)

Income from fees and commissions	Brokerage company		Bank		Total	
Income from the purchase and sale of securities by order of the customer	185,084	73.8%	99,482	29.8%	284,566	48.7%
Income from the purchase and sale of securities on one's own behalf and for one's own account	4,036	1.6%	0	0.0%	4,036	0.7%
Income from the management of a securities portfolio on behalf of the customer	30,812	12.3%	46,699	14.0%	77,511	13.3%
Income from transactions in special stock exchange trade	0	0.0%	0	0.0%	0	0.0%
Income from the business of issuing agent	2,999	1.2%	88,211	26.6%	91,210	15.6%
Income from underwriting business	4,461	1.8%	14,804	4.4%	19,265	3.3%
Income from provision of investment advice	23,425	9.3%	787	0.2%	24,212	4.1%
Income from operations related to custody of securities	0	0.0%	83,508	25.0%	83,508	14.3%
TOTAL	250,817	100.0%	333,491	100.0%	584,308	100.0%

Source: HANFA

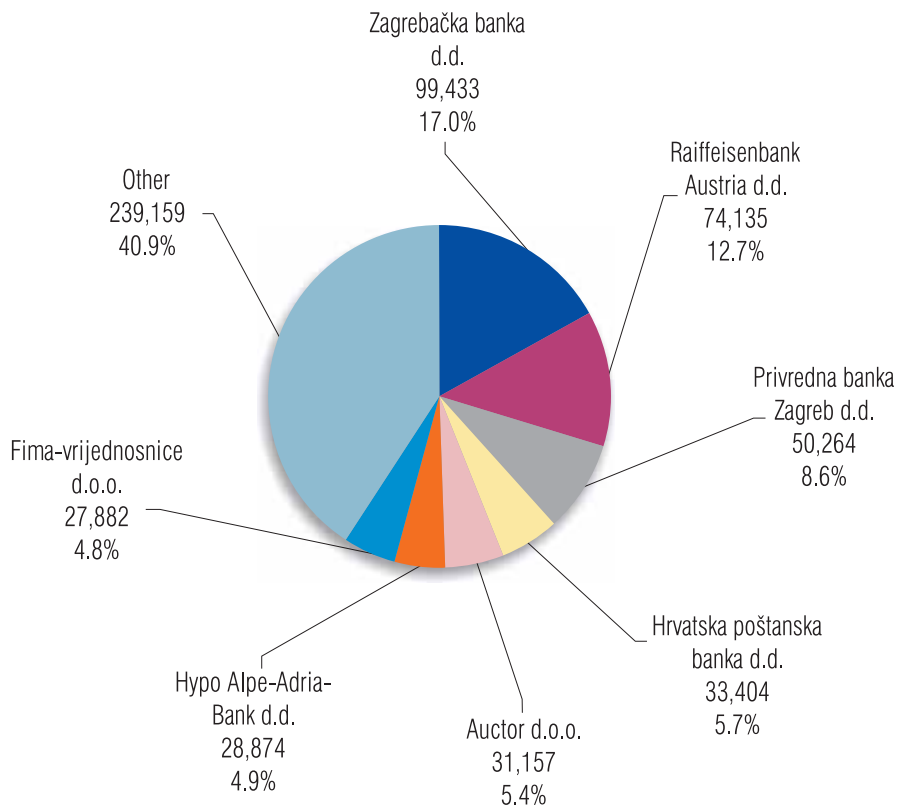
¹ Official Gazette 110/97, 27/98 – corrigendum, 50/00, 129/00, 51/01, 111/03, 190/03 – Decision of the Constitutional Court of the Republic of Croatia, 105/04, 84/05 – corrigendum and 71/06

Chart 1.4: Share of Brokerage Companies and Banks in the Structure of Income from Fees and Commissions in 2007



Source: HANFA

Chart 1.5: Recorded Income from Fees and Commissions in 2007 by Authorised Companies (in HRK thousand)



Source: HANFA

Balance Sheet of Brokerage Companies as at 31 December 2007

As at 31 December 2007, the total asset value of brokerage companies amounted to HRK 2,651.4 million. The largest asset share in the amount of HRK 2,398.5 million was accounted for by financial assets (90.5%) and receivables (HRK 131.5 million or 5.0%). Brokerage companies' assets were mostly financed out of own funds, i.e. capital and reserves amounted to HRK 2,137.7 million or 80.7% of liabilities. The largest share was made up by revaluation reserves in the amount of HRK 1,750.9 million or 66.0% (change in the value of financial assets available for sale). The assets of the Investco vrijednosnice d.o.o. brokerage company totalled HRK 1,899.3 million, and accounted for 71.6% of total brokerage companies' assets.

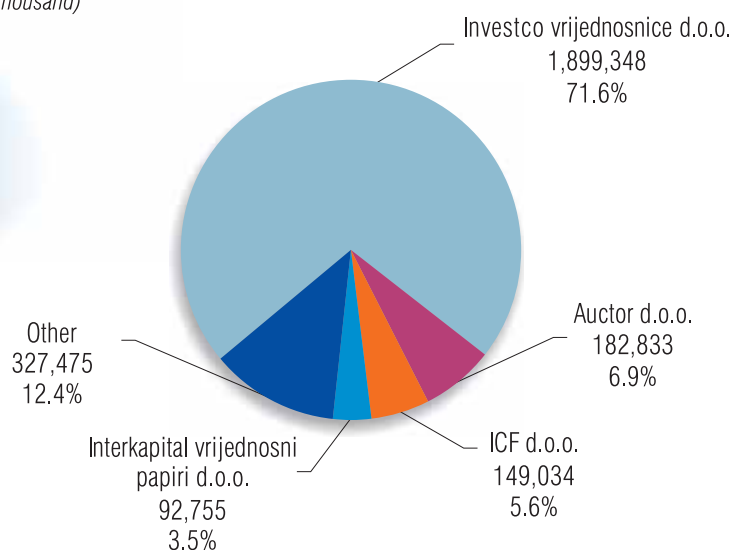
Table 1.6: Balance Sheet of Brokerage Companies as at 31 December 2007 (in HRK thousand)

ASSETS	Amount	Share
A. Assets	2,651,445	100.0%
I. Property, plant and equipment	20,846	0.8%
II. Investment in property	3,008	0.1%
III. Intangible assets	7,680	0.3%
IV. Investments calculated under the equity method	4,983	0.2%
V. Financial assets	2,398,524	90.5%
VI. Receivables	131,459	5.0%
VII. Prepayments and accrued income	904	0.0%
VIII. Other assets	49,316	1.8%
IX. Cash and cash equivalents	34,725	1.3%
B. Loss above the amount of capital		0.0%
Total assets	2,651,445	100.0%

LIABILITIES	Amount	Share
A. Capital and reserves	2,137,676	80.7%
I. Subscribed capital	85,541	3.2%
II. Premiums on issued shares (capital income)	0	0.0%
III. Reserves	5,716	0.3%
IV. Revaluation reserve	1,750,868	66.0%
V. Retained profit or accumulated loss	96,100	3.7%
VI. Profit or loss of the current year	199,451	7.5%
B. Liabilities	507,456	19.1%
C. Reservations	5,712	0.2%
D. Accruals and deferred income	601	0.0%
Total liabilities	2,651,445	100.0%

Source: HANFA

Chart 1.6: Asset Share of Brokerage Companies in Total Assets of Brokerage Companies as at 31 December 2007 (in HRK thousand)



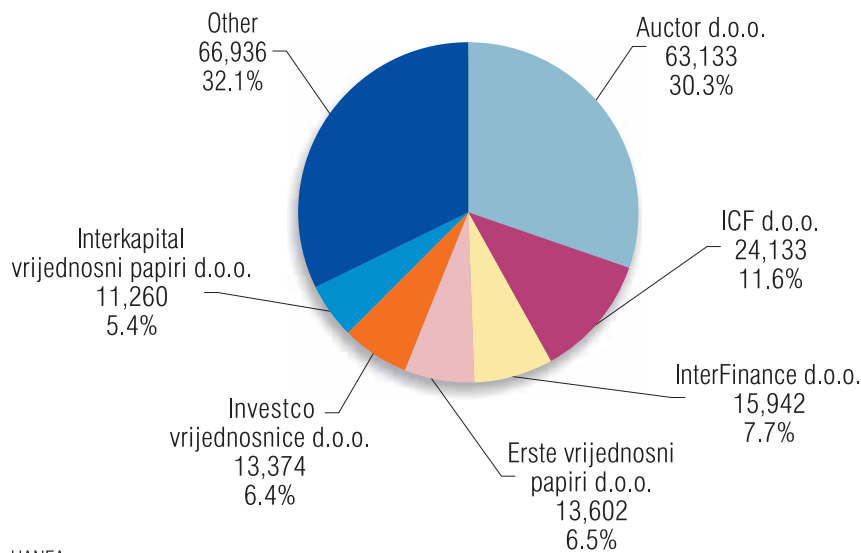
Source: HANFA

In 2007, brokerage companies recorded a total profit after taxes to the amount of HRK 199.5 million, which was a result of the profit totalling HRK 208.4 million generated by 28 companies, and the loss totalling HRK 8.9 million recorded by 4 companies. The largest profit was recorded by the Auctor d.o.o. and ICF d.o.o. brokerage companies, while the companies CAIB d.d., Krentschker vrijednosnice d.o.o., Momentum brokeri d.o.o. and S.T. kapital d.o.o. reported a loss.

Capital Market

Core business results amounted to HRK 345.6 million, and were comprised of the net result from commissions and fees to the amount of HRK 221.0 million, negative net result from interest to the amount of HRK 1.7 million and net result from investments and trading in securities to the amount of HRK 126.3 million. The brokerage companies Auctor d.o.o., CBB-vrijednosnice d.o.o., Dionica brod d.o.o., Investco vrijednosnice d.o.o. and Šted-kapital d.o.o. recorded a higher net result from investments and trading in securities compared to the net result from commissions and fees. Total business expenses of brokerage companies in 2007 amounted to HRK 146.4 million.

Chart 1.7: Profit of Brokerage Companies Recorded in 2007 (in HRK thousand)



Source: HANFA

Regulatory Activities

The Act on Amendments to the Securities Market Act² entered into force on 28 December 2006, compelling all authorised companies to align their business operations with its provisions within a period of 6 months and to submit to the Agency the alignment report within 1 month after the end of the alignment period. Within the alignment report, authorised companies were obliged to submit to the Agency the following information and documents:

- company name and head office,
- business address and contact information,
- ownership structure,
- organisational structure,
- list of management board members and managers (for whom authorisation applications were previously submitted), brokers, investment advisors and persons in charge of internal control,
- the abovementioned information on the branch office, if the company conducts its business through a branch office,
- act on establishment (consolidated version),
- court register excerpt (not older than 7 days),
- company's internal acts, in compliance with by-laws, verified by stamp and signature of the person authorized to represent the company,
- management board statement attesting that the IT system used by the company complies with the Securities Market Act and by-laws.

In the course of the alignment of their business operations with the law, authorised companies were obliged to obtain approvals of the Agency for members of the management board and/or managers, during which procedure the Agency determined whether the candidate met the requirements to perform duties of a member of the management board and/or manager and whether the candidate had the required professional qualifications, competence and experience.

Furthermore, authorised companies were obliged to submit to the Agency, for its approval, Rules of Procedure adopted pursuant to the Ordinance on the manner of preventing conflicts of interest³ by 1 December 2007. Rules of Procedure must reflect the internal organisation of the authorised company, nature and scope of business conducted by the company, and they must encompass circumstances that constitute or may lead to conflicts of interest, as well as procedures imposed on authorised companies and measures they are obliged to take in order to prevent conflicts of interest.

In 2007, the new Act on the Takeover of Joint-Stock Companies⁴ entered into force, regulating the terms and conditions for publishing bids for the takeover of companies, the takeover procedure, rights and duties of participants in the takeover procedure, and supervision of the takeover procedure. The adoption of the Act was a result of activities related to the harmonisation with the *acquis communautaire*, i.e. implementation of Directive 2004/25/EC in the national legislation of the Republic of Croatia.

Furthermore, 12 by-laws were adopted in 2007, regulating the following:

² Official Gazette 138/06

³ Official Gazette 81/07

⁴ Official Gazette 109/07

1. the content and manner of keeping the order book and the book of transactions authorised companies are obliged to keep with respect to securities transactions referred to in Article 34, points 1, 2, 3 and 4 of the Securities Market Act,
2. manners of preventing conflicts of interest, in the form of procedures and measures for the prevention of conflicts of interest which authorised companies are obliged to implement for the purpose of preventing conflicts of interest whose existence may damage the interests of clients. Such procedures and measures are laid down in the Rules of Procedure, a normative act which authorised companies are obliged to adopt and efficiently apply,
3. client classification, i.e. obligations of an authorised company when conducting securities transactions, in respect of making a principal acquainted with all securities transactions conducted by the company, as well as with investment risks for each category of clients, and in respect of the classification of clients according to their knowledge, experience, financial situation and investment objectives,
4. operating conditions for authorised companies, i.e. conditions an authorised company is to comply with when conducting transactions in securities, in order for the transactions to be conducted in an adequate and efficient manner, and the operational risk to be reduced to a minimum,
5. issue of licences to authorised companies, brokers and investment advisors, and granting of approvals to management board members and managers in authorised companies, as well as the content of application for the issuance of a licence to authorised companies to conduct securities transactions; content of application for the issuance of a licence to brokers/investment advisors; content of documentation proving the compliance with the requirements for a member of the management board/ manager in an authorised company,
6. special conditions for executing block transaction in shares listed in quotations of the stock exchange or regulated public markets in the Republic of Croatia,
7. manner of notifying the Agency of the disposal of shares or holdings in a brokerage company, the Central Depository Agency, or on the stock exchange, on reduction in the ownership of shares or holdings in a brokerage company, the Central Depository Agency or on the stock exchange in case when the proportion of voting rights or of the capital held falls below 20%, 33%, 50% and 75%,
8. minimum liquidity of brokerage companies, i.e. manner of adjusting capital liquidity of brokerage companies and reporting to the Agency,
9. content of documentation to be submitted along with the application form for the approval of candidates for a member of the management board of the Central Depository Agency,
10. content of documentation to be submitted along with the application form for the approval of candidates for a member of the management board of the stock exchange,
11. minimum content of business and financial reports of authorised companies, used by the companies to report to the Agency and other external users on their financial situation, performance and changes in the financial situation,
12. additional measures aimed at preventing market manipulation.

All the by-laws are available on the web site of the Agency (www.hanfa.hr).

The full alignment of the Croatian legislation in the area of investment services with the *acquis communautaire*, which is the regulatory framework for the securities market and investment services, is anticipated to be completed through the adoption of a new act in the second quarter of 2008, following the beginning of the implementation of the underlying legal act in the EU Member States, namely Directive 2004/39/EC on markets in financial instruments and its implementing measures.

Licensing

In 2007, the Agency issued 91 licences to conduct activities of a broker, 52 licences to conduct activities of an investment advisor and 9 licences to authorised companies to conduct transactions in securities. In the same period, the Agency revoked 21 licences to conduct activities of a broker, 8 licences to conduct activities of an investment advisor and 7 licences of authorised companies to conduct transactions in securities out of which 3 were conditionally revoked. Brokers and investment advisors had their licences revoked due to the so-called administrative reasons, i.e. because they stopped being employees of authorised companies. In 3 cases licences to conduct certain transactions in securities were conditionally revoked of authorised companies, and in four cases licences were permanently revoked.

Table 1.7: Comparison of the Issue and Revocation of Licences in 2006 and 2007

CASE	2006	2007
LICENCE ISSUE		
Brokers	21	91
Investment advisors	7	52
Authorised Companies	12	9
LICENCE REVOCATION		
Brokers	22	21
Investment advisors	13	8
Authorised Companies	3 (2 conditionally)	7 (3 conditionally)

Source: HANFA

In 2007, the Agency adopted 11 decisions approving companies the publication of data when listing securities in the first quotation (with 5 decisions relating to bonds), 15 decisions approving companies the publication of data when listing securities in the quotation of public joint stock companies and 5 decisions approving companies the publication of data when listing securities in the quotation of closed-end investment funds (hereinafter referred to as: ZIF quotation)

With respect to the obligation to list closed-end investment funds, stipulated by the provisions of the Investment Funds Act, a special stock exchange quotation for closed-end investment funds was introduced in 2007. The Zagreb Stock Exchange specified in its rules operating conditions for this quotation and specific transparency rules for the shares listed in it.

The Agency adopted a decision ordering the Banka kovanica d.d. company, Varaždin, to list the shares of the bank in the quotation of public joint stock companies, as the bank had failed to fulfil its obligation to list shares in this quotation according to the provisions of the Securities Market Act.

Table 1.8: Prospectuses and Listings in 2006 and 2007

PROSPECTUSES AND LISTINGS	2006	2007	Note
I quotation	2	11	5 bond listings
JDD quotation	7	15	
ZIF quotation	-	5	introduced in 2007

Source: HANFA

In 2007, the Agency adopted 6 decisions approving, pursuant to Article 82 of the Securities Market Act, internal acts of the Zagreb Stock Exchange and 1 decision approving, pursuant to the Article 137 of the Securities Market Act, changes in internal acts of the Central Depository Agency.

Table 1.9: Approval of Internal Acts in 2006 and 2007

APPROVAL OF INTERNAL ACTS	2006	2007
Stock exchange	3	6
Central Depository Agency	-	1

Source: HANFA

The Amendments to the Securities Market Act of December 2006 introduced the obligation to license management board members and managers of brokerage companies, i.e. managers in banks as authorised companies. In its decisions, the Agency approved 66 management board members and managers of brokerage companies. 2 requests for the appointment of management board members, i.e. managers were denied.

Furthermore, the Amendments stipulate the obligation of the acquirer or holder of a qualifying holding in a brokerage company, stock exchange or the Central Depository Agency to request the prior approval of the Agency to acquire shares or a qualifying holding in case when the proportion of voting rights or of the capital they hold exceeds 20.0%, 33.0%, 50.0% or 75.0%. The Agency approved 6 such acquisitions. If a person, after having obtained approval to acquire a qualifying holding, intends to dispose of their shares or qualifying holding, causing in this way the proportion to fall below the threshold for which the approval was obtained, this person must notify the Agency thereof before the transaction.

Due to the violation of the provisions of the Securities Market Act and Act on the Takeover of Joint Stock Companies, 25 misdemeanour charges were filed to authorised misdemeanour courts. Furthermore, 10 administrative disputes were initiated with regard to decisions of the Agency, in all of which cases the Agency responded to the appeal.



The Agency issued 32 opinions with regard to the application of the provisions of the Securities Market Act and Act on the Takeover of Joint Stock Companies.

Issue of Shares

In 2007, the Agency received 17 requests for approval of the prospectus when issuing shares through a private offering, all of which were granted the Agency's approval. In 2007, the Agency also received 4 requests for approval of the prospectus when issuing shares through a public offering, all of which were granted the Agency's approval. In a public offering procedure, shares of the following companies were offered: Atlantic grupa d.d., Zagreb, Magma d.d., Zagreb, INGRA d.d., Zagreb, OT-OPTIMA TELEKOM d.d., Zagreb. After the procedure was completed, all the said issuers listed their shares in the first quotation of the Zagreb Stock Exchange.

In 2007, the Agency received 47 notifications of conducted issuance of shares through a private offering, for which issuers were exempt from obligation to produce a prospectus in accordance with the provisions of the Securities Market Act

Issue of bonds

In 2007, the Agency issued 10 decisions approving the issue of bonds through a public offering in the total value of HRK 1,489,000,000, with HRK 700,000,000 relating to Hrvatska elektroprivreda d.d. Zagreb. Apart from companies, issuers of bonds were also the cities of Osijek, Rijeka, Split and Vinkovci with issues of municipal bonds needed to finance capital city projects.

Outside the Republic of Croatia, bonds were issued by Zagrebački holding in the value of EUR 300,000,000.

Issue of Commercial Papers

Commercial papers in the Republic of Croatia were issued by 20 companies in 2007. The total value of commercial papers was HRK 1,192,600,083. The largest amount of commercial papers was subscribed by Privredna banka Zagreb d.d., Zagreb.

Takeover of Joint Stock Companies

In 2007, the Agency approved 16 requests to publish takeover bids, at the same time rejecting 1 and denying 1 request.

A total amount of HRK 238,264,533 was paid to shareholders who deposited their shares in takeover bids. The highest amount paid to the shareholders was paid during the takeover of the Arenaturist d.d. company, Pula, and it totalled HRK 112,462,423.

In 2007, the Agency adopted 2 decisions ordering the publication of the takeover bid, as persons obliged to publish takeover bids failed to publish them within the timeframe stipulated by law. One decision ordered Vinko Grubišić from Zagreb and Jagor Grubišić, a minor, from Zagreb to publish the takeover bid for the takeover of the Jadran film d.d. company, Zagreb, while the second decision ordered the Jadran-produkt d.o.o. company, Zagreb, to publish the takeover bid for the takeover of the Jadran d.d. Tvornica metalnog namještaja company, Zagreb.

Supervision of the Capital Market

The supervision of the capital market includes on-site and off-site supervision conducted by the Agency.

1. Off-site supervision

While monitoring trading on the Zagreb and Varaždin Stock Exchanges on a daily basis (until March 2007 when the Varaždin Stock Exchange was merged with the Zagreb Stock Exchange), the Agency examines orders to purchase and sell securities, executed transactions, order book and accounts of customers and supervises issuers of securities. The supervision is conducted according to the criteria of price fluctuation, amount of securities traded, data on customers and on the basis of other sources of information. In the course of off-site supervision, the Agency collects, analyses and processes monthly reports of brokerage companies with respect to the net liquid funds indicator. Brokerage companies are also obliged to submit quarterly financial reports (Balance Sheet, Profit and Loss Account,

Cash Flow Statement and Statement of Changes in Principal), whereas banks conducting transactions in securities are obliged to submit to the Agency business reports, i.e. Income and Expenditure Account related to transactions in securities.

The Agency keeps record of notifications received from public joint stock companies of the acquisition of own shares and of notifications which members of the management and supervisory board are required to submit when acquiring and disposing of shares of an issuer.

Within the daily supervision of trading on the Zagreb and Varaždin Stock Exchanges, for the purpose of protecting investors, establishing confidence among capital market participants, setting up the trade transparency system and preventing market disturbances in general, in 2007 the Agency temporarily suspended trading in shares of many issuers, due to transactions in shares at prices exceeding the prescribed price ranges.

2. On-site supervision

Apart from the described off-site supervision, the Agency also conducts on-site supervision of supervised entities. On-site supervision comprises examination and analysis of financial and business reports, business documentation and other data kept by supervised entities. In cases where the Agency's employees are not able to determine the facts relevant for the supervisory procedure from the documents available, responsible persons and other employees of supervised entities, as well as natural persons in possession of data important for the supervisory procedure are invited to make statements and provide clarifications.

The Agency adopted its internal procedure regulating on-site supervision of supervised entities, which is comprised of the following steps:

1. Submission of the decision on the initiation of the supervisory procedure,
2. Examination of general conditions of the order contract,
3. Examination of the organizational structure,
4. Comparison of data provided with those available to the Agency,
5. Supervision of transactions in securities,
6. Supervision of the portfolio management,
7. Supervision of activities related to custody of securities,
8. Use of inside information and market manipulation,
9. Examination of special accounts of customers,
10. Examination of net liquid assets of the authorised company,
11. Examination of cash operations,
12. Interviews and written statements,
13. Preparation of the records on the supervisory procedure.

In 2007, the Agency initiated supervisory procedures in 46 administrative and 151 non-administrative cases.

In 2007, the Agency filed 14 criminal charges against 21 persons to the State Attorney's Office, which related to:

- illegitimate trade in securities,
- unauthorised use and provision of inside information,
- market manipulation and dissemination of false information,
- acting in concert for the purpose of obtaining illegal material and financial gain,
- disclosure and unauthorised procurement of business secrets.

Furthermore, in 2007 the Agency filed 24 misdemeanour charges, most important being those related to the following irregularities or illegalities:

- market manipulation,
- failure to keep the order book in accordance with the Securities Market Act and the Ordinance on the content and manner of keeping the order book and the book of transactions⁵,
- failure to publish bids for the takeover of public joint stock companies,
- failure to submit business reports and financial reports,
- disclosure and use of inside information,
- failure to publish material facts which, had they been known to the public, may have influenced the price of securities.

In 2007, the Agency adopted 57 decisions ordering measures in order to establish legality and to align business operations with acts and other regulations. Some of the most important decisions were to do with:

- determining the obligation to publish takeover bids,
- prohibiting disposal of shares,

⁵ Official Gazette 81/07

- suspension of all activities relating to the transfer of ownership from the account of the transferor to the account of the acquirer,
- cancelling a transaction on the stock exchange,
- revoking brokers' licences to conduct transactions in securities,
- revoking authorised companies' licences to conduct transactions in securities,
- imposing obligation to inform the public of material facts which, had they been known to the public, may have influenced the price of securities.

The previous year was also marked by the initial public offerings of the following companies:

- Magma d.d. Zagreb,
- Ingra d.d. Zagreb,
- Atlantic Grupa d.d. Zagreb,
- OT-Optima telekom d.d. Zagreb,
- HT-Hrvatske telekomunikacije d.d., Zagreb (more details provided in the section "Public offering of shares of HT-Hrvatske telekomunikacije d.d. Zagreb").

Due to the importance of those events for the development of the capital market, the Agency paid special attention to the supervision of legality of these proceedings, and determined no irregularities during the said initial public offerings.

Supervision of Transactions in Shares of the Issuer Hidroelektra Niskogradnja d.d.

Supervision of transactions in shares of the issuer Hidroelektra Niskogradnja d.d. (hereinafter referred to as: Issuer) started in October 2006 and ended in June 2007.

The supervisory process was initiated due to the fall in the price of the Issuer's shares by 43%, after which the Zagreb Stock Exchange, pursuant to the provisions of the Ordinance on the suspension of trading in shares on stock exchanges in the Republic of Croatia⁶ suspended trading in shares of the Issuer on 26 October 2006. On the same day, on the basis of the authorisation referred to in Article 15 of the Act on the Croatian Financial Services Supervisory Agency⁷, the Agency started the supervision of trading in the Issuer's shares. After having examined trade data, data on the brokerage company that had conducted the disputable transactions and data on manner the transactions had been executed, the Agency analysed all the circumstances related to the case. The reasons causing the Agency to analyse the transactions were the following: the value of the transactions (HRK 39 million), share in initial capital of the Issuer (over 20.0% of the initial capital), fall in share price (43%), and the fact that all the transactions (purchase and sale) were executed by the brokers of the same brokerage company.

With respect to these transactions, in its Decision of 26 October 2006, the Agency ordered the Central Depository Agency to temporarily suspend all activities related to the transfer of ownership from the transferor's to the acquirer's account, in order to examine, during the suspension, the fulfilment of the Issuer's obligation to inform the public of material facts and in order to prevent illegal acquisition of shares. On that day and on the basis of the information available, the Agency determined that the customer (Samoborka d.d., Samobor, Zagrebačka 32) for whose account the package of the Issuer's shares was sold at the price lower by 43% than the previous price, was facing a loss approximating HRK 26,000,000. In order to prevent the occurrence of such a loss, the Agency adopted the said Decision.

After the supervision had been conducted and all the relevant facts related to the case determined, on 21 December 2006 the Agency adopted a Decision cancelling the transactions executed on the Zagreb Stock Exchange on 26 October 2006 which related to the trade in the Issuer's shares.

The Agency filed misdemeanour charges against the brokerage company which executed transactions and the responsible person, due to the violation referred to in Article 155, paragraph 1, point 78 and paragraph 2 of the Securities Market Act, and the violation referred to in Article 155, paragraph 1, point 43 and paragraph 2 of the Securities Market Act. The Agency also issued a Decision conditionally revoking the licence of the brokerage company to conduct any transactions in securities in the period of 1 year.

Supervision of the Process of Increasing Initial Capital of the Issuer Podravska Banka d.d., Opatička 3, Koprivnica

Pursuant to Article 15, paragraph 1 of the Act on the Croatian Financial Services Supervisory Agency, the Agency conducted supervision of the process of increasing initial capital of the issuer Podravska Banka d.d., Opatička 3,

⁶ Official Gazette 114/06

⁷ Official Gazette 140/05

Koprivnica (hereinafter referred to as: Issuer or Bank), cash deposits and issue of ordinary shares through a private offering conducted in accordance with the decision of the General Assembly of the Issuer of 28 August 2006. The supervision was conducted on the basis of the complaint of the Issuer's shareholders regarding the process of subscription and payment of shares in the second subscription round and payment of shares on the basis of increase of initial capital of Podravska banka d.d. conducted on 16 December 2006.

After the shares had been subscribed and paid for, the Agency received complaints from the Issuer's shareholders who claimed that in the second round of subscription and payment of shares they were not allowed to exercise their right to subscribe shares, i.e. that the subscription was interrupted after only 30 minutes.

After it had received the complaints, the Agency undertook actions in order to determine whether the complaints were justified. Having discovered the circumstances implying so, the Agency adopted a Decision on 18 January 2007 on the initiation of the supervision of the process of increasing the Issuer's initial capital through cash deposits and issue of ordinary share through a private offering.

On the basis of facts determined until then as well as of the suspicion that the procedure was conducted in an illegal manner, and presuming that equality of shareholders had been violated, the Agency ordered, in its Decision of 18 January 2007, for the period of 60 days, the Central Depository Agency to ban the Issuer's shares on shareholders' accounts to be used or encumbered. The Decision related to the accounts of those shareholders who had subscribed shares in the second round and enabled the Agency to conduct full-scope on-site supervision.

Authorised employees of the Agency conducted supervision at the premises of both the Issuer and the Agency for the purpose of verifying the complaints of shareholders relating to the second round of share issue.

In the course of on-site supervision, pursuant to Article 14, paragraph 1 of the Securities Market Act, the Agency undertook the following actions: examination of complaints made by persons holding themselves to be injured parties in the course of subscription and payment of shares; examination of the Prospectus on the issue of shares through a private offering approved by the Agency, examination of decisions of the General assembly of the Issuer; examination of statements of persons who made the complaints and of persons who subscribed shares in the second round; subscription forms for the second round and pay orders for shareholders who subscribed shares in the second round; notification of the Central depository Agency of the balance in shareholders' accounts; examination of the Excerpt from the meeting of the Bank's Supervisory Board; examination of the Minutes form the meeting of the Bank's Management Board; examination of recordings made by the surveillance camera of the Bank and interviews with responsible persons of the Bank, namely the President of the Management Board and the person appointed by the Management Board to conduct the subscription and payment procedure.

After having established the facts and conducted the supervision, the Agency determined that the second round of subscription and payment of shares was not carried out in accordance with the approved Prospectus and that the subscription procedure was carried out in an irregular manner.

As a result, the Agency adopted a Decision on 16 March 2007, ordering the Issuer to repeat the second round of subscription and payment of shares in the process of increasing its initial capital, in accordance with the Decision of the Issuer's General Assembly of 28 August 2006. Pursuant to the Decision of the Agency, the Issuer repeated the second round of subscription and payment of shares on 16 April 2007, of which procedure the Agency adopted a Conclusion on 18 April 2007. The Issuer submitted to the Central Depository Agency all data on the repeated second subscription round, after which the subscription of shareholders was carried out. The Issuer undertook all actions in accordance with all other provisions of the said Decision of the Agency.

Supervision of Entities which Participated in Operations Related to and Transactions in Shares of the Issuer Istra-auto d.d., Umag

Pursuant to Article 15 paragraph 1 of the Act on the Croatian Financial Services Supervisory Agency, the Agency conducted supervision of entities which participated in operations related to and transactions in shares of the issuer Istra-auto d.d., Umag, Novigradska ulica 30. The supervision was conducted on the basis of a report submitted by the Istra-auto d.d. company, Umag, pointing to the suspicion that shares of the issuer Istra-auto d.d., Umag, bearing the symbol ISAU-R-A, (hereinafter referred to as: Issuer) had been traded in an illegal and irregular manner, i.e. on the basis of a report related to a transaction executed on the Varaždin Stock Exchange on 20 November 2006.

The Agency undertook all actions within its scope of competence, for the purpose of establishing all circumstances related to the said transaction in shares of the Issuer. In the course of supervision, the Agency identified certain elements pointing to the suspicion that the Issuer's shares had been acquired through actions contrary to the Securities Market Act.



In this regard, the Agency adopted a Decision on 26 April 2007, prohibiting the Issuer's shares on accounts of acquirers to be used or encumbered, and it ordered the Central Depository Agency to freeze, i.e. prevent the Issuer's shares to be disposed of or encumbered for a period of 60 days.

In the course of supervision, the Agency determined that the same brokerage company had acted as an agent of both the buyer and seller of the shares in question. Furthermore, the Agency determined that, while executing the transaction in the Issuer's shares on 20 November 2006, the brokerage company and responsible persons did not comply with the provisions of the Securities Market Act, namely those provisions relating to the obligation to keep the order book and obligations that authorised companies have to fulfil when executing orders. On the basis of the facts established, misdemeanour charges were filed against the brokerage company and responsible persons.

Furthermore, the Agency filed criminal charges to the competent Municipal State Attorney's Office against responsible persons in the brokerage company on reasonable suspicion of their having committed a criminal offence "of disclosure and unauthorised procurement of business secrets" referred to in Article 295 paragraph 1 of the Criminal Code, and a criminal offence of "unauthorised dissemination of inside information" referred to in Article 149 paragraph 1 point 2 of the Securities Market Act.

The Agency also filed criminal charges to the competent Municipal State Attorney's Office against the procurator of the company which was the acquirer of the Issuer's shares on reasonable suspicion of his having committed a criminal offence of "unauthorised use of inside information" referred to in Article 149, paragraph 1 point 1 of the Securities Market Act.

Educational Programme and Exams for Brokers and Investment Advisors

Pursuant to Article 54 of the Securities Market Act⁸ and the Ordinance on the requirements for professional training and examination of technical knowledge needed to obtain an authorisation or licence to conduct activities of a broker, investment advisor and authorised pension fund manager⁹, the Agency organises and carries out the educational programme and examination procedure for brokers and investment advisors. In 2007, the educational programme lasted for 60 hours and was attended by 274 candidates.

The examination of technical knowledge needed to obtain the licence to conduct activities of a broker included the following areas:

- Regulatory rules and practice in securities trading
- Securities and investments
- Basics of financial mathematics and presentation of secondary data
- Statistical methods and analyses
- Reading financial reports
- Accounting and financial reporting
- Payment system
- Introduction to corporation finance
- Solving practical tasks of securities trading
- Ethical standards of securities trading
- Prevention of money laundering and terrorist financing.

The examination of technical knowledge needed to obtain the licence to conduct activities of an investment advisor included the following subjects:

- Regulatory rules and practice in investment industry
- Quantitative methods for macroeconomic and microeconomic analyses
- Statistical methods and analyses
- Accounting principles and interpretations
- Principles of economics
- Corporation finance
- Analysis of financial reports and application of financial ratios
- Accounting and financial reporting
- Payment system

⁸ Official Gazette 84/02 and 138/06

⁹ Official Gazette 97/06 and 92/07

- Securities and investments
- Portfolio management
- Analysis of cases from investment advising
- Ethical standards of securities trading
- Prevention of money laundering and terrorist financing.

A total of 338 candidates applied to take the first investment advisor examination, out of which 326 candidates actually attended the examination which had a written form and a pass threshold of 60% of correct answers. It consisted of 50 questions and the maximum score was 100. Out of the total number of candidates who attended the investment advisor examination, 59 candidates, i.e. 18.1% of them passed it successfully.

For those candidates who applied to take the first examination and failed, the Agency organised a second examination, where 53 candidates or 30.6% out of the total of 173 candidates passed the investment advisor examination successfully.

Out of the total number of 52 candidates who applied to take the second broker examination 13 candidates, i.e. 25.0% of them passed it successfully.

On the basis of the aforementioned data, the total pass rate for the first and second examination was determined to be 34.4% for investment advisors and 71.9% for brokers.

Table 1.10: Results of the Broker and the Investment Advisor Examinations

	INVESTMENT ADVISOR	PASS RATE	BROKERS	PASS RATE
	number of candidates	%	number of candidates	%
FIRST EXAMINATION				
attended	326		196	
passed	59	18.1%	128	65.3%
failed	267	81.9%	68	34.7%
SECOND EXAMINATION				
attended	173		52	
passed	53	30.6%	13	25.0%
failed	120	69.4%	39	75.0%
TOTAL PASS RATE	112	34.4%	141	71.9%

Source: HANFA

Public Reference Room

Pursuant to Article 114 paragraph 4 of the Securities Market Act, public joint stock companies must compile and submit to the Agency quarterly financial and business reports within 30 days, and consolidated reports within 45 days of the last day of each quarter.

Financial and business reports of public joint stock companies for the fourth quarter must be compiled and delivered to the Agency within 90 days of the end of each business year. The contents and form of quarterly and financial reports and the manner and time limits for their delivery are prescribed by the Ordinance on the contents and form of financial and business reports of public joint stock companies¹⁰. Those quarterly financial and business reports are, pursuant to Article 114 paragraph 6 of the Securities Market Act, available to the public in the Public Reference Room of the Agency located on its web site (<http://www.hanfa.hr>), or on a CD which can be obtained after an authorised person has submitted a written request for the delivery of the printout.

The Agency may also provide users of the Public Reference Room with the entire database on a CD ROM, in which case customers conclude a special contract with the Agency. The download of the entire database, as opposed to the use of data found on the Agency's web site, enables users to analyse data for their own needs.

The importance of the Public Reference Room lies in it being the only register which collects quarterly financial and business reports of public joint stock companies, whereas other registers in the Republic of Croatia are based on annual data. In this way, all participants on the capital market, i.e. all potential investors are provided with updated data on the financial and business situation of public joint stock companies, on the basis of which they can assess a possible return or investment risk more rationally and objectively and make investment decisions on the basis of their assessment.

¹⁰ Official Gazette 118/03



Introduction

As at 31 December 2007, there were 100 open-end investment funds registered in the Republic of Croatia, as well as 9 closed-end investment funds and 2 funds which were established pursuant to separate acts, namely the Fund for Croatian Homeland War Veterans and Members of their Families and the Retired Persons' Fund. By the end of 2007, a total of 32 companies were registered as investment funds management companies (5 more than the previous year).

Table 2.1: Comparison of Investment Funds in 2006 and 2007

	2006*	2007	Change
Open-end investment funds	72	100	38.9%
- with a public offering	62	83	33.9%
Cash	15	15	-
Bond	14	14	-
Balanced	18	18	-
Equity	15	36	140.0%
- with a private offering	9	16	77.8%
- venture capital open-end investment fund	1	1	-
Closed-end investment funds	7	9	28.6%

*Data include 4 funds which failed to align their activities with the Investment Funds Act by the end of 2006 and were deleted from the register.

Source: HANFA

Investing in investment funds necessarily includes exposure to the certain risks:

- *Market Risk:* Investment funds investing in stocks are subject to capital market risks and significant fluctuations in value.
- *Stock Selection Risk:* The portfolio securities selected by the fund manager may decline in value or not increase in value when the stock market in general is rising and may fail to meet the investment objective.
- *Liquidity Risk:* The fund manager may not be able to sell portfolio securities at an optimal time or price.
- *Industry Concentration Risk:* Investment funds that invest a substantial portion of their assets in a particular industry carry a risk that a group of industry-related securities will decline in price due to industry specific developments. Issuers in the same or similar industries may share common characteristics and are more likely to react comparably to industry specific market or economic developments.
- *Small and Medium-Size Firm Risk:* Small and medium-size companies always have narrower markets and more limited managerial and financial resources than do large, more established companies. As a result, their performance can be more volatile and they face a greater risk of business failure, which could increase the volatility of the asset value of the portfolio.
- *Foreign Securities Risk:* Investment funds may invest in foreign securities, which can carry higher returns but involve more risks than those associated with investments in the developed countries' markets. In addition to the currency fluctuation risk, these investments are also associated with the political and economic instability risks, differences in financial reporting standards and less stringent regulations of securities markets.

Open-End Investment Funds

In 2007, 32 new open-end investment funds (OIF) were approved. The reason for the dominance of open-end funds over closed-end funds may be found in the fact that it is easier for investors to join open-end investment funds and that banks, due to the expansion of their services and in order to meet the demands of the market in the best way possible, became the most important founders of open-end investment funds.

Compared to the previous year, the number of equity funds grew at the fastest rate (more than double), whereas the share of other funds in the market remained unchanged. Open-end investment fund management companies also continued with their practise of offering their investors a choice of investing in at least one cash, bond, balance or equity fund.

The number of open-end investment funds with a public offering recorded a significant increase as well (almost double compared to the previous year), even though that is a special type of fund with a more strictly defined investor approach.

The increase in the number of open-end investment funds also resulted in the increase in the net assets of open-end investment funds, namely by 87.4% compared to the same period in 2006. The net assets of open-end investment funds in the Republic of Croatia totalled HRK 30.1 billion as at 31 December 2007, out of which HRK 29.0 billion was accounted for by funds with a public offering, while funds with a private offering closed the year with total net assets amounting to HRK 1.0 billion.

Table 2.2: Net Asset Value of Open-End Investment Funds (in HRK thousand)

	2006	2007
Open-end investment funds	16,038,989	30,056,247
- with public offering	15,719,074	29,017,625
Cash	4,274,744	4,140,206
Bond	1,138,589	674,073
Balanced	5,994,698	10,022,402
Equity	4,311,043	14,180,944
- with private offering	319,915	1,038,621

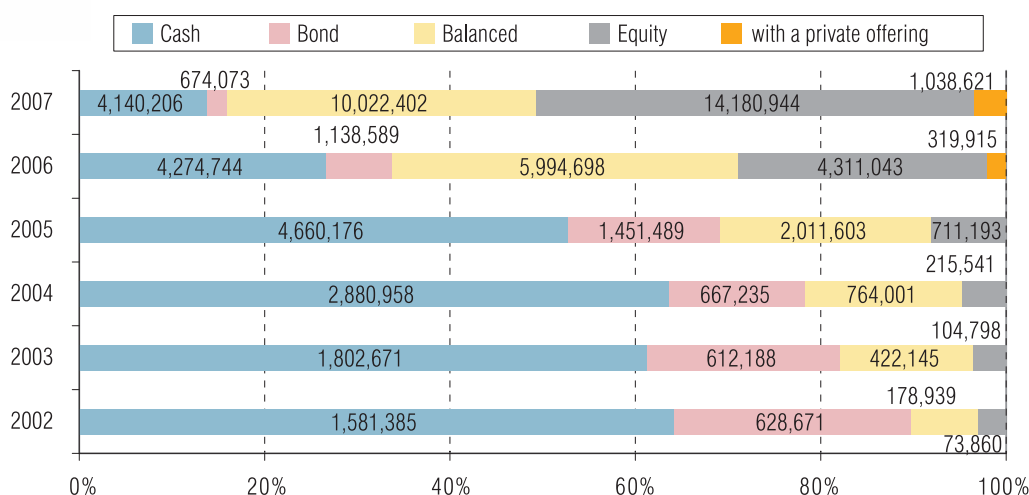
Source: HANFA

Open-end investment funds continued their growth and became institutional investors of an ever-increasing importance not only in the Republic of Croatia, but in other countries of South Eastern Europe as well. Net assets of open-end investment funds rose by 87.4% in 2007, which is an increase compared to 2006 when the total annual increase was 81.6%.

In 2007, a significant increase was recorded by net assets of open-end investment funds (despite the instability of the financial market in the last quarter). A rise increase in net assets was also recorded by equity and balanced funds, while cash funds, and in particular bond funds reported fall in their net assets.

Equity funds recorded an increase in net assets of as much as 228.9%. Net assets of balanced funds rose as well, by 67.2% compared to 2006. In the same period, cash and bond funds recorded a decrease of 3.2%, and 40.8% respectively.

Chart 2.1: Shares in Total Net Assets of Open-End Investment Funds (in HRK thousand)

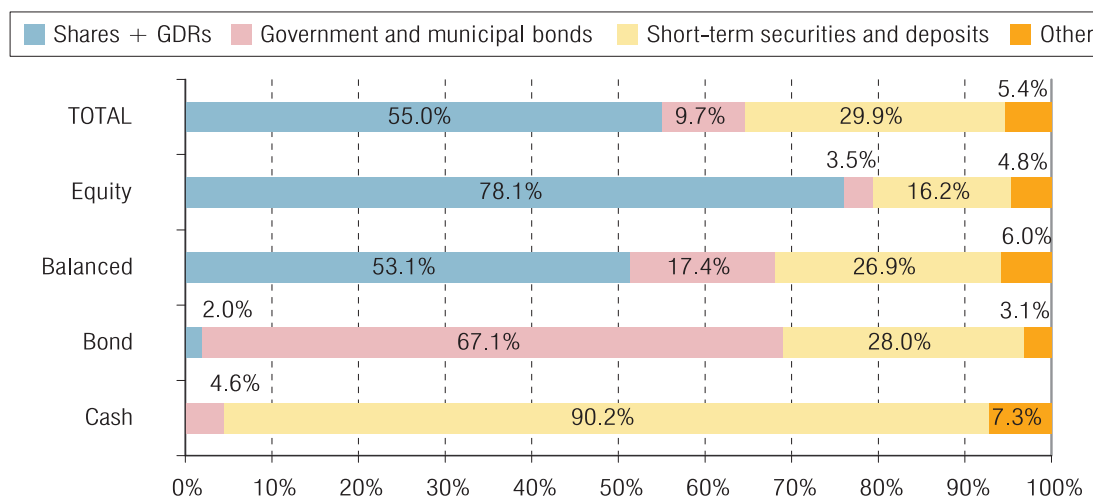


Source: HANFA

Investment Funds

Open-end investment funds with a public offering ended the year 2007 with 55.0% of assets in shares, 9.7% of assets in bonds and 29.9% of assets in short-term securities and deposits. However, the investment structure considerably varies depending on the type of fund: equity funds invested 78.1% of their assets in shares, bond funds invested 67.2% of their assets in bonds, whereas cash funds invested 90.2% of their assets into short-term securities and deposits.

Chart 2.2: Investment Structure of Open-End Investment Funds with a Public Offering

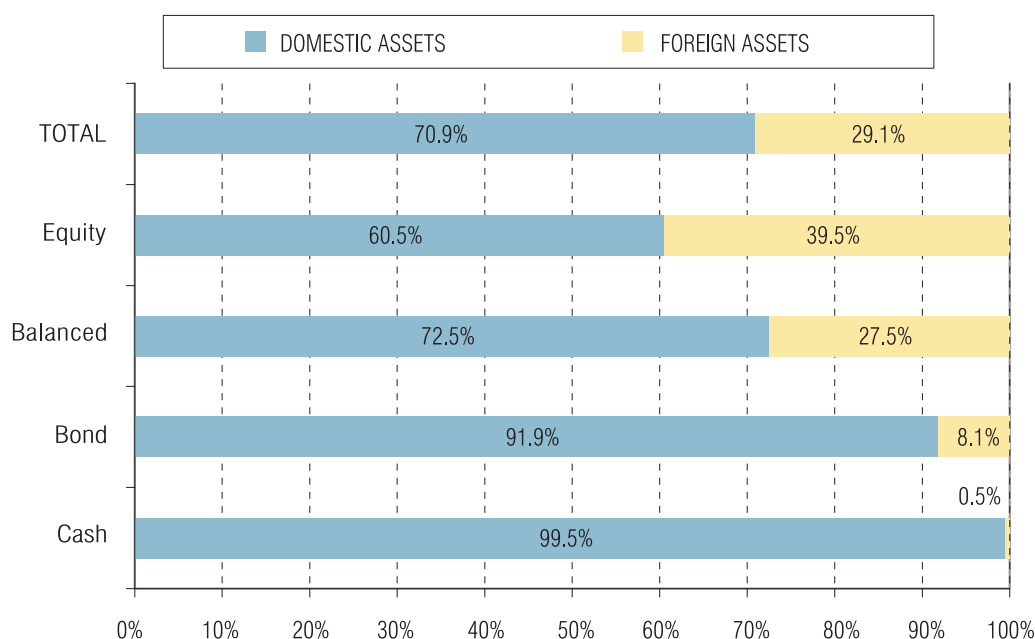


Source: HANFA

Open-end investment funds with a public offering continued to invest most of their assets into the domestic securities market (67.4%), which was a decrease compared to 2006 (78.8%).

In the previous year, equity and balanced funds invested significant parts of their assets in foreign markets, resulting in the share of foreign investments at the end of the year for equity funds amounting to 39.5% (34.9% in 2006), and the share of balanced funds to 27.5% (22.3% in 2006). Due to the fact that total assets of these two types of funds increased at an extremely high rate, total foreign investments rose by HRK 5.7 billion to the amount of HRK 8.7 billion.

Chart 2.3: Shares of Domestic and Foreign Assets in Open-End Investment Funds with a Public Offering



Source: HANFA



In 2007, total share of the 5 largest investment fund management companies in the total assets of open-end investment funds did not decrease significantly compared to 2006, and it amounted to 81.4%, which still points out to a significant market concentration. The remaining assets totalling HRK 5.6 billion were managed by 19 companies.

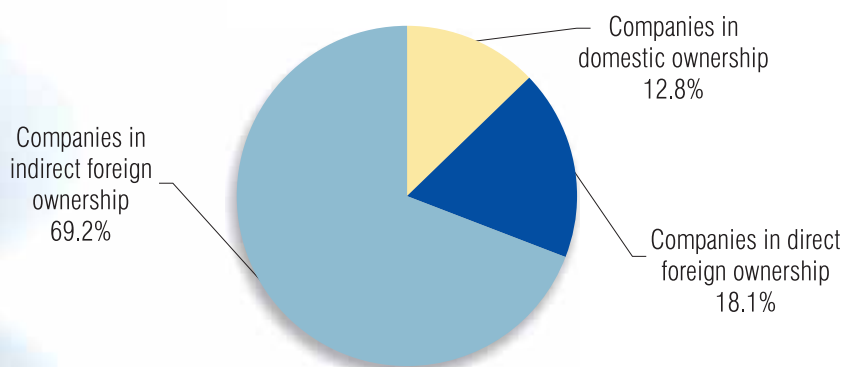
Table 2.3: Net Assets Managed by Companies Managing Open-End Investment Funds

Management company	2006		2007	
	Net assets	Share in total assets of OIFs	Net assets	Share in total assets of OIFs
ZB INVEST d.o.o.	4,394,032	27.4%	9,530,883	31.7%
PBZ INVEST d.o.o.	3,372,290	21.0%	6,336,800	21.1%
RAIFFEISEN INVEST d.o.o.	4,092,454	25.5%	4,064,638	13.5%
ERSTE-INVEST d.o.o.	1,471,056	9.2%	3,241,503	10.8%
HPB-INVEST d.o.o.	453,875	2.8%	1,288,520	4.3%
Other	2,255,282	14.1%	5,593,902	18.6%
Total	16,038,989	100.0%	30,056,247	100.0%

Source: HANFA

Out of 25 investment fund management companies, 11 were in domestic ownership, 7 were in direct foreign ownership, 6 in indirect foreign ownership, whereas 1 company was in domestic and direct foreign ownership equally. However, the share of companies in domestic ownership amounted to only 12.8% of total managed assets.

Chart 2.4: Shares in Assets of Open-End Investment Funds by Ownership Structure of Management Companies

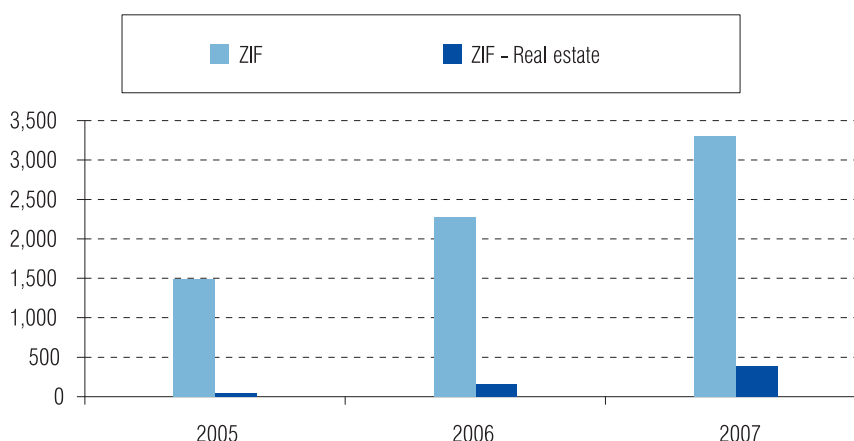


Source: HANFA

Closed-End Investment Funds

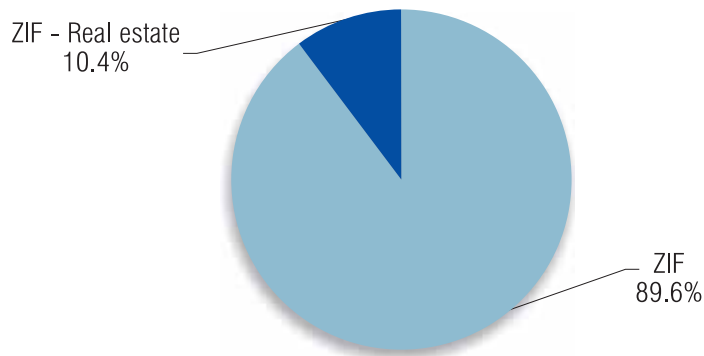
As at 31 December 2007, a total of 9 closed-end investment funds (ZIF) operated in the Republic of Croatia, 5 of which were registered for investments in real estate. The total assets of all closed-end investment funds amounted to HRK 3.7 billion, with real estate funds accounting for a 10.4% share. This ratio did not change significantly in comparison with the previous year, even though the total assets of closed-end investment funds grew by 50.7%. In 2007, 2 closed-end investment funds for investments in real estate were established.

Chart 2.5: Net Asset Value of Closed-End Investment Funds in 2005, 2006 and 2007 (in HRK million)



Source: HANFA

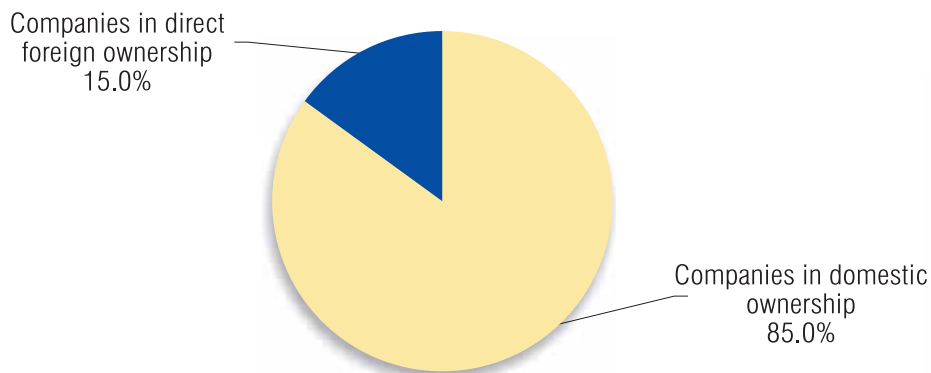
Chart 2.6: Share of Real Estate Funds in the Total Assets of Closed-End Investment Funds



Source: HANFA

Out of 7 closed-end investment fund management companies, 6 were in domestic ownership and 1 was in direct foreign ownership.

Chart 2.7: Shares in Assets of Closed-end Investment Funds by Ownership Structure of Management Companies



Source: HANFA

Investment Fund Management Companies

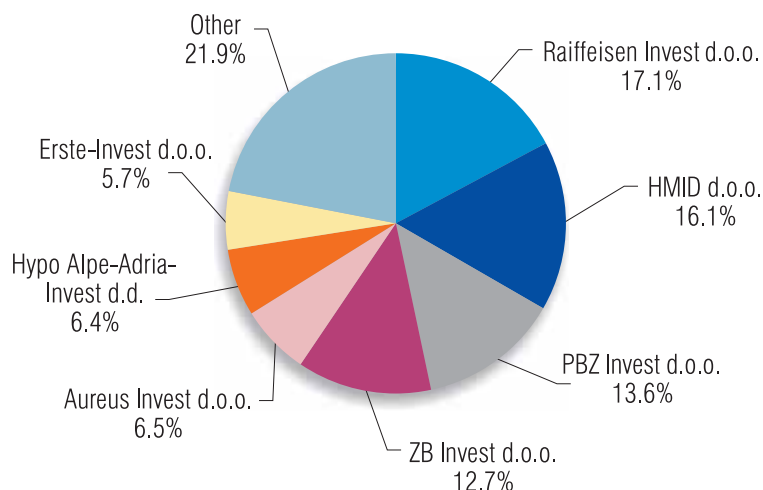
In 2007, the total assets of investment fund management companies amounted to HRK 629.3 million, with HRK 559.7 million being made up by short-term assets. The largest share of the assets (HRK 107.8 million) was accounted for by Raiffeisen Invest d.o.o., followed by Hrvatsko mirovinsko investicijsko društvo d.o.o. (HRK 101.5 million), PBZ Invest d.o.o. (HRK 85.5 million) and ZB Invest d.o.o. (HRK 80.2 million), which made up 59.6% of total assets. Management companies' assets were mainly financed from their own sources (71.3%), namely from retained (accumulated) profit and profit of the accounting period.

Table 2.4: Balance Sheet of Management Companies as at 31 December 2007 (in HRK thousand)

ASSETS			LIABILITIES		
	Amount	Share		Amount	Share
A Fixed assets	68,203	10.8%	A Capital and reserves	448,434	71.3%
I Intangible assets	6,506	1.0%	I Subscribed capital	96,709	15.4%
II Tangible assets	17,143	2.7%	II Income from shares issued	0	0.0%
III Financial assets	43,360	6.9%	III Revaluation reserves	2,975	0.5%
IV Receivables	1,194	0.2%	IV Reserves	3,196	0.5%
B Short-term assets	559,653	88.9%	V Retained earnings	56,188	8.9%
I Stock, inventory and other	106	0.0%	VI Profit (loss) for current year	289,366	46.0%
II Receivables	208,307	33.1%	B Liabilities	174,838	27.8%
III Financial assets	126,292	20.1%	C Accruals and deferred income	6,057	1.0%
IV Cash at bank and in hand	224,948	35.7%	Total liabilities	629,329	100.0%
C Prepayments and accrued income	1,171	0.2%			
D Loss above the amount of capital	302	0.0%			
Total assets	629,329	100.0%			

Source: HANFA

Chart 2.8: Shares in Total Assets of Management Companies as at 31 December 2007



Source: HANFA

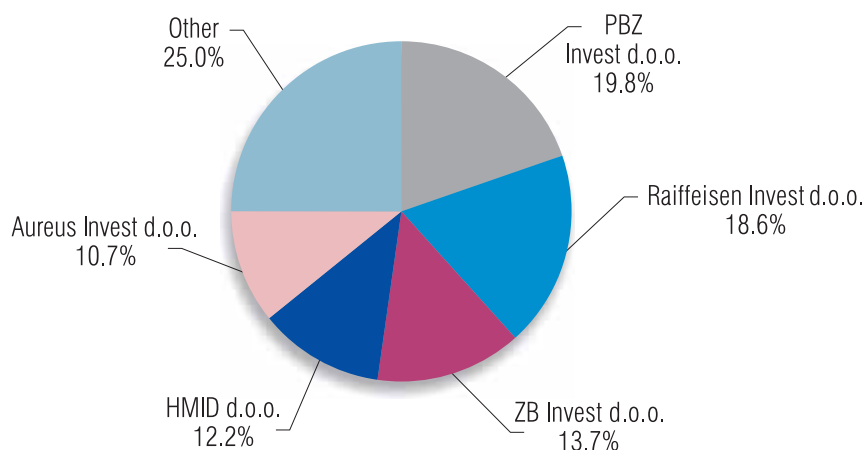
Total income amounting to HRK 767.2 million was generated in 2007, out of which business income accounted for the largest share of 97.7%. In 2007, management companies reported a profit after taxes to the amount of HRK 289.1 million, which was a result of profit in the amount of HRK 300.3 million generated by 19 investment fund management companies and of loss in the amount of HRK 11.2 million recorded by 13 investment fund management companies. The largest share in the profit structure was accounted for by PBZ Invest d.o.o. (HRK 59.6 million), Raiffeisen Invest d.o.o. (HRK 55.9 million), ZB Invest d.o.o. (HRK 41.1 million), Hrvatsko mirovinsko investicijsko društvo d.o.o. (HRK 36.6 million) and Aureus Invest d.o.o. (HRK 32.0 million).

Table 2.5: Profit and Loss Account of Management Companies in 2007 (in HRK thousand)

A	Business income	749,583
B	Business expenses	337,920
C	Financial income	13,122
D	Financial expenses	3,347
E	Other income	4,534
F	Other expenses	61,890
G	Total income	767,239
H	Total expenses	403,158
I	Profit (loss) before taxes	364,082
J	Tax on profit	75,019
K	Profit (loss) after taxes	289,063

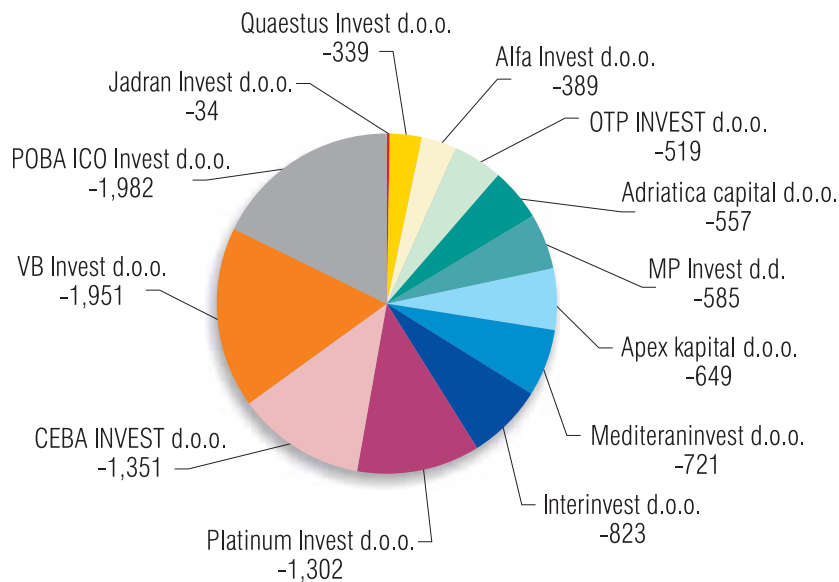
Source: HANFA

Chart 2.9: Profit of Management Companies after Taxes in 2007



Source: HANFA

Chart 2.10: Loss of Management Companies in 2007 (in HRK thousand)



Source: HANFA

Investment Funds Established Pursuant to Separate Acts

Apart from open-end and closed-end investment funds, another two funds, established pursuant to separate acts, operated in the Republic of Croatia in 2007: the Fund for Croatian Homeland War Veterans and Members of their Families and the Retired Persons' Fund.

As at 31 December 2007, the net asset value of the Fund for Croatian Homeland War Veterans and Members of their Families amounted to HRK 4.2 billion, increasing by almost 43,9% compared to 2006. On the same day, the net asset value of the Retired Persons' Fund totalled HRK 4.5 billion.

Table 2.6: Investment Funds Established pursuant to Separate Acts as at 31 December 2007 (in HRK thousand)

Investment Fund	Management Company	Net Asset Value
Fund for Croatian Homelan War Veterans and Members of their Families	ERSTE INVEST d.o.o.	4,236,282
Retired Persons' Fund	HPB INVEST d.o.o.	4,491,421

Source: HANFA

Table 2.7: Investment Structure of the Fund for Croatian Homeland War Veterans and Members of their Families as at 31 December 2007 (in HRK thousand)

Type of assets	31 Dec 2006		31 Dec 2007	
	Amount	Share	Amount	Share
DOMESTIC ASSETS	2,987,889	100.0%	4,299,154	100.0%
Securities and deposits	2,984,085	99.9%	4,295,835	99.9%
Shares + GDR	2,850,053	95.4%	3,991,437	92.8%
Government bonds	131,059	4.4%	108,059	2.5%
Deposits	0	0.0%	196,339	4.6%
Cash	3,804	0.1%	3,319	0.1%
FOREIGN ASSETS	0	0.0%	0	0.0%
TOTAL ASSETS	2,987,889	100.0%	4,299,154	100.0%
Net assets	2,945,131		4,236,282	

Source: HANFA

Table 2.8: Investment Structure of the Retired Persons' Fund as at 31 December 2007 (in HRK thousand)

Type of assets	31 Dec 2006		31 Dec 2007	
	Amount	Share	Amount	Share
DOMESTIC ASSETS	6,629,686	100.0%	4,506,870	100.0%
Securities and deposits	19,545	0.3%	1,734,757	38.5%
Shares + GDR	19,545	0.3%	9,260	0.2%
Short-term securities	0	0.0%	1,227,754	27.2%
Deposits	0	0.0%	497,744	11.0%
Cash	2,579	0.0%	67,421	1.5%
Receivables	6,607,561	99.7%	2,704,692	60.0%
FOREIGN ASSETS	0	0.0%	0	0.0%
TOTAL ASSETS	6,629,686	100.0%	4,506,870	100.0%
Net ASSETS	6,628,987		4,491,421	

Source: HANFA

Regulatory Activities

The legal framework regulating business activities of investment funds is presented in the Investment Funds Act¹, which entered into force on 1 January 2006. In 2007, 15 ordinances thoroughly regulating business activities of investment funds were adopted pursuant to the Investment Funds Act.

In its by-laws the Agency regulated in greater detail the minimum content of applications for the issue of approval and the minimum content of prospectus and statutes for closed-end and open-end investment funds with a public offering as well as modifications to prospectuses of open-end investment funds with a public offering. Publication and approval of simplified prospectuses of open-end investment funds with a public offering were defined by the said subordinate legislation as well.

The by-laws also define, with respect to funds' specific characteristics, the ways of presenting business results of investment funds with a private offering and venture capital investment funds with a private offering. As regards changes in the promotion of investment funds with a public offering, the emphasis was put on details relating to the content and methods of the presentation of investment funds' business results.

One of the more significant by-laws adopted in this period was the Ordinance regulating the procedure, costs and time limits for the winding up of investment funds, which clearly defines the actions the management company or liquidator is obliged to undertake for the purpose of ending the winding-up procedure, with the aim of benefiting investors.

Ordinance on permitted investments and investment limitations for open-end investment funds with a public offering introduced significant changes in the legislation relating to investment funds adopted in this period. Apart from providing legal provisions, the Ordinance also regulates business operations of open-end investment funds with a public offering, and prescribes qualitative and quantitative criteria as well as investment limitations for individual asset categories. Furthermore, this by-law defined for the first time obligations of management companies regarding the publication of information on business operations of management companies and investment funds with a public offering they manage, all for the purpose of higher efficiency and transparency of investment funds and all market participants.

In the new by-laws, the Agency set up a tighter regulatory framework, which contributed to a significant improvement in the supervision of business operations of investment fund management companies and investment funds. Apart from the above mentioned issues, the by-laws also thoroughly defined business activities of investment fund management companies regarding the organisational, personnel, safety and technical requirements. Finally, the by-laws defined procedures and types of activities permitted to be delegated to third persons by investment fund management company, as well as methods of organising, recording and publishing information from the register of units in open-end investment funds.

Licensing

In 2007, operating licences were granted to 5 new investment fund management companies, with bank being the establisher in one case. In the previous year, operating licences were granted to 32 open-end investment funds, 2 closed-end investment funds for real estate and 7 open-end investment funds with a private offering.

¹ Official Gazette 150/05

Table 2.9: Cases Processed in 2007

Type	2007	2006	Change
Approval of business activities of the management company	6	7	-14.3%
Approval and registration in the fund register, approval to choose a depositary bank	33	16	106.3%
Approval of new, amended prospectuses and statutes*	60	82	-26.8%
Promotion of investment funds	69	73	-5.5%
Approval of the Ordinances on conflicts of interest	13	0	-
Approval of members of the management and supervisory board	51	25	104.0%

* Higher number of cases in 2006 was a consequence of the adoption of the new Investment Funds Act and the need for alignment by 1 January 2007

Supervision of Investment Funds

In accordance with the provisions of the Investment Funds Act², in 2007 investment fund management companies and investment funds were obliged to align their internal structure, regulations and business operations with the provisions of the Act, which was the focus of the Agency's supervisory activities during the year.

The subordinate legislation defined the methodology for valuing funds' assets, methods and time limits for reporting on net asset value per unit or per share of the fund by means of prescribed forms used by the depositary bank to inform the Agency on each valuation day for investment funds. Apart from those forms, investment fund management companies are obliged to submit to the Agency their own annual reports and annual reports for funds they manage, informing of their business activities, as well as audited financial reports within 4 months after the end of the business year, and semi-annual reports within 2 months after the end of the six-month accounting period. Investment fund management companies prepare and submit to the Agency quarterly reports for funds they manage for statistical purposes.

Within off-site supervision of investment funds, the Agency analyses and processes daily and periodical reports on a daily basis, which includes verification of the compliance with methods of valuing assets, investment limitations, accounting policies, provisions laid down in the statute and prospectus of certain investment funds and assessment of qualitative and quantitative business risks of supervised entities.

On-site supervision covers business operations of investment fund management companies and investment funds they manage. The supervision involves direct examination of documents and interviews with authorized staff of the company regarding all important issues related to business operations and results of investment funds.

Relevant documents and data from the sources available to the Agency are analysed in the course of supervision with the aim of determining the actual situation and verifying the alignment of business operations with legislation and subordinate legislation, as well as with the provisions of prospectuses and statutes of investment funds, for the purpose of identifying possible operational risks, and protecting unit holders in open-end investment funds and shareholders in closed-end investment funds.

On-site supervision includes the examination of institutional documents of management companies and investment funds, agreements on delegating activities related to asset management to third parties, agreements with partners on activities significant for business operations of investment funds, internal procedures and policies and organisation of activities related to investment fund management, organisational structure of management companies and related persons of investment companies and funds. On-site supervision also examines the procedure of investment decision-making, trading activities and settlement procedures, asset valuation and calculation of fund's unit values, observance of permitted investments and investment limitations, as well as methods of organising, recording and publishing information from the register of unit holders in open-end investment funds. In addition, the supervision checks the organisation and method of running the accounting system, as well as the process of preparing financial reports of investment fund management companies and investment funds with a special emphasis on costs permitted to be directly charged to investors or investment funds.

In 2007, on-site supervision on a regular basis was conducted over the following subjects:

HPB Invest d.o.o. (open-end investment fund with a public offering: HPB Dionički, HPB Dynamic, HPB Global, HPB Novčani, HPB Obveznički), Erste Invest d.o.o. (open-end investment funds with a public offering: Erste Adriatic Equity, Erste Balanced, Erste Bond, Erste Money), Fima Global Invest d.o.o. (open-end investment funds with a public offering: Global Bond, Global Equity, Fima Maximum and closed-end investment fund BREZA INVEST d.d.), ICF Invest d.o.o. (open-end investment funds with a public offering: ICF Fixed Income, ICF Money Market and ICF Balanced), ICAM d.o.o.

² Official Gazette 150/05

(open-end investment funds with a private offering: Capital One, Capital Two, Equinox I, Equinox II, Equinox III, Hermes, KWSO Capital Flex and Oxygen), ZB Invest d.o.o. (open-end investment funds with a public offering: ZB plus, ZB europlus, ZB global, ZB bond, ZB trend, ZB euroaktiv and ZB aktiv), Prospectus Invest d.o.o. (open-end investment funds with a public offering: Prospectus Global Equity and Prospectus Jugoistočna Europa), Hypo Alpe-Adria-Invest d.d. (open-end investment funds with a public offering: Hi-balanced, Hi-cash, Hi-conservative and Hi-growth), Ilirika Investments d.o.o. (open-end investment funds with a public offering: Ilirika Jugoistočna Europa, Ilirika Jugoistočna Europa Balanced and Ilirika Azijski Tigar), PBZ Invest d.o.o. (open-end investment funds with a public offering: PBZ Equity, PBZ Global, PBZ Bond, PBZ Dollar, PBZ Novčani, PBZ Euro novčani and PBZ Kunski novčani), Quaestus Private Equity d.o.o. (Quaestus Private Equity Kapital venture open-end investment fund with a private offering), HPB Invest d.o.o. (open-end investment funds with a public offering: HPB ZM-1 and HPB Alpha), Raiffeisen Invest d.o.o. (open-end investment funds with a public offering Raiffeisen 105), ST Invest d.o.o. (open-end investment funds with a public offering: ST Global Equity, ST Balanced, ST Aggressive, ST Bond and ST Cash), CAIB Invest d.o.o. (open-end investment funds with a public offering: Select Euro Bond, Select Europe and Select Novčani), KD Investments d.o.o. (open-end investment funds with a public offering: KD Adria Bond, KD Balanced, KD Victoria and KD Nova Europa) and OTP Invest d.o.o. (open-end investment funds with a public offering: OTP euro obveznički, OTP novčani and OTP uravnoteženi).

At the same time, the on-site supervision was conducted on the special basis on the following subjects:

ICF Invest d.o.o. (open-end investment funds with a public offering: ICF Fixed Income, ICF Money Market and ICF Balanced), PBZ Invest d.o.o. (open-end investment funds with a public offering: PBZ Equity, PBZ Global, PBZ Bond, PBZ Dollar, PBZ Novčani, PBZ Euro novčani and PBZ Kunski novčani) and ZB Invest d.o.o. (open-end investment funds with a public offering: ZB plus, ZB europlus, ZB global, ZB bond, ZB trend, ZB euroaktiv and ZB aktiv).

Table 2.10: On-site Supervision of Management Companies and Investment Funds in 2007

Supervision	Management companies	Investment funds			
		Public offering		Private offering	
		Open-end	Closed-end	Open-end	Venture capital open-end
Regular	17	53	1	11	1
Special	3	17	-	-	-
Total	20	71		12	

Source: HANFA

On the basis of findings of the on-site supervision conducted at investment fund management companies and investment funds they manage, after having identified activities that were contrary to the provisions of the Investment Funds Act, the Agency filed 5 misdemeanour charges against some management companies and authorised persons in the legal person.

The abovementioned misdemeanours relate to the following issues: non-adherence to duty procedures related to business operations, unauthorised delegation of business activities to third parties, non-adherence to investment limitations, non-adherence to limitations of indebtedness, failure to fulfil the obligation to determine the investment fund's asset value, charging fees contrary to the Act, charging other commissions apart from entry and exit commissions, non-adherence to the obligation to adequately, and in a timely manner, publish the net asset value per share and the price of shares and units, non-adherence to the form of the report prescribed by the Act, violation of obligation to report to the Agency and violation of the ban for management companies to dispose of and acquire securities or any other type of assets of the fund, whether for their own or for a related person's account.

In the course of on-site supervision of investment fund management companies and investment funds they manage, some further irregularities were established relating to the issue of units of open-end investment funds with a private offering, inaccuracy and incompleteness of the prospectus, non-compliance with the provisions of the prospectus and the Act concerning permitted investments and investment limitations and definition of the investment strategy, delegation of activities related to book-keeping and preparation of financial reports of investment funds to third parties, as well as methods of organising, recording and publishing information from the register of units in open-end investment funds contrary to the existing legislation and by-laws.

The Agency issued 3 Decisions to the management companies where the irregularities were established, ordering the elimination of the said irregularities within specified time limits, which the management companies complied with.

Pension funds started operating in 2002. They represent a special type of investment funds in which their members invest in order to obtain the right to receive pension. The Mandatory and Voluntary Pension Funds Act¹ defines 2 types of pension funds:

- mandatory pension funds, i.e. funds with mandatory membership for all employed persons who were, at the time of the establishment of the funds, i.e. at the time of their first employment, younger than 40, with persons between 40 and 50 years of age being permitted to choose whether or not they wanted to become members of mandatory pension funds, and
- voluntary pension funds with voluntary membership, which can be open-end funds, i.e. funds for all citizens of the Republic of Croatia, or closed-end funds, with the employer, a trade union or an association of self-employed persons being sponsors of the fund.

Mandatory Pension Funds

In 2007, a total of 76,884 persons joined one of the mandatory pension funds, whereas a total of 3,201 persons exited the funds in the same period. Like in the previous years, in 2007 the majority of insured persons (76.5%) did not select their fund personally, but were allocated to one of the existing funds by REGOS upon the expiry of the selection period.

Table 3.1: Mandatory Pension Funds (OMF) Membership

	AZ OMF	Erste OMF	PBZ/CO OMF	Raiff. OMF	Total
Balance as at 31 Dec 2006	504,822	159,923	222,832	434,433	1,322,010
First registrations	2,798	3,030	3,038	3,075	11,941
Subsequently completed registrations	1,893	1,567	1,176	1,691	6,327
Allocation by Regos	21,935	7,884	9,766	19,031	58,616
Total numbers of new members	26,626	12,481	13,980	23,797	76,884
Transfers to another fund	26,578	4,784	10,867	22,156	64,385
Transfers from another funds	6,313	44,686	5,859	7,527	64,385
Net transfer	-20,265	39,902	-5,008	-14,629	0
Total termination of membership	1,085	420	734	962	3,201
Balance as at 31 Dec 2007	510,098	211,886	231,070	442,639	1,395,693

Source: HANFA

In 2007, a total amount of HRK 3.9 billion of pension contributions was paid into mandatory pension funds, while disbursements from funds due to the closure of personal accounts amounted to HRK 47.6 million. Disbursements will gradually increase over the following years, but considering the age structure of fund's members members, an increase in payments into mandatory pension funds is expected to continue.

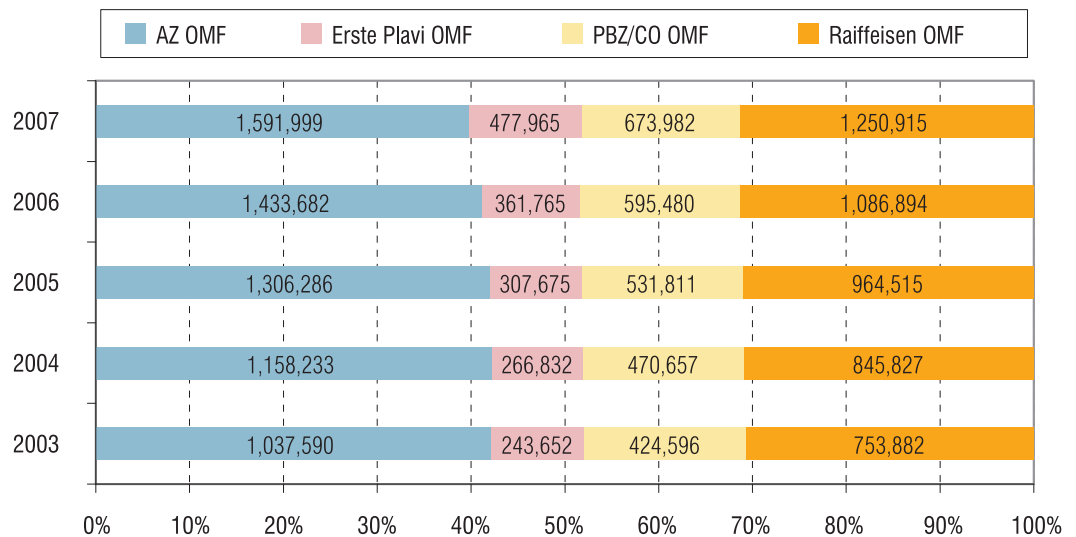
Table 3.2: Net Contributions of Mandatory Pension Funds in 2007 (in HRK thousand)

	AZ OMF	Erste OMF	PBZ/CO OMF	Raiff. OMF	Total
Net contributions	1,591,999	477,965	673,982	1,250,915	3,994,860
Payments from other OMFs	57,839	416,765	47,064	85,164	606,831
Disbursements to other OMFs	270,488	39,782	99,043	201,051	610,363
Disbursements of funds upon adjustments	1,674	639	676	1,531	4,521
Disbursements of funds upon the closure of personal accounts	15,147	6,765	12,303	13,424	47,638

Source: HANFA

¹ Official Gazette 49/99, 63/03, 103/03, 177/04 and 71/07

Chart 3.1: Net Contributions of Mandatory Pension Funds in the Last 5 Years (in HRK thousand)



Source: HANFA

At the end of 2007, the total assets of OMFs amounted to HRK 21.0 billion or HRK 15,047.6 by fund member, increasing by 25.0% in comparison with 2006. An average annual net contribution by fund member in 2007 totalled HRK 2,862.3, which was an 8.6% increase comparing to 2006.

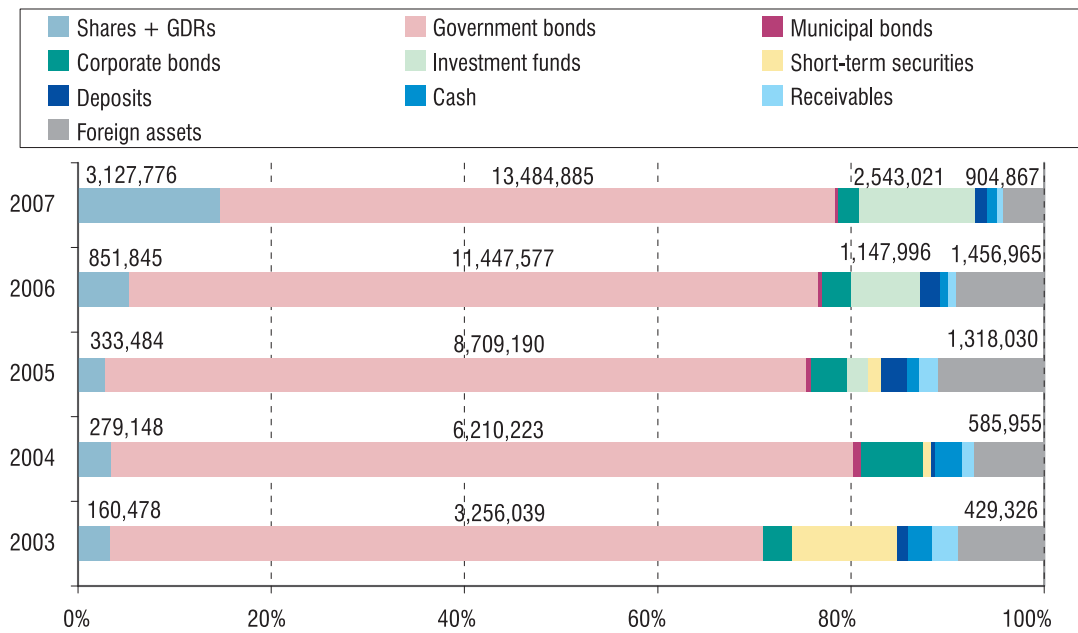
Mandatory pension funds kept investing most of their assets in government bonds (63.6% of total asset value). 2007 saw a significant increase in mandatory pension funds' investments in domestic shares and open-end investment funds, but those investments did not exceed 26.7% of total asset. There was a slight decrease in investments in foreign securities in the same period.

Table 3.3: Investment Structure of Mandatory Pension Funds (in HRK thousand)

Asset	31 Dec 2006		31 Dec 2007	
	Amount	Share	Amount	Share
DOMESTIC ASSETS	14,588,033	90.9%	20,297,532	95.7%
Securities and deposits	14,313,666	89.2%	19,947,365	94.1%
Shares + GDRs	851,845	5.3%	3,127,776	14.8%
Government bonds	11,447,577	71.3%	13,484,885	63.6%
Municipal bonds	62,810	0.4%	76,277	0.4%
Corporate bonds	476,121	3.0%	451,259	2.1%
Closed-end investment funds	0	0.0%	0	0.0%
Open-end investment funds	1,147,996	7.2%	2,543,021	12.0%
Short-term securities	11,682	0.1%	21,792	0.1%
Deposits	315,635	2.0%	242,354	1.1%
Cash	138,521	0.9%	232,527	1.1%
Receivables	135,845	0.8%	117,641	0.6%
FOREIGN ASSETS	1,456,965	9.1%	904,867	4.3%
Shares	218,338	1.4%	689,226	3.3%
Government bonds	232,649	1.4%	0	0.0%
Municipal bonds	0	0.0%	0	0.0%
Corporate bonds	183,122	1.1%	42,114	0.2%
Closed-end investment funds	0	0.0%	0	0.0%
Open-end investment funds	822,855	5.1%	173,527	0.8%
Short-term securities	0	0.0%	0	0.0%
Deposits	0	0.0%	0	0.0%
TOTAL ASSETS	16,044,997	100.0%	21,202,399	100.0%
Net assets	15,919,423		21,001,886	

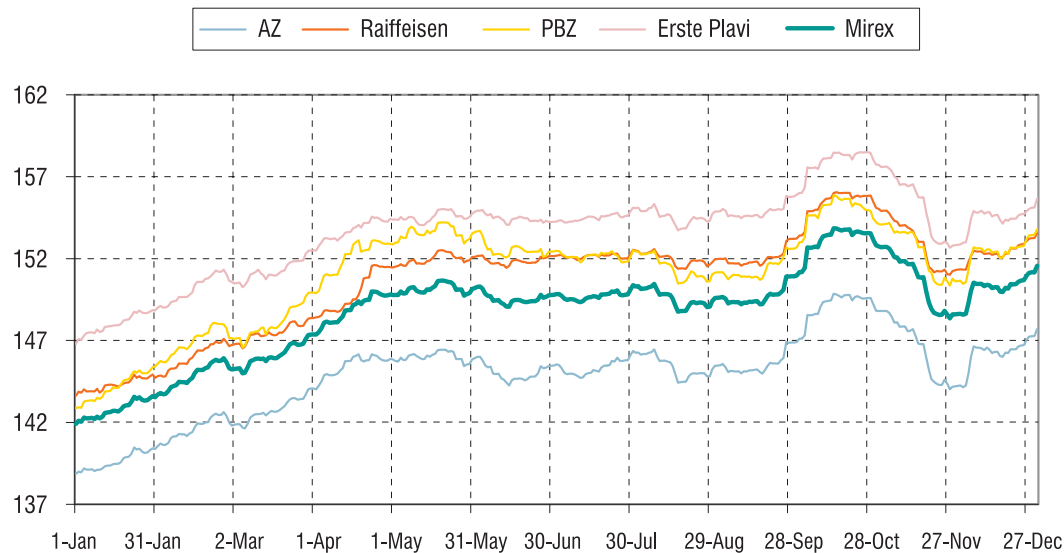
Source: HANFA

Chart 3.2: Investment Structure of Mandatory Pension Funds in the Last 5 Years (in HRK thousand)



Source: HANFA

Chart 3.3: Changes in the Value of Accounting Units and the Mirex Index during 2007



Source: HANFA

The rate of return of all funds, including that of the Mirex index, was positive, but the funds recorded a lower rate of return in 2007 with comparison to the average annual return recorded in the previous years. The fall rate was especially high in the last quarter when the average weighted rate of return amounted to only 0.4%

Table 3.4: Rates of Return of Mandatory Pension Funds in 2007

Mandatory pension fund	Rates of return by quarters				Return in 2007	Annualised rate of return since the beginning of operations
	I/2007	II/2007	III/2007	IV/2007		
AZ OMF	3.7%	1.0%	1.0%	0.6%	6.4%	7.1%
Erste Plavi OMF	3.9%	1.1%	1.0%	-0.1%	6.0%	8.1%
PBZ/CO OMF	4.9%	1.7%	0.1%	0.8%	7.7%	7.9%
Raiffeisen OMF	3.3%	2.5%	0.7%	0.2%	6.9%	7.8%
Mirex	3.8%	1.6%	0.8%	0.4%	6.8%	7.6%

Source: HANFA



Mandatory Pension Fund Management Companies

In 2007, the total assets of mandatory pension fund management companies increased by 12.6%, amounting to HRK 511.5 million. In the same period, total management companies' capital grew by 14.2%, amounting to HRK 480.5 million at the end of the year. Capital by fund member rose by 8.2%, totalling HRK 344.3 at the end of the period. In the same period, the ratio between total capital of companies and total net assets under management fell by 13.4%.

Table 3.5: Balance Sheet of Mandatory Pension Fund Management Companies as at 31 December 2007 (in HRK thousand)

Items	2007	2006
ASSETS		
A Fixed assets	172,619.3	153,424.0
I Intangible assets	20,600.3	20,522.9
II Tangible assets	4,138.0	2,915.7
III Financial assets	147,881.0	129,986.3
B Short-term assets	326,495.6	292,808.2
I Stock, inventory and other	0.0	0.0
II Receivables	18,017.1	17,861.7
III Financial assets	303,943.7	270,243.1
IV Cash in hand and at bank	4,534.8	4,703.5
C Prepayments	7,975.7	2,784.0
D Accrued income	3,389.0	4,505.0
E Tax assets	1,039.0	693.0
F TOTAL ASSETS	511,517.9	454,213.6
G Off-balance sheet items	0.0	0.0
LIABILITIES		
A Capital	480,524.9	420,756.2
I Subscribed capital	327,844.2	320,844.2
II Premiums for issued shares	0.0	0.0
III Revaluation reserves	0.2	0.2
IV Reserves	3,290.4	976.7
V Retained profit or accumulated loss	40,379.4	-4,461.3
VI Profit or loss of the current year	109,010.8	103,396.3
B Long-term liabilities	490.0	1,569.0
C Short-term liabilities	27,855.6	26,053.3
D Accruals	2,647.0	5,835.9
E Deferred income	0.0	0.0
F TOTAL LIABILITIES	511,517.9	454,213.6
G Off-balance sheet items	0.0	0.0

Source: HANFA

In 2007, total expenses rose by 17.8% and amounted to HRK 92.2 million. Transaction costs grew at the fastest rate (166.7%), whereas marketing costs and sales agents' costs increased by 81.5% and 51.2% respectively in the same period.

In 2007, companies' total expenses by mandatory fund member amounted to HRK 66.1, which was 11.6% more than the previous year. The companies set aside an average amount by fund member totalling HRK 17.9 for staff costs (an increase of 7.2%), HRK 17.1 for sales agents' costs (an increase of 43.3%) and HRK 9.1 for marketing costs (a 71.9% increase).

Total companies' income stood at HRK 227.0 million, increasing by 10.7% over 2006. Income from fund management (income from fund members' fees) totalled HRK 205.0 million (a 9.6% increase), with the most important source of income being management fee, based on which funds earned the amount of HRK 179.5 million in 2007.

Income from total fees by mandatory fund member rose by 3.8% in 2007 and amounted to HRK 146.9.

Total net profit of mandatory pension fund management companies amounted to HRK 109.0 million, rising by 5.4% over 2006. Return on asset (ROA) decreased by 6.4% in comparison with 2006 and totalled 21.3%. Return on equity fell by 7.7%, amounting to 22.7% in 2007.

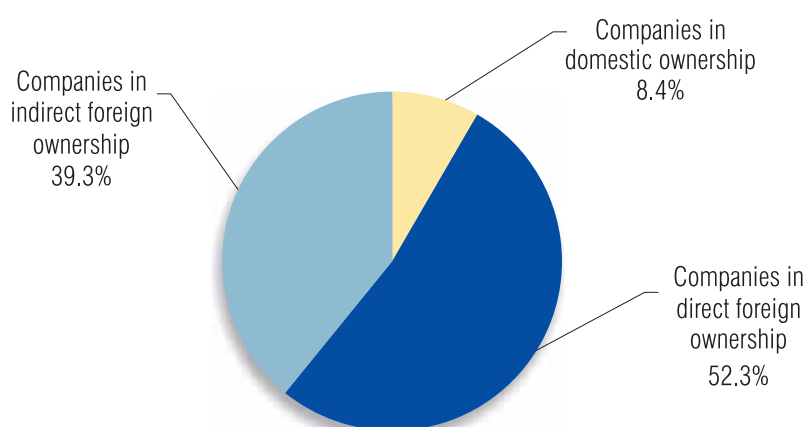
Table 3.6: Profit and Loss Account of Mandatory Pension Fund Management Companies in 2007 (in HRK thousand)

Items	2007	2006
Management fee	205,002.0	187,105.9
Fee from paid contributions	25,257.5	22,484.0
Fee from total assets of the pension fund	179,479.3	164,539.4
Exit fee	265.2	81.6
Performance bonus	0.0	0.0
Expenses on fund management	39,261.0	28,463.4
Transaction costs	8.0	3.0
Marketing costs	12,740.3	7,018.2
Sales agents' costs	23,809.1	15,744.7
Other pension fund management costs	2,703.6	5,697.5
Fund management profit or loss	165,740.9	158,642.6
Other income of the company	857.5	2,186.8
Operational expenses	48,590.0	45,224.5
Material costs	1,429.8	1,278.5
Service costs	7,123.1	6,663.8
Staff costs	24,947.6	22,037.6
Depreciation and adjustment of value of long-term assets	2,350.1	4,428.3
Adjustment of value of short-term assets	0.0	0.0
Reservations for costs and risks	0.0	0.0
Other operational costs	12,739.5	10,816.3
Financial income	21,220.2	15,871.4
Financial expenses	4,374.4	4,621.7
Income or loss from regular business operations	134,854.1	126,854.5
Extraordinary income	0.0	0.0
Extraordinary expenses	0.0	0.0
Profit or loss of the accounting period before taxes	134,854.1	126,854.5
Profit tax	29,356.3	23,881.2
Net profit or loss	109,010.8	103,396.3

Source: HANFA

Out of 4 mandatory pension funds management companies operating in 2007, 2 were in direct ownership of foreign financial institutions, one was in indirect foreign ownership, whereas in 1 of them equal ownership shares were held by foreign and domestic founders.

Chart 3.4: Shares in Managed Assets by Ownership Structure



Source: HANFA

Voluntary Pension Funds

Like in 2006, there were 6 open-end voluntary pension funds (ODMFs) operating in the Republic of Croatia in 2007, managed by 4 voluntary pension fund management companies (DMDs). Even though voluntary pension funds still have a significantly smaller membership than mandatory pension funds, their total membership has been increasing continuously. In 2007, the number of members grew by more than 38.2% in comparison to 2006, amounting to 103,923 members at the end of the year.

Table 3.7: Open-End Voluntary Pension Funds' Membership

	Balance as at 31 Dec 2006	Change	Balance as at 31 Dec 2007
AZ Benefit ODMF	5,516	913	6,429
AZ Profit ODMF	26,113	13,419	39,532
Croatia osiguranje ODMF	10,277	2,930	13,207
Erste Plavi Expert ODMF	5,605	3,989	9,594
Erste Plavi Protect ODMF	1,647	767	2,414
Raiffeisen ODMF	26,003	6,744	32,747
Total	75,161	28,762	103,923

Source: HANFA

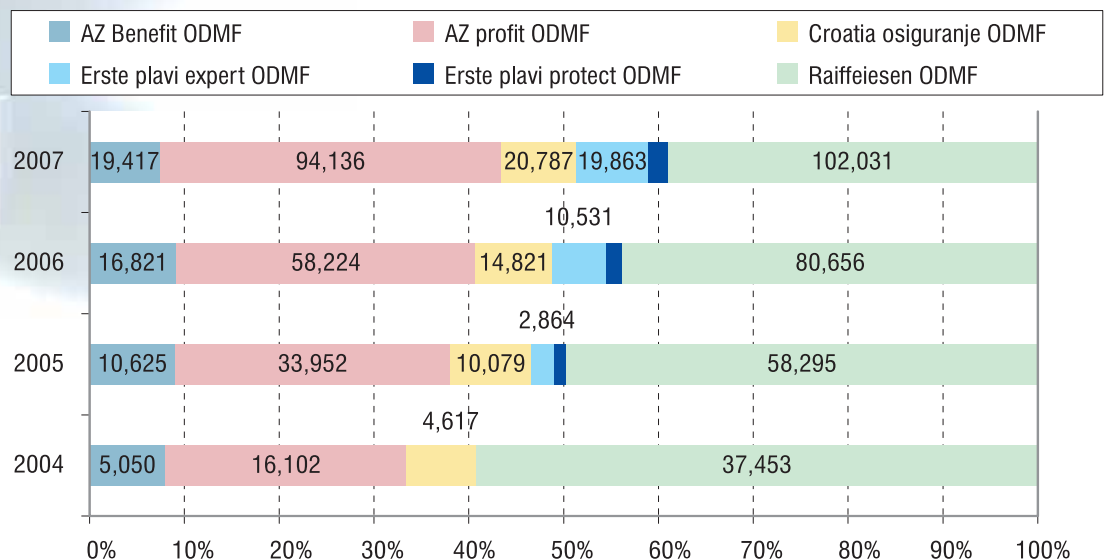
The membership growth was accompanied by the continuous increase in contributions, which amounted to HRK 261.5 million, rising by 41.9% over the previous year.

Table 3.8: Gross Contributions of ODMFs' Members (in HRK thousand)

	Gross contributions in 2006	Gross contributions in 2007
AZ Benefit ODMF	16,821	19,417
AZ Profit ODMF	58,224	94,136
Croatia osiguranje ODMF	14,821	20,787
Erste Plavi Expert ODMF	10,531	19,863
Erste Plavi Protect ODMF	3,247	5,299
Raiffeisen ODMF	80,656	102,031
Total	184,300	261,533

Source: HANFA

Chart 3.5: Gross Contributions of ODMFs' Members in the Last 4 Years (in HRK thousand)



Source: HANFA

At the end of 2007, the total asset of ODMFs amounted to HRK 692.8 million or HRK 6,666.6 by fund member, which was a 26.1% increase in comparison to 2006. An average annual gross contribution by fund member totalled HRK 2,516.6, increasing by only 2.6% compared with 2006.

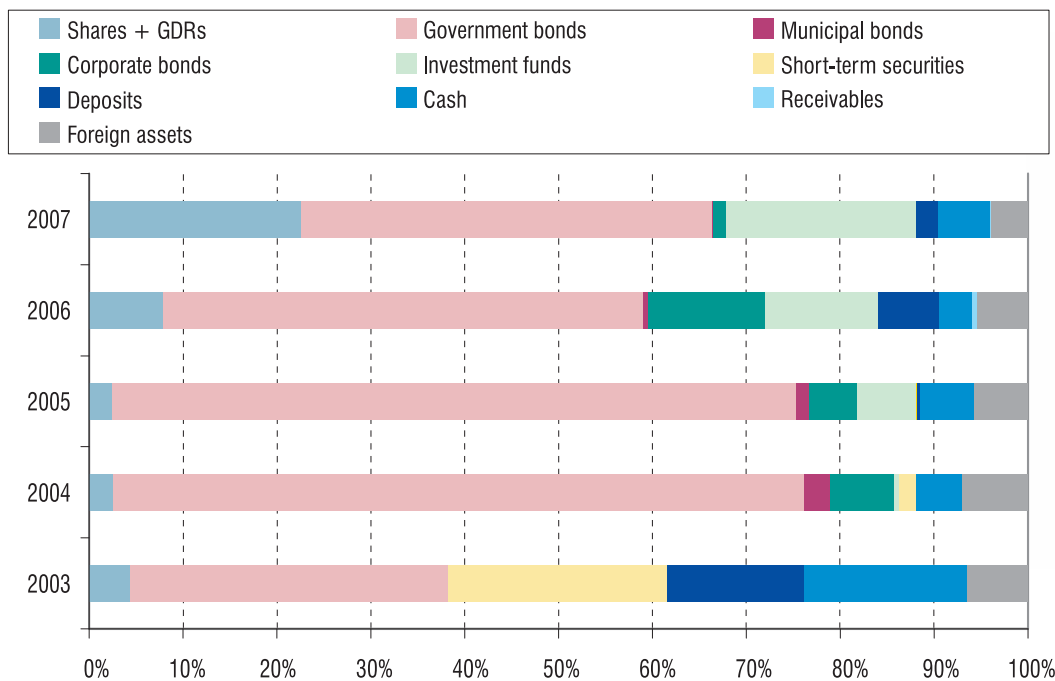
The assets of ODMFs almost doubled over the previous year, with the investment structure changing significantly: investments in government bonds decreased from 51.2% to 43.8% of total asset, and investments in corporate bonds fell from 12.4% to 1.4%, whereas investments in domestic bonds and open-end investment funds significantly grew in the same period.

Table 3.9: Investment Structure of Open-End Voluntary Pension Funds (in HRK thousand)

Assets	31 Dec 2006		31 Dec 2007	
	Amount	Share	Amount	Share
DOMESTIC ASSETS	392,823	94.5%	687,823	96.0%
Securities and deposits	376,158	90.5%	648,184	90.5%
Shares + GDRs	32,619	7.8%	161,645	22.6%
Government bonds	212,871	51.2%	313,900	43.8%
Municipal bonds	1,788	0.4%	553	0.1%
Corporate bonds	51,753	12.5%	9,978	1.4%
Open-end investment funds	50,457	12.1%	144,684	20.2%
Deposits	26,669	6.4%	17,424	2.4%
Cash	14,623	3.5%	38,956	5.4%
Receivables	2,042	0.5%	683	0.1%
FOREIGN ASSETS	22,818	5.5%	28,501	4.0%
Shares	1,889	0.5%	12,886	1.8%
Government bonds	0	0.0%	699	0.1%
Open-end investment funds	20,930	5.0%	14,916	2.1%
TOTAL ASSETS	415,641	100.0%	716,324	100.0%
Net assets	397,335		692,810	

Source: HANFA

Chart 3.6: Investment Structure of ODMFs in the Last 5 Years



Source: HANFA

In 2007, ODMFs reported individual rates of return ranging from 4.2% to 15.5%, which is comparable to the annualised rates of return recorded by funds since the beginning of their operations. Funds with higher investment risks recorded significantly higher rates of return, which was logical to expect considering the trends in share prices in the Republic of Croatia, and taking account of significant investment made by these funds in domestic shares and domestic investment funds.

Table 3.10: ODMFs' Rates of Return

Open-end DMF	Rates of return in the period				Rate of return in 2007	Annualised rate of return since the beginning of operations
	I-III 2007	IV-VI 2007	VII-IX 2007	X-XII 2007		
AZ Benefit ODMF	1.7%	-0.4%	1.5%	1.3%	4.2%	6.7%
AZ Profit ODMF	6.2%	4.3%	2.0%	2.2%	15.5%	12.1%
Croatia osiguranje ODMF	7.2%	2.6%	1.0%	1.5%	12.7%	7.8%
Erste Plavi Expert ODMF	5.5%	2.1%	1.5%	1.1%	10.5%	13.2%
Erste Plavi Protect ODMF	1.1%	-1.0%	0.9%	0.6%	1.6%	4.3%
Raiffeisen ODMF	5.8%	6.2%	1.2%	0.1%	13.7%	9.1%

Source: HANFA



Apart from open-end voluntary pension funds, voluntary pension funds management companies also manage closed-end voluntary pension funds (ZDMFs) whose members may become employees of a particular employer, members of trade unions and members of associations of self-employed persons. In 2007, two new ZDMFs were established, causing the total number of funds to grow to 12.

Table 3.11: Closed-End Voluntary Pension Funds

Voluntary pension fund management company	Closed-end voluntary pension fund	Beginning of business operations
Allianz ZB DMD	AZ VIP ZDMF	08 Mar 2004
	AZ Dalekovod ZDMF	14 Dec 2004
	AZ Hrvatska kontrola zračne plovidbe ZDMF	14 Mar 2005
Croatia osiguranje DMD	Sindikat pomoraca Hrvatske ZDMF	21 Oct 2004
	CROATIA OSIGURANJE ZDMF	20 Sep 2005
	ZDMF HEP grupe	09 May 2006
Raiffeisen DMD	Hrvatski liječnički sindikat ZDMF	01 Jul 2004
	Ericsson Nikola Tesla ZDMF	21 Feb 2005
	Novinar ZDMF	14 Oct 2005
	T-HT ZDMF	20 Dec 2006
	T-mobile ZDMF	29 Oct 2007
	ZDMF Sindikat hrvatskih željezničara	15 Nov 2007

Source: HANFA

Total ZDMFs' membership was, despite a slight increase in 2007, still very small and amounted to only 11,943 members, whereas the total net assets of all ZDMFs stood at HRK 119.1 million, which was an almost double increase in comparison with 2006. Average assets by fund member amounted to HRK 9,970.8 at the end of 2007, growing by 76.3% compared to 2006. The average annual contribution to ZDMFs in 2007 was significantly higher compared with mandatory and open-end voluntary pension funds and totalled HRK 8,931.1.

Considering the growing trend in the number of ZDMFs in the course of 2007, the number of ZDMFs' members was expected to rise, especially because more and more large employers in the Republic of Croatia are showing their interest in establishing this type of pension fund. However, the number of their members did not grow significantly.

Table 3.12: Main Indicators for ZDMFs

Data	31 Dec 2006	1 Dec 2007
Total membership of ZDMFs	10,633	11,943
Total contributions of ZDMFs (in HRK thousand)	55,919	106,664
Total assets of ZDMFs (in HRK thousand)	60,303	119,082

Source: HANFA

Closed-end voluntary pension funds' rates of return ranged between 8.1% and 15.1% in 2007. Annualised rates of return since the beginning of business operations ranged between 5.8% and 14.6%.

Table 3.13: Values of Accounting Units and ZDMFs' Rates of Return

Closed-end voluntary pension fund	Value of accounting units		Rates of return of ZDMFs	
	31 Dec 2006	31 Dec 2007	2007	Annualised rates of return since beginning of operations
AZ VIP ZDMF	134.9570	155.3429	15.1%	12.2%
Hrvatski liječnički sindikat ZDMF	136.8830	151.2302	10.5%	14.4%
Sindikat pomoraca Hrvatske ZDMF	107.2315	119.6327	11.6%	14.6%
AZ Dalekovod ZDMF	131.6709	150.5689	14.4%	7.7%
Ericsson Nikola Tesla ZDMF	128.0394	142.0713	11.0%	13.1%
AZ Hrvatska kontrola zračne plovidbe ZDMF	128.1181	146.6015	14.4%	12.5%
CROATIA OSIGURANJE ZDMF	104.8353	118.3692	12.9%	5.8%
Novinar ZDMF	120.6357	133.6145	10.8%	14.0%
ZDMF HEP grupe	101.9560	113.5238	11.3%	8.0%
T-HT ZDMF	100.1054	108.2571	8.1%	8.0%
T-mobile ZDMF		100.8183		
ZDMF Sindikat hrvatskih željezničara		100.2200		

Source: HANFA

Voluntary Pension Fund Management Companies

In 2007, the total assets of voluntary pension fund management companies increased by 6.4% and amounted to HRK 56.3 million. In the same period, total management companies' capital rose by 3.8%, amounting to HRK 47.1 million. Due to a significant increase in the membership of voluntary pension funds in the last year, capital by fund member decreased by 23.2%, totalling HRK 406.3 at the end of 2007. In the same period, the ratio between total capital of companies and total net assets under management fell by 41.5%.

Table 3.14: Balance Sheet of Voluntary Pension Fund Management Companies as at 31 December 2007 (in HRK thousand)

	2007	2006
ASSETS		
A Fixed assets	6,349.9	4,075.2
I Intangible assets	692.5	1,162.8
II Tangible assets	834.6	901.2
III Financial assets	4,822.8	2,011.2
B Short-term assets	45,601.5	46,882.9
I Stock, inventory and other	66.2	79.3
II Receivables	4,812.0	5,022.2
III Financial assets	38,163.7	40,677.0
IV Cash in hand and at bank	2,559.6	1,105.5
C Prepayments	90.8	58.2
D Accrued income	208.0	303.0
E Tax assets	4,055.0	1,614.0
F TOTAL ASSETS	56,305.3	52,934.3
G Off-balance sheet items	0.0	0.0
LIABILITIES		
A Capital	47,081.6	45,372.9
I Subscribed capital	93,445.0	93,445.0
II Premiums for issued shares	0.0	0.0
III Revaluation reserves	-41.6	-30.9
IV Reserves	0.0	0.0
V Retained profit or accumulated loss	-45,600.1	-41,650.9
VI Profit or loss of the current year*	-721.7	-6,390.2
B Long-term liabilities	66.0	176.0
C Short-term liabilities	4,633.7	4,647.8
D Accruals	388.0	318.6
E Deferred incomes	4,137.0	2,419.0
F TOTAL LIABILITIES	56,305.3	52,934.3
G Off-balance sheet items	0.0	0.0

* Profit or loss of the current year does not include tax assets
Source: HANFA

In 2007, total expenses increased by 13.0%, amounting to HRK 30.9 million. Operational expenses remained almost unchanged in comparison with 2006. Expenses on fund management rose by 25.3% and totalled HRK 19.7 million. Sales agents' costs grew at the fastest rate (37.1%) compared to 2006.

In 2007, companies' total expenses by fund member amounted to HRK 266.7, which was a decrease of 16.3% compared to 2006. The companies set aside an average amount by fund member totalling HRK 39.4 for staff costs (a decrease of 30.0%), HRK 142.2 for sales agents' costs (an increase of 1.5%) and HRK 17.0 for marketing costs (a 44.8% decrease).

Total companies income amounted to HRK 30.1 million, increasing by 44.0% over 2006. Income from fund management (income from fund members' fees) totalled HRK 27.5 million (an increase of 55.3%), with the most important source of income being entry fee, based on a funds earned the amount of HRK 17.6 million in 2007.

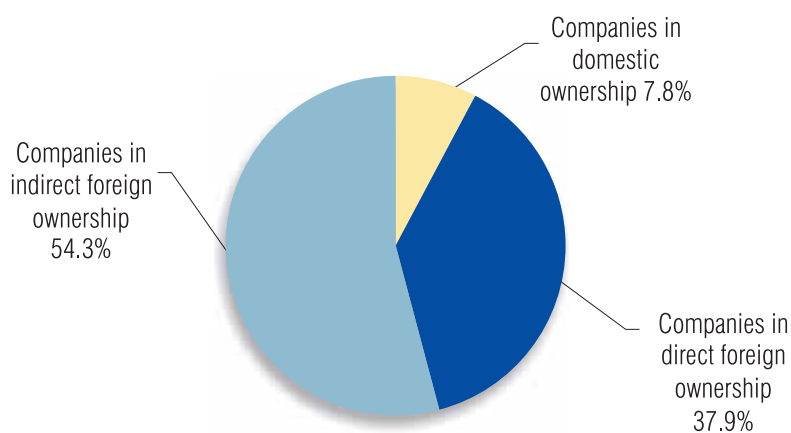
Voluntary pension fund management companies reported total profit to the amount of HRK 1.7 million, whereas in the preceding year they recorded total loss amounting to HRK 4.7 million, which is understandable considering a still relatively small number of fund members and assets under management (in comparison to mandatory pension funds). Return on asset (ROA) totalled -1.3% in 2007, whereas in 2006 it amounted to -12.1%. Return on equity (ROE) totalled -1.5% in 2007, whereas in 2006 it stood at -14.1%.

Table 3.15: Profit and Loss Account of Voluntary Pension Fund Management Companies in 2007 (in HRK thousand)

Items	2007	2006
I Management fee	27,529.3	17,721.4
1 Fee from paid contributions	17,577.5	12,590.1
2 Fee from total asset of the pension fund	9,949.5	5,131.3
3 Exit fee	2.4	0.0
4 Performance bonus	0.0	0.0
II Expenses on fund management	19,745.0	15,761.2
1 Transaction costs	195.9	152.3
2 Marketing costs	1,971.4	2,642.1
3 Sales agents' costs	16,480.3	12,023.6
4 Other pension fund management costs	1,097.4	943.1
III Fund management profit or loss	7,784.3	1,960.3
IV Other income of the company	332.5	1,487.3
V Operational expenses	10,814.0	11,177.4
1 Material costs	275.2	380.7
2 Service costs	1,052.0	922.5
3 Staff costs	4,567.7	4,831.5
4 Depreciation and adjustment of value of long-term assets	1,125.5	1,231.7
5 Adjustment of value of short-term assets	0.0	0.0
6 Reservations of cost and risks	0.0	0.0
7 Other operational costs	3,793.6	3,811.1
VI Financial income	2,321.2	1,749.2
VII Financial expenses	345.7	409.6
VIII Income or loss from regular business operations	-728.1	-6,466.8
IX Extraordinary income	0.0	0.0
X Extraordinary expenses	0.0	0.0
XI Profit or loss of the accounting period before taxes	-721.7	-6,390.2
XII Profit tax/Incomes from recognition of tax assets	2,441.0	1,614.0
XIII Net profit or loss (corrected by tax assets)	1,719.3	-4,776.2

Out of 4 voluntary pension fund management companies which operating in 2007, 1 was in direct ownership of foreign financial institutions, 2 were in indirect foreign ownership through companies established in the Republic of Croatia, whereas 1 company was in domestic ownership.

Chart 3.7: Shares in Managed Assets by Ownership Structure



Regulatory Activities

The Act on Amendments to the Mandatory and Voluntary Pension Funds Act² entered into force on 17 July 2007, providing for more detailed principles of investing pension funds' assets. Funds were given the possibility to invest their assets outside the official quotation in the Republic of Croatia, whereas an ordinance stipulated special criteria for this type of investments. Furthermore, limitations on investments in foreign assets were increased by 5%. Upon the accession of Republic of Croatia to EU, Member States, as well as OECD member states, will obtain the status of a domestic market which will contribute to further diversification of investments. The Amendments to the Act contain provisions related to the establishment of a guarantee fund for mandatory pension funds, which will contribute to the safety of mandatory pension savings system. The Amendments ensured the alignment of the Act with the EU Directive regulating business operations of closed-end voluntary pension funds.

Licensing

In 2007, the Agency issued operating licences to 2 new closed-end voluntary pension funds. The following table shows a list of processed cases related to the approval of statutes and prospectuses of pension funds, approval of the appointment of board members and supervisory board members and renewal of licences to authorised pension fund managers.

Table 3.16: Number of Processed Cases Related to Business Activities of Pension Funds

Type of case	2007	2006	Change
Approval of the appointment of board members of mandatory pension funds	5	5	0.0%
Approval of the appointment of supervisory board members of mandatory pension funds	3	6	-50.0%
Approval of the appointment of board members of voluntary pension funds	2	2	0.0%
Approval of the appointment of supervisory board members of voluntary pension funds	2	3	-33.3%
Changes in statutes of mandatory pension funds	1	1	0.0%
Changes in statutes of voluntary pension funds	6	3	100.0%
Approval of changes in prospectuses of mandatory pension funds	6	6	0.0%
Operating licences to voluntary pension funds	2	2	0.0%
Decision on the renewal of licences to authorised pension fund managers	23	0	
Promotion of pension funds	52	18	189.9%

Source: HANFA

Supervision of Pension Funds

In 2007, the Agency continuously supervised business operations of pension fund management companies and pension funds, as well as their alignment with legislation and subordinate legislation for the purpose of protecting the interests of mandatory and voluntary funds' members. The Amendments to the Mandatory and Voluntary Pension Funds Act of July 2007 provided for liberalisation of investments of pension fund assets.

In the course of pension fund supervision, the Agency focused on the off-site supervision of properly submitted daily and periodical reports, which included verification of asset valuation, permitted investments and investment limitations and other provisions of acts and by-laws which regulate financial and investment operations of pension funds. On the basis of data delivered, rates of return of pension funds and the value of the Mirex index were calculated on a daily basis, whereas the analysis of performance of pension fund management companies and pension funds and the assessment of quantitative and qualitative risks of their business operations were carried on periodically. The analysis covered changes in capital, monitoring of funds' membership, adequacy of the guarantee deposit, monitoring of potential liability for the payment of guaranteed return, calculation of liquidity and profitability and monitoring of the structure and relationship between costs and income, as well as the accuracy of fee calculations.

² Official Gazette 71/07

In 2007, the Agency conducted on-site supervision of business operations of the Raiffeisen d.o.o. mandatory pension fund management company and the Raiffeisen mandatory pension fund, and it initiated supervisory procedure in the following pension fund management companies and pension funds:

- Allianz ZB društvo za upravljanje obveznim mirovinskim fondom d.o.o. and AZ obvezni mirovinski fond,
- PBZ Croatia osiguranje d.d. društvo za upravljanje obveznim mirovinskim fondom and PBZ Croatia osiguranje obvezni mirovinski fond,
- Erste društvo za upravljanje obveznim mirovinskim fondom d.o.o. and Erste Plavi obvezni mirovinski fond,
- Croatia osiguranje društvo za upravljanje dobrovoljnim mirovinskim fondom d.o.o. and Croatia osiguranje otvoreni dobrovoljni mirovinski fond.

On-site supervision covered business operations of pension fund management companies and pension funds. It included the examination of documentation and interviews with responsible persons of the company and with employees regarding issues significant for operations and performance of pension funds.

On-site supervision comprised the examination of institutional documents of pension fund management companies and pension funds, process of realising investment decisions, monitoring the ban on purchase and sale of assets, and on granting loans and offering guarantee to persons connected with pension fund management companies, inspection of the amount of the money borrowed by pension fund management companies, supervision of the accounting system and of the process of drawing up financial reports of pension fund management companies and funds, and supervision of the balance of the guaranteed deposit and all its changes.

Documentation collected in the course of on-site supervision and data from sources available to the Agency were examined for the purpose of assessing the level of the alignment of business operations with the law and by-laws, as well as with provisions of relevant prospectuses of pension funds with a view to identify potential operational risks of the abovementioned supervised entities, and for the purpose of providing the best possible protection for mandatory and voluntary pension funds' members.

Except from certain irregularities in business operations identified in the course of on-site and off-site supervision, regarding e.g. exceeding investment limitations and maintaining guarantee fund at an appropriate level, for which specific correction periods were defined and observed by the companies, 2007 saw no major violations of legal provisions.

The Agency supervises business operations of the Central Register of Insured Persons (REGOS), i.e. the transfer of contributions for mandatory pension insurance on the basis of individual capitalised savings and the process of keeping records of insured persons, members of mandatory pension funds. Continuous supervision of REGOS's operations was conducted by the Agency through the analysis of its standardised reports. In 2007, no data and trends pointing out to REGOS's failures were noticed.

Educational Programme and Exams for Authorised Pension Fund Managers

Pursuant to the Ordinance on the requirements for professional training and examination of technical knowledge needed to obtain the licence to conduct activities of a broker, investment advisor and authorised pension fund manager³, the Agency organised the educational programme and examination procedure for authorised pension funds managers.

The examination of technical knowledge needed to obtain the licence to conduct activities of an authorised pension fund manager included the following areas:

- Financial institutions and markets
- Financial and investment analysis
- Securities
- Portfolio theory
- Managing business finance and financial reports reading
- Accounting of pension funds and pension fund management companies
- Payment system
- Statistical methods and analysis
- Valuation of pension funds assets, IFRS and financial reporting
- Central Register of Insured Persons (REGOS)
- Business management and business ethics
- Croatian Commercial Law Results of the examinations for authorised pension funds managers
- Croatian legislative framework for operations in financial markets.

³ Official Gazette 97/06 and 92/07

A total of 10 candidates applied to take the first examination for authorised pension fund managers, and all of the 10 candidates attended the examination which had a written form and a pass threshold of 60% of correct answers. It consisted of 50 questions and the maximum score was 100.

Out of the total number of candidates who attended examination for authorised pension fund managers, 4 candidates, i.e. 40% of them passed it successfully.

For those candidates who applied to take the first examination and failed, the Agency organised a second examination which was attended by 3 and successfully passed by 2, i.e. 66.7% of the candidates.

On the basis of the aforementioned data, the total pass rate for the first and second examination was determined to be 60.0%.

Table 3.17: Results of Examinations for Authorised Pension Fund Managers

	NUMBER OF CANDIDATES	PASS RATE
FIRST EXAMINATION		
attended	10	
passed	4	40.0%
failed	6	60.0%
SECOND EXAMINATION		
attended	3	
passed	2	66.7%
failed	1	33.3%
TOTAL PASS RATE	6	60.0%

Source: HANFA



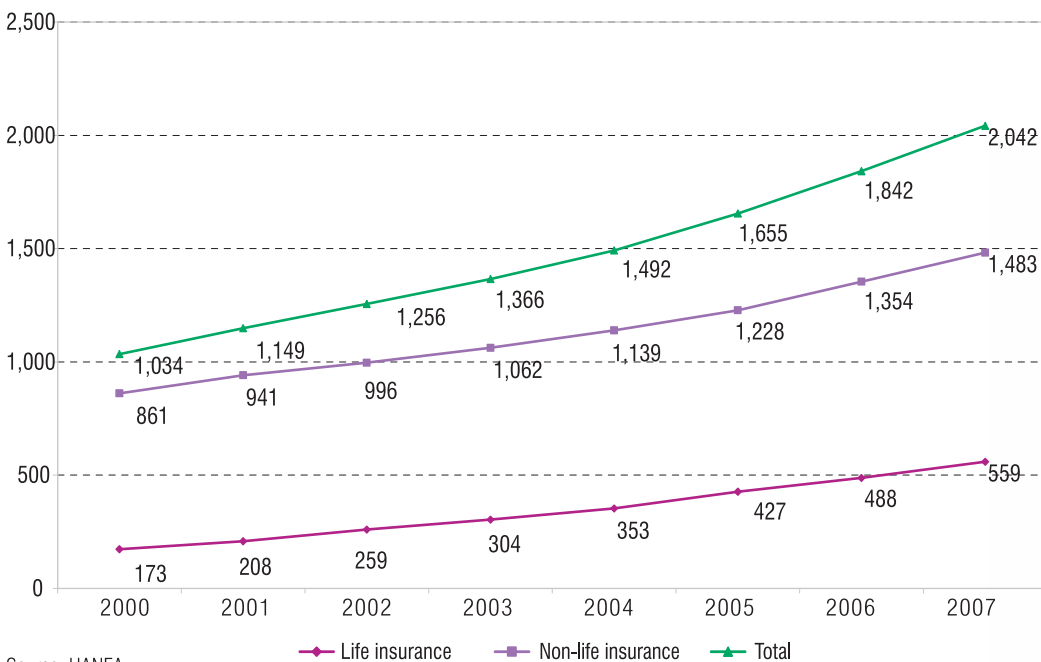


Introduction

The report on the insurance market in 2007 was produced on the basis of financial reports and statistical data submitted to the Agency¹ and conducted supervision of business operations of insurance and reinsurance companies, insurance agencies, insurance representation trades and insurance brokerage companies, insurance agents and insurance brokers, as well as of the Croatian Nuclear POOL GIU and the Croatian Insurance Bureau.

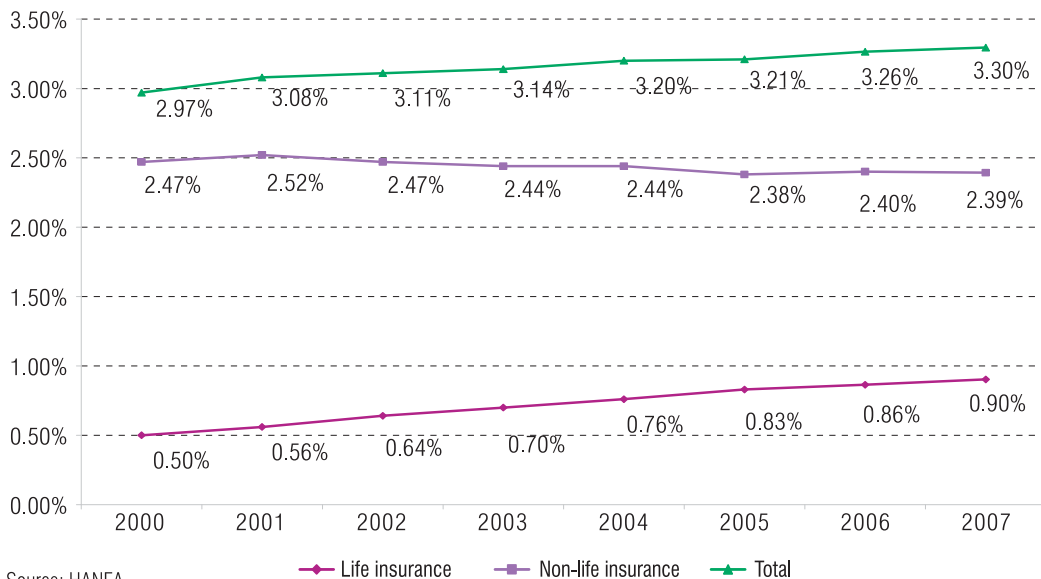
Insurance density² and the share of gross written premium in gross domestic product are important indicators often used to evaluate the situation in the insurance market in a particular country. Changes in their value in the Republic of Croatia in the 2000 – 2007 period are shown in following charts.

Chart 4.1: Insurance Density in the 2000-2007 Period (in HRK)



Source: HANFA

Chart 4.2: Share of Gross Written Premium in GDP in the 2000-2007 Period (in %)



Source: HANFA

¹ All financial and statistical data used in this report are based on unaudited financial reports submitted by insurance and reinsurance companies within the legally-prescribed time limits.

² Insurance density is calculated as gross written premium per capita. Official Gazette 97/06 and 92/07

In the 2000-2007 period, gross written premium increased twice as fast as the GDP, but its share in GDP was still relatively low, especially in terms of life insurance. Although the share of non-life insurance in GDP rose slightly in 2006 compared to the previous year (from 2.38% to 2.40%), the year 2007 registered a decrease to 2.39%, while the share of life insurance grew steadily (it increased from 0.86% to 0.90%). In 2007, premium per capita (insurance density) in the Republic of Croatia totalled HRK 2,042, i.e. € 278, which is far below the European average.

Market Description

State of Play

In 2007, 2 reinsurance companies and 23 insurance companies owned an operating licence in the Republic of Croatia, of which 5 insurance companies conducted exclusively life insurance business, 8 insurance companies conducted non-life insurance business, while the 10 remaining insurance companies carried out both life and non-life insurance business.

Table 4.1: Insurance Activities Conducted by Insurance and Reinsurance Companies during 2007

	Insurance company	Insurance activities
1	Agram životno osiguranje d.d.	Life
2	Allianz Zagreb d.d.	Composite (life and non-life)
3	Allianz reosiguranje d.d.	Reinsurance
4	Basler osiguranje d.d.	Non-life
5	Basler životno osiguranje d.d.	Life
6	Cardif osiguranje d.d.	Non-life
7	Cosmopolitan Life Vienna Insurance Group d.d.	Life
8	Croatia Lloyd d.d.	Reinsurance
9	Croatia osiguranje d.d.	Composite (life and non-life)
10	Croatia zdravstveno osiguranje d.d.	Non-life
11	Erste Sparkassen osiguranje d.d.	Life
12	Euroherc osiguranje d.d.	Non-life
13	Generali osiguranje d.d.	Composite (life and non-life)
14	GRAWE Hrvatska d.d.	Composite (life and non-life)
15	Osiguranje Helios d.d.	Composite (life and non-life)
16	HOK osiguranje d.d.	Non-life
17	Jadransko osiguranje d.d.	Non-life
18	Kvarner Vienna Insurance Group d.d.	Composite (life and non-life)
19	Merkur osiguranje d.d.	Composite (life and non-life)
20	Sunce osiguranje d.d.	Non-life
21	Triglav osiguranje d.d.	Composite (life and non-life)
22	UNIQA osiguranje d.d.	Composite (life and non-life)
23	Velebit osiguranje d.d.	Non-life
24	Velebit životno osiguranje d.d.	Life
25	Osiguranje Zagreb d.d.	Composite (life and non-life)

Source: HANFA

At the beginning of 2007, there were 20 insurance companies and 2 reinsurance companies operating on the Croatian insurance market.

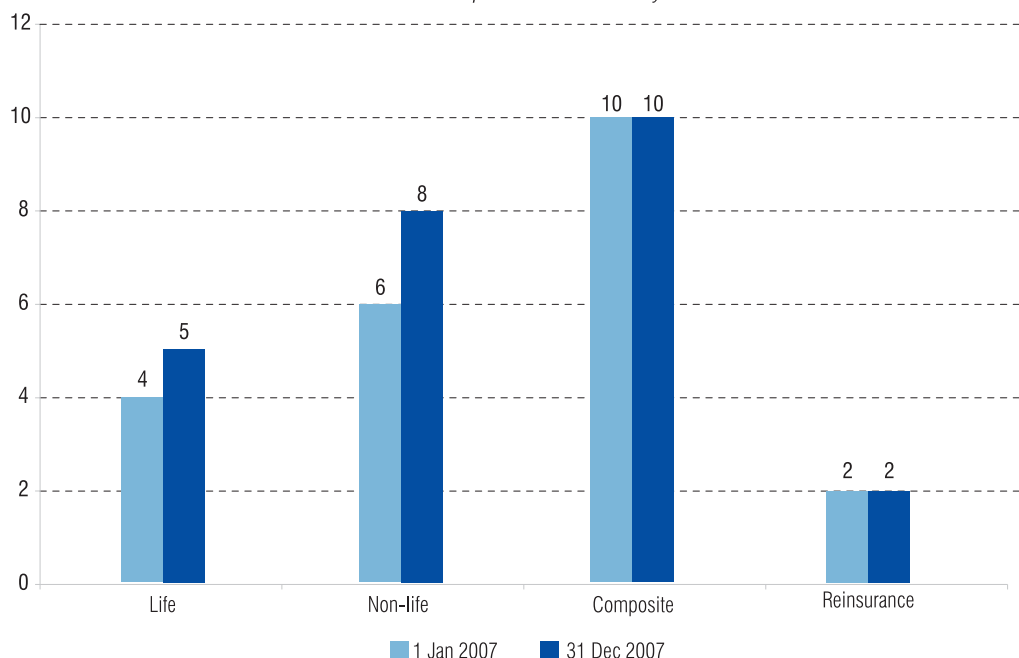
The most important change occurred at the end of May 2007 when the Baloise Group from Switzerland, which has been operating in Croatia since 2000 through 2 insurance companies (Basler osiguranje d.d. and Basler životno osiguranje d.d.), bought the Osiguranje Zagreb d.d. company. The total process of the ownership change was completed by the middle of July 2007.

In the third quarter of 2007, 3 new insurance companies were granted an operating licence: Cardif osiguranje d.d. (to conduct exclusively non-life insurance activities), Velebit osiguranje d.d. (to conduct exclusively non-life insurance activities) and Velebit životno osiguranje d.d. (to conduct exclusively life insurance activities).

Following the Decision adopted at the General Assembly meeting held on 14 June 2007, the Kvarner Wiener Städtische osiguranje d.d. company changed its name into Kvarner Vienna Insurance Group d.d. za osiguranje, while the Cosmopolitan Life d.d. company, pursuant to the Decision of the General Assembly from 4 May 2007, changed its name into Cosmopolitan Life Vienna Insurance Group – za osiguranje d.d.

Consequently, as at 31 December 2007, there were 25 insurance and reinsurance companies operating on the insurance market.

Chart 4.3: Number of Insurance and Reinsurance Companies as at 1 January 2007 and 31 December 2007



Source: HANFA

In 1994, out of 12 insurance companies which owned a licence to conduct insurance business only 3 of them were majority owned by non-residents³, while as at 31 December 2007 out of a total of 25 companies operating on the Croatian insurance market, 17 were in direct or indirect majority ownership of non-residents (14 companies were in direct, while 3 companies were in indirect majority ownership of non-residents).

The Osiguranje Zagreb d.d. insurance company, which was in the ownership of domestic natural and legal persons, became a company in majority ownership of non-residents through the acquisition by the Baloise Group. 3 new companies entered the market, 2 of which (Velebit osiguranje d.d. and Velebit životno osiguranje d.d.) are in majority ownership of domestic legal persons (Velebit usluge d.o.o. Zagreb, established by Zavarovalnica Maribor d.d., Slovenia), while the Cardif osiguranje d.d. company is in majority ownership of foreign legal persons (CARDIF SA, France).

As regards insurance classes constituting insurance companies' business, composite companies still dominated the market⁴, but their number cannot increase due to a legal provision according to which insurance company may carry out insurance operations exclusively in life insurance classes or exclusively in non-life insurance classes (Article 16 paragraph 2 of the Insurance Act⁵).

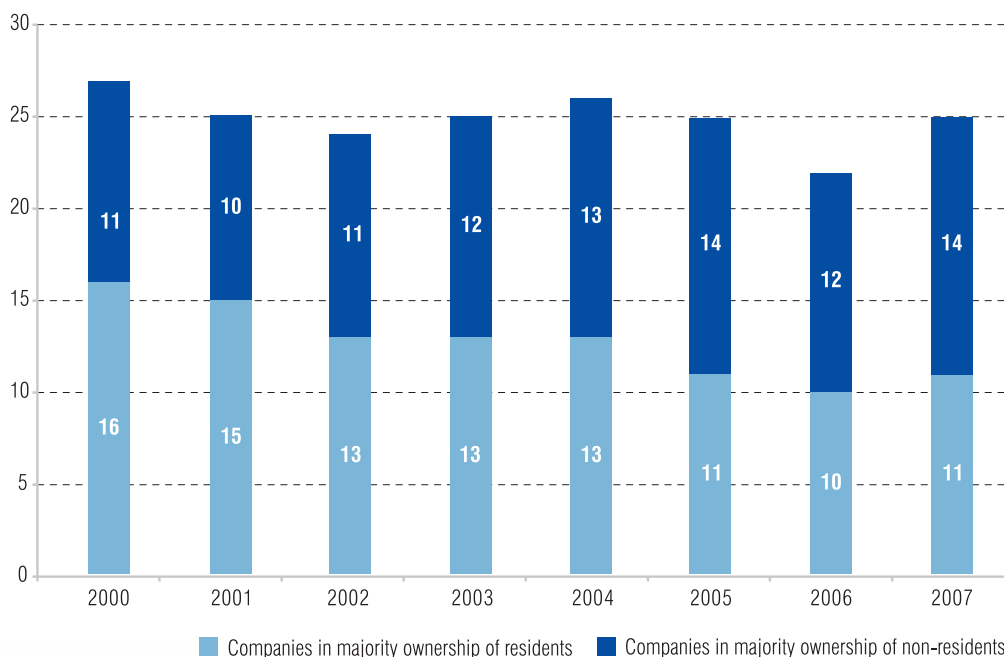
Companies in majority ownership of non-residents influenced the development of the insurance industry in the Republic of Croatia, caused increased competitiveness among Croatian insurance companies as well as the increased quality and diversity of insurance products and services and it is therefore expected that Croatia's approach to the day of becoming a full member of the European Union will lead to further inflow of foreign capital into the Croatian insurance market, resulting in the establishment of new insurance companies, i.e. acquisitions of the remaining companies.

³According to the provisions of the Income Tax Act (Official Gazette 177/04), a non-resident is a natural person who is neither domiciled nor habitually domiciled in the Republic of Croatia, but receives income in the Republic of Croatia which is subject to taxation pursuant to the said Act. In a broader sense, and for the purposes of this report, a non-resident is also a legal person with the head office in a foreign country that is engaged in economic activity in a foreign country through self-employment. Indirect ownership of insurance or reinsurance companies involved the origin of the initial capital of the parent company.

⁴Composite insurance companies are companies conducting both life and non-life insurance business.

⁵Official Gazette 151/05

Chart 4.4: Ownership Structure of Insurance and Reinsurance Companies (direct ownership) in the 2000-2007 Period



Source: HANFA

Out of a total of HRK 1.6 billion of initial capital of insurance and reinsurance companies registered as at 31 December 2007, the amount of HRK 909.1 million (57.5%) was in the ownership of domestic legal and natural and legal persons (residents), while the amount of HRK 672.5 million (42.5%) was in the ownership of foreign legal persons (non-residents).

Table 4.2: Share of Majority Ownership of Residents and Non-residents by Insurance Classes in Total Initial Capital of Insurance and Reinsurance Companies as at 31 December 2007 (in %)

Insurance Classes	Share of Majority Resident Ownership	Share of Majority Non-resident Ownership	Total
Life	4.3%	3.8%	8.1%
Non-life	15.3%	3.1%	18.5%
Composite	29.2%	35.5%	64.7%
Reinsurance	8.7%	0.1%	8.8%
TOTAL	57.5%	42.5%	100.0%

Source: HANFA

Gross Written Premium

Gross written premium of insurance and reinsurance companies in non-life insurance business includes all premiums written (contracted) in the current accounting period for the period of up to one year, irrespective of whether those amounts fully or partly relate to the following account period, while in life insurance business gross written premium includes all premiums paid by the end of the accounting period.

Table 4.3: Gross Written Premiums of Insurance Companies in 2006 and 2007 (in HRK)

Insurance Company	Gross Written Premium (GWP)		Dynamics 2007/2006	Share in total GWP	
	2006	2007		2006	2007
1 Agram životno osiguranje d.d.	201,490,960	214,579,108	106.5	2.5%	2.4%
2 Allianz Zagreb d.d.	873,534,058	1,063,499,445	121.7	10.7%	11.7%
3 Basler osiguranje d.d.	21,094,458	24,014,719	113.8	0.3%	0.3%
4 Basler životno osiguranje d.d.	42,071,579	61,117,305	145.3	0.5%	0.7%
5 Cardif osiguranje d.d.	-	843,587	-	-	0.0%
6 Cosmopolitan Life VIG d.d.	53,822,480	72,111,942	134.0	0.7%	0.8%
7 Croatia osiguranje d.d.	2,951,386,338	3,095,917,322	104.9	36.1%	34.2%
8 Croatia zdravstveno osiguranje d.d.	59,144,795	78,213,427	132.2	0.7%	0.9%
9 Erste Sparkassen osiguranje d.d.	51,488,658	65,549,730	127.3	0.6%	0.7%
10 Euroherc osiguranje d.d.	920,601,130	1,001,295,727	108.8	11.3%	11.0%
11 Generali osiguranje d.d.	216,179,697	276,822,641	128.1	2.6%	3.1%
12 GRAWE Hrvatska d.d.	395,128,360	422,972,379	107.0	4.8%	4.7%
13 Osiguranje Helios d.d.	124,132,501	135,649,061	109.3	1.5%	1.5%
14 HOK osiguranje d.d.	4,965,006	30,032,766	604.9	0.1%	0.3%
15 Jadransko osiguranje d.d.	612,059,413	637,539,068	104.2	7.5%	7.0%
16 Kvarner Vienna Insurance Group d.d.	400,840,206	478,390,861	119.3	4.9%	5.3%
17 Merkur osiguranje d.d.	259,250,716	297,606,531	114.8	3.2%	3.3%
18 Sunce osiguranje d.d.	122,293,199	155,232,541	126.9	1.5%	1.7%
19 Triglav osiguranje d.d.	318,382,222	376,579,236	118.3	3.9%	4.2%
20 UNIQA osiguranje d.d.	109,656,947	138,625,170	126.4	1.3%	1.5%
21 Velebit osiguranje d.d.	-	-	-	-	-
22 Velebit životno osiguranje d.d.	-	2,850,950	-	-	0.0%
23 Osiguranje Zagreb d.d.	442,632,822	435,488,714	98.4	5.4%	4.8%
24 TOTAL	8,180,155,545	9,064,932,231	110.8	100.0%	100.0%

Source: HANFA

Total gross written premium increased in 2007 by HRK 884.8 million in comparison to 2006, with the largest increase relating to non-life insurance segment. An average premium growth rate amounted to 10.8%, showing a slower growth in comparison to 2006 when the rate stood at 11.3%. In comparison to 2006, an increase in premium was recorded by 19 out of 20 insurance companies that were operating in the previous year, and according to the data submitted, 13 insurance companies reported a premium growth rate higher than the average (the highest relative growth of gross written premium was recorded by HOK osiguranje d.d., which was registered to conduct only one type of non-life insurance business, namely other liability insurance lines, until March 2007, when it obtained the licence to conduct all types of non-life insurance business). The only exemption is Osiguranje Zagreb d.d. which failed to reach the level of premium recorded in 2006.

A 4.9% gross written premium growth of the leading insurance company, Croatia osiguranje d.d., was significantly lower than the average growth rate of the insurance industry in general, which caused the market share of the said insurance company to continue falling from 36.1% in 2006 to 34.2% in 2007. Despite the low growth rates and a decrease of its market share in the total insurance portfolio on the Croatian market, Croatia osiguranje d.d. was still the leading insurer in non-life insurance business with a market share of 41.8% (44.1% in 2006), while the leading position in life insurance segment was held for the second consecutive year by Allianz Zagreb d.d., with a 17.2% market share which had increased in comparison to 2006 when it totalled 16.4%.

According to gross written premium as at 31 December 2007, the concentration of insurance portfolio of the 5 leading insurance companies⁶ decreased from 70.4% to 69.2% in comparison to the same period of the previous year, while the concentration of insurance portfolio of the 10 leading companies⁷ fell from 90.3% to 89.2%. With respect to insurance classes, the concentration was higher in non-life insurance business where 5 insurance companies⁸ accounted for 80.9% of total premium (82.6% in 2006), whereas in life insurance business 61.1% of gross written premium (60.9% in 2006) was concentrated in 5 insurance companies⁹.

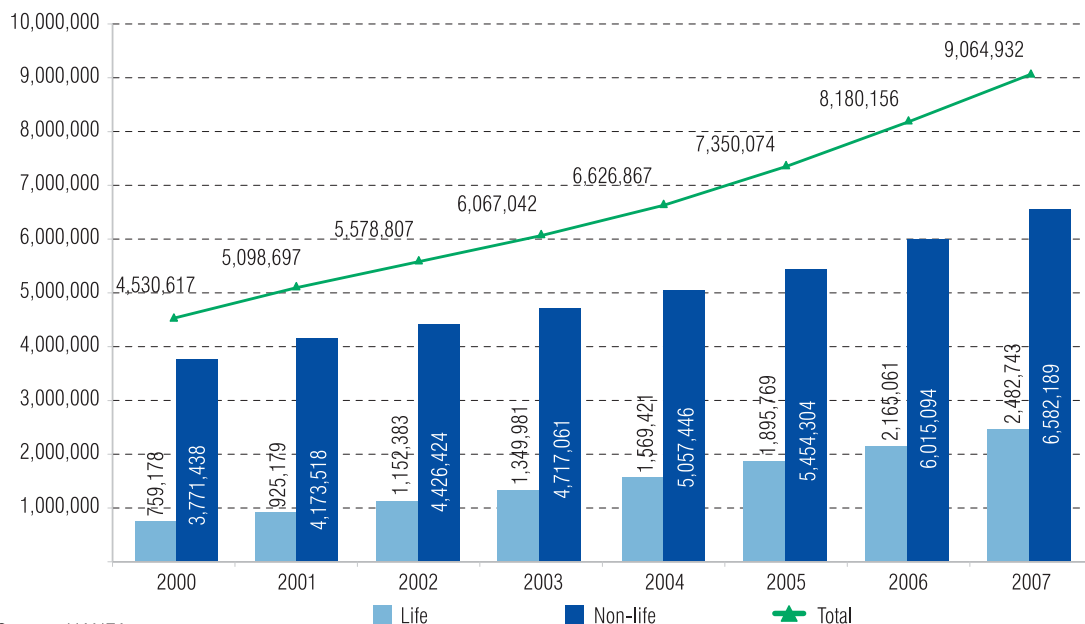
⁶ Croatia osiguranje d.d., Allianz Zagreb d.d., Euroherc osiguranje d.d., Jadransko osiguranje d.d. and Kvarner Vienna Insurance Group d.d.

⁷ Croatia osiguranje d.d., Allianz Zagreb d.d., Euroherc osiguranje d.d., Jadransko osiguranje d.d. and Kvarner Vienna Insurance Group d.d., Osiguranje Zagreb d.d., Grawe Hrvatska d.d., Triglav osiguranje d.d., Merkur osiguranje d.d. and Generali osiguranje d.d.

⁸ Croatia osiguranje d.d., Euroherc osiguranje d.d., Jadransko osiguranje d.d., Allianz Zagreb d.d. and Triglav osiguranje d.d.

⁹ Allianz Zagreb d.d., Croatia osiguranje d.d., Merkur osiguranje d.d., Grawe Hrvatska d.d. and Agram životno osiguranje d.d.

Chart 4.5: Gross Written Premium in the 2000-2007 Period (in HRK thousand)



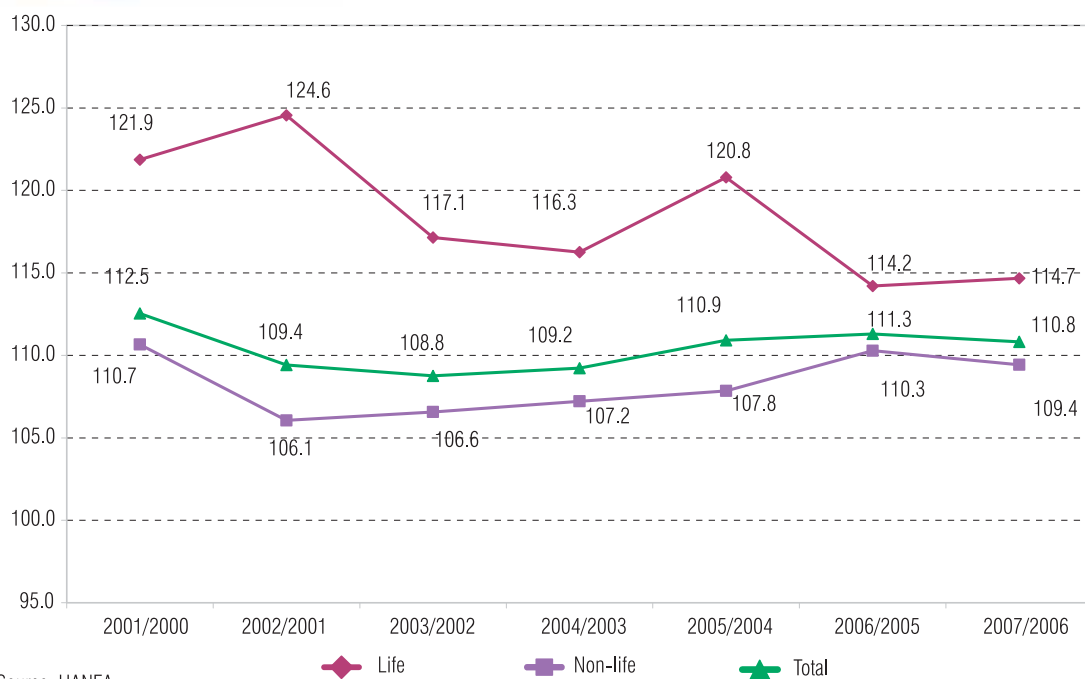
Source: HANFA

In 2007, insurance companies recorded total gross written premium of HRK 9.1 billion, with non-life insurance premium totalling HRK 6.6 billion and life insurance premium totalling HRK 2.5 billion.

Total gross written premium increased in 2007 by 10.8% in comparison with 2006, continuing the double-digit growth from 2006 (11.3%), while in the last 8 years total gross written premium grew at the average rate of 10.4%. In the same period, non-life insurance premium recorded double-digit growth rates in 2001 (10.7%) and 2006 (10.3%), while the average growth rate of this insurance group of classes in the last 8 years amounted to 8.3%. Life insurance premium growth rate rose almost twice as fast as the growth rate of total gross written premium, i.e. the average annual growth rate stood at 18.5%. In that insurance segment high growth rates were registered in 2001, 2002 and 2005 (21.9%; 24.6% and 20.8% respectively), while a slower growth rate was reported in 2003, 2004 and 2006 (17.1%; 16.3% and 14.2% respectively). In 2007, life insurance premium growth rate amounted to 14.7% and was slightly higher in comparison to the growth rate registered in 2006, although it was among the lowest in the last 8 years.

A significant growth of life insurance premium was a result of the intensive development of bank-assurance and unit-linked products, as well as of the development of the awareness among young people, who have a higher need for life insurance products, as well as for other savings products.

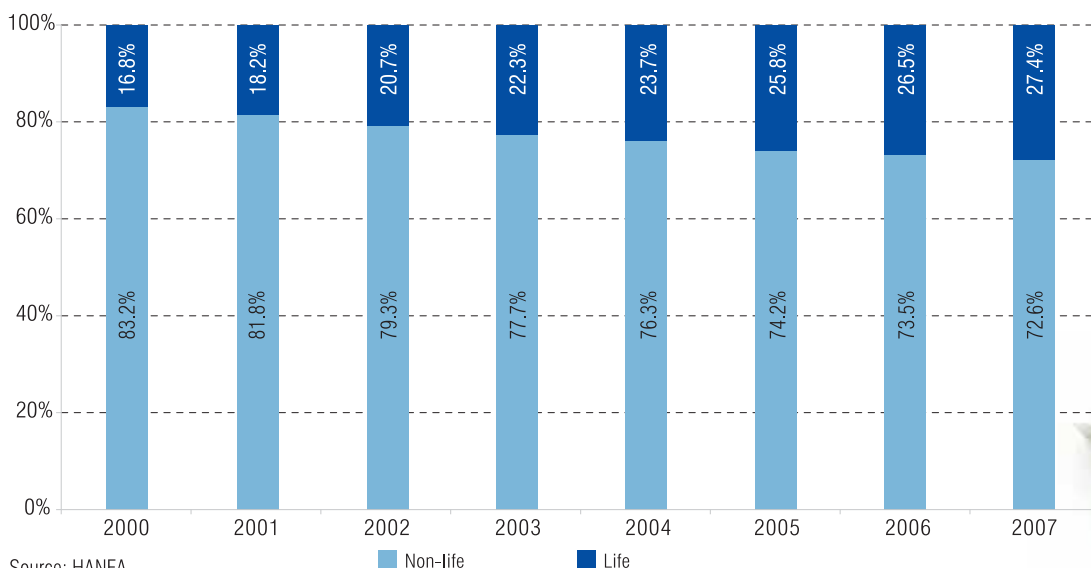
Chart 4.6: Gross Written Premium Indices in the 2000-2007 Period



Source: HANFA

The level of development of an insurance market may be determined on the basis of premium structure, with more developed markets being those where life insurance share is larger than non-life insurance share. A life insurance premium increase of 14.7% compared to 2006 resulted in a growth of the share of life insurance in the total premium of the Croatian insurance market. In the 2000-2007 period, the share of life insurance premium in the total portfolio of the insurance market increased continuously (from 16.8% in 2000 to 27.4% in 2007), while the share of non-life insurance premium gradually declined. These trends are a result of high life insurance growth rates, and the continuation of such trend brings the Croatian market gradually closer to the trend prevailing in developed countries of EU. However, it is important to note that total insurance portfolio of the Republic of Croatia, as opposed to portfolios of EU states, is dominated by non-life insurance due to reduced confidence of the population in life insurance, which is a consequence of the hyperinflation from the beginning of the 1990s, as well as of a large share of compulsory insurance in total non-life insurance portfolio.

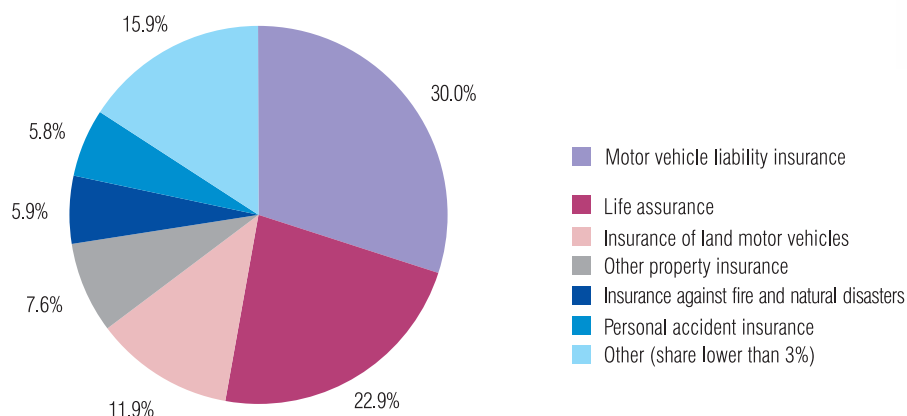
Chart 4.7: Share of Life and Non-life Insurance in Total Gross Written Premium in the 2000-2007 Period (in %)



Source: HANFA

In the total 2007 insurance portfolio structure, the trend of uneven share of insurance types in total insurance portfolio continued due to the fact that 6 insurance types (out of 25) accounted for almost 85.0% of total insurance portfolio.

Chart 4.8: Structure of Gross Written Premium by Types of Insurance in 2007 (in %)



Source: HANFA

In the structure of total gross written premium, the largest share (41.9%) was still made up by motor vehicle insurance (motor vehicle liability insurance and insurance of land motor vehicles). Liability insurance for the use of motor vehicles (known as motor vehicle liability insurance), with a gross written premium which increased by 11.0% in comparison to 2006 and totalled HRK 2.7 billion, maintained the same market share as in 2006 (30.0%). The gross written premium of insurance of land motor vehicles (Casco) increased by 12.1%, i.e. from HRK 959.1 million to HRK 1.1 billion, which caused the market share of this insurance class to grow as well, from 11.7% to 11.9%.

The 2007 growth in gross written premium of insurance against fire and natural disasters and of other property insurance lines amounted to HRK 73.3 million in comparison to 2006, but as in the previous years, the decrease of their shares in total gross written premium continued.

Gross written premium of personal accident insurance rose by 5.0% in comparison to the previous year, but the relative position of this insurance class, accounting for 5.8% of the market, decreased in comparison to 2006, in this way continuing the decreasing trend.

Insurance types that in 2007 recorded relative growth from 20.4 to 277.3% (a total of 6 non-life insurance types: insurance of railway locomotives and rolling stock, aircraft liability insurance, insurance of liability arising out of use of vessels, insurance of miscellaneous financial losses, insurance of legal protection and travel insurance) made up only 1.5% of total gross written premium, so that their growth did not significantly influence the level of total gross written premium.

Table 4.4: Motor Vehicle Liability Insurance in 2007 (in HRK)

Insurance company	Gross Written Premium	Share	Tehcnical result
1 Allianz Zagreb d.d.	205,143,291	7.6%	1,028,385
2 Croatia osiguranje d.d.	858,530,446	32.0%	50,825,962
3 Euroherc osiguranje d.d.	648,878,999	24.2%	23,332,880
4 Generali osiguranje d.d.	39,729,998	1.5%	-2,973,740
5 GRAWE Hrvatska d.d.	51,779,895	1.9%	-6,699,917
6 Osiguranje Helios d.d.	33,865,587	1.3%	1,292,358
7 HOK osiguranje d.d.	15,637,199	0.6%	-3,053,673
8 Jadransko osiguranje d.d.	431,875,833	16.1%	3,019,553
9 Kvarner Vienna Insurance Group d.d.	121,298,326	4.5%	1,669,614
10 Sunce osiguranje d.d.	27,043,341	1.0%	-5,026,456
11 Triglav osiguranje d.d.	116,389,881	4.3%	2,594,560
12 UNIQA osiguranje d.d.	19,831,335	0.7%	271,623
13 Osiguranje Zagreb d.d.	114,316,587	4.3%	-19,104,152
TOTAL	2,684,320,717	100.0%	47,176,998

Source: HANFA

In 2007, Croatia osiguranje d.d. reported the highest gross written premium in the segment of motor vehicle liability insurance to the amount of HRK 858.5 million, accounting for 32.0% of the total premium of this insurance segment (a decrease of 1.8 percentage points in comparison to 2006). It was followed by Euroherc osiguranje d.d. with a premium of HRK 648.9 million and a 24.2% share and Jadransko osiguranje d.d. with a premium of HRK 431.7 and a 16.1% share. All the three insurers reported a positive technical result in this insurance class, with Croatia osiguranje d.d. recording a result in the amount of HRK 50.8 million, and the other 2 companies, members of the Koncern Agram Group¹⁰, registering a positive technical result in the amount of HRK 26.3 million (where the amount of HRK 23.3 million was reported by Euroherc osiguranje d.d.). In this insurance segment, 5 companies recorded a negative technical result, while the total technical result of 13 companies conducting motor vehicle liability insurance amounted to HRK 47.2 million.

The most significant phase in the development of the part of the insurance market relating to the compulsory insurance within the transport sector is definitely the process of liberalisation that started on 1 January 2008, i.e. the possibility of insurers to independently determine insurance conditions and insurance premium rates, provided that they submit them to the Agency beforehand for verification whether they have been aligned with regulations, actuarial principles and professional standards. Premiums of insurance against third-party liability of motor vehicle owners or users have in recent years, according to calculations in the insurance industry, been lower than the amount necessary to cover liabilities¹¹, which leads to the conclusion that there is no room at the moment for any significant decrease in insurance premiums. However, insurance companies could, following the example of developed Western European insurance markets, in future increase the number of criteria determining the premium, which would result in a lower premium for certain categories of policyholders (e.g. age, gender, claim frequency, etc).

¹⁰ On 11 July 2007, the insurance companies Euroherc osiguranje d.d., Zagreb, Agram životno osiguranje d.d., Zagreb and Jadransko osiguranje d.d., Zagreb, pursuant to paragraph 2, point II of the Common Statement on the Cancellation of Participation in the Agreement of the Merger into "Koncern Agram" (signed on 22 July 2000), determined that "... due to significant changes in the legislation of the Republic of Croatia in the course of 2005 and 2006, and due to changes in operating conditions on the market they are active in, the members of "Koncern Agram" believe that no formal and economic reasons exist any longer for further cooperation with other signatories to the Agreement of the Merger in the manner defined in this Agreement"; whereas in point III they state that "... by issuing this Common Statement, the members of "Koncern Agram" are cancelling their participation in the Agreement as of 30 December 2007. "

¹¹ According to the Analysis of Motor Vehicle Liability Insurance Market in the Republic of Croatia, prepared by the Croatian Actuarial Association, 25 July 2007.

Asset Structure

According to the balance sheet as at 31 December 2007, the asset value of all insurance and reinsurance companies amounted to HRK 23.2 billion, and was by 18.2% higher than the total value of the assets registered in 2006. Investments made up 84.9% of the total value of assets, receivables accounted for 9.0%, other assets for 3.0%, whereas intangible assets, investments for the account of life insurance policyholders who bear the investment risk and prepayments and accrued income accounted for 3.1% of the total value of assets.

Table 4.5: Asset Structure of Insurance and Reinsurance Companies in 2006 and 2007 (in HRK)

	31 Dec 2006	Share	31 Dec 2007	Share	Dynamics 2007/2006
Subscribed capital unpaid					
Intangible assets	113,104,692	0.6%	98,947,843	0.4%	87.5
Investments	16,493,589,663	83.9%	19,732,661,719	84.9%	119.6
Investments for the account of life insurance policyholders who bear the investment risk	153,439,249	0.8%	345,641,056	1.5%	225.3
Receivables	1,991,263,054	10.1%	2,084,522,059	9.0%	104.7
Other assets	665,862,819	3.4%	702,270,401	3.0%	105.5
Prepayments and accrued income	245,541,095	1.2%	281,824,468	1.2%	114.8
TOTAL ASSETS	19,662,800,572	100.0%	23,245,867,546	100.0%	118.2

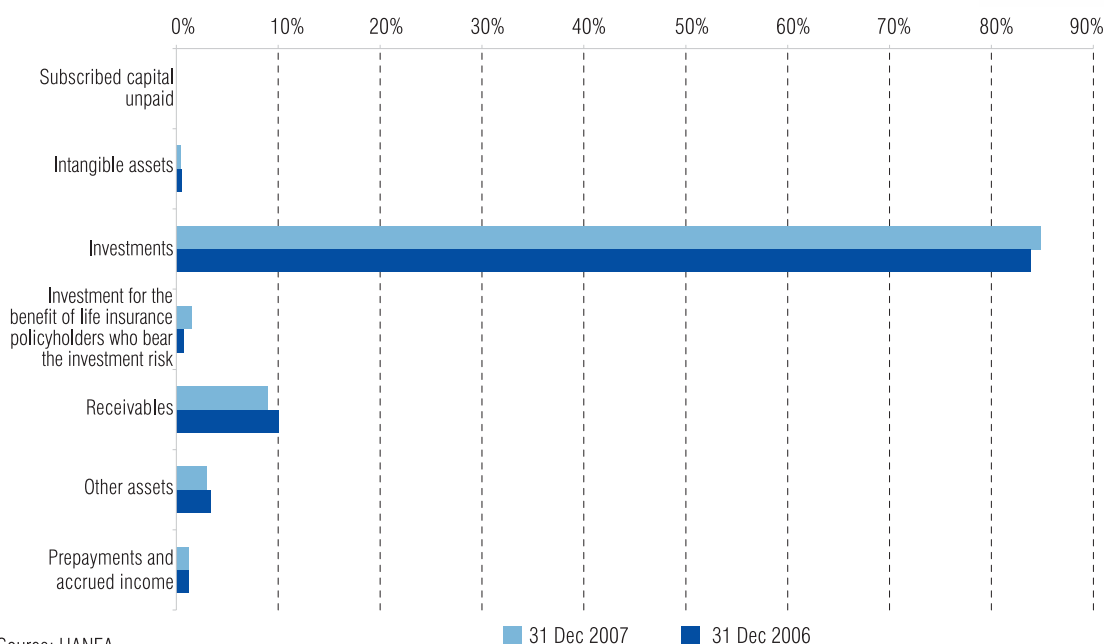
Source: HANFA

The value of investments totalling HRK 19.7 billion increased in 2007 by 19.6% in comparison to 2006, which led to an increase of its share in the total assets of insurance and reinsurance companies from 83.9% in 2006 to 84.9% in 2007. Although investments in securities and land and buildings recorded a nominal growth of almost HRK 1.5 billion, and with HRK 12.2 billion accounted for 61.7% of total investments, they were still lower than in the previous year when they made up 65.1% of total investments.

The value of total receivables amounting to HRK 2.1 billion remained unchanged compared with 2006, but its share in total assets fell by 1 percentage point to 9.0%, with the largest share (61.1%) being accounted for by receivables from policyholders. One of the reasons for such a high share of receivables from policyholders in the total value of receivables was belated payment of due, but unpaid receivables.

In the percentual amount, the most significant increase was registered by investments for the account of life insurance policyholders who bear the investment risk (life insurance linked with units of investment funds) which rose by 125.3% in comparison to 2006. However, these investments, which make up only 1.5% of total assets, did not influence total asset growth.

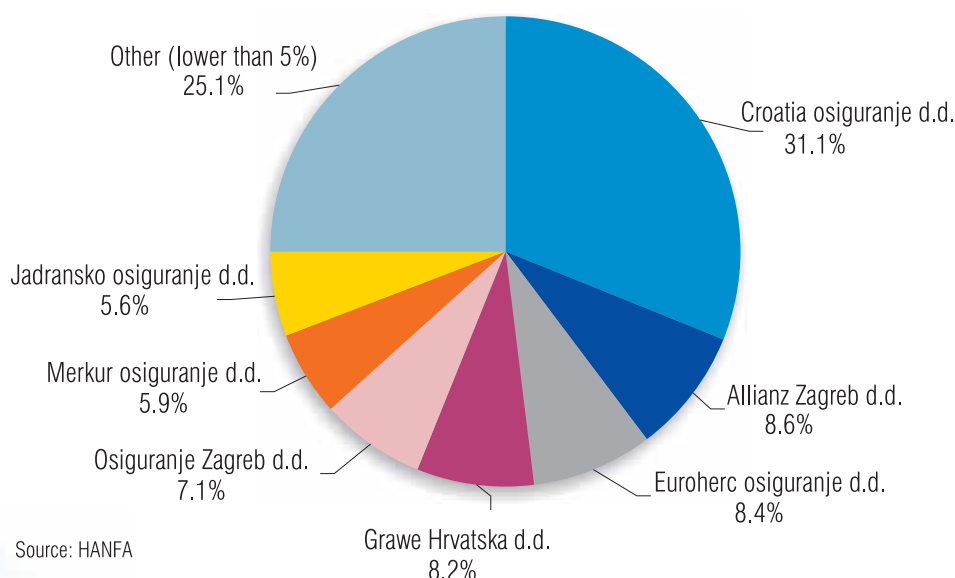
Chart 4.9: Asset Structure of Insurance and Reinsurance Companies in 2006 and 2007 (in %)



Source: HANFA

As regards the shares of individual companies in the total assets of insurance and reinsurance companies, the largest share (31.1%) was accounted for by Croatia osiguranje d.d., followed by Allianz Zagreb d.d. with 8.6%, Euroherc osiguranje d.d. with 8.4%, Grawe Hrvatska d.d. with 8.2%, Osiguranje Zagreb d.d. with 7.1%, Merkur osiguranje d.d. with 5.9%, and Jadransko osiguranje d.d. with 5.6%, while other companies with shares lower than 5.0% made up 25.1% of total assets.

Chart 4.10: Asset Shares of Insurance and Reinsurance Companies in Total Assets of the Insurance Sector in 2007 (in %)



Source: HANFA

Liability Structure

In 2007, technical provisions accounted for 69.7% of the total value of insurance and reinsurance companies' liabilities, capital and reserves (equity) made up 20.8%, other liabilities 5.5%, whereas technical provisions for life insurance policies where the investment risk is borne by policyholder, other non-insurance reserves of a technical nature, deposits received from reinsurance and accruals and deferred income made up 4.0% of total liability value.

Table 4.6: Liability Structure of Insurance and Reinsurance Companies in 2006 and 2007 (in HRK)

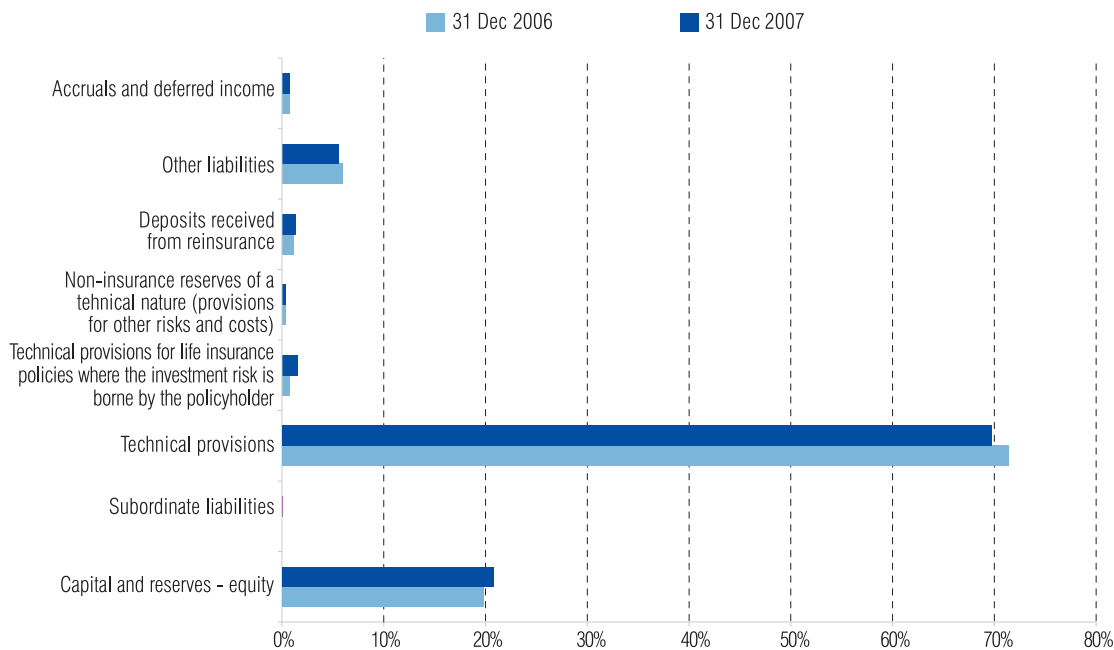
	31 Dec 2006	Share	31 Dec 2007	Share	Dynamics 2007/2006
Capital and reserves (equity)	3,885,779,084	19.8%	4,834,492,214	20.8%	124.4
Subordinate liabilities	-	-	14,001,000	0.1%	-
Technical provisions	14,033,183,529	71.4%	16,204,916,637	69.7%	115.5
Technical provisions for life insurance policies where the investment risk is borne by the policyholder	153,401,410	0.8%	344,426,006	1.5%	224.5
Non-insurance reserves of a technical nature (provisions for other risks and costs)	62,596,334	0.3%	87,188,132	0.4%	139.3
Deposits received from reinsurance	221,314,236	1.1%	306,424,083	1.3%	138.5
Other liabilities	1,163,665,734	5.9%	1,274,579,277	5.5%	109.5
Accruals and deferred income	142,860,245	0.7%	179,840,197	0.8%	125.9
TOTAL LIABILITIES	19,662,800,572	100.0%	23,245,867,546	100.0%	118.2

Source: HANFA

Like in the previous year, the largest share in liability structure (69.7%) was made up by technical provisions, which with the amount of HRK 16.2 billion rose by 15.5% or by HRK 2.2 billion in comparison to 2006, although their share in total liabilities decreased (from 71.4% in 2006 to 69.7% in 2007). The growth in technical provisions was mostly a result of the creation of life insurance mathematical provisions which amounted to almost HRK 8.0 billion with an 18.9% growth rate in comparison to 2006, due to a 14.7% growth in this insurance class.

Capital and reserves (equity) increased by 24.4% and amounted to HRK 4.8 billion, accounting for 20.8% of total liabilities, which was partly a result of an increase in revaluation reserves by HRK 0.5 billion (a 51.2% rise in comparison to 2006) and in other reserves. Other liabilities of insurance and reinsurance companies, with a 5.5% share and a 10.2% growth rate in comparison to 2006, included liabilities arising out of direct insurance and reinsurance operations, received loans, amounts owed to credit institutions and other liabilities totalling HRK 1.3 billion as at 31 December 2007.

Chart 4.11: Liability Structure of Insurance and Reinsurance Companies in 2006 and 2007 (in %)



Source: HANFA

Net Financial Results

According to the provisions of the Accounting Act¹², insurance and reinsurance companies are obliged to draw up basic financial reports. Profit and loss account is one of the basic financial reports showing income and expenses, as well as other elements that influence the financial result of a company. Insurance and reinsurance companies, according to the Insurance Act, are obliged to present their results separately for life insurance and non-life insurance business, as well as to show a combined result.

In 2007, the insurance sector recorded a net profit of HRK 342.9 million, which is a 10.1% growth compared to 2006 when the net profit totalled HRK 311.3 million.

As at 31 December 2007, out of 23 insurance and 2 reinsurance companies, 16 insurance companies and 2 reinsurance companies reported a net profit to the amount of HRK 407.1 million, while 7 companies recorded a negative result in the amount of HRK 64.2 million, whereas the loss of the Osiguranje Zagreb d.d. insurance company amounted to HRK 43.4 million.

It is important to note that in 2007 the Osiguranje Zagreb d.d. company changed its accounting policies and corrected the mistakes from the previous periods by applying the International Financial Reporting Standards. According to IFRS, financial reports, including comparative data for previous periods, are presented as if the new accounting policy had always been applicable. Therefore, comparative data are modified in order to reflect the new accounting policy. The adjustment amount relating to periods preceding those included in financial reports is adjusted by decreasing the initial balance of retained earnings of the earliest presented report, i.e. as at 31 December 2005 and 31 December 2006. As at 31 December 2007, the company reported accumulated losses of the previous periods to the amount of HRK 357.3 million, whereas, by applying IFRS and modifying the financial reports from the previous years retroactively, it distributed those losses over the periods in which the losses were actually generated.

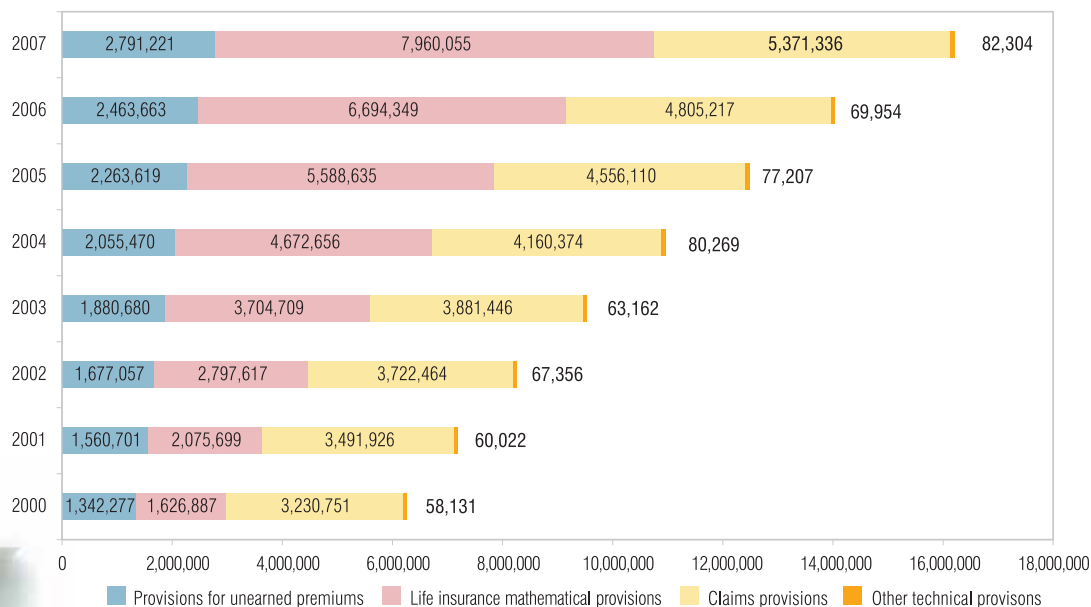
The following insurance companies recorded net financial loss: Basler životno osiguranje d.d. (HRK 1.8 million), Erste Sparkassen osiguranje d.d. (HRK 2.8 million), Generali osiguranje d.d. (HRK 5.0 million), as well as the newly established companies Cardif osiguranje d.d. (HRK 4.6 million), Velebit osiguranje d.d. (HRK 3.6 million) and Velebit životno osiguranje (HRK 3.0 million).

¹² Official Gazette 146/05

Technical provisions

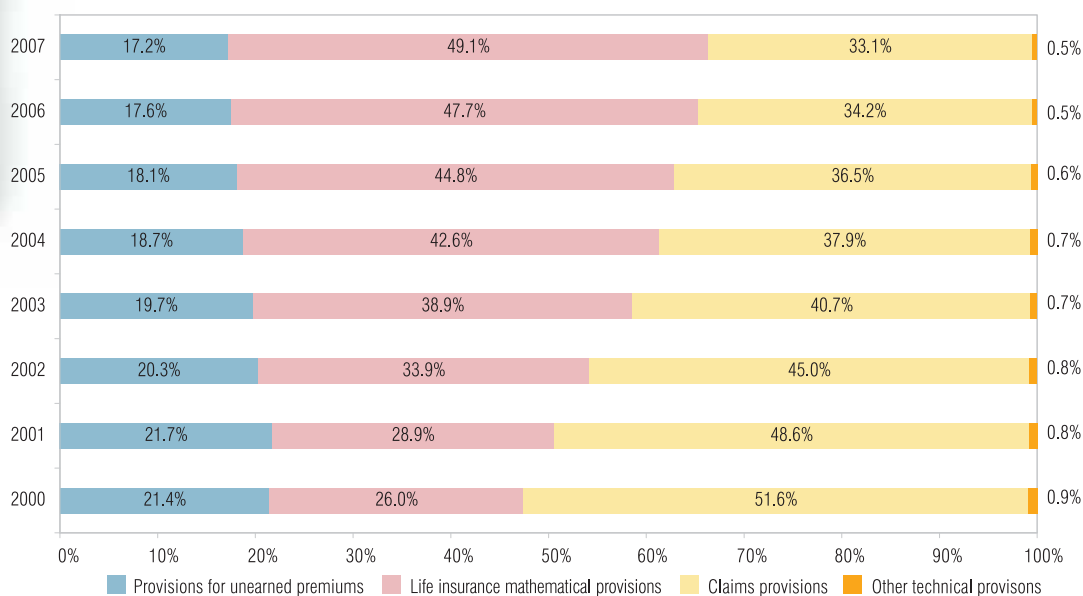
As at 31 December 2007, the total value of technical provisions amounted to HRK 16.2 billion accounting for 69.7% of total liabilities. In 2007, the value of technical provisions increased by 15.5% in comparison to 2006, recording a slightly higher rise than the gross written premium growth rate, which in the respective period rose by 10.8%. Like in the previous year, life insurance mathematical provisions made up the largest share (49.1%) in the total value of technical provisions, increasing by 18.9% in comparison to 2006, and almost 5 times over in the last 8 years.

Chart 4.12: Technical Provisions in the 2000-2007 Period (in HRK thousand)



Source: HANFA

Chart 4.13: Structure of Technical Provisions in the 2000-2007 Period (in %)



Source: HANFA

Investments of Assets Covering Technical Provisions

According to the provisions of Articles 115 and 116 of the Insurance Act, insurance and reinsurance companies are obliged to set up assets covering technical provisions¹³.

As at 31 December 2007, according to the data shown in PU-2 forms¹⁴, insurance and reinsurance companies reported technical provisions to the amount of HRK 8.2 billion. Out of the total value of technical provisions, the companies made

¹³ Official Gazette 151/05

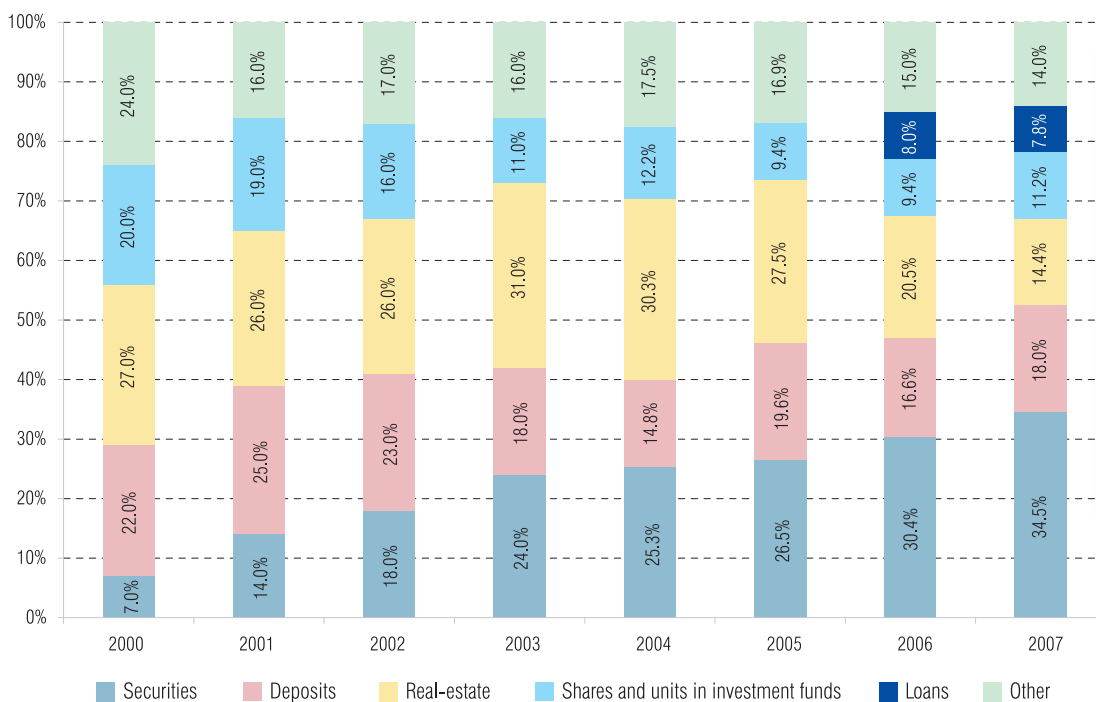
¹⁴ Overview of investments of assets covering technical provisions as at 31 December 2007 (Ordinance on types and characteristics of assets covering technical provisions, rules for diversification and limitations on asset investments, their valuation and compliance with the law, rules for the use of derivative financial instruments, as well as the manner and time limits for reporting (Official Gazette 78/06)

investments to the amount of HRK 8.1 billion, which is a decrease of HRK 59.1 billion or 0.7%, pointing to the lack of assets covering technical provisions.

Technical provisions shown in the balance sheet, including mathematical provisions, amounted to HRK 16.2 billion at the end of 2007, increasing by HRK 2.2 billion or 15.5% over the previous year. The said increase was followed by an increase in investments of technical provisions not including mathematical provisions at almost the same rate (15.8%), as shown in the PU-2 form.

The investment structure of the insurance industry was still dominated by investments in securities, whose share (totalling 34.5%) in total investments of technical provisions continuously rose in 2007. Investments in real estate, making up a share larger than 20.0% in the investments presented in the PU-2 form at the end of 2006, decreased significantly at the end of 2007, totalling less than 15%. The recorded fall is partly a result of on-site supervision in the course of which the Agency in some companies determined that a part of real estate presented as investments of assets covering technical provisions in real estate and other proprietary rights did not meet legal requirements for such presentation. At the same time, a share increase was recorded by investment in deposits and in investment fund units and shares. Investments in investment funds followed the trend on the capital market, although, due to an extremely negative trend in the last quarter of 2007, it was logical to expect that insurance and reinsurance companies would withdraw their assets from funds and allocate them to other investment types. However, according to data submitted, the share of those investments presented in the PU-2 form as at 31 December 2007 amounted to 11.2%, increasing by HRK 249.2 million or by 37.7% compared to the same day in 2006.

Chart 4.14: Structure of Investments of Technical Provisions in the 2000-2007 Period (in %)



Source: HANFA

Investments of Assets Covering Mathematical Provisions

Insurance companies are obliged to form life insurance mathematical provisions in the amount of the present value of all future liabilities under insurance contracts concluded, reduced by the present estimated value of future premiums payable under such insurance contracts. Insurance companies conducting insurance business in the lines of insurance in respect of which mathematical provisions must be formed, must set aside assets covering mathematical provisions and must manage such assets separately from other assets. The value of assets covering mathematical provisions must at all times be at least equal to the amount of the required coverage.

Insurance companies are obliged to invest assets covering mathematical provisions in accordance with Articles 122 and 123 of the Insurance Act¹⁵, taking account of the type of business carried out and guaranteeing the safety, profitability and diversity of investments. Free monetary assets must be invested in such a manner as to reduce the investment risk to the lowest possible level through a higher diversity and precise definition of investment goals. This relates especially to investments of life insurance assets, since those assets match the definition of long-term savings.

Insurance Market

¹⁵ Official Gazette 151/05

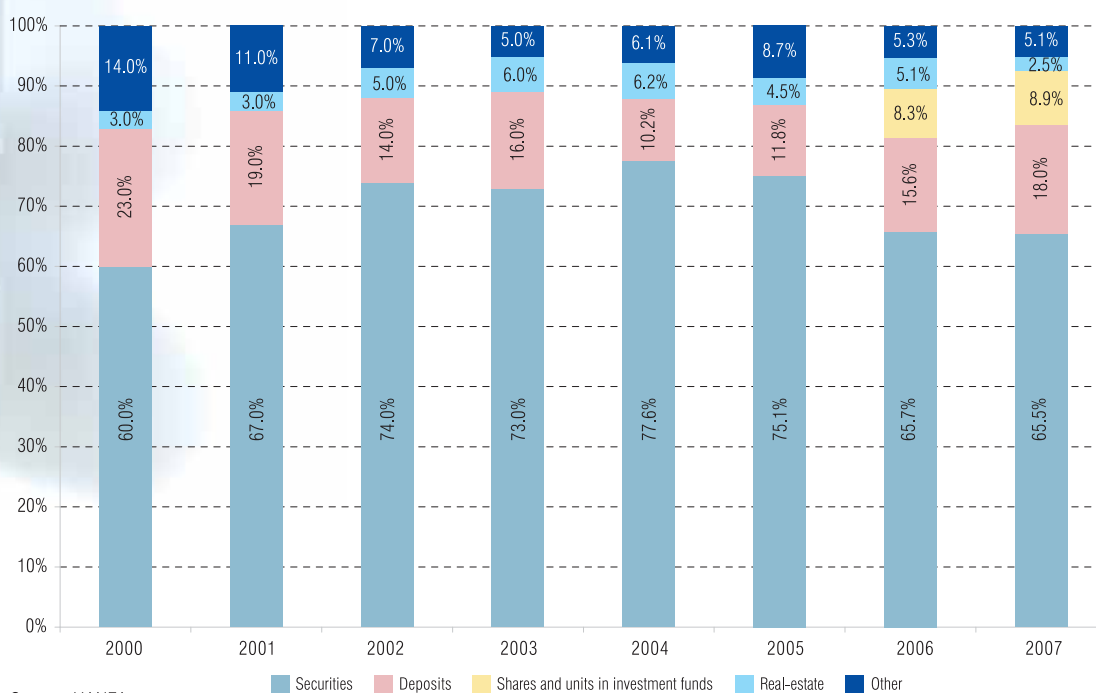
Life insurance mathematical provisions amounted to HRK 7.9 billion and were by 18.9% higher in comparison to the previous year, making up 49.1% of the total value of technical provisions. The increase in mathematical provisions was caused by life insurance premium growth as well as by the allocation of a part of profit generated in life insurance to accounts of policyholders. All the companies recorded an increase in mathematical provisions, except for the Osiguranje Helios d.d., which reported mathematical provisions lower by 12.7% in comparison with the previous year.

According to data presented in PU-1 forms¹⁶, as at 31 December 2007, insurance companies reported the required coverage of mathematical provisions to the amount of HRK 8.3 billion, whereas assets covering mathematical provisions amounted to HRK 8.4 billion, which shows that insurance companies invested an amount which is by HRK 125.3 million, or by 1.5% higher than the required coverage.

Out of 25 insurance and reinsurance companies currently operating on the Croatian market, 16 of them submitted the PU-1 form.

With respect to asset types, the largest share (61.5%) of the required coverage was invested in securities of the Republic of Croatia and the Croatian Bank for Reconstruction and Development, which is a legal requirement of insurance companies. In other words, insurance companies are obliged, pursuant to the Insurance Act¹⁷, to invest at least 50% of assets covering mathematical provisions in securities issued by the Republic of Croatia, Croatian National Bank, and Croatian Bank for Reconstruction and Development and in bonds and other debt securities guaranteed by the Republic of Croatia, which significantly contributes to investment safety. As at 31 December 2007, only one insurance company (Triglav osiguranje d.d.) failed to meet this legal requirement.

Chart 4.15: Structure of Investments of Life Insurance Mathematical Provisions in the 2000 – 2007 Period (in %)



Source: HANFA

Indicators in the Insurance Sector

When monitoring business operations of insurance companies, the following indicators are used: claims ratio, expense ratio, combined ratio and return on investments (see the table C4 in the Appendices).

Claims ratio, which is the proportionate relationship of claims paid, changes in provisions for claims and changes in other technical provisions to earned premiums expressed as a percentage, in 2007 amounted to 73.9%.

Expense ratio is the proportionate relationship of operating expenses (acquisition costs and administrative costs) and other technical charges to gross written premium reduced by premiums ceded to reinsurance expressed as a percentage and in 2007 it amounted to 40.2%. The usual range of values of expense ratio for the insurance sector is 20%-30%.

Combined ratio is calculated by adding the claims ratio to expense ratio and indicates the profitability of operations before including income from investments, and in 2007 it amounted to 114.1%.

¹⁶ Overview of investments of assets covering mathematical provisions (required coverage) as at 31 December 2007 (Ordinance on types and characteristics of assets covering technical provisions, rules for diversification and limitations on asset investments, their valuation and compliance with the law, rules for the use of derivative financial instruments, as well as the manner and time limits for reporting (Official Gazette 78/06).

¹⁷ Official Gazette 151/05

Return on investment is the proportionate relationship of net income from investments to balance of investments expressed as a percentage. An increase of this indicator by 1.2% in 2007 when it amounted to 5.7%, was a result of an increase in investments on the financial market. Security of funds invested is extremely important for the insurance sector because insurance companies acting as financial institutions accumulate substantial financial assets, and when calculating insurance premium, future investment result is taken into account, therefore allowing the premium needed for payment of insured events and coverage of costs for conducting business activities to be reduced by that amount.

On the basis of information from the balance sheet and profit and loss accounts, solvency (solvency margin) and profitability indicators may be calculated as well.

Solvency indicator (solvency margin) is used to show capital adequacy, i.e. to assess the value of the insurer's capital and guarantee capital with respect to the scope of its business, and it depends on the adequacy of technical provisions which must be sufficient for a full coverage of liabilities of the insurance company under the insurance contracts (see tables in Appendices). Out of 25 insurance and reinsurance companies, as at 31 December 2007, 4 companies failed to meet capital adequacy requirements. In 2008, all companies undertook measures for eliminating such irregularities (3 of them adopted decisions on additional capitalization, and 1 of them adopted a decision on the transfer of capital from life insurance group of classes to non-life insurance group of classes).

Return on assets (ROA) is the proportionate relationship of net profit to total assets, showing how much net profit is generated by 100 monetary units of total assets. In 2007, this ratio decreased in comparison to 2006 and amounted to 1.5%, which is a result of a decrease in capital market value in the last quarter of 2007.

Return on equity (ROE) is the proportionate relationship of net profit and equity (subscribed capital, premium on shares issued – capital gain, revaluation reserves, reserves and accumulated profit or loss) expressed as a percentage, showing how much net profit can be generated by HRK 100 of own funds. In 2007, return on equity amounted to 7.6%, decreasing by 1.1% compared to 2006.

Regulatory Activities

Legal Framework

Legal framework regulating business operations and supervision of insurance companies includes: Insurance Act¹⁸, Act on Compulsory Insurance within the Transport Sector¹⁹, Act on the Croatian Financial Services Supervisory Agency²⁰, Companies Act²¹, Accounting Act²², Audit Act²³ and Civil Obligations Act²⁴.

Drafting Act Proposals

Within the National Programme for the Accession of the Republic of Croatia to the European Union, with respect to the alignment of the Croatian legislative framework with EU Directives within Chapter 9 – Financial Services, in 2006 a working group was appointed to draft the Amendments to the Insurance Act. Members of the working group are employees of the Ministry of Finance and the Agency. The deadline for the adoption of the Act is 30 June 2008.

Drafting Subordinate Legislation

On the basis of its powers defined in the Act on Croatian Financial Services Supervisory Agency, Insurance Act and the Act on Compulsory Insurance within the Transport Sector, for the purpose of aligning operations of insurance and reinsurance companies as well as of insurance agencies and insurance brokerage companies with the above mentioned Acts, in 2007 the Agency's employees produced 2 by-laws²⁵, 1 amendment to a by-law adopted in 2006²⁶ and issued 2 opinions²⁷.

The said subordinate legislation stipulated statistical standards for insurance according to which insurance companies shall keep statistical records on insurance operations, risks covered, insured events and claims, as well as it stipulated the chart of accounts of insurance and reinsurance companies. The statistical and accounting reporting system is based on provisions of EU Directives and International Financial Reporting Standards.

¹⁸ Official Gazette 151/05

¹⁹ Official Gazette 151/05

²⁰ Official Gazette 140/06

²¹ Official Gazette 111/93, 34/99 and 118/03

²² Official Gazette 146/05

²³ Official Gazette 146/05

²⁴ Official Gazette 35/05

²⁵ Statistical Standards for Insurance, Official Gazette 6/07

Chart of Accounts of Insurance and Reinsurance Companies, Official Gazette 61/07

²⁶ Ordinance amending the Ordinance on technical and organisational requirements needed to carry on insurance representation business at vehicle roadworthiness test garages, Official Gazette 9/07

²⁷ Opinion of the Agency on Article 151 of the Insurance Act

Opinion on the usage of mortality tables for the calculation of the mathematical reserves

Licensing

In 2007, 2 decisions ordering measures for eliminating irregularities in business operations of insurance companies were adopted and 101 requests were submitted for filing misdemeanour charges against insurance companies.

On the basis of submitted requests for the issue of licences to conduct insurance mediation business, and with reference to the alignment with the provisions of the Insurance Act, in 2007 the Agency authorised 47 insurance agencies, 26 insurance representation trades and 9 brokerage companies.

At the same time, on the basis of submitted requests for the issue of licences to conduct insurance mediation business, the Agency authorised 21 newly established insurance agencies, 23 newly established insurance representation trades and 5 newly established insurance brokerage companies.

The Agency withdrew the operating licence to conduct insurance representation business from 22 insurance agencies and 14 insurance representation trades, because they failed to align their operations with the Insurance Act. No operating licences were revoked from insurance brokerage companies or from insurance mediators.

73 licences to conduct insurance representation and 5 licences to conduct insurance brokerage business were granted to natural persons with a licence for insurance mediation issued by the Minister of Finance.

In accordance with Article 251 of the Insurance Act, authorisations to carry on insurance representation activities at vehicle roadworthiness test garages were granted to 16 insurance agencies and 5 insurance representation trades in 2007.

In 2007, 14 banks were granted authorisation of the Agency to conduct insurance representation activities in accordance with Article 250 paragraph 4 of the Insurance Act, while in 2006 the said authorisation was granted to 8 banks.

In 2007, 10 examination terms were held for acquiring the licence for insurance representation and brokerage business. 2,693 candidates have attended the examination, among which 1,848 have successfully passed it. 1,828 candidates obtained the licence for insurance mediation business and 20 candidates obtained the licence for insurance brokerage business.

Supervision of the Insurance Market

In 2007, the Agency, in accordance with its scope of competence, carried out on-site and off-site supervision of insurance companies, reinsurance companies, insurance agents and brokers and insurance representation trades. According to the provisions of the Act on the Croatian Financial Services Supervisory Agency²⁸ and Insurance Act²⁹, and on the basis of submitted financial and statistical reports, actuarial opinions and audit reports, systematic analyses and control of supervised entities were conducted.

In 2007, on-site supervision was carried out in 22 insurance companies, 3 insurance brokerage companies, 10 insurance agencies and in 1 insurance representation trade.

Partial on-site supervision of insurance companies' business operations covered:

- investments of assets covering mathematical and technical provisions (Osiguranje Zagreb d.d., Jadransko osiguranje d.d., Sunce osiguranje d.d., Allianz Zagreb d.d., Euroherc osiguranje d.d., Agram životno osiguranje d.d., Croatia zdravstveno osiguranje d.d. i Triglav osiguranje d.d.),
- sufficiency of investments in assets covering mathematical provisions (Osiguranje Zagreb d.d, Agram životno osiguranje d.d. and Triglav osiguranje d.d.),
- presentation of receivables from policyholders and the correction of the value of those receivables (Sunce osiguranje d.d., Jadransko osiguranje d.d., Allianz Zagreb d.d., Euroherc osiguranje d.d., Basler osiguranje d.d. and Croatia osiguranje d.d.),
- verification of the basis and the calculation of technical provisions and life insurance mathematical provisions, as well as the calculation of solvency margins and capital adequacy (Osiguranje Zagreb d.d, Croatia zdravstveno osiguranje d.d.),
- supervision on the basis of insurance representation contracts - promotional contracts (Allianz Zagreb d.d)
- application of the Basic Premium System and common Conditions for Motor Vehicle Liability Insurance (Allianz Zagreb d.d., Croatia osiguranje d.d., Jadransko osiguranje d.d., Osiguranje Helios d.d., Kvarner Vienna Insurance Group d.d., Triglav Osiguranje d.d., Osiguranje Zagreb d.d., Gawe Hrvatska d.d., Uniqa osiguranje d.d., Generali osiguranje d.d., Euroherc osiguranje d.d. and Sunce osiguranje d.d.).

²⁸ Official Gazette 140/05

²⁹ Official Gazette 151/05

On the basis of the on-site supervision conducted, the Agency drew up Records, adopted one Decision and issued 6 Orders requesting elimination of irregularities established, 1 of which was issued at the beginning of 2008.

The supervision conducted at insurance companies established irregularities relating to investments of assets covering mathematical and technical provisions in real estate, insufficient investments in assets covering mathematical and technical provisions, valuation of receivables from policyholders, non-compliance with the provisions of the Accounting Act³⁰, i.e. with the International Financial Reporting Standards, investment of assets covering technical provisions in types of assets not permitted by the Insurance Act, irregularities in the calculation of technical provisions and life insurance mathematical provisions, as well as non-compliance with the provisions of the Act on Compulsory Insurance within the Transport Sector³¹ relating to the application of the Basic Premium System and common Conditions for Motor Vehicle Liability Insurance.

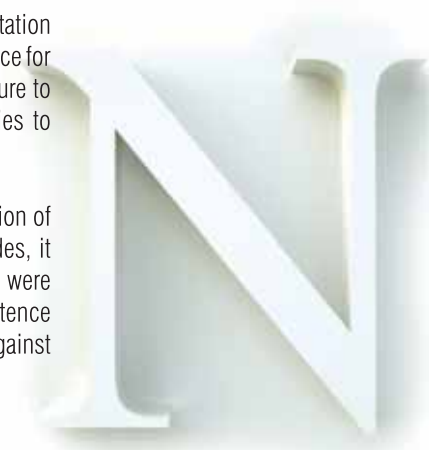
Based on the information obtained during on-site supervisions carried out in insurance companies, due to identified activities that were contrary to the provisions of the Insurance Act, 18 misdemeanour requests were submitted against insurance companies and responsible persons in insurance companies and 1 criminal charge.

On-site supervision of business operations of insurance brokerage companies and insurance agencies:

In 2007, on-site supervision was carried out in 3 insurance brokerage companies (Mai posredovanje u osiguranju d.o.o., Familia d.o.o. za posredovanje u osiguranju and Vita Securus d.o.o. za posredovanje u osiguranju), 10 insurance agencies (Starfin Internacional Zastupanje d.o.o., Premisus d.o.o., OVB Allfinanz Croatia d.o.o., Bonus B d.o.o. za zastupanje u osiguranju, Bonus Plus d.o.o. za zastupanje u osiguranju, Agera zastupanje u osiguranju d.o.o., Baos zastupanje u osiguranju d.o.o., Croatia Agent d.o.o. za zastupanje u osiguranju, Trust Invest zastupanje u osiguranju d.o.o and Efikasno i sigurno d.o.o. za zastupanje u osiguranju) and in 1 insurance representation trade (Insurance representation trade Bonus).

The on-site supervision established several irregularities (unauthorised persons conducting business, representation of more insurance companies in one insurance class, non-possession of adequate professional indemnity insurance for representation business if the company carries out representation activities for more insurance companies, failure to appoint a responsible person working full-time and possessing a licence to carry out representation activities to conduct representation business).

The Agency drew up Records on the supervision carried out and, on the basis of findings from on-site supervision of business operations of insurance agencies, insurance brokerage companies and insurance representation trades, it adopted 2 Decisions ordering elimination of irregularities established. After having identified activities that were contrary to the provisions of the Insurance Act, the Agency also took adequate measures from its scope of competence (2 Decisions on the withdrawal of licences) and it filed appropriate charges to other competent authorities against certain insurance agencies and responsible persons in the agencies.



³⁰ Official Gazette 146/05

³¹ Official Gazette 151/05

Introduction

The Croatian Insurance Bureau (hereinafter referred to as: the Bureau) is a legal person which in legal transactions with third parties represents an association of insurance companies having its seat in the Republic of Croatia. The Bureau was established in 1992 when Croatian insurance and reinsurance companies existing at that time (Croatia osiguranje d.d., Jadransko osiguranje d.d., Slavonija osiguranje d.d., Adriatic osiguranje d.d. and Slavija Lloyd d.d. za reosiguranje) signed the Founding Agreement. Members of the Bureau may be Croatian and foreign insurance and reinsurance companies which have obtained the licence to conduct insurance business in the Republic of Croatia³².

Companies engaged in compulsory insurance within the transport sector (accident insurance of passengers in public transport; insurance of the owner of a vehicle against liability for damage caused to third parties – motor vehicle liability insurance; insurance of owners of aircraft against liability for damage caused to third parties and passengers; and insurance of owners of boats or yachts against liability for damage caused to third parties) are obliged to be members of the Bureau, while to insurance companies engaged in other lines of insurance business the membership is available on voluntary basis (they may become members of the Bureau by submitting an application).

Regulatory Activities

The Bureau is a non-profit legal person, and therefore runs the accounting system of other non-profit legal persons specified by the Republic of Croatia at the proposal of the Minister of Finance. Being a non-profit legal persons, the Bureau runs the accounting system in accordance with the Regulation on accounting systems of non-profit organisations³³ and the Ordinance on book-keeping and accounting plan of non-profit organisations³⁴, and in accordance with the said Ordinance it applies the so-called fund accounting system. Business Operations of the Bureau are regulated through 3 Funds: Fund A – Regular Activity Fund, Fund B – Capital Project Fund and Fund C – Representations Fund, i.e. Guarantee Fund.

The Insurance Act³⁵ and the Act on Compulsory Insurance within the Transport Sector³⁶ stipulate the activities of the Bureau, its duties towards the Agency, as well as duties of insurance companies carrying out compulsory insurance within the transport sector towards the Bureau. The activity of the Bureau is financed by insurance companies which are obliged to make contribution payments in the Guarantee Fund in proportion to the premium recorded for a particular type of compulsory insurance in the preceding year, in the manner and deadlines stipulated by the Agency.

Supervision of the operations of the Bureau lies within the scope of competence of the Agency.

Supervision of the Croatian Insurance Bureau

In 2007, the off-site supervision of business operations of the Croatian Insurance Bureau consisted of the analysis of statistical and financial reports submitted, on the basis of which the following was determined:

- As at 31 December 2007, the total assets of the Bureau amounted to HRK 45.6 million, increasing by 38.8% over 2006, with fixed assets totalling HRK 7.6 million and short-term assets amounting to HRK 37.9 million. On the same day, total liabilities amounted to HRK 7.3 million, decreasing by 32.8% compared to the previous year.
- According to the income and expenditure account, the total income of the Bureau generated in the period from January 2007 to December 2007 amounted to HRK 72.2 million, with the largest share (HRK 62.9 million) being accounted for by income of the Representation Fund, i.e. Guarantee Fund. Since total expenses amounted to HRK 61.8 million, the reported income over expenditure totalled HRK 10.5 million, with the Regular Activity Fund reporting HRK 178,000, and the Guarantee Fund reporting HRK 10.3 million, calculated in favour of the Fund's balance. The Fund's balance is made up of all unspent funds since the beginning of the Bureaus' operations. As at 31 December 2007, the balance of the Regular Activity Fund totalled HRK 4.9 million, and the balance of the Guarantee Fund amounted to HRK 26.1 million.

The Bureau is obliged to keep statistical records on policyholders, adverse events and claim valuation and settlement, and to submit them to the Agency at its request. The Bureau is also obliged to keep the assets intended for meeting liabilities of the Guarantee Fund separate from other assets of the Bureau and is obliged to submit a monthly report on the state of the assets intended for meeting liabilities of the Guarantee Fund to the Agency, as stipulated in the Ordinance

³² Articles of Association of the Croatian Insurance Bureau

³³ Official Gazette 112/93

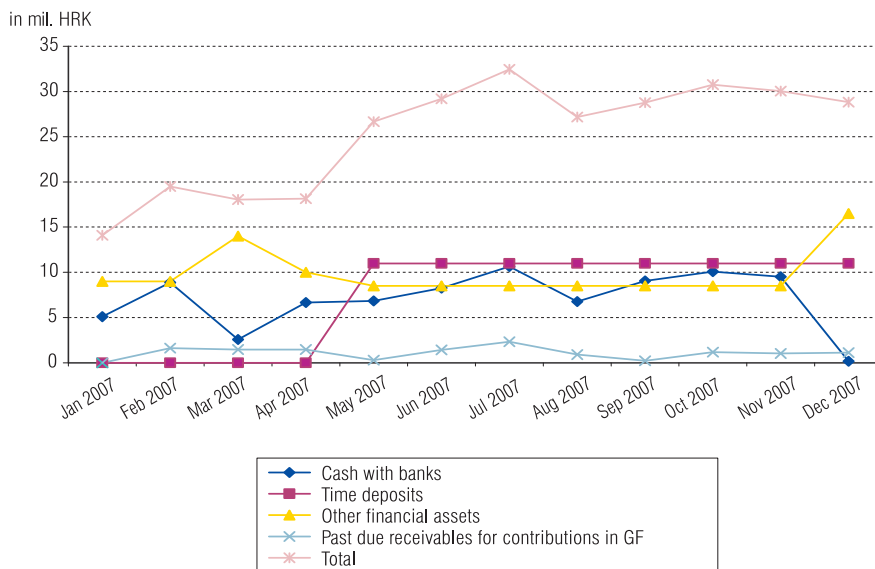
³⁴ Official Gazette 20/94 and 40/94-corrigendum

³⁵ Official Gazette 151/05

³⁶ Official Gazette 151/05

on the method of calculating and time limits for paying contributions and on the manner of keeping and using assets intended for meeting liabilities of the Guarantee Fund³⁷.

Chart 4.16: Assets of the Guarantee Fund in the Period 1 January-31 December 2007



Source: HANFA

Croatian Nuclear POOL GIU

In the first half of the 1980s, after the Krško Nuclear Power Plant started operating, Croatian and Slovenian insurance and reinsurance companies established a POOL for insurance and reinsurance against nuclear risks. After the Slovenian companies exited the POOL in 1991 and established a Slovenian POOL, the POOL for insurance and reinsurance against nuclear risks, that previously covered a 50% share of the Republic of Croatia at the Krško Nuclear Power Plant, comprised only Croatian insurance and reinsurance companies, which continued operations as the Croatian nuclear POOL. Since 1 January 1999, the Croatian Nuclear POOL for insurance and reinsurance against nuclear risks (hereinafter: CN POOL) has conducted its business operations as an economic interest grouping³⁸ (GIU).

Members of the CN POOL are Allianz Zagreb d.d., Croatia Lloyd d.d., Croatia osiguranje d.d., Osiguranje Helios d.d. and Triglav osiguranje d.d., and on 1 January 2008 Generali osiguranje d.d.³⁹ was also admitted as a member of the CN POOL. In accordance with the Agreement on the CN POOL's Foundation, the Members of the POOL jointly assume extraordinary risks with respect to the insurance, co-insurance and reinsurance of nuclear plants with regard to the exploitation of nuclear power for peacetime purposes. In addition to its main line of business, other activities of the CN POOL are nuclear prevention, depositing and investing financial resources earned from its business operations, as well as from some sidelines in connection with its primary business. The CN POOL provides insurance and reinsurance cover on its own behalf and for the account of its member companies.

Business activities of the CN POOL comprise insurance against in Croatia and reinsurance against foreign risks. Insurance against risks in Croatia relates to insurance of assets and general third-party liability of Krško Nuclear Power Plant, whereas reinsurance against foreign risks relates to reinsurance of risks from 24 countries.

Since the CN POOL started operating, its most significant policyholder has been the Krško Nuclear Power Plant, whose assets and third-part liability (nuclear and general) has regularly been insured through the CN POOL. Since 6 May 1994, pursuant to a mutual agreement, the insurance policy has been issued by the Slovenian Nuclear POOL, while the Croatian POOL has stood behind as the reinsurer.

Funds earned from business operations are used to meet the liabilities under insurance and reinsurance cover, to cover the CN POOL's expenses and other liabilities in compliance with the legislation and the CN POOL's subordinate legislation. Regarding the fact that risks assumed in insurance and reinsurance are disastrous by nature, certain amounts of income generated during the year, upon the annual settlement of the CN POOL, are allocated to regular

³⁷ Official Gazette 139/06

³⁸ According to Article 583 of the Companies Act (Official Gazette 111/93 and 107/07), an economic interest grouping (GIU) is a legal person established by 2 or more natural or legal persons with the aim of facilitating and promoting economic activities which constitute the scope of their business operations, and of improving their effect, provided that the legal person does not acquire profits for itself.

³⁹ In accordance with Article 270 paragraph 1 of the Insurance Act (Official Gazette 151/05), 2 or more insurance companies may establish an insurance or reinsurance pool for the purpose of carrying on insurance or reinsurance business that covers large risks of liability claims for losses and/or damages arising from nuclear energy or other large claims.

provisions for claims outstanding, provisions for claims incurred but not reported, provisions for mass and disastrous damage, provisions for return of insurance and reinsurance premiums and other insurance-technical provisions and unearned premiums, after which the allocated funds are kept in the accounts of the CN POOL in the so-called Liquidity Fund in accordance with the legislation and CN POOL's subordinate legislation. Members of the CN POOL receive the remaining income on the basis of co-insurance and co-reinsurance premiums and generated profit upon the annual settlement of the CN POOL. The allocation of premiums and claims and of realised profit or loss is based on the proportional shares of individual members in the CN POOL's capacity for each contractual year, separately for insurance against risks in Croatia and for reinsurance against foreign risks.

Balance Sheet as at 31 December 2007

As at 31 December 2007, the total assets of the CN POOL stood at HRK 53.3 million, increasing by HRK 2.9 million, or 5.8% over the end-2006. Total asset structure was dominated by cash at bank amounting to HRK 49.0 million and accounting for 91.8% of total assets, with almost all the amount relating to funds in the foreign exchange account totalling HRK 48.8 million. This amount is made up of funds generated by the POOL through its business operations along with technical provisions. The funds are invested in HRK and foreign exchange deposits at banks with the head office in the Republic of Croatia. Recorded income from interest totalled HRK 2.9 million. The largest liability share was accounted for by provisions, which amounted to HRL 49.6 million, or 93.1% of total liabilities, showing an increase of HRL 3.2 million, or 6.9% over the previous year.

Table 4.7: Summary Balance Sheet for 2006 and 2007 (in HRK)

Item	2006	Shares 2006	2007	Shares 2007	Dynamics 2007/2006
1 Long-term tangible assets	260,624	0.5	105,584	0.2	40.5
2 Finance assets	4,459,148	8.8	3,500,590	6.6	78.5
3 Receivables arising from insurance business	-	-	-	-	-
4 Receivables arising from reinsurance business	19,699	0.0	13,451	0.0	68.3
5 Other receivables	3,911,933	7.8	737,882	1.4	18.9
6 Cash with banks	41,779,965	82.8	48,980,044	91.8	117.2
7 Prepayments	5,783	0.0	5,994	0.0	103.7
TOTAL ASSETS	50,437,152	100.0	53,343,545	100.0	105.8
1 Capital	-	-	-	-	-
2 Revaluation reserves and POOL's reserves	19,908	0.0	19,471	0.0	97.8
3 Accumulated profit	17,256	0.0	37,137	0.1	215.2
4 Profit or loss of the accounting period	19,444	0.0	10,881	0.0	56.0
5 Reserves	46,437,360	92.1	49,647,541	93.1	106.9
6 Short-term liabilities	3,507,595	7.0	3,192,926	6.0	91.0
7 Accruals	-	-	-	-	-
8 Deferred income	379,630	0.8	379,630	0.7	100.0
9 Passive accounts - liabilities	55,958	0.1	55,958	0.1	100.0
TOTAL LIABILITIES	50,437,152	100.0	53,343,545	100.0	105.8

Source: HANFA

Profit and Loss Account for the Period 1 January-31 December 2007

The CN POOL reported a profit for the period from 1 January to 31 December 2007 amounting to HRK 27,000, which is a decrease of HRK 8,300 or 23% compared with 2006, which completed resulted from reinsurance against foreign risks. In 2007, the CN POOL recorded total income amounting to HRK 15.0 million, which is a decrease of 14.2% compared to the same period of the previous year, but an increase of 25.2% with respect to the forecast amount. The largest share in total income structure was made up by reinsurance premiums amounting to HRK 9.9 million or 65.9% of total income. Total expenses amounted to HRK 15.0 million, decreasing by 14.2% compared to the previous year when they amounted to HRK 17.5 million.

The analysis of reports submitted showed that the largest part of business operations was comprised of active reinsurance against foreign risks. Out of total income amounting to HRK 15.0 million in 2007, HRK 9.9 million, or 65.9% related to active reinsurance against foreign risks. Income generated abroad was by 14.7% lower than the previous year, but by 27.0% higher than the forecast amount. The fall in income generated by the CN POOL through reinsurance against foreign risks was a result of loosing reinsurance business of all material damage policies of the German and of about one third of policies of the Swedish pool, and of an increase in capacity and retention of certain pools, which led to a decrease in the share of reinsurance pools.

Insurance premium of insurance against risks in Croatia amounted to HRK 6.2 million in 2007, falling by HRK 51,500, or 0.8% over 2006, and was almost completely transferred to reinsurance (HRK 5.6 million).

Table 4.8: Summary Profit and Loss Account for 2006 and 2007 (in HRK)

Item	2006	Shares 2006	2007	Shares 2007	Dynamics 2007/2006
I Income	17,501,112	100.0	15,015,639	100.0	85.8
1 Insurance premium	6,234,995	35.6	6,183,470	41.2	99.2
2 Insurance premium - prevention (1%)	62,980	0.4	62,459	0.4	99.2
3 Reinsurance premium	12,078,624	69.0	9,900,284	65.9	82.0
4 Unearned premium of ins. and reins.	330,000	1.9	500,000	3.3	151.5
5 Shares in claims	-	-	-	-	-
6 Premiums ceded to reinsurance	-5,663,688	-32.4	-5,610,587	-37.4	99.1
7 Interest income	1,943,231	11.1	2,885,535	19.2	148.5
8 Exchange rate differences	12,073	0.1	49,556	0.3	410.5
9 Other income	2,502,897	14.3	1,044,923	7.0	41.7
II Expenses	17,465,089	100.0	14,987,911	100.0	85.8
1 Fire-service contribution	630	0.0	2,037	0.0	323.6
2 Co-insurance premium	53,586	0.3	53,327	0.4	99.5
3 Co-reinsurance premium	3,068,121	17.6	2,742,001	18.3	89.4
4 Claims - paid	1,374,115	7.9	479,228	3.2	34.9
5 Prov. for claims outst. and equalisation prov.	3,221,665	18.4	3,117,723	20.8	96.8
6 Provisions for return premiums	850,000	4.9	100,000	0.7	11.8
7 Unearned premiums	500,000	2.9	330,000	2.2	66.0
8 Other ins.-tech. and reins.-tech. provisions	750,000	4.3	100,000	0.7	13.3
9 Commissions and expenses	1,240,874	7.1	1,022,026	6.8	82.4
10 Allocated for preventive measures	62,980	0.4	62,459	0.4	99.2
11 Exchange rate differences	2,114,141	12.1	3,610,373	24.1	170.8
12 Operational expenses of the POOL	3,935,118	22.5	2,930,210	19.6	74.5
13 Other expenses	293,861	1.7	438,526	2.9	149.2
III Profit	36,023		27,728		77.0

Source: HANFA



Pension Insurance Companies

Introduction

The Act on Pension Insurance Companies and Payment of Pension Annuities based on Individual Capitalised Savings¹ sets forth the establishment and pursuit of the business of pension insurance companies, which pay out pension annuities under the mandatory pension insurance system based on individual capitalised savings (Pension Pillar 2) and pension annuities under the voluntary pension insurance system based on individual capitalised savings (Pension Pillar 3), as well as it sets forth pension annuities and their payment under the mandatory and voluntary pension insurance system.

The amount of pension annuities depends on the amount of capitalised paid-in contributions of fund members and the duration of annuity payout. It is determined on the basis of the principle of mutuality and principle of defined contributions, by way of pension contracts concluded between fund members and pension insurance companies. Whenever the amount of pension annuities needs to be determined, the following is taken into account: the fund member's age on the entitlement date, the total amount of capitalised paid-in contributions, the type and form of pension annuities to be paid out and other elements for actuarial calculation.

A pension insurance company may pay to one pensioner (a person receiving a pension annuity from a pension insurance company under a pension contract) a pension annuity on the basis of contributions paid into only one mandatory pension fund. At the same time, the same pension insurance company may pay out pension annuities receivable on the basis of contributions paid into one or more voluntary pension funds.

Pension annuities under the mandatory pension insurance system may be paid out only after the entitlement to pension has been acquired pursuant to the Pension Insurance Act².

Payment of pension annuities under the mandatory pension insurance system is guaranteed by the Republic of Croatia, for which purpose a special guarantee fund has been established at the Croatian National Bank and is used in the event that a pension insurance company lacks the ability to pay contracted pensions. The guarantee fund consists of contributions paid by pension insurance companies, and, in the event that the fund is insufficient to cover the payments, pension annuities are paid out from the State Budget.

Market Description

Raiffeisen mirovinsko osiguravajuće društvo d.o.o. Zagreb (hereinafter: Raiffeisen MOD) is the first and still the only pension insurance company operating in the Republic of Croatia. It was established in 2002 pursuant to the Act on Pension Insurance Companies and Payment of Pension Annuities based on Individual Capitalised Savings.

Raiffeisen MOD started paying out first pension annuities in 2003, for which direct lump sum payments had been made for the purchase of supplementary pensions. Pension annuities under the voluntary pension insurance system (Pillar 3 pension annuities) started being paid out in 2004, whereas pension annuities under the mandatory pension insurance system (Pillar 2 pension annuities) were first paid out in 2006. As at 31 December 2007, the company had 616 concluded contracts, with 571 contracts relating to voluntary pension insurance and 45 contracts relating to mandatory pension insurance.

Regulatory Activities and Licensing

Legal Framework

Legal framework regulating business operations and supervision of pension insurance companies consists of the following acts: Act on Pension Insurance Companies and Payment of Pension Annuities based on Individual Capitalised Savings³, Act on the Croatian Financial Services Supervisory Agency⁴, Accounting Act⁵, Audit Act⁶, Civil Obligations Act⁷, and Companies Act⁸. The year 2007 saw the adoption of the Act on Amendments to the Act on Pension Insurance Companies and Payment of Pension Annuities based on Individual Capitalised Savings, which has been valid since 27 October 2007.

¹ Official Gazette 106/99, 63/00 and 107/7

² Official Gazette 102/98, 127/00, 59/01, 109/01, 147/02, 117/03, 30/04, 177/04, 92/05, 79/07 and 35/08

³ Official Gazette 106/99, 63/00 and 107/07

⁴ Official Gazette 140/05

⁵ Official Gazette 146/05

⁶ Official Gazette 146/05

⁷ Official Gazette 35/05

⁸ Official Gazette 111/93, 34/99 and 118/03

Subordinate legislation

Pursuant to the Act on Pension Insurance Companies and Payment of Pension Annuities based on Individual Capitalised Savings, 12 by-laws have been adopted, with 11 of them having been adopted by the Agency for the Supervision of Pension Funds and Insurance (the Agency's legal predecessor) and 1 of them by the Agency. All the by-laws are available at the Agency's web site (www.hanfa.hr).

On the basis of applications submitted by clients, pursuant to the provisions of the Ordinance on obtaining and renewing licences to manage pension insurance companies⁹, 2 decisions were issued renewing licences of pension insurance company managers.

Supervision of Pension Insurance Companies' Business Operations

In 2007, off-site supervision of Raiffeisen MOD's business operations was conducted by means of the analysis of statistical and financial reports submitted.

According to the balance sheet¹⁰ as at 31 December 2007, the total asset value of Raiffeisen MOD amounted to HRK 51.9 million, increasing by 18.3% over the previous year. Total financial investments amounted to HRK 48.2 million, accounting for 92.2% of total assets. Out of total financial investments, long-term financial assets amounted to HRK 19.1 million, which is a 0.9% decrease compared to 31 December 2006, and fully consisted of investments in bonds. Short-term investments totalled HRK 29.1 million, increasing by 46.2% on the end of 2006.

Total technical reserves amounted to HRK 43.8 million, which is a rise of HRK 14.3 million or 48.7% compared to 31 December 2006. Out of the total amount of technical provisions, HRK 43.0 million or 98.3% went to technical provisions of voluntary pension insurance, and the residual 1.7% represented technical provisions of mandatory pension insurance.

Subscribed initial capital totalled HRK 14.4 million, whereas capital and reserves (equity) amounted to HRK 6.5 million. Equity was lower than subscribed capital due to losses accumulated from previous periods totalling HRK 8.2 million and to a decrease in revaluation reserves of HRK 577,900.

The company recorded a negative result in both technical accounts, totalling HRK 74,800 in the technical account of mandatory pension insurance, and HRK 1.4 million in the technical account of voluntary pension insurance.

Total income recorded in 2007 amounted to HRK 24.3 million, increasing by only 1.8% compared to the income recorded in 2006. Total expenses grew at a lower rate (0.8%), but still exceeded total income by HRK 253,600, which represented the amount of loss before taxation. By recognising deferred tax assets in the amount of HRK 899,100, the company reported profit for the accounting period totalling HRK 645,500.

Total technical provisions of mandatory pension insurance amounted to HRK 759,400 and according to the report on investment structure, the amount of HRK 735,400 was completely invested in bank deposits.

Out of the total technical provisions of voluntary pension insurance amounting to HRK 43.0 million, the amount of HRK 40.3 million was invested. According to the report on the investment structure of voluntary pension insurance assets, HRK 31.8 million or 78.9% was invested in government bonds.

⁹ Official Gazette 2/05

¹⁰ All financial and statistical data used in this report are based on unaudited financial reports submitted by pension insurance companies within the legally-prescribed time limits.

Table 5.1.: Summary Balance Sheet of the Company for 2006 and 2007 (in HRK)

Item	2006	Share	2007	Share	Dynamics 2007/2006
Receivables for subscribed capital unpaid					
Fixed assets	19,412,391	44.2	20,382,958	39.3	105.0
Short-term assets	24,312,115	55.4	31,150,393	60.0	128.1
Loss above the capital level	169,862	0.4	376,097	0.7	221.4
TOTAL ASSETS	43,894,368	100.0	51,909,449	100.0	118.3
Off-balance sheet items					
Capital and reserves - equity	6,481,321	14.8	6,548,982	12.6	101.0
Technical provisions - reservations	29,434,383	67.1	43,769,469	84.3	148.7
Short-term liabilities	1,249,290	2.8	170,914	0.3	13.7
Accruals and deferred income	6,729,375	15.3	1,420,084	2.7	21.1
TOTAL LIABILITIES	43,894,369	100.0	51,909,449	100.0	118.3
Off-balance sheet items					

Source: HANFA





Introduction

Although the leasing market in the Republic of Croatia started developing more rapidly in 1997, the Croatian leasing industry had been neither systematically supervised nor legally regulated until the Act on the Croatian Financial Services Supervisory Agency¹ was enacted in November 2005, i.e. until 1 January 2006, when the Croatian Financial Services Supervisory Agency began its operations and the Leasing Act² was enacted. The analysis of leasing activities in the Republic of Croatia was published by the Agency for the first time in the Annual report 2006.

In June 2003, for the purpose of producing statistical reports, the Croatian National Bank (CNB) started systematically collecting financial data on business operations of leasing companies. In the meantime, the Croatian leasing market has multiplied in size several times over.

In the 2003–2006 period, the Croatian financial market saw a continuous growth in the number of registered companies conducting leasing operations.

Table 6.1: Number of Leasing Companies in the 2003–2007 Period

Year	2003	2004	2005	2006	2007
Number of leasing companies	35	37	52	57	25

Source: CNB (2003, 2004 and 2005), HANFA (2006 and 2007)

Although the number of active leasing companies in the Republic of Croatia reduced in 2007, their assets, i.e. the number and value of active contracts, are constantly growing, causing the leasing industry to occupy a more and more important position in the financial market.

Table 6.2: Leasing Industry Overview for the Period 31 December 2006 – 31 December 2007^{3,4}

Date	Number of leasing companies	Total assets (in HRK billion)	Number of employees	Number of active contracts	Financed/contracted value of active contracts (in HRK billion)
31 Dec 2006	57	27.0	868	134,102	32.4
31 Mar 2007	54	28.4	878	139,144	34.9
30 Jun 2007	53	30.2	941	147,545	36.0
30 Sep 2007	26	30.8	951	151,731	37.4
31 Dec 2007	25	30.3	996	158,407	38.8

Source: HANFA

The 2007 decrease in the number of leasing companies was a result of the obligation of leasing companies to align with the provisions of the Leasing Act. Therefore, as at 31 December 2007 leasing operations in the Republic of Croatia were conducted by 25 companies⁵ which submitted their reports on the prescribed TMSI-LD forms (quarterly reports of leasing companies) to the Agency.

Applications to comply with the provisions of the Leasing Act, i.e. for the operating licence, were submitted by 26 companies by 30 June 2007. On the same day, those companies made up almost the whole leasing industry in the Republic of Croatia considering the fact that out of 147,545 active lease contracts, 146,508 contracts, or 99.3% of them were concluded in the said companies. Furthermore, out of almost HRK 36.0 billion of total financed/contracted value of active contracts, more than HRK 34.4 billion, or 96.0% related to the same companies.

Market Description

Leasing Companies' Business Operations – General Data

As regards the ownership structure of leasing companies, as at 31 December 2007 there were 3 leasing groups⁶ in the Republic of Croatia with 6 leasing companies operating within them, while the remaining 19 companies operated independently. The leasing groups comprised the following companies:

¹ Official Gazette 140/05

² Official Gazette 135/06

³ Leasing companies which submitted the report "Quarterly Report of Leasing Companies" (TMSI-LD) to the Agency.

⁴ Financed/contracted value in operating lease contracts is a sum of all instalments during the lease period, whereas in finance lease and loans this amount relates to the contracted amount by means of which a leasing company finances the lessee/user of the loan.

⁵ Applications to comply with the provisions of the Leasing Act were submitted to the Agency by 25 leasing companies who had conducted leasing operations before as well, and 1 application to conduct leasing operations was submitted by a new leasing company. Since in 2007 one leasing company dropped its application for the issuance of the licence, there were 25 active leasing companies in the Republic of Croatia at the end of 2007.

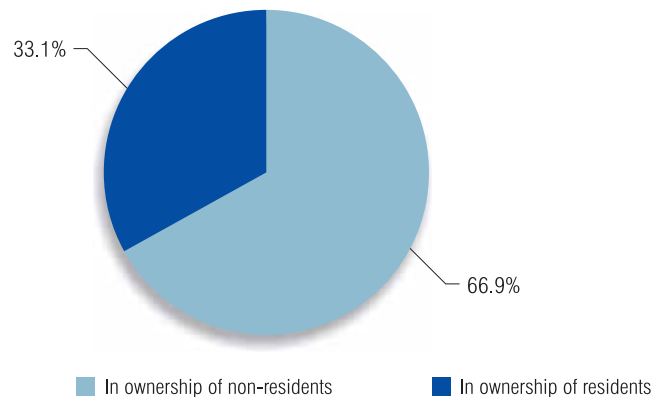
⁶ A leasing group consists of 2 and/or more leasing companies registered at the competent Commercial Court in the Republic of Croatia and related in terms of ownership. In order to ensure an easier understanding, the Agency provided the groups with internal names whose purpose is exclusively informative.

1. HYPO leasing group (2 companies): Hypo-leasing Kroatien d.o.o. and Jadran jahte d.o.o.
2. UNICREDIT leasing group (2 companies): Locat leasing Croatia d.o.o. and UniCredit Leasing Croatia d.o.o.
3. E&S leasing group (2 companies): Erste & Steiermärkische S-Leasing d.o.o. and S Immorent LIH d.o.o.

Out of a total of 25 leasing companies, only 5 leasing companies were in the ownership of residents⁷, whereas as many as 20 companies were in direct ownership of non-residents⁸. In terms of indirect ownership structure⁹ of the initial capital, only 2 leasing companies were in the ownership of residents (Croatia leasing d.o.o. and Euroleasing d.o.o.), whereas all the remaining leasing companies were in the ownership of non-residents, namely in majority ownership of foreign banks, i.e. their related companies.

According to the data from the aggregated balance sheet of the leasing industry, as at 31 December 2007 total initial capital amounted to HRK 429.3 million, with the share of non-resident capital accounting for 66.9%, or HRK 287.3 million, and the share of resident capital making up 33.1% or HRK 142.0 million.

Chart 6.1: Initial Capital in the Leasing Industry according to Capital Origin as at 31 December 2007 (in %)



Source: HANFA

As at 31 December 2007, a total of 25 leasing companies employed 996 staff (as at 31 December 2006, 842 employees worked in 25 leasing companies), with 1 company (Austrofin leasing d.o.o) having 1 registered employee, and 2 companies (Jadran jahte d.o.o. i RL-ETA d.o.o) having no employees.

Portfolio Structure of the Leasing Industry by Periods

As at 31 December 2007, the total financed/contracted value of active contracts in the whole leasing industry amounted to HRK 38.8 billion, while the average financed/contracted value of active contracts amounted to HRK 244,800 on the same day.

Table 6.3: Portfolio Structure of the Leasing Industry in the Period 31 December 2006 - 31 December 2007¹⁰

Date/ period from 1 Jan to	New contracts concluded in the period			Portfolio as at		
	Number of concluded contracts in the reporting period	Value/financed value of concluded contracts (in HRK)	Average value/financed value of concluded contracts (in HRK)	Number of active contracts as at	Financed/contracted value of active contracts (in HRK)	Average financed/ contracted value of active contracts (in HRK)
31 Dec 2006	54,344	13,344,148,966	245,550	134,102	32,455,918,910	242,024
31 Mar 2007	10,750	2,561,451,391	238,275	139,144	34,896,428,353	250,794
30 Jun 2007	28,461	6,306,318,372	221,578	147,545	35,952,306,061	243,670
30 Sep 2007	51,222	11,790,316,185	230,181	151,731	37,451,044,804	246,825
31 Dec 2007	55,835	13,826,811,520	247,637	158,407	38,777,139,041	244,794

Source: HANFA

⁷ According to the provisions of the Income Tax Act (Official Gazette 177/04), a resident is a natural person who is domiciled or habitually resident in the Republic of Croatia. In a broader sense, a resident is also a natural or legal person treated by the law of a particular country as a domestic person. The criterion for defining a resident is territory, not citizenship. Residents are all legal and natural persons permanently resident in a particular country, irrespective of their citizenship. Residents are precisely defined by law, which also specifies their rights and obligations (they are subject to the provisions on foreign exchange control, tax control and other forms of regulations).

⁸ According to the provisions of the Income Tax Act (Official Gazette 177/04), a non-resident is a natural person who is neither domiciled nor habitually domiciled in the Republic of Croatia, but receives income in the Republic of Croatia which is subject to taxation pursuant to the said Act. In a broader sense, and for the purposes of this report, a non-resident is also a legal person with the head office in a foreign country that is engaged in economic activity in a foreign country through self-employment.

⁹ Indirect ownership of leasing companies involves the parent company's initial capital origin.

¹⁰ Data by periods refer to the number of companies presented in the table in the introduction to this part of the Report. The number and value of contracts as at 31 December 2006 in Annual Reports of the Agency for 2006 and 2007 differ as a result of the application of the provisions of the Accounting Act, Leasing Act and International Financial Reporting Standards by leasing companies, and as a result of the actions undertaken by the companies in accordance with records on supervision conducted.

The value of newly concluded and active contracts of the overall leasing industry is shown in the chart below.

Chart 6.2: Value of Newly Concluded and Active Contracts in the Period 31 December 2006 - 31 December 2007 (in HRK million)



The total financed value of active loan contracts of all leasing companies as at 31 December 2007 amounted to HRK 7.8 billion, decreasing by HRK 333.2 million, or 4.1% compared with the balance as at 31 December 2006. At the same time, the average value of loan contracts as at 31 December 2007 totalled HRK 389,700, whereas that value amounted to HRK 361,000 as at 31 December 2006.

Irrespective of the fact that pursuant to the provisions of the Leasing Act leasing companies are no longer permitted to grant loans, they account for a significant share in the total financed/contracted value of all active contracts. The loan portfolio structure is shown in the table below.

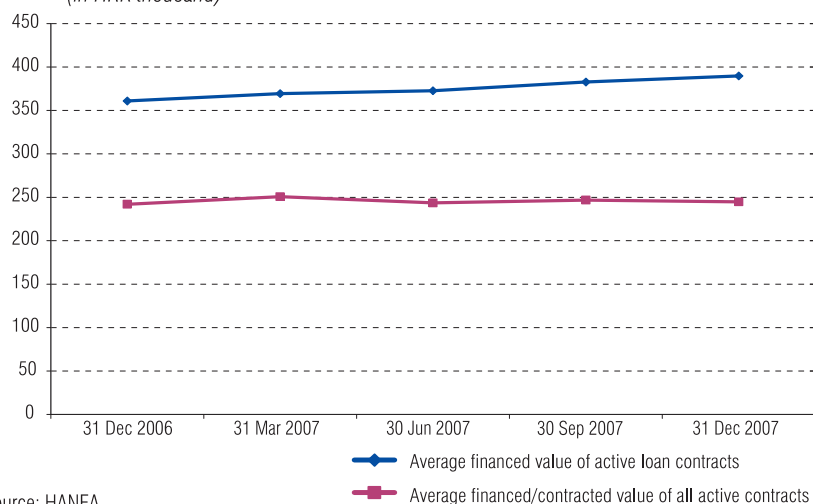
Table 6.4: Loan Portfolio Structure in the Period 31 December 2006 – 31 December 2007¹¹

Date/period from 1 Jan to	Number of concluded contracts in the reporting period	Financed value of contracts (in HRK)	Average financed value (in HRK)	Number of active contracts as at	Financed value of contracts (in HRK)	Average financed value of contracts (in HRK)
31 Dec 2006	5,791	3,279,550,518	566,319	22,514	8,126,518,472	360,954
31 Mar 2007	0	0	0	22,170	8,188,847,140	369,366
30 Jun 2007	0	0	0	21,160	7,885,709,777	372,671
30 Sep 2007	0	0	0	20,705	7,923,943,954	382,707
31 Dec 2007	0	0	0	19,997	7,793,351,706	389,726

Source: HANFA

The average value of active and newly concluded contracts by periods is shown in the charts below.

Chart 6.3: Average Financed/Contracted Value of Active Contracts in the Period 31 December 2006 - 31 December 2007 (in HRK thousand)

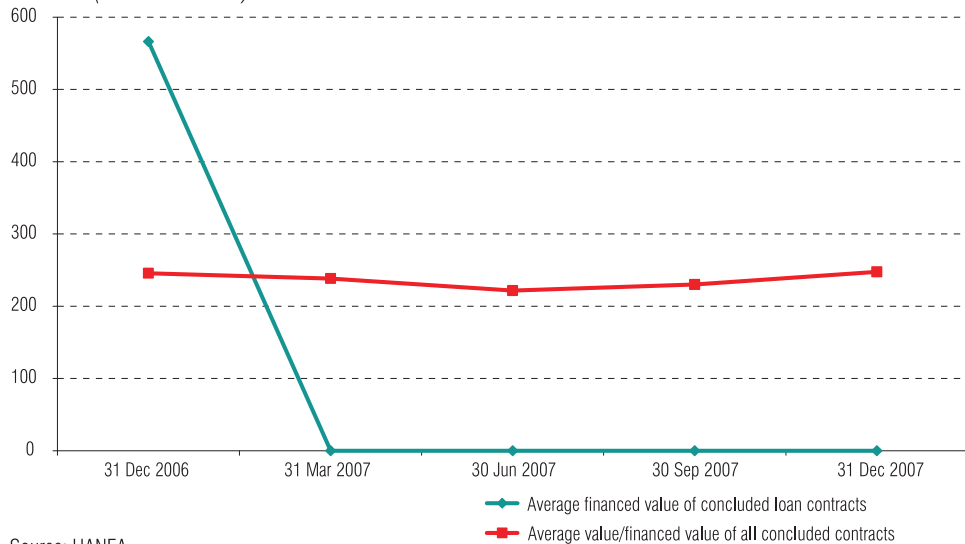


Source: HANFA

¹¹Data by periods refer to the number of companies presented in the table in the introduction to this part of the Report. The number and financed value of contracts as at 31 December 2006 in Annual Reports of the Agency for 2006 and 2007 differ as a result of the application of the provisions of the Accounting Act, Leasing Act and International Financial Reporting Standards by leasing companies, and as a result of the actions undertaken by the companies in accordance with records on supervision conducted.



Chart 6.4: Average Value/Financed Value of Concluded Contracts in the Period 31 December 2006 – 31 December 2007 (in HRK thousand)



Source: HANFA

Portfolio Structure of the Leasing Industry in 2007

According to data collected from 25 leasing companies, as at 31 December 2007 there were 158,407 active contracts, which is an increase of 19.1%, or 25,417 contracts compared to the same day in 2006. Finance lease contracts grew at the highest rate and recorded an increase of 29.8%, or 14,197 contracts in comparison with the end of the previous year. The financed/contracted value of active contracts totalled HRK 38.7 billion as at 31 December 2007, increasing by HRK 8.5 billion or 27.9% over the end of the previous year, largely as a result of the increase in the finance lease contract value.

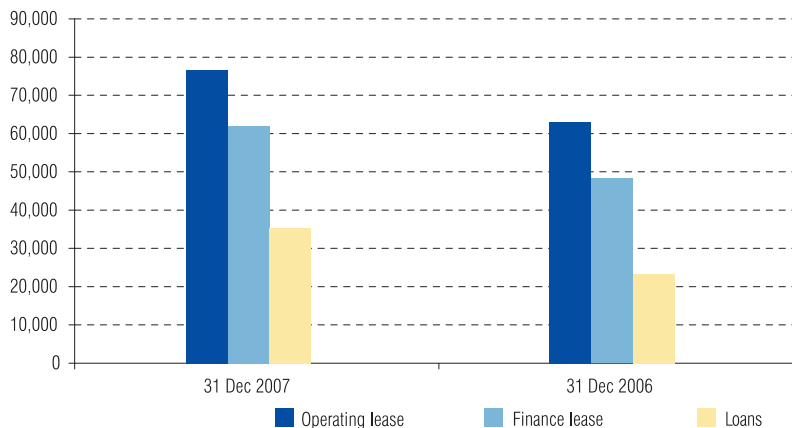
Table 6.5: Comparative Overview of the Number, Structure and Financed/Contracted Value of Active Contracts in the Leasing Industry

	Number of active contracts			Financed/contracted value of active contracts (in HRK)		
	31 Dec 2007	31 Dec 2006	Dynamics 2007/2006	31 Dec 2007	31 Dec 2006	Dynamics 2007/2006
Operating lease	76,615	62,897	121.8	14,318,956,131	11,012,883,421	130.0
Finance lease	61,795	47,598	129.8	16,664,831,204	10,975,077,813	151.8
Loans	19,997	22,495	88.9	7,793,351,706	8,320,992,637	93.7
TOTAL	158,407	132,990	119.1	38,777,139,041	30,308,853,871	127.9

Source: HANFA

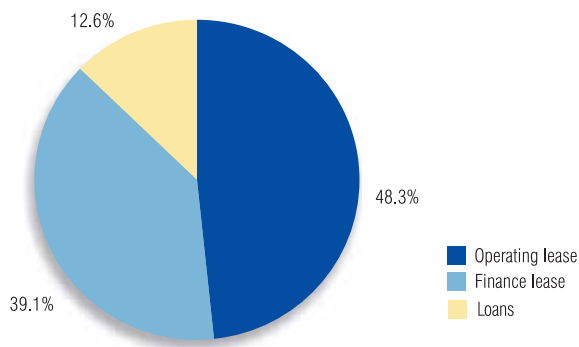
Operating lease contracts accounted for the largest share (48.3%) of all active contracts as at 31 December 2007, followed by finance lease contracts with a 39.1% share. As many as 12.6% of all active contracts in the overall leasing industry were accounted for by loan contracts, which, pursuant to the Leasing Act, may not be concluded by leasing companies any more, but which are recorded in their business books until the expiry of obligations.

Chart 6.5: Comparison of the Number of Active Contracts in 2007 and 2006



Source: HANFA

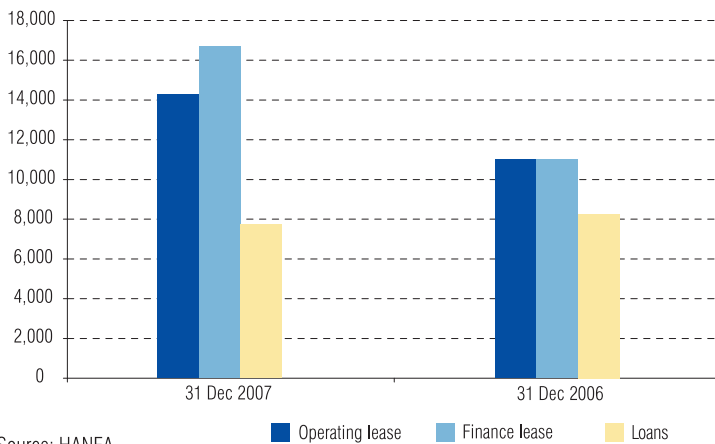
Chart 6.6: Structure of the Number of Active Contracts as at 31 December 2007 (in %)



Source: HANFA

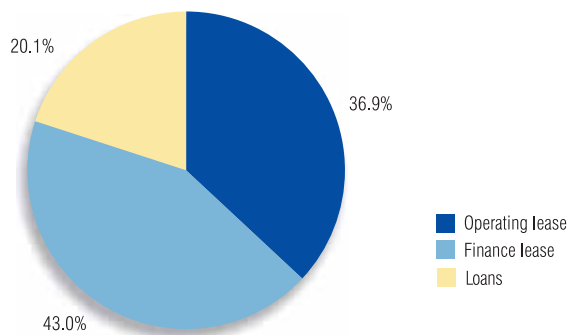
The following chart compares the shares of finance and operating lease and loans in the total financed/contracted value of active contracts as at 31 December 2007 and 31 December 2006.

Chart 6.7: Comparison of the Financed/Contracted Value of Active Contracts in 2007 and 2006 (in HRK million)



Source: HANFA

Chart 6.8: Structure of the Financed/Contracted Value of Active Contracts as at 31 December 2007 (in %)



Source: HANFA

Changes in the number, structure and financed value of newly concluded lease contracts show that 55,835 new contracts were concluded in the period from 1 January 2007 to 31 December 2007, which is an increase of 4.0%, or 2,163 contracts compared to the same period in the previous year, whereas the value/financed value of contracts amounted to HRK 13.8 billion, increasing by HRK 1.3 billion, or 10.8% in comparison with the value of concluded contracts during the same period in 2006.

Table 6.6: Comparative Overview of the Number, Structure and Value/Financed Value of Concluded Contracts in the Leasing Industry

	Number of concluded contracts in the period			Value/financed value of concluded contracts in the period		
	1 Jan 2007-31 Dec 2007	1 Jan 2006-31 Dec 2006	Dynamics 2007/2006	1 Jan 2007-31 Dec 2007	1 Jan 2006-31 Dec 2006	Dynamics 2007/2006
Operating lease	31,010	28,625	108.3	6,296,235,065	4,546,508,309	138.5
Finance lease	24,825	19,244	129.0	7,530,576,455	4,586,291,690	164.2
Loans	0	5,803	0.0	0	3,344,477,966	0.0
TOTAL	55,835	53,672	104.0	13,826,811,520	12,477,277,966	110.8

Source: HANFA



Portfolio Structure of the Leasing Industry by Leased/Loaned Assets in 2007

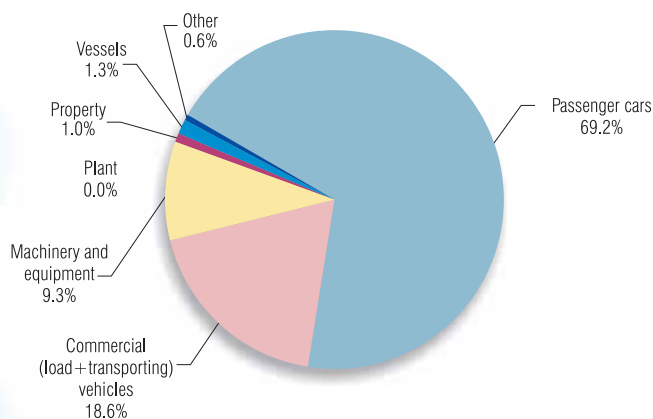
Broken down by the type of leased asset, active contracts relating to passenger cars accounted for the largest number, or as many as 69.2% of all active contracts as at 31 December 2007. Contracts relating to commercial vehicles made up 18.6%, and machinery and equipment 9.3% of all active contracts.

Table 6.7: Number of Active Contracts of the Leasing Industry by Leased/Loaned Assets

Leased/loaned asset	Number of active contracts as at				
	31 Dec 2007	Share	31 Dec 2006	Share	Dynamics 2007/2006
Passenger cars	109,586	69.2%	92,245	69.4%	118.8
Commercial (load + transporting) vehicles	29,462	18.6%	25,316	19.0%	116.4
Machinery and equipment	14,805	9.3%	10,628	8.0%	139.3
Plant	64	0.0%	58	0.0%	110.3
Property	1,533	1.0%	1,214	0.9%	126.3
Vessels	2,029	1.3%	1,539	1.2%	131.8
Other	928	0.6%	1,990	1.5%	46.6
TOTAL	158,407	100.0%	132,990	100.0%	119.1

Source: HANFA

Chart 6.9: Structure of the Number of Active Contracts by Leased/Loaned Assets as at 31 December 2007 (in %)



Source: HANFA

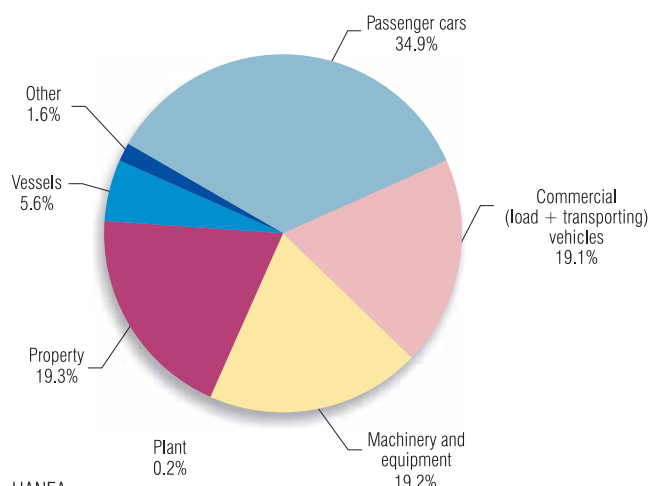
The analysis of the structure of financed/contracted value of active contracts classified by leased/loaned assets shows that as at 31 December 2007, the largest share (34.9%) of total value was accounted for by passenger car leases/loans, followed by property leases/loans (19.3%), machinery and equipment leases/loans (19.2%) and commercial vehicles leases/loans with 19.1% of the financed/contracted value of active contracts.

Table 6.8: Financed/Contracted Value of all Active Contracts (in HRK)

Leased/loaned asset	Financed/contracted value of active contracts as at				
	31 Dec 2007	Share	31 Dec 2006	Share	Dynamics 2007/2006
Passenger cars	13,537,268,565	34.9%	11,286,992,228	37.2%	119.9
Commercial (load + transporting) vehicles	7,411,140,392	19.1%	5,978,588,272	19.7%	124.0
Machinery and equipment	7,436,858,413	19.2%	4,659,153,204	15.4%	159.6
Plant	61,274,667	0.2%	41,858,409	0.1%	146.4
Property	7,502,971,566	19.3%	5,976,163,326	19.7%	125.5
Vessels	2,189,383,127	5.6%	1,593,554,312	5.3%	137.4
Other	638,242,309	1.6%	772,644,120	2.5%	82.6
TOTAL	38,777,139,041	100.0%	30,308,953,871	100.0%	127.9

Source: HANFA

Chart 6.10: Structure of Financed/Contracted Value of Active Contracts by Leased/Loaned Assets as at 31 December 2007 (in %)

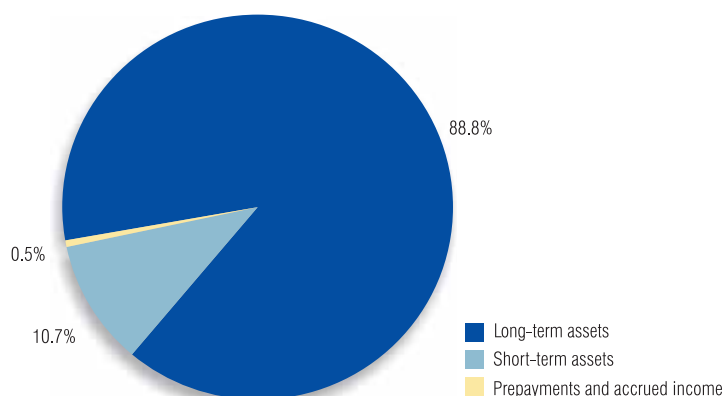


Source: HANFA

Asset Structure

Total assets of 25 leasing companies were HRK 30.3 billion as at 31 December 2007, increasing by HRK 6.9 billion or 29.3% compared with total assets of those companies reported on the same day in 2006. Long-term assets accounted for the largest share (88.8%) of total assets, short-term assets made up 10.7%, whereas prepayments and accrued income participated in total assets with a modest 0.5% share.

Chart 6.11: Structure of Leasing Companies' Assets as at 31 December 2007 (in %)



Source: HANFA

The top 5 leasing companies' assets amounted to HRK 20.5 billion or 67.5% of total reported assets, while their share on the same day in 2006 totalled HRK 15.2 billion, or 64.9%. The largest asset share amounting to HRK 10.3 billion or 34.1% of total assets of 25 leasing companies in 2007 was reported by Hypo-leasing Kroatien d.o.o.

Table 6.9: Comparative Overview of Assets of 5 Leasing Companies with the Largest Asset Shares (in HRK)

Company name	31 Dec 2007	Share	31 Dec 2006	Share
1 Hypo-leasing Kroatien d.o.o.	10,323,987,483	34.1%	8,699,427,982	37.1%
2 Erste & Steiermärkische S-Leasing d.o.o.	3,023,112,387	10.0%	2,162,998,784	9.2%
3 UniCredit Leasing Croatia d.o.o.	2,757,671,367	9.1%	1,054,977,119	4.5%
4 Raiffeisen Leasing d.o.o.	2,377,376,870	7.8%	1,836,631,224	7.8%
5 VB leasing d.o.o.	1,977,943,391	6.5%	1,459,005,514	6.2%
6 Other	9,855,938,484	32.5%	8,228,220,397	35.1%
TOTAL ASSETS	30,316,029,982	100.0%	23,441,261,020	100.0%

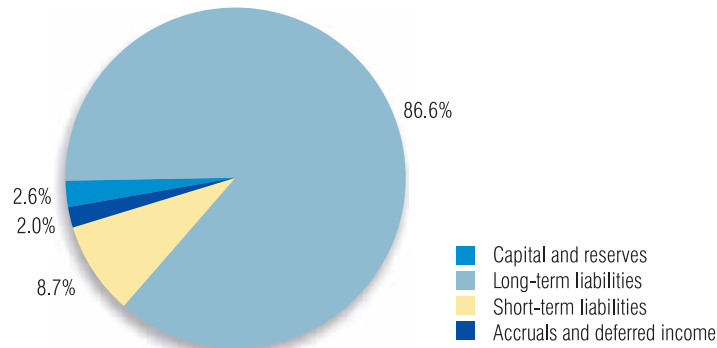
Source: HANFA



Liability Structure

The largest share (86.6%) of total reported 25 leasing companies' liabilities as at 31 December 2007 was accounted for by long-term liabilities, whereas short-term liabilities made up 8.7%, capital and reserves 2.6%, and accruals and deferred income 2.0% of total liabilities.

Chart 6.12: Structure of Leasing Companies' Liabilities as at 31 December 2007 (in %)



Source: HANFA

Capital and Reserves

The total reported amount of capital and reserves of 25 leasing companies as at 31 December 2007 was HRK 794.3 million, with HRK 603.9 million or 76.0% being accounted for by the top 5 leasing companies. The largest amount of capital and reserves totalling HRK 145.9 million, or 18.4% of total capital and reserves of leasing companies, was reported by Raiffeisen Leasing d.o.o.

Table 6.10: Comparative Overview of Capital and Reserves of 5 Leasing Companies with the Largest Shares (in HRK)

Company name	31 Dec 2007	Share	31 Dec 2006	Share
1 Raiffeisen Leasing d.o.o.	145,939,287	18.4%	121,085,374	15.9%
2 Erste & Steiermärkische S-Leasing d.o.o.	137,317,048	17.3%	152,283,999	20.0%
3 Locat leasing Croatia d.o.o.	113,978,224	14.3%	78,089,779	10.2%
4 VB leasing d.o.o.	105,671,617	13.3%	92,767,112	12.2%
5 Porsche leasing d.o.o.	100,955,470	12.7%	43,713,469	5.7%
6 Other	190,462,453	24.0%	275,294,198	36.1%
TOTAL CAPITAL AND RESERVES	794,324,099	100.0%	763,233,931	100.0%

Source: HANFA

Liabilities

Liabilities reported by 25 leasing companies as at 31 December 2007 amounted to HRK 29.5 billion, comprising long-term liabilities in the amount of HRK 26.3 billion (89.0%) of total liabilities, short-term liabilities totalling HRK 2.6 billion (8.9% of total liabilities), and accruals and deferred income reaching HRK 0.6 billion (2.1% of total liabilities). There was a growth in total liabilities amounting to HRK 6.8 billion, which is a 30.2% increase over the end of 2006.

The top 5 leasing companies' liabilities amounted to HRK 20.1 billion or 68.1% of total liabilities at the end of 2007, with the largest share being accounted for by Hypo-leasing Kroatien d.o.o. with HRK 10.3 billion, or 34.8% of total liabilities of all active leasing companies.

Table 6.11: Comparative Overview of 5 Leasing Companies with the Largest Shares in Leasing Companies' Total Liabilities (in HRK)

Company name	31 Dec 2007	Share	31 Dec 2006	Share
1 Hypo-leasing Kroatien d.o.o.	10,263,565,272	34.8%	8,609,560,541	38.0%
2 Erste & Steiermärkische S-Leasing d.o.o.	2,885,795,339	9.8%	2,010,714,785	8.9%
3 UniCredit Leasing Croatia d.o.o.	2,836,850,324	9.6%	1,074,656,998	4.7%
4 Raiffeisen Leasing d.o.o.	2,231,437,583	7.6%	1,715,545,850	7.6%
5 VB leasing d.o.o.	1,872,271,774	6.3%	1,366,238,401	6.0%
6 Other	9,431,785,593	31.9%	7,901,310,513	34.8%
TOTAL LIABILITIES	29,521,705,883	100.0%	22,678,027,088	100.0%

Source: HANFA

Financial Results of Business Operations

In the period from 1 January to 31 December 2007, 25 active leasing companies recorded total income to the amount of HRK 13.0 billion, which is an increase of 47.3%, or HRK 4.2 billion. At the same time, total expenses stood at HRK 13.0 billion, increasing by HRK 4.3 billion or 49.6% compared to the same period in 2006. Therefore, total expenses grew at a higher rate than total income.

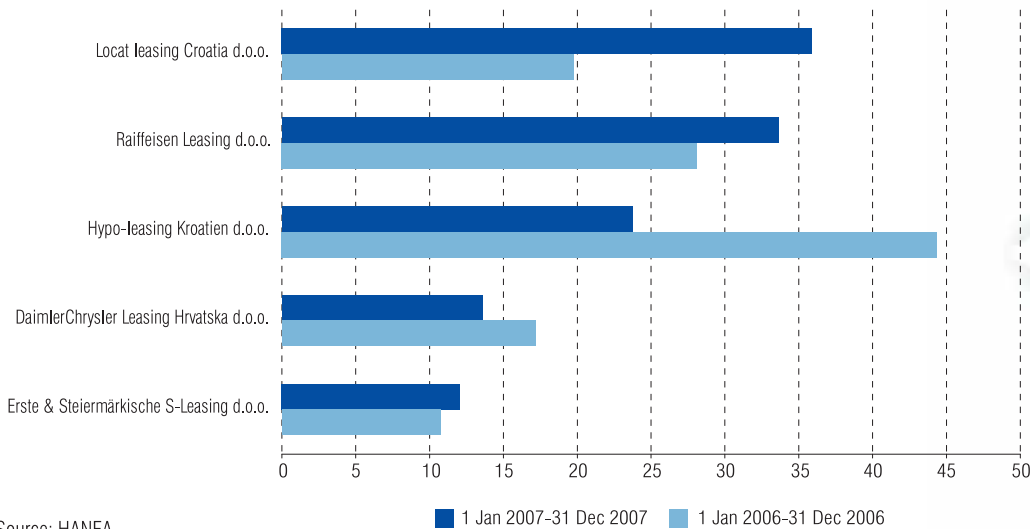
Companies conducting leasing operations in 2007 reported a profit before taxes amounting to HRK 3.3 million, which is a decrease of HRK 134.1 million, or 97.6% in comparison with 2006, when the reported profit before taxes totalled HRK 137.4 million.

In 2007, the leasing industry recorded a loss after taxes totalling HRK 68.0 million, with 9 companies reporting a profit after taxes of HRK 134.9 million, and 16 companies reporting a loss to the amount of 202.9 million.

The highest profit after taxes was reported by the Locat leasing Croatia d.o.o. company (HRK 35.9 million, or 26.6% of the reported profit after taxes of all leasing companies), whereas the biggest loss after taxes was made by the VB leasing d.o.o. company (HRK 58.4 million, or 28.8% of the loss after taxes of all leasing companies).

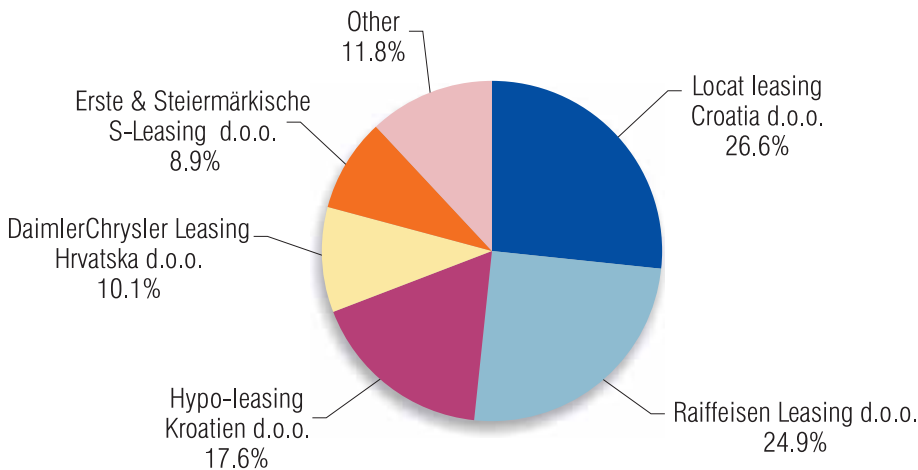
The share of the top 5 leasing companies in total profit after taxes in 2007 amounted to HRK 118.9 million, or 88.2% of the reported profit after taxes of the whole leasing industry. The share of the top 5 leasing companies in total loss after taxes totalled HRK 168.8 million, which is 83.2% of the total reported loss of the whole leasing industry.

Chart 6.13: Comparative Overview of the Top 5 Leasing Companies by the Level of Reported Profit after Taxes in 2006 and 2007 (in HRK million)



Source: HANFA

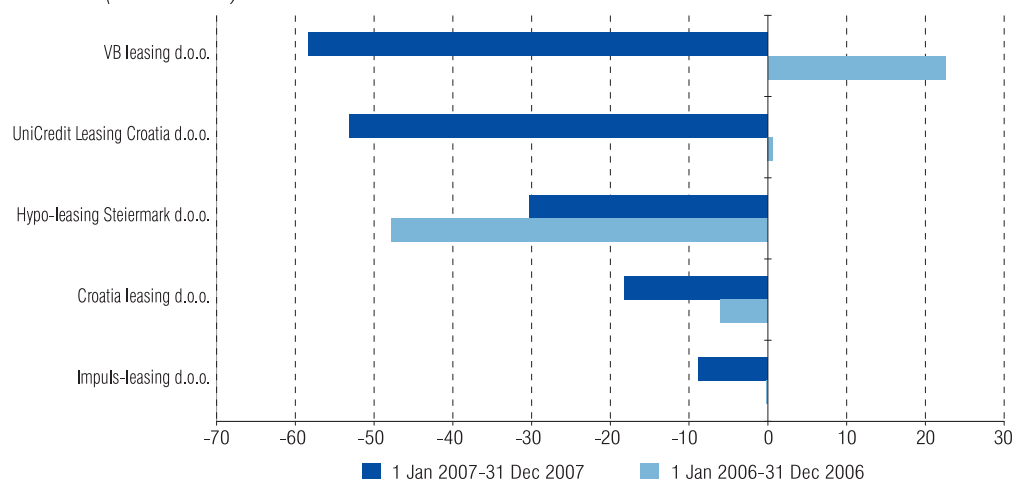
Chart 6.14: Structure of the Reported Profit after Taxes of Leasing Companies in 2007 (in %)



Source: HANFA

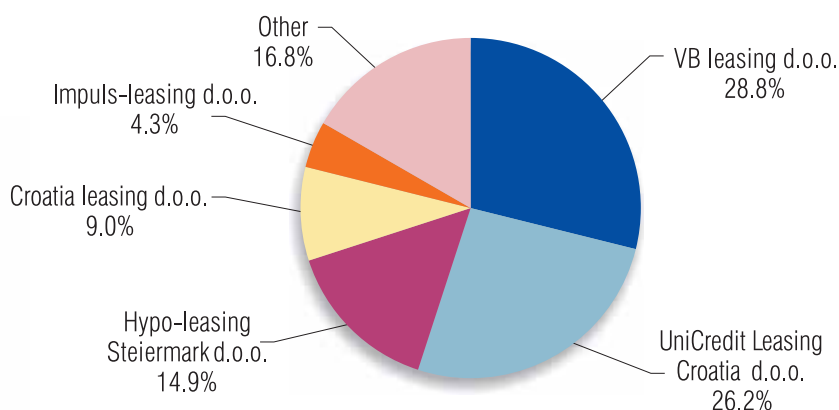


Chart 6.15: Comparative Overview of the Top 5 Leasing Companies by the Level of Reported Loss after Taxes in 2006 and 2007 (in HRK million)



Source: HANFA

Chart 6.16: Structure of the Reported Loss after Taxes of Leasing Companies in 2007 (in %)



Source: HANFA

Concentration Indices of the Leasing Industry in the Republic of Croatia

For the purpose of measuring market concentration of an industry, the following 2 indicators are most commonly used:

- concentration ratio (CR)
- Herfindahl-Hirschman index (HHI).

Market concentration is measured by applying the HHI measure as follows:

HHI value	Market concentration
from 0 to 1,000	low market concentration
from 1,000 to 1,800	considerable market concentration
from 1,800 to 10,000	high market concentration

Source: A. Griffiths and S. Wall, "Intermediate Microeconomics", Longman, London and New York, 1996, p.325

The following table presents the HHI values of the leasing industry in the Republic of Croatia, analysed with regard to the concentration of assets, value/financed value of concluded contracts and financed/contracted value of active contracts by periods. The presented HHI values form the basis for the further systematic monitoring of the market structure, i.e. concentration of the leasing industry in the Republic of Croatia. In order to be able to draw any conclusions from these indices, it is necessary to observe them over a longer period of time.

Table 6.12: HHI Values of All Leasing Companies

ITEM / Date (period)	31 Dec 2006	31 Mar 2007	30 Jun 2007	30 Sep 2007	31 Dec 2007
HHI of all leasing companies' assets as at	1,325.6	1,354.7	1,293.4	1,570.0	1,549.1
HHI of all leasing companies' active contracts as at	1,641.0	1,664.4	1,604.2	1,765.2	1,735.9
HHI of all leasing companies' concluded contracts in the period from 1 Jan to	1,662.4	1,406.5	1,145.4	1,573.2	1,345.2

Source: HANFA

Chart 6.17: HHI indices



Source: HANFA

Static Indicators for the Leasing Industry

Liquidity Ratios

Current ratio measures liquidity and solvency and indicates the availability of current assets (short-term assets) in relation to current (short-term) liabilities. As at 31 December 2007, the current ratio of the leasing industry was 1.23, showing that the value of short-term assets was by 23.0% higher than the level of short-term liabilities. The same ratio totalled 0.90 as at 31 December 2006, which points to an improvement in liquidity in 2007.

Quick ratio measures the ability of a company to meet its short-term liabilities by using its liquid short-term assets, i.e. cash. As at 31 December 2007, the quick ratio of the leasing industry amounted to 0.14, while as at 31 December 2006 it totalled 0.08, which also points to an improvement in short-term liquidity in 2007.

Financial Stability Ratios

Level of coverage I shows the level of self-financing of long-term assets, i.e. financing of long-term assets from own sources. In terms of operational stability it is deemed desirable that the highest possible share of long-term assets be financed from own sources. As at 31 December 2007, this indicator amounted to 0.03, meaning that a unit of long-term assets in the leasing industry was covered by 0.03 units of equity, which testifies to a very low level of self-financing in the leasing activity. The same indicator totalled 0.04 in 2006.

Level of coverage II shows the level of financing of long-term assets from long-term sources¹². As at 31 December 2007, this indicator for the leasing industry amounted to 1.01, showing that in the leasing industry the value of equity and long-term liabilities was higher than long-term assets by 1.0%. As at 31 December 2006, this indicator stood at 0.98, implying an increased ability of leasing companies to finance long-term assets from long-term sources.

Debt Indicators

Self-financing ratio shows the share of own assets in total assets. In terms of indebtedness, the highest possible ratio is deemed desirable. The 0.03 ratio as at 31 December 2007 remained unchanged in comparison with the same day of the previous year, showing that own capital amounts to only 3.0% of total assets.

Debt ratio shows the share of liabilities in total assets. This ratio totalled 0.97 as at 31 December 2007, showing that leasing companies' liabilities accounted for 97.0% of total assets. The ratio remained unchanged in comparison with the same day of the previous year.

¹² It is deemed desirable that fixed assets be fully financed from long-term sources (indicator = 1).

Activity Ratios

Total asset turnover ratio indicates a company's efficiency at using its assets in generating revenue, i.e. how many times a year total assets turn into revenue. The highest possible ratio is deemed desirable. The amount of the ratio totalling 0.43 as at 31 December 2007 means that the amount of the yearly revenue in the leasing industry was lower than total assets by 57.0%, which points to a significant increase compared to the value reported as at 31 December 2006 (0.38).

Profitability Ratios

Return on total assets (ROA) is a ratio that measures a company's gross profit against its total assets. The 2007 ratio totalling 0.01% testifies to the extremely low profitability of the leasing industry. A decrease in the said ratio, which in 2006 amounted to 0.59%, is a result of a decrease in gross profit and a simultaneous increase in asset value.

Return on Equity (ROE) is a ratio that measures a company's net profit against the shareholder's equity, i.e. it is a calculated rate of return on equity. The highest possible rate is deemed desirable. As at 31 December 2007, this ratio was negative (-8.56%), which was a result of the loss after taxes reported in the whole leasing industry. The same ratio amounted to 12.3% as at 31 December 2006, which testifies to a significant decrease of the return on equity in 2007.

Regulatory Activities

Legislation and Subordinate Legislation

Considering the fact that the leasing market presents an important part of the financial sector with a significant share in the total financial market, it was necessary to provide for regulations defining the terms and conditions for the establishment, pursuit of business operations and termination of business operations of leasing companies, as well as the rights and duties of the Agency as the supervisory authority conducting supervision of those companies. The basic legal act regulating leasing companies' business operations is the Leasing Act¹³, which entered into force on 21 December 2006.

Apart from the Leasing Act, which is a basic legal act regulating the establishment and business operations of leasing companies, as well as the supervisory powers of the Agency, there are two subsidiary legal acts applied for the same purposes, namely the Companies Act¹⁴, which regulates additional status issues of leasing companies and the Civil Obligations Act¹⁵, which regulates contractual obligations of parties not regulated by the Leasing Act.

Upon the adoption of the Leasing Act, the following activities commenced:

- defining the terms and conditions for the establishment, pursuit of business operations and termination of business operations of leasing companies,
- systematic and comprehensive supervision of this part of financial services in the Croatian market,
- active participation of the Agency, as the supervisory authority, in the supervision of leasing companies.

After the entry into force of the Leasing Act, on the basis of its legal powers, the Agency adopted 7 by-laws in 2007 regulating in more detail: issue of licences to candidates for the position of a member of the management board of leasing companies, manner of notifying the Agency, manner of keeping the register of leased assets, manner of calculating the real annual interest rate for finance lease agreements, method of calculating the total fee of operating lease agreements and the chart of account for leasing companies.

In order to ensure the compliance with principles of transparency, reporting to customers, and building confidence among financial market participants, which are the basic principles the Agency follows in the pursuit of its business operations, the Leasing Act regulated the establishment of the Register of Leased Assets. Therefore, the Agency, which also keeps the said Register intended to serve its users, adopted an ordinance on the manner of keeping the register of leased assets.

All the subordinate legislation adopted by the Agency pursuant to the Leasing Act is accessible on the official web site of the Agency (www.hanfa.hr)

¹³ Official Gazette 135/06

¹⁴ Official Gazette 111/93, 34/99 and 118/03

¹⁵ Official Gazette 35/05

Leasing companies were allowed a six-month transitional period to align with the Leasing Act, starting from the day of the entry into force of the Leasing Act and ending on 21 June 2007, whereas the time limit for submitting a report on the alignment with the Act lasted until 21 July 2007.

Alignment of leasing companies with the Leasing Act implied meeting the requirements to obtain the Agency's approval to conduct leasing operations (aligning leasing operations with Article 5, initial capital with Article 9, management board of a leasing company with Article 21, members of the supervisory board with Articles 24, 25 and 26 of the Act, as well as aligning business operations with other provisions of the Act unless otherwise specified by the said Act).

After the entry into force of the Leasing Act, leasing companies were no longer permitted to grant credits and loans (Article 8 of the Act), which had been a regular financial product in business operations of leasing companies before the adoption of the Act, and which had had a significant impact on the situation in the financial market.

Pursuant to the Leasing Act, leasing companies are only permitted to conduct finance and operating lease activities, as well as be engaged in sale mediation and the sale of assets owned by leasing companies on the basis of conduct of leasing operations.

Licensing

The Leasing Act prescribed a six-month period, starting from the day of the entry into force of the Leasing Act and ending on 21 June 2007, within which leasing companies that on the day of the entry into force were conducting leasing operations and were entered in the court register were obliged to align their business operations with the provisions of the Leasing Act. Within a time limit of one month after the expiry of the said six-month period, i.e. until 21 July 2007, the companies that had aligned their business operations with the Leasing Act were obliged provide the Agency with a report on the alignment with the Leasing Act along with the prescribed documentation proving the alignment of a company with the Act.

Companies that on the day of the entry into force of the Act were conducting leasing operations and were entered in the court register, but failed to align their operations within the prescribed time limit, were obliged to stop conducting leasing operations and to erase them from the court register. According to the 2006 Annual Report of the Agency, at that moment there were 57 companies operating on the market and matching the legal definition of a leasing company (which means that on the day of the entry into force of the Leasing Act they were conducting leasing operations and were entered in the court register). However, among those 57 companies, 33 companies failed to align with the Act within the prescribed time limit, i.e. they failed to provide the Agency with the report on alignment, and were therefore obliged to stop conducting leasing operations (concluding lease agreements) and to erase leasing operations from the court register. Pursuant to the Leasing Act, those companies were obligated to carry out all the existing lease agreements and other agreements intended for financing third parties concluded by the day of the entry into force of the Act, because such agreements were valid until the expiry of the obligations arising from them, unless the signatories to the agreements agreed to terminate them prematurely. However, the companies were not permitted to renew such agreements.

The Leasing Act stipulates that the Agency must initiate winding-up proceedings against companies that conduct leasing operations and are entered in the court register, but fail to align their operations with the Leasing Act, i.e. to provide the Agency with the report on the alignment, and continue to conduct leasing operations and fail to erase leasing operations from the court register. According to the data available to the Agency, no company reported such circumstances on the basis of which the Agency would have to initiate winding-up proceedings.

By 31 December 2007, the Agency received 24 reports on the alignment from leasing companies which on the day of the entry into force of the Leasing Act were conducting leasing operations and had had leasing activity entered in the court register, as well as 2 applications for the issue of the approval to conduct leasing operations from previously established companies that did not meet the abovementioned requirements, but which had made a business decision to modify the scope of their business activities, i.e. to start conducting leasing operations.

On the basis of the applications submitted and procedures carried out in order to adopt decisions thereon, in 2007 the Agency adopted 7 decisions granting approval to leasing companies to conduct leasing operations, of which 5 decisions related to companies which had aligned their operations with the Leasing Act and had provided the Agency with the reports on the alignment (Raiffeisen Leasing d.o.o., Zagreb; PBZ Leasing d.o.o., Zagreb; Porsche Leasing d.o.o., Zagreb; OTP Leasing d.d., Zagreb; VB Leasing d.o.o., Zagreb), and 2 decisions related to previously established companies which did not meet the prescribed requirements for obtaining approval to conduct leasing operations in the process of the alignment with the Act, but which decided to modify the scope of their business operations and therefore wanted to obtain the Agency's approval (Central European Leasing d.d., Zagreb i Impuls-Leasing d.o.o., Zagreb).

In 2008, the Agency adopted 11 decisions granting approval to leasing companies to conduct leasing operations, of which 10 decisions related to companies which had aligned their operations with the Act and provided the Agency with



the reports on the alignment within the prescribed time limit, and 1 decision related to a company which did not meet the prescribed requirements for obtaining approval to conduct leasing operations in the process of the alignment with the Act, but which, as an already established company, had filed the application for the issue of approval to conduct leasing operations.

Companies which have submitted their reports on the alignment with the Act within the prescribed time limit, and which have still not received the approval of the Agency to conduct leasing operations due to the fact that their applications are being processed, continue their business operations as leasing companies until the end of the procedure, after which they will proceed with their operations as leasing companies on the basis of approval of the Agency to conduct leasing operations in cases where they have met all the prescribed conditions for obtaining the approval.

By 31 December 2007, one company (Zagra Leasing d.o.o., Zagreb) dropped its application for the issue of approval of the Agency to conduct leasing operations in the process of the alignment with the Act, for the purpose of organising a new corporative structure of the Unicredit Group on the international level.

In 2008, 2 companies which submitted their reports on the alignment with the Act, at the same time submitting their applications to the Agency for the issue of approval to conduct leasing operations, dropped their applications for the issue of approval to conduct leasing operations.

On-Site Supervision of Leasing Companies' Business Operations

In the course of its duties prescribed by the Leasing Act¹⁶, and on the basis of data submitted, the Agency verifies and analyses financial reports of each leasing company, in order to establish whether the company performs its operations in accordance with the regulations and to measure its operations against benchmarks defining financial stability of a company, for the purpose of evaluating the situation of leasing companies and the leasing industry in general. Within its scope of powers, in 2007 the Agency carried out continuous off-site and on-site supervision of leasing companies' business operations.

On-site supervision of leasing companies' business operations was carried out in accordance with the Act on the Croatian Financial Services Supervisory Agency¹⁷ and the Leasing Act, and was conducted in order to determine whether leasing companies conduct their operations in accordance with the provisions of the Leasing Act and regulations adopted pursuant to it, i.e. in accordance with other acts regulating leasing companies' business operations and regulations adopted pursuant to them.

From October to December 2006, the Agency initiated a total of 9 on-site supervisory proceedings in leasing companies. Full-scope supervision of business operations of 2 leasing companies (Alfa nekretnine d.o.o. i Beta nekretnine d.o.o.) was carried out by the end of 2006, whereas on-site supervisory proceedings initiated in 7 leasing companies (Hypo-leasing Kroatien d.o.o., Hypo centar Šibenik d.o.o., Alpe-Adria poslovdstvo d.o.o., Alpe-Adria Investments d.o.o., Jadran Jahte d.o.o., Croatia leasing d.o.o. and PBZ-leasing, d.o.o.) were ended during 2007.

In 2007, the Agency initiated a total of 6 on-site supervisory proceedings in leasing companies (Hypo - leasing Steiermark d.o.o., VB leasing d.o.o., Porsche leasing d.o.o., ALD Automotive d.o.o., Euroleasing d.o.o. and RL-ETA d.o.o.). On-site supervisory proceedings initiated in 2007 were ended in 2008, apart from the supervisory proceeding in the Euroleasing d.o.o. company.

The scope of supervision in 4 leasing companies was risk management in 2006 and in the period from 1 January to 31 March 2007, i.e. to 30 June 2007, whereas in 2 leasing companies the scope of supervision, apart from risk management, also included the review of their financial operations in the year 2006 and in the period ending on 30 June 2007.

The Agency drew up Records on the supervisory proceedings carried out and, pursuant to the Act on the Croatian Financial Services Supervisory Agency and the Leasing Act, adopted 8 Decisions (including decisions for leasing companies in which on-site supervision proceedings were initiated in 2006) ordering elimination of irregularities and illegalities. The irregularities related to the organisation of business operations and keeping business books, business documentation and other records in a manner which did not enable the verification of whether the companies operated in accordance with the regulations and professional standards; they related to the non-existence of detailed policies and procedures for identifying, measuring and monitoring credit and operational risks; and they also related to the non-compliance with the provisions of the Accounting Act¹⁸ and International Financial Reporting Standards (incorrect valuation of balance sheet items, i.e. depreciation of assets leased under operating lease, impairment of the value of

¹⁶ Official Gazette 135/06

¹⁷ Official Gazette 140/05

¹⁸ Official Gazette 146/05

financial assets, as well as preparation and publication of financial reports). After the examination of submitted reports on the elimination of illegalities and irregularities according to the Decisions previously issued, the Agency established that the reports of three leasing companies were incomplete, i.e. the reports and accompanying evidence failed to prove that the irregularities and illegalities had been eliminated, after which the Agency adopted new Decisions ordering the completion of the reports.

In the course of supervisory proceedings carried out at the Croatia leasing d.o.o. company, it was necessary to re-examine their business operations in order to establish whether the illegalities and irregularities had been eliminated in accordance with the Decision of the Agency, after which Records were drawn up in 2007 and a Decision adopted stating that the illegalities and irregularities had been eliminated.

On the basis of findings from on-site supervisory proceedings in the course of which the Agency identified activities that were contrary to the provisions of the Companies Act¹⁹ and the Accounting Act, the Agency filed two misdemeanour charges against those leasing companies and against responsible persons in the legal entity.

Register of Leased Assets

Pursuant to the provisions of Article 52 of the Leasing Act²⁰, the Agency keeps a Register of Leased Assets (hereinafter: Register). The Register is kept in electronic form and has been available on the web site of the Agency since October 2007. The total number of active finance and operating lease agreements for 25 leasing companies which submitted applications for the issue of approval to conduct leasing operations as at 31 December 2007 was 138,410.

Pursuant to Article 52 of the Leasing Act, lessors are obliged to submit the information from lease agreements to the Agency within 8 days from the day lease agreements are signed, amended or terminated. The Agency is obliged to publicly disclose only the data on leased assets from the Register which relate to the detailed description of leased assets (e.g. car make, model and year of production) and to the duration of lease agreements.

The Register is available to broad public and everybody is allowed access to it without having to prove their legal interest, although the access is allowed only to data defined as public by the Leasing Act. The entry in the Register has a declaratory legal effect. The Agency accepts no liability for the accuracy and authenticity of data entered in the Register.

The manner of keeping the Register is prescribed by the Ordinance on the manner of keeping the register of leased assets²¹ and by the Ordinance amending the Ordinance on the manner of keeping the register of leased assets²². Entry of data in the Register is only allowed to persons who have registered their digital certificates with the Agency. Since the Croatian Financial Agency (FINA) is at the moment the only provider of digital certificates intended for broad usage in the republic of Croatia, it therefore guarantees the authenticity of digital identities.

The objective of the Agency is to extend the offer of electronic services to all forms of communication within the Agency's scope of activity.

Methodological Remarks and Accuracy of the Data

In the period from 1 January 2003 to 31 December 2005, statistical data for leasing companies were collected by the Croatian National Bank, whereas the data on financial operations of leasing companies and the portfolio structure have been systematically collected by the Agency through TMSI-LD forms since 2006.

Due to the change in the number of leasing companies, the analysis of data by periods comprised data collected from companies whose number was given in the table in the introduction to this part of the Report. However, the Report on the Situation in the Leasing Industry was prepared on the basis of unaudited financial reports and statistical data collected from 25 leasing companies through TMSI-LD forms, and for the purpose of comparison, data collected from the same 25 companies were used for the analysis of the year 2006.

Data reported as at 31 December 2006 differ in Annual Reports of the Agency for 2006 and 2007, as a result of the application of the provisions of the Accounting Act²³, Leasing Act²⁴, International Financial Reporting Standards by leasing companies, and as a result of the actions undertaken by the companies in accordance with records on supervision conducted. A part of leasing companies included in the analysis as of 31 December 2007 and 31 December 2006 failed to submit all data requested in TMSI-LD forms, first of all data on portfolio structure according to the original maturity, sectors, activities and the size of transactor. The reasons for incomplete and inaccurate data vary: from programme limitations which could not be resolved and adjusted for reporting purposes to differences in methods of publishing separate balance sheet items, since a uniform chart of account for leasing companies has been applicable only since 1 January 2008.

¹⁹ Official Gazette 111/93, 34/99 and 118/03

²⁰ Official Gazette 135/06

²¹ Official Gazette 24/07

²² Official Gazette 72/07

²³ Official Gazette 146/05

²⁴ Official Gazette 135/06



Factoring services in the Republic of Croatia are provided by business banks and specialised factoring companies. The supervision of specialised factoring companies lies within the competence of the Agency, while banks providing factoring services as part of their registered activity are supervised by the Croatian National Bank.

Factoring services started growing more rapidly in 2003 through specialised factoring companies. According to the financial business reports delivered to the Agency, as at 31 December 2007, there were 12 active companies engaged in factoring operations, which points to a constant growth in the number of companies offering factoring services, considering that at 31 December 2005 there were 5, and at 31 December 2006, 8 active factoring companies.

According to the Statistical Report for Factoring Companies, as at 31 December 2007, 3 companies were in direct ownership of non-residents, whereas 9 companies were in the ownership of residents. In terms of indirect ownership, 4 factoring companies were in the ownership of non-residents. Out of total subscribed initial capital of all factoring companies amounting to HRK 65,310,600, capital in direct ownership of non-residents amounted to HRK 22,296,600, or 34.1%, while capital in direct ownership of residents amounted to HRK 43,014,000 or 65.9%. 11 companies were organised as limited liabilities companies, whereas 1 company (Finesa faktor d.d.) was organised as a joint-stock company. As at 31 December 2007, factoring companies had a total of 102 employees.

The total assets of all factoring companies were HRK 4,219,268,272 at 31 December 2007¹, which is an increase of HRK 2,556,870,799, or 153.8% when compared with their balance as at 31 December 2006² when they amounted to HRK 1,662,397,473. As at 31 December 2006, the assets recorded a growth of HRK 1,328,897,018 or 398.5% in comparison with the asset as at 31 December 2005³ when they stood at HRK 333,500,456. The assets went up by 1,165.1% in 2007 compared to 2005, which testifies to the expansion of factoring companies' business operations in the Republic of Croatia.

Table 7.1.: Factoring Companies' Assets by Companies as at 31 December 2006 and 31 December 2007

Factoring company	31 Dec 2006	Share (%)	31 Dec 2007	Share (%)	Change (%) 2007/2006
1 Erste factoring d.o.o.	781,981,583	47.0	2,564,297,616	60.8	227.9
2 Prvi faktor d.o.o.	758,842,860	45.7	1,165,534,671	27.6	53.6
3 Adriatic Zagreb d.o.o.	80,834,021	4.9	175,243,341	4.2	116.8
4 Raiffeisen factoring d.o.o.	0	0.0	132,694,086	3.1	0.0
5 Croatia factoring d.o.o.	30,700,981	1.9	90,083,711	2.1	193.4
6 FIMA perfectus d.o.o.	5,491,942	0.3	53,139,699	1.3	867.6
7 Faktor plus d.o.o.	0	0.0	13,615,936	0.3	0.0
8 FTC usluge d.o.o.	0	0.0	10,871,408	0.3	0.0
9 Finesa faktor d.d.	0	0.0	8,387,726	0.2	0.0
10 Alfa faktor d.o.o.	2,190,203	0.1	3,261,254	0.1	48.9
11 CEI Zagreb d.o.o.	1,321,142	0.1	1,650,093	0.0	24.9
12 Novi faktor d.o.o.	1,034,741	0.1	488,731	0.0	-52.8
TOTAL	1,662,397,473	100.0	4,219,268,272	100.0	153.8

Source: HANFA

The factoring market is highly concentrated in the Republic of Croatia due to the fact that the company with the highest assets (Erste factoring d.o.o.) accounted for 60.8% of the total assets of factoring companies, whereas the top two companies owning the highest assets (Erste factoring d.o.o. and Prvi faktor d.o.o.) made up 88.4% of total assets. The top 6 companies with the highest assets accounted for 99.1% of total assets.

Of the total assets of factoring companies as at 31 December 2007, receivables arising from discounted bills of exchange accounted for the largest share (40.4%), while receivables arising from factoring operations accounted for a 33.9% share of total assets. A significant share of assets was held by factoring companies in deposits with banks which made up 21.3% of assets, whereas loans accounted for 1.6% of total assets.

¹ Data for 12 factoring companies

² Data for 8 factoring companies

³ Data for 5 factoring companies

Factoring operations in the Republic of Croatia may be divided into domestic, export and import factoring. In terms of recourse, factoring is divided into recourse factoring ("non-standard" factoring) and non-recourse factoring ("standard" factoring). According to the data submitted by factoring companies, the market in the Republic of Croatia is dominated by domestic factoring (91.5% of total factored receivables), with accounts receivable purchased being invoices of buyers in the Republic of Croatia, and with the factor being entitled to the collection of payments from invoice sellers in the event that debtors become insolvent (recourse factoring, with 81.8% of total factored receivables).

Short-term liabilities made up the largest share in the liability structure as at 31 December 2007, accounting for 71.6% of total liabilities, followed by long-term liabilities with 26.1%, capital and reserves with 2.2% and accruals and deferred income with 0.1% of total liabilities.

Assets of factoring companies were mostly financed by loans from foreign banks and financial institutions (86.9% of total liabilities) and loans from Croatian banks and financial institutions (7.3% of total liabilities).

In 2007, total income of factoring companies amounted to HRK 293,044,120, and total expenses to HRK 255,594,121. All the 12 factoring companies ended the 2007 business year with a positive result and reported profit after taxation in the total amount of HRK 28,765,555.

The largest share in total income amounting to HRK 293,044,120 in the period from 1 January 2007 to 31 December 2007 was made up of interest income based on factoring operations with 33.6% of total income, followed by other business income with 29.3% and interest income based on discounted bills of exchange with 15.3% of total income.

The largest share in total expenses amounting to HRK 255,594,121 in the same period was made up of interest expense based on loans from foreign banks and credit institutions with 41.9% of total expenses, followed by other business expenses with 24.5% and value adjustment costs for impairment losses with 7.6% of total business expenses.

In the period from 1 January 2007 to 31 December 2007, factoring companies purchased invoices in the amount of HRK 3,825,575,319 within their factoring operations, whereas in the same period they purchased bills of exchange in the amount of HRK 2,906,595,202 within their operations with bills of exchange.

Cooperation and Consumer Protection



Cooperation with Croatian and Foreign Supervisory and Regulatory Bodies and International Organisations

Pursuant to Articles 16–18 of the Act on the Croatian Financial Services Supervisory Agency¹, during 2007 the Agency continued its activities related to the establishing of cooperation with Croatian and foreign supervisory and regulatory bodies whose scope of activity and competence relate to the supervision of financial services and financial market, with the purpose of achieving efficient information exchange, developing supervision and improving the cooperation of the Agency with these institutions.

During 2007 representatives of the Agency continued to participate in weekly workshops on anti-money laundering and terrorist financing organised by Austrian experts at the State Attorney's Office of the Republic of Croatia as a part of the CARDS 2003 programme. In relation to this issue, the *Protocol on Cooperation and Formation of an Interinstitutional Working Group on Anti-Money Laundering and Terrorist Financing* was signed at the beginning of 2007 and entered into force on 1 March 2007. Apart from the Agency, the Protocol was signed by the Ministry of Justice, State Attorney's Office of the Republic of Croatia, Ministry of Interior – Police Directorate, Ministry of Finance (Anti-Money Laundering Department, Customs Administration, Tax Administration, Foreign Exchange Inspectorate, Financial Police), Croatian National Bank and Security and Intelligence Agency. By signing the Protocol, the said institutions express their readiness and willingness for cooperation strengthening in the area of anti-money laundering and terrorist financing with the purpose of developing an efficient system of anti-money laundering and terrorist financing in the Republic of Croatia.

According to the *Agreement on Cooperation* between the Croatian National Bank and the Agency signed in September 2006, in which the two institutions defined the contents and manner of their cooperation in the context of exercise of their authority, a Working Committee for Financial System Supervision was formed whose purpose is to achieve coordination of the procedures and activities of the signatories to the Agreement. The Committee is comprised of six members, three from each signatory to the Agreement, and convenes at least once in three months to discuss the current state of the financial system and issues related to the effective conduct of supervision and regulation of financial institutions and financial groups.

The Agency also cooperated in 2007 with other Croatian institutions, especially with the Ministry of Finance, Ministry of Foreign Affairs and European Integration, Ministry of Interior, Ministry of Economy, Labour and Entrepreneurship, Ministry of Health and Social Welfare, County Attorney's Office and Croatian Competition Agency.

Having recognised an increased international activity on capital and insurance markets as well as the need for mutual cooperation between the relevant supervisory bodies with the purpose of enhancing the effectiveness in enforcement of laws falling within their competence, in August 2007, the Agency signed a *Memorandum of Understanding on Mutual Assistance and the Exchange of Information* with the Hungarian Financial Supervisory Authority. On that occasion, Agency's employees paid a three-day study visit to Hungary and exchanged experiences with the Hungarian supervisory authority, placing special emphasis on the insurance sector.

During 2007, the Agency maintained steady contacts and cooperation regarding numerous issues both with supervisory authorities with which the Agency has signed a Memorandum of Understanding as well as with other similar foreign institutions. At the end of 2007, the Agency sent a proposal to the Austrian Financial Market Authority (FMA) and German supervisory body (BaFin) for signing a Memorandum of Understanding.

According to Article 18 of the Act on the Croatian Financial Services Supervisory Agency which stipulates that the Agency can be a member of international organisations authorised for the supervision of financial institutions and markets, the Agency is a member of IOSCO (International Organization of Securities Commissions) and IAIS (International Association of Insurance Supervisors). The Agency is at the same time an active member of the Emerging Markets Committee and the European Regional Committee within IOSCO. Furthermore, it is important to mention that the Agency carried out preliminary activities regarding the signing of the Multilateral Memorandum of Understanding within its activities related to the IOSCO membership. The Agency is also a member of The Capital Market Regulatory and Supervisory Consultative Group, which was established on 30 May 2001 in Warsaw, and has a current membership of twenty supervisory bodies of the countries in the region. At the end of 2007, the Deputy President of the Agency's Management Board took over the presidency of the Group and the Agency took over the duty of maintaining its website.



Cooperation and
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¹ Official Gazette 140/05

Activities of the Agency Related to the Negotiations on the Accession to the European Union

The Agency participates in the negotiating process for three chapters, namely: Chapter 4 – Free Movement of Capital, Chapter 6 – Company Law and Chapter 9 – Financial Services.

With respect to Chapter 9 – Financial Services, after the screening was conducted during 2006, an invitation to submit its negotiating position was sent to the Republic of Croatia in January 2007. The Agency's employees participated in drafting the said negotiating position within their scope of competence, and the position was delivered to the Council of the European Union on 28 March 2007. In June 2007, the Council of the European Union adopted a Common Position of the European Union for individual chapters, including Chapter 9 – Financial Services, on opening that negotiation chapter.

In respect of the alignment of the Croatian legislation with the EU *acquis communautaire*, the Agency has completely fulfilled the specified obligations from its scope of activity for 2007, arising from the National Programme for the Integration of the Republic of Croatia into the European Union – 2007. The employees of the Agency also participated in drafting the regular annual National Programme for the Integration of the Republic of Croatia into the European Union – 2008, in the part relating to Chapter 9 – Financial Services, which contains an outline of activities related to the accession process in 2008 with an emphasis on measures aimed at aligning the Croatian legislation with the EU *acquis communautaire* during 2008. The Programme was adopted at the session of the Croatian Government held on 7 February 2008, and the Croatian Parliament adopted at its session on 5 March 2008 the accompanying plan on legislation alignment.

The Agency's employees were engaged in drafting the document named *Self-Assessment Report for Drafting the Regular Report of the European Commission on Croatia's Progress towards Accession to the European Union* for the period from 30 September 2006 to 15 May 2007, as well as in drafting the *Follow-up Self-Assessment Report* for the period from 15 May 2007 to 15 September 2007. These documents relate to the implementation of priorities contained in the Accession Partnership, i.e. to improvements and progress made by the Republic of Croatia in the alignment of the Croatian legislation, including the progress achieved as a result of commitments made within the negotiations on the accession of the Republic of Croatia to the European Union.

The *Croatia 2007 Progress Report*, published by the European Commission in November 2007, underlines significant progress made in the alignment with the *acquis communautaire* as regards Chapter 9 – Financial Services, especially in the area of investment funds and insurance which belong to the scope of activity of the Agency, but it also stresses the need for further efforts aimed at full alignment.

The Agency also took part in activities and in the preparation of materials for the meetings of the Sub-Committee on Economic and Financial Affairs and Statistics and the Sub-Committee on Internal Market and Competition held in Bruxelles in July and September 2007 in accordance with Stabilisation and Association Agreement between European Communities and their Member States and the Republic of Croatia.

With respect to the obligation to align the Croatian legislation with the EU *acquis communautaire* in the capital market area, a delegation of the Agency paid a working visit to Brussels in the period from 23 to 25 September 2007. The purpose of the visit was the alignment of the Croatian legislation with EU Directives related to the drafting of the new Capital Market Act, where the delegation presented the work done in relation to the said draft Act as well as the remaining activities the Agency intends to undertake in order to achieve full alignment of the Act with the *acquis communautaire*. The delegation and the experts of DG Internal Market and Services of the European Commission discussed particular aspects of the alignment of the said Act with the *acquis*, while special attention was given to regulations governing markets in financial instruments, market transparency, prevention of market manipulation and capital adequacy of investment firms.

FSAP and PEER ASSESSMENT

In accordance with the request of the Republic of Croatia for the Financial Sector Assessment Program Update, and by arrangement with the competent services of the International Monetary Fund and World Bank, a joint mission of the two institutions visited the Republic of Croatia in the period from 25 October to 7 November 2007.

FSAP represents a joint IMF and World Bank project introduced in 1999 which aims to increase the effectiveness of measures aimed at promoting the stability of financial sectors in IMF and World Bank member countries through a comprehensive analysis of the financial sector of each member country. The first FSAP mission visited the Republic of Croatia in September 2001, after which the Croatian Financial System Stability Assessment (FSSA) was adopted in July 2002.

The FSAP Update mission was conducted by the IMF and World Bank professional services staff and by experts drawn from central banks and supervisory agencies cooperating with the IMF and World Bank on the FSAP project, and was primarily focused on the assessment of the banking system of the Republic of Croatia. The FSAP mission also included the assessment of the area within the competence of the Agency; therefore the mission included the news relating to the insurance sector, capital markets, pension insurance and leasing.

In the period from 25 – 30 October 2007, the FSAP mission was joined by so the called Peer Assessment mission of the European Commission consisting of a team of five experts from supervisory authorities from different EU Member States in order to review the system of supervision of the non-banking financial sector in the Republic of Croatia, i.e. the scope of activity of the Agency. The main goal of the EC mission was valuing the Agency's capacity and efficiency with regard to the international standards for the supervision of the non-banking financial sector published by the International Organization of Securities Commissions (IOSCO), International Association of Insurance Supervisors (IAIS) and International Organization of Pension Supervisors (IOPS). The said international standards are, in their form and contents, often more demanding than the requirements prescribed in the European legislation, i.e. the *acquis communautaire*.

Apart from having compared the compliance of the supervisory standards applied by the Agency with the abovementioned international standards, the Peer Assessment mission also assessed the administrative capacity of the Agency, the Croatian capital market, insurance sector, as well as the pension system.

International Conference "IMPLEMENTATION OF MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE – MiFID"

EU MiFID Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments sets forth entirely new requirements for capital market participants and is one of the major milestones in the development of the financial market.

Considering the significance of the said Directive and of its implementation into the Croatian legislation, the Agency organised the international conference "Implementation of Markets in Financial Instruments Directive – MiFID" at Le Meridien Lav Hotel Split in the period from 14 to 15 June 2007.

The main idea of the conference was to bring together representatives of financial sectors and regulatory bodies from various countries with the aim of sharing different experiences regarding the preparation for MiFID implementation. The speakers at the conference were representatives of foreign regulatory authorities, stock exchanges and the financial sector of EU Member States.

Experiences related to the implementation and preparations for the implementation of MiFID through legal framework were shared with the participants by the speakers from regulatory authorities of the following countries: Czech Republic, Slovenia, Austria, Lithuania, Poland and Hungary. Stock exchanges experiences regarding MiFID implementation were illustrated by the speakers from the Ljubljana Stock Exchange, OMX Vilnius Stock Exchange, Warsaw Stock Exchange and Vienna Stock Exchange, while the speakers from Lithuania and Slovenia talked about experiences in the preparation of the financial sector for MiFID implementation.

The Conference was intended for capital market participants who were able to learn about experiences of other countries during the implementation of the Directive and was recognised as an important and valuable meeting point for various participants of the capital market of the Republic of Croatia, as well as the EU Member States. The topics, although presented from the points of view of regulators, the stock exchange and industry, emphasised and clarified the common goals: adequate response to all innovations occurring in the securities market, effective continuation of the process of creating a single market for investment services and increased protection and responsibility of both investors and consumers.

Consumer Protection

Article 14 of the Act on the Croatian Financial Services Supervisory Agency stipulates one of the principles of the Agency implying reporting to consumers, which includes developing awareness of benefits and risks connected with different types of investments and financial activities. The Agency monitors, analyses and takes measures aimed at consumer protection and receives complaints submitted by consumers related to the provisions of the acts falling within the scope of activity and competence of the Agency as well as of the new Consumer Protection Act, adopted by the Croatian Parliament at its session on 13 July 2007, in the area relating to services provided on the financial market.

Pursuant to Article 123 of the Consumer Protection Act², the Government of the Republic of Croatia sets up and appoints the National Consumer Protection Council as its advisory body. One of the members of the National Consumer Protection Council, which is one of the major consumer protection policy makers, is an employee of the Agency. The Agency also participates in the drafting of the National Consumer Protection Programme and of the annual Report on the implementation of measures specified in the National Consumer Protection Programme for the previous year. The National Consumer Protection Council participates in consumer protection policy creation and reports to the Government on cases of violation of good business practices.

In 2007, the Agency received a total of 40 consumers complaints about business operations of entities supervised by the Agency, and 12 inquiries addressed to the Agency relating to the provision of information from the scope of activity of the Agency, for the purpose of consumer protection.

Table 8.1.: Structure of Consumers' Complaints

SUPERVISED ENTITY	NUMBER OF COMPLAINTS
Jadransko osiguranje d.d.	9
Croatia osiguranje d.d.	5
Allianz Zagreb d.d.	4
Euroherc osiguranje d.d.	3
Kvarner Vienna Insurance Group d.d.	3
Osiguranje Zagreb d.d.	3
Generali osiguranje d.d.	2
Merkur osiguranje d.d.	2
Sunce osiguranje d.d.	2
Agram životno osiguranje d.d.	1
Grawe Hrvatska d.d.	1
Osiguranje Helios d.d.	1
HOK osiguranje d.d.	1
Triglav osiguranje d.d.	1
Asterra d.o.o.	1
VB leasing d.o.o.	1

Source: HANFA

Employee Education

Taking into account the dynamic nature of the financial sector supervised by the Agency within the scope of its competence and for the purpose of further education and implementation of new knowledge in the course of their duties, the Agency's employees participated during 2007 in various seminars and conferences in Croatia and abroad whose topics were related to the Agency's goals, principles, scope of activity and competence. In the selection of seminars attended by the Agency's employees precedence was given to those seminars and conferences which, in addition to the topics relevant to the Agency's operations, placed emphasis on both theory and practical knowledge.

In 2007, the Agency's employees participated in the following seminars, conferences, meetings and symposiums, some of the most important ones are the following:

- Corporate Governance and Securities Markets, Madrid, Spain
- 32nd Annual OICV-IOSCO Conference, Mumbai, India
- 13th Jurist Symposium "Ownership-Liabilities-Procedure", Poreč
- Croatian Money Market, Opatija
- Annual Meeting of ACI Croatia, Dubrovnik
- ICMA 39th General Meeting, Berlin, Germany
- Implementation of Markets in Financial Instruments Directive – MiFID, Split
- Study Tour to SEC, FINRA and UBS, Washington D.C. and New York, USA
- Capital Market Regulatory and Supervisory Group, Bulgaria
- 7th Regional Finance and Investment Conference, Dubrovnik
- Croatian Insurance Days 2007, Opatija
- Pension Fund Industry and Portfolio Management, Split
- IOSCO Emerging Market Committee MEETING, Dubai

² Official Gazette 79/07

- Central and Eastern European Securitization Summit, Prague, Czech Republic
- Symposium "Internal Audit and Control", Poreč
- LOTUSPHERE 2007, Orlando, USA
- IBM DS3000 Launch, Zagreb
- CISCO EXPO Conference 2007, Dubrovnik
- IBM WORLD 2007, San Francisco, USA
- Jurist Meeting Opatija 07, Opatija
- Derivatives school, Zagreb
- 9th Conference of Data Protection Commissioners, Zadar
- Finance and Accounting as a Factor of Growth of the Croatian Economy, Pula
- Life Assurance Product Development – Key to Success, Zagreb
- Study Tour – working visit to Hungarian Financial Supervisory Agency, Budapest, Hungary
- Main Challenges for Supervisors and Exchanges in Central and South Eastern Europe-MiFID, Vienna, Austria
- IFRS in Croatia, Opatija
- International Institute for Securities Market Development, Washington D.C., USA
- Pension Funds Forum 2007, Prague, Czech Republic
- Managing Risk in Asset Management, Ljubljana, Slovenia
- Financial Reports Analysis, Zagreb
- Capital Markets training program, Washington D.C., USA
- U.S. Securities and Exchange Commission Examination, Belgrade, Serbia
- FSI seminar on advanced risk management in the insurance industry, Hergiswil, Switzerland
- E-biz 2007, Opatija
- Asset Liability Management, Prague, Czech Republic
- 2nd PBSS Colloquium, Helsinki, Finland
- Technical Aspects on Solvency II, Madrid, Spain
- 19th Symposium on Business and Information System Development, Opatija
- How to effectively coordinate EU policies at the national level, Zagreb
- Cross Border Cooperation in Central, Eastern and South Eastern Europe, Vienna, Austria





Financial Report of the Agency

According to the provision of Article 20 of the Act on Croatian Financial Services Supervisory Agency¹, the Agency can be financed:

- by the State Budget,
- by fees from assets and revenue of supervised entities, and
- by fees charged for services provided from the Agency's scope of activity.

In 2007, the Agency was financed by fees charged for services provided and by fees from assets and revenue of supervised entities. The Agency did not make use of the State budget funds to finance its operations.

In 2007, the Agency recorded an income to the amount of HRK 30.3 million, most of which (HRK 28.8 million) was generated through fees from assets and revenue of supervised entities and fees for services provided from the Agency's scope of activity. Total expenses amounted to HRK 34.8 million, out of which gross salaries for the employees accounted for 63.5%, and the remaining expenses for 36.5%.

The type and amount of fees constituting the Agency's income and supervised entities' obligation are regulated by the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency for 2007² and Ordinance on the type and amount of fees and administrative charges of the Croatian Financial Services Supervisory Agency³. These ordinances were adopted based on Article 20 of the Act on Croatian Financial Services Supervisory Agency.

As at 31 December 2007, the total assets of the Agency amounted to HRK 30.5 million, with long-term assets totalling HRK 6.5 million, and short-term assets totalling HRK 24.0 million.

Due to the fact that in 2007 the Agency's operations were financed exclusively by fees from assets and revenue of supervised entities, and that those fees were paid in a timely manner, according to the balance sheet as at 31 December 2007, the Agency had no unsettled liabilities. The Agency's accounting system is organised in line with that of non-profit organisations.

Table 9.1: Balance Sheet of the Agency for 2007 (in HRK)

ASSETS	
Fixed assets	6,559,864
Short-term assets	24,039,662
TOTAL ASSETS	30,599,526
LIABILITIES	
Sources of financing	30,599,526
TOTAL LIABILITIES	30,599,526

Source: HANFA

Table 9.2: Income and Expenditure Account of the Agency for 2007 (in HRK)

INCOME	30,328,645
Income from memberships and fees	28,850,492
Other income	1,478,153
EXPENDITURE	34,830,567
Material costs and depreciation	6,298,405
Staff costs	22,482,323
Other expenses	6,049,839
EXPENDITURE OVER INCOME	4,501,922

Source: HANFA

In accordance with the presented figures, the Agency as the non-profit organisation made up the deficiency of income in relation to the expenditures in the current year from the balance of the funds of the former time period when the surplus of income over expenditures was realised.

¹ Official Gazette 140/05

² Official Gazette 14/07

³ Official Gazette 45/06 and 11/07

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Statistical overview

Table A1: Number of Investment Funds (end of period)

	2003	2004	2005	2006	2007
Open-end investment funds	37	41	56	72	100
- with a public offering	37	41	56	62	83
Cash	11	12	13	15	15
Bond	11	10	15	14	14
Balanced	9	11	15	18	18
Equity	6	8	13	15	36
- with a private offering				9	16
- Open-end venture capital funds				1	1

Source: HANFA

Table A2: Net Assets of Investment Funds (in HRK thousand, end of period)

	2003	2004	2005	2006	2007
Open-end investment funds	2,941,801	4,527,735	8,834,460	16,038,989	30,056,247
- with a public offering	2,941,801	4,527,735	8,834,460	15,719,074	29,017,625
Cash	1,802,671	2,880,958	4,660,176	4,274,744	4,140,206
Bond	612,188	667,235	1,451,489	1,138,589	674,073
Balanced	422,145	764,001	2,011,603	5,994,698	10,022,402
Equity	104,798	215,541	711,193	4,311,043	14,180,944
- with a private offering				319,915	1,038,621
Closed-end investment funds	976,996	1,120,273	1,537,356	2,443,431	3,682,360

Source: HANFA

Table A3: Asset Structure of Open-End Investment Funds with a Public Offering as at 31 December 2007 (in HRK thousand)

Type of assets	Cash	Bond	Balanced	Equity	Total
Cash	112,684	10,203	210,287	416,755	749,929
Receivables	190,677	2,258	36,421	72,600	301,956
Securities and deposits	3,926,214	663,102	10,118,355	14,070,710	28,778,381
Domestic	3,906,459	608,356	7,268,084	8,323,231	20,106,130
Shares and GDRs	0	12,871	2,966,366	5,530,225	8,509,462
Government bonds	137,858	222,402	998,422	205,346	1,564,027
Municipal bonds	4,591	5,059	10,500	0	20,150
Corporate bonds	38,669	170,876	549,836	249,648	1,009,029
Closed-end investment funds	0	89	10,521	7,830	18,441
Open-end investment funds	0	8,639	33,365	28,764	70,769
Short-term securities	863,668	29,403	169,951	110,345	1,173,367
Deposits	2,861,673	159,016	2,529,124	2,191,072	7,740,886
Foreign	19,755	54,746	2,850,271	5,747,479	8,672,250
Shares	0	456	2,356,320	5,548,578	7,905,354
Government bonds	6,935	48,186	175,508	37,645	268,275
Municipal bonds	0	0	0	0	0
Corporate bonds	1,706	6,104	5,713	3,923	17,446
Closed-end investment funds	0	0	1,014	17,583	18,597
Open-end investment funds	0	0	311,715	139,750	451,465
Short-term securities	0	0	0	0	0
Deposits	11,113	0	0	0	11,113
OTHER ASSETS	0	0	0	0	0
TOTAL ASSETS	4,229,575	675,563	10,365,064	14,560,065	29,830,266
TOTAL LIABILITIES	89,369	1,489	342,661	379,121	812,641
NET ASSETS	4,140,206	674,073	10,022,402	14,180,944	29,017,625
DERIVATIVES	1,424	411	5,331	4,432	11,598
REPURCHASE AGREEMENTS	187,234	0	210,015	8,920	406,170

Source: HANFA



Table B1: Number of Pension Funds (end of period)

	2003	2004	2005	2006	2007
Mandatory pension funds	4	4	4	4	4
Open-end voluntary pension funds	4	4	6	6	6
Closed-end voluntary pension funds		4	8	10	12
Total	8	12	18	20	22

Source: HANFA

Table B2: Pension Funds' Membership (end of period)

	2003	2004	2005	2006	2007
Mandatory pension funds	1,070,932	1,170,092	1,248,931	1,322,010	1,395,693
Open-end voluntary pension funds	8,773	30,022	51,121	75,161	103,923
Closed-end voluntary pension funds		1,112	5,336	10,633	11,943
Total	1,079,705	1,201,226	1,305,388	1,407,804	1,511,559

Source: HANFA

Table B3: Pension Funds' Net Assets (in HRK thousand, end of period)

	2003	2004	2005	2006	2007
Mandatory pension funds	4,677,336	7,913,238	11,714,215	15,919,423	21,001,886
Open-end voluntary pension funds	29,591	95,682	206,269	397,335	692,810
Closed-end voluntary pension funds		1,235	7,682	60,303	119,082
Total	4,706,927	8,010,155	11,928,166	16,377,061	21,813,778

Source: HANFA

Table B4: Investment Structure of Mandatory Pension Funds' Total Assets (end of period, in HRK thousand)

Type of assets	2003	2004	2005	2006	2007
DOMESTIC ASSETS	4,385,210	7,498,547	10,673,953	14,588,033	20,297,532
Securities and deposits	4,136,219	7,174,461	10,294,567	14,313,666	19,947,365
Shares and GDRs	160,478	279,148	333,484	851,845	3,127,776
Government bonds	3,256,039	6,210,223	8,709,190	11,447,577	13,484,885
Municipal bonds	0	66,697	60,016	62,810	76,277
Corporate bonds	141,538	521,763	442,878	476,121	451,259
Closed-end investment funds	0	0	0	0	0
Open-end investment funds	0	0	258,985	1,147,996	2,543,021
Short-term securities	523,338	59,953	163,563	11,682	21,792
Deposits	54,827	36,676	326,450	315,635	242,354
Cash	121,679	221,129	148,781	138,521	232,527
Receivables	127,313	102,957	230,604	135,845	117,641
FOREIGN ASSETS	406,317	585,955	1,318,030	1,456,965	904,867
Shares	93,717	62,982	134,902	218,338	689,226
Government bonds	88,956	41,257	208,561	232,649	0
Municipal bonds	0	0	0	0	0
Corporate bonds	54,216	57,855	52,765	183,122	42,114
Closed-end investment funds	0	0	0	0	0
Open-end investment funds	169,427	423,862	921,801	822,855	173,527
Short-term securities	0	0	0	0	0
Deposits	0	0	0	0	0
TOTAL ASSETS	4,791,527	8,084,502	11,991,983	16,044,997	21,202,399
Net assets	4,677,336	7,913,238	11,714,215	15,919,423	21,001,886

Source: HANFA

Table B5: Investment Structure of Voluntary Open-End Pension Funds' Total Assets (end of period, in HRK thousand)

Type of assets	2003	2004	2005	2006	2007
DOMESTIC ASSETS	29,811	91,876	198,645	392,823	687,823
Securities and deposits	24,283	87,013	186,430	376,158	648,184
Shares and GDRs	1,405	2,523	5,227	32,619	161,645
Government bonds	10,779	72,672	153,251	212,871	313,900
Municipal bonds	0	2,742	3,113	1,788	553
Corporate bonds	0	6,692	10,600	51,753	9,978
Closed-end investment funds	0	0	0	0	0
Open-end investment funds	0	550	13,384	50,457	144,684
Short-term securities	7,443	1,780	49	0	0
Deposits	4,656	54	805	26,669	17,424
Cash	5,528	4,863	12,212	14,623	38,956
Receivables	0	0	4	2,042	683
FOREIGN ASSETS	2,057	6,825	11,905	22,818	28,501
Shares	0	0	0	1,889	12,886
Government bonds	0	0	0	0	699
Municipal bonds	0	0	0	0	0
Corporate bonds	0	0	0	0	0
Closed-end investment funds	0	0	0	0	0
Open-end investment funds	2,057	6,825	11,905	20,930	14,916
Short-term securities	0	0	0	0	0
Deposits	0	0	0	0	0
TOTAL ASSETS	31,868	98,701	210,550	415,641	716,324
Net assets	29,591	95,682	206,269	397,335	692,810

Source: HANFA

Table B6: Investment Structure of Closed-End Voluntary Pension Funds' Total Assets (end of period, in HRK thousand)

Type of assets	2004	2005	2006	2007
DOMESTIC ASSETS	739	20,545	59,099	118,447
Securities and deposits	649	17,744	55,322	111,222
Shares and GDRs	10	302	3,852	23,649
Government bonds	486	14,385	30,115	41,643
Municipal bonds	110	346	252	133
Corporate bonds	9	558	5,725	6,693
Closed-end investment funds	0	0	0	0
Open-end investment funds	0	1,953	13,490	30,999
Short-term securities	0	0	0	209
Deposits	35	200	1,887	7,896
Cash	90	2,102	3,438	6,359
Receivables	0	700	339	867
FOREIGN ASSETS	53	1,039	2,506	3,403
Shares	0	0	0	2,262
Government bonds	0	0	0	0
Municipal bonds	0	0	0	0
Corporate bonds	0	0	0	0
Closed-end investment funds	0	0	0	0
Open-end investment funds	53	1,039	2,506	1,140
Short-term securities	0	0	0	0
Deposits	0	0	0	0
TOTAL ASSETS	792	21,584	61,604	121,850
Net assets	748	21,511	60,303	119,082

Source: HANFA

Table C1: Capital Adequacy of Insurance and Reinsurance Companies as at 31 December 2007

No.	COMPANY	CAPITAL ADEQUACY									
		LIFE					NON-LIFE				
		GF > = 1/3 SM	GF > = min IC	C > = SM	TRUE	GF > = 1/3 SM	GF > = min IC	C > = SM	TRUE	TRUE	
		3	4	5	6	7	8	9	10	10	
1	Agram životno osiguranje d.d.	YES	YES	YES	YES	YES	YES	NO	NO	NO	
2	Allianz Zagreb d.d.	YES	YES	YES	YES	YES	YES	NO	NO	NO	
3	Basler osiguranje d.d.					YES	YES	YES	YES	YES	
4	Basler životno osiguranje d.d.	YES	NO	YES	NO						
5	Cosmopolitan Life d.d.	YES	YES	YES	YES						
6	Cardif osiguranje d.d.					YES	YES	YES	YES	YES	
7	Croatia osiguranje d.d.	YES	YES	YES	YES	YES	YES	YES	YES	YES	
8	Croatia zdravstveno osiguranje d.d.					YES	YES	YES	YES	YES	
9	Erste Sparkassen osiguranje d.d.	YES	NO	YES	NO						
10	Euroherc osiguranje d.d.					YES	YES	YES	YES	YES	
11	Generall osiguranje d.d.	YES	YES	YES	YES	YES	YES	YES	YES	YES	
12	GRAWE Hrvatska d.d.										
13	Osiguranje Helios d.d.	YES	YES	YES	YES	YES	YES	YES	YES	YES	
14	HOK osiguranje d.d.	YES	YES	YES	YES	YES	YES	YES	YES	YES	
15	Jadransko osiguranje d.d.					YES	YES	YES	YES	YES	
16	Kvarner Wiener Städtische osiguranje d.d.					YES	YES	YES	YES	YES	
17	Merkur osiguranje d.d.	YES	YES	YES	YES	YES	YES	YES	YES	YES	
18	Sunce osiguranje d.d.										
19	Triglav osiguranje d.d.	YES	YES	YES	YES	YES	YES	NO	NO	NO	
20	UNIQA osiguranje d.d.	YES	YES	YES	YES	YES	YES	YES	YES	YES	
21	Velebit osiguranje d.d.					YES	YES	YES	YES	YES	
22	Velebit životno osiguranje d.d.	YES	YES	YES	YES	YES	YES	YES	YES	YES	
23	Osiguranje Zagreb d.d.	YES	YES	YES	YES	YES	YES	YES	YES	YES	
24	Allianz reosiguranje d.d.					YES	YES	YES	YES	YES	
25	Croatia Lloyd d.d.					YES	YES	YES	YES	YES	

Remarks:

- data in columns 3 to 5 and 7 to 9 taken from Capital Adequacy Form (CA) pursuant to the Ordinance on the manner of calculating the required solvency margin (capital adequacy) of insurance companies (Official Gazette 112/2006)

- data in columns 6 and 10 depend on fulfillment of criteria referred to in previous 3 columns

- IC = initial capital (Article 19 of the Insurance Act); GF = guarantee fund (Article 100 of the Insurance Act); C = capital (Article 94 of the Insurance Act); SM = solvency margin (Article 98 and 99 of the Insurance Act)

Source: HANFA

Table C2: Guarantee Fund and Solvency Margin Ratio of Insurance and Reinsurance Companies as at 31 December 2007

No.	COMPANY	GUARANTEE FUND (according to Article 100 of Insurance Act)		SOLVENCY MARGIN (according to Articles 98 and 99 of Insurance Act)		1/3 SOLVENCY MARGIN		SOLVENCY MARGIN DEVIATION (> = 1/3)	
		LIFE	NON-LIFE	LIFE	NON-LIFE	LIFE	NON-LIFE	LIFE	NON-LIFE
		3	4	5	6	7	8	9 (3-7)	10 (4-8)
1	Agram životno osiguranje d.d.	106,579		32,566		10,855		95,724	
1	Allianz Zagreb d.d.	62,138	106,227	41,576	84,480	13,859	28,160	48,280	78,067
2	Basler osiguranje d.d.		27,260		4,047		1,349		25,911
3	Basler životno osiguranje d.d.	21,800		6,619		2,206		19,594	
4	Cosmopolitan Life d.d.	32,344		9,616		3,205		29,138	
5	Cosmopolitan Life d.d.		23,496		127		42		23,454
6	Cardif osiguranje d.d.	66,942	1,654,790	60,860	360,166	20,287	120,055	46,655	1,534,734
7	Croatia osiguranje d.d.		29,946		11,732		3,911		26,035
8	Croatia zdravstveno osiguranje d.d.								
9	Erste Sparkassen osiguranje d.d.	21,424		4,729		1,576		19,848	
10	Euroherc osiguranje d.d.		635,807		140,593		46,864		588,942
11	Generall osiguranje d.d.	85,730	31,118	13,101	9,345	4,367	3,115	81,363	28,003
12	GRAWE Hrvatska d.d.	154,505	83,816	63,287	20,706	21,096	6,902	133,409	76,914
13	Osiguranje Helios d.d.	38,872	22,999	13,035	9,741	4,345	3,247	34,527	19,752
14	HOK osiguranje d.d.		22,896		4,959		1,653		21,243
15	Jadransko osiguranje d.d.		448,783		91,457		30,486		418,298
16	Kvarner Wiener Stadtische osiguranje d.d.	143,757	67,196	20,808	29,697	6,936	9,899	136,821	57,297
17	Merkur osiguranje d.d.	55,650	26,349	50,372	3,068	16,791	1,023	38,860	25,326
18	Sunce osiguranje d.d.		81,414		22,737		7,579		73,835
19	Triglav osiguranje d.d.	30,480	33,803	8,655	44,159	2,885	14,720	27,595	19,083
20	UNIQA osiguranje d.d.	32,311	26,954	7,838	4,863	2,613	1,621	29,698	25,333
21	Velebit osiguranje d.d.		33,802						33,802
22	Velebit životno osiguranje d.d.	34,568		123		41		34,527	
23	Osiguranje Zagreb d.d.	66,324	49,828	46,798	38,381	15,599	12,794	50,725	37,034
24	Allianz reosiguranje d.d.		24,103		649		216		23,887
25	Croatia Lloyd d.d.		224,562		36,380		12,127		212,435

Source: HANFA



Table C3: Capital and Solvency Margin Ratio of Insurance and Reinsurance Companies as at 31 December 2007

No.	COMPANY	CAPITAL (according to Article 94 of Insurance Act)		SOLVENCY MARGIN (according to Articles 98 and 99 of Insurance Act)		SOLVENCY MARGIN DEVIATION (> =)	
		LIFE	NON-LIFE	LIFE	NON-LIFE	LIFE	NON-LIFE
1	2	3	4	5	6	7 (3-5)	8 (4-6)
1	Agram životno osiguranje d.d.	74,285		32,566		41,719	
2	Allianz Zagreb d.d.	62,138	83,727	41,576	84,480	20,563	-753
3	Basler osiguranje d.d.		27,260		4,047		23,213
4	Basler životno osiguranje d.d.	21,800		6,619		15,181	
5	Cosmopolitan Life d.d.	32,344		9,616		22,728	
6	Cardif osiguranje d.d.		23,496		127		23,370
7	Croatia osiguranje d.d.	66,942	1,359,883	60,860	360,166	6,081	999,717
8	Croatia zdravstveno osiguranje d.d.		29,946		11,732		18,214
9	Erste Sparkassen osiguranje d.d.	21,424		4,729		16,695	
10	Euroherc osiguranje d.d.		599,569		140,593		458,976
11	Generali osiguranje d.d.	85,730	31,118	13,101	9,345	72,629	21,773
12	GRAWE Hrvatska d.d.	154,505	83,816	63,287	20,706	91,218	63,110
13	Osiguranje Helios d.d.	38,872	22,999	13,035	9,741	25,837	13,259
14	HOK osiguranje d.d.		22,896		4,959		17,937
15	Jadransko osiguranje d.d.		430,059		91,457		338,602
16	Kvarner Wiener Städtische osiguranje d.d.	143,707	67,004	20,808	29,697	122,899	37,307
17	Merkur osiguranje d.d.	55,650	26,349	50,372	3,068	5,279	23,281
18	Sunce osiguranje d.d.		75,114		22,737		52,377
19	Triglav osiguranje d.d.	30,480	33,480	8,655	44,159	21,824	-10,679
20	UNIQA osiguranje d.d.	32,311	26,954	7,838	4,863	24,473	22,091
21	Velebit osiguranje d.d.		33,802				33,802
22	Velebit životno osiguranje d.d.	34,568		123		34,445	
23	Osiguranje Zagreb d.d.	63,004	49,828	46,798	38,381	16,207	11,447
24	Allianz reosiguranje d.d.		24,103		649		23,454
25	Croatia Lloyd d.d.		216,394		36,380		180,014

Source: HANFA

Table C4: Basic Insurance-Technical Indicators

No.	COMPANY	CLAIMS RATIO (%)		EXPENSE RATIO (%)		COMBINED RATIO (%)		RETURN ON INVESTMENT (%)		DEBT RATIO		ROE (%)		ROA (%)	
		2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
1	Agram životno osiguranje d.d.	54.4	75.9	43.4	24.4	97.7	100.3	3.8	4.6	0.8	0.9	25.4	26.1	3.3	3.2
2	Allianz Zagreb d.d.	71.6	69.7	31.1	35.1	102.7	104.7	6.3	6.4	0.9	0.9	29.5	19.1	2.7	1.8
3	Basler osiguranje d.d.	50.8	50.3	62.0	53.9	112.8	104.2	2.8	5.1	0.6	0.6	-1.9	8.0	-0.8	3.2
4	Basler životno osiguranje d.d.	72.1	66.1	36.4	44.8	108.4	110.9	2.3	3.9	0.7	0.8	-6.7	-7.4	-2.1	-1.5
5	Cardif osiguranje d.d.	67.7	67.2	652.3	652.3	719.9	719.9	2.6	2.6	0.1	0.1	-16.3	-16.3	-18.0	-18.0
6	Cosmopolitan Life VIG d.d.	57.9	61.2	50.8	48.8	108.7	110.0	4.6	5.8	0.8	0.8	3.1	5.4	0.7	1.1
7	Croatia osiguranje d.d.	75.3	78.9	42.2	43.8	117.5	122.7	4.5	5.9	0.8	0.8	9.1	6.3	1.7	1.5
8	Croatia zdravstveno osiguranje d.d.	49.6	48.8	37.0	39.6	86.6	88.4	1.4	2.1	0.6	0.7	1.3	4.8	0.5	1.5
9	Erste Sparkassen osiguranje d.d.	70.0	78.0	48.7	36.2	118.7	114.2	2.8	4.7	0.7	0.8	-21.0	-11.5	-9.2	-2.5
10	Euroherc osiguranje d.d.	60.2	62.2	37.0	35.3	97.2	97.6	2.8	3.0	0.7	0.7	7.2	6.9	2.3	2.2
11	Generali osiguranje d.d.	63.3	62.7	98.4	99.8	161.7	162.5	3.0	6.1	0.8	0.9	-14.7	-6.5	-3.5	-0.9
12	GRAWE Hrvatska d.d.	90.7	91.9	29.0	31.8	119.7	123.7	5.4	6.3	0.9	0.9	16.0	16.5	1.0	0.9
13	Osiguranje Helios d.d.	97.3	87.5	42.3	41.3	139.7	128.8	7.6	4.9	0.9	0.9	2.3	0.4	0.2	0.0
14	HOK osiguranje d.d.	60.0	57.3	44.8	38.5	104.8	95.8	2.3	14.2	0.3	0.6	1.6	0.5	1.1	0.2
15	Jadransko osiguranje d.d.	59.1	70.1	38.3	34.8	97.4	104.9	1.5	7.9	0.6	0.6	5.6	6.5	2.2	2.5
16	Kvarner Vienna Insurance Group d.d.	63.7	71.1	46.2	45.0	109.9	116.1	5.8	7.7	0.8	0.9	4.5	9.6	0.7	1.3
17	Merkur osiguranje d.d.	87.9	88.8	28.1	27.0	116.0	115.8	4.7	7.8	0.9	0.9	11.9	58.3	1.1	3.6
18	Sunce osiguranje d.d.	76.0	77.2	28.8	26.8	104.8	104.0	6.5	10.4	0.7	0.7	5.0	8.7	1.6	2.5
19	Triglav osiguranje d.d.	71.9	72.6	40.5	44.1	112.4	116.7	7.0	8.8	0.9	0.9	5.1	8.1	0.7	0.7
20	UNIQA osiguranje d.d.	67.2	65.0	48.2	43.8	115.4	108.8	3.7	4.4	0.8	0.8	3.6	5.6	0.8	1.0
21	Velebit osiguranje d.d.							1.6	1.6	0.1	0.1		-9.6		-10.0
22	Velebit životno osiguranje d.d.	99.8	99.8	119.7	119.7	219.5	219.5	1.5	1.5	0.1	0.1		-7.9		-7.6
23	Osiguranje Zagreb d.d.*	66.5	71.2	44.5	52.5	111.0	123.3	4.6	0.6	0.9	0.9	14.1	-26.6	0.7	-2.6
24	Allianz reosiguranje d.d.	156.3	7.9	124.3	345.5	280.6	353.3	5.9	6.2	0.2	0.2	2.2	1.9	1.7	1.4
25	Croatia Lloyd d.d.	71.3	70.4	9.4	8.3	80.7	78.7	2.8	5.8	0.6	0.6	20.6	25.2	6.6	7.9
	TOTAL	70.8	73.9	39.4	40.2	110.3	114.1	4.5	5.7	0.8	0.8	8.7	7.6	1.5	1.5

* Presented business results refer to Restatement acknowledged by Auditor's opinion in Auditor's Report for 2007

Source: HANFA

Table C5: Operating Expenses (business expenditures) and Earned Premium Ratio in Non-life Insurance

COMPANY	EARNED PREMIUM		OPERATING EXPENSES		OPERATING EXPENSES AND EARNED PREMIUM RATIO	
	2006	2007	2006	2007	2006	2007
Allianz Zagreb d.d.	395,208	471,230	127,996	176,241	32.4%	37.4%
Basler osiguranje d.d.	17,736	19,155	10,663	10,640	60.1%	55.5%
Cardif osiguranje d.d.		844		5,503		652.3%
Croatia osiguranje d.d.	2,220,644	2,276,571	711,295	772,994	32.0%	34.0%
Croatia zdravstveno osiguranje d.d.	43,198	68,474	21,240	30,373	49.2%	44.4%
Euroherc osiguranje d.d.	855,400	933,312	266,254	279,655	31.1%	30.0%
Generali osiguranje d.d.	19,822	43,283	38,649	59,831	195.0%	138.2%
GRAWE Hrvatska d.d.	92,581	105,465	31,494	38,676	34.0%	36.7%
Osiguranje Helios d.d.	38,907	52,610	17,754	24,419	45.6%	46.4%
HOK osiguranje d.d.	4,426	11,652	2,057	11,150	46.5%	95.7%
Jadransko osiguranje d.d.	576,975	613,615	191,479	191,726	33.2%	31.2%
Kvarner Vienna Insurance Group d.d.	145,206	183,859	60,942	74,637	42.0%	40.6%
Merkur osiguranje d.d.	27,441	15,683	11,896	11,136	43.4%	71.0%
Sunce osiguranje d.d.	107,551	136,407	31,558	37,233	29.3%	27.3%
Triglav osiguranje d.d.	213,128	252,053	71,464	84,208	33.5%	33.4%
UNIQA osiguranje d.d.	18,103	23,618	8,543	13,004	47.2%	55.1%
Velebit osiguranje d.d.				4,009		
Osiguranje Zagreb d.d.	222,931	209,396	85,451	122,792	38.3%	58.6%
TOTAL	4,999,259	5,417,226	1,688,737	1,948,228	33.8%	36.0%

Source: HANFA

Table C6: Claims Incurred in Non-Life Insurance in Gross Amounts (in HRK thousand)

COMPANY	CLAIMS PAID, GROSS AMOUNTS		CHANGES IN CLAIMS PROVISIONS, GROSS AMOUNTS		TOTAL EXPENDITURES FOR CLAIMS INCURRED, GROSS AMOUNTS	
	2006	2007	2006	2007	2006	2007
Allianz Zagreb d.d.	232,770	231,148	37,548	68,073	270,317	299,221
Basler osiguranje d.d.	5,256	4,568	4,297	5,857	9,552	10,425
Cardif osiguranje d.d.				20		20
Croatia osiguranje d.d.	1,758,932	1,792,403	108,845	132,705	1,867,778	1,925,108
Croatia zdravstveno osiguranje d.d.	15,439	31,394	5,988	2,021	21,427	33,415
Euroherc osiguranje d.d.	475,642	502,917	43,100	85,269	518,742	588,186
Generali osiguranje d.d.	14,821	32,686	11,744	24,048	26,564	56,734
GRAWE Hrvatska d.d.	66,439	66,738	14,346	20,535	80,785	87,274
Osiguranje Helios d.d.	41,085	45,316	7,200	9,601	48,285	54,917
HOK osiguranje d.d.	264	1,305	3,004	5,583	3,269	6,888
Jadransko osiguranje d.d.	317,520	341,529	20,834	89,035	338,353	430,564
Kvarner Vienna Insurance Group d.d.	142,962	157,603	-6,561	16,195	136,401	173,797
Merkur osiguranje d.d.	14,427	10,578	9,935	5,571	24,362	16,149
Sunce osiguranje d.d.	91,395	106,054	-10,086	3,050	81,308	109,104
Triglav osiguranje d.d.	145,944	162,893	8,735	24,379	154,679	187,272
UNIQA osiguranje d.d.	40,429	18,197	-16,040	5,658	24,389	23,854
Velebit osiguranje d.d.						
Osiguranje Zagreb d.d.	146,738	129,368	-13,793	87,396	132,945	216,764
TOTAL	3,510,062	3,634,697	229,094	584,995	3,739,157	4,219,692

Source: HANFA

Table C7: Operating Expenses (business expenditures) and Earned Premium Ratio of Life Insurance

COMPANY	EARNED PREMIUM		OPERATING EXPENSES		OPERATING EXPENSES AND EARNED PREMIUM RATIO IN %	
	2006	2007	2006	2007	2006	2007
Agram životno osiguranje d.d.	200,067	215,367	40,571	30,027	20.3%	13.9%
Allianz Zagreb d.d.	349,987	423,470	91,455	123,556	26.1%	29.2%
Basler životno osiguranje d.d.	41,624	60,319	14,882	26,391	35.8%	43.8%
Cosmopolitan Life VIG d.d.	51,922	69,819	26,400	34,163	50.8%	48.9%
Croatia osiguranje d.d.	294,413	343,533	97,904	110,499	33.3%	32.2%
Erste Sparkassen osiguranje d.d.	50,806	64,554	24,229	23,385	47.7%	36.2%
Generali osiguranje d.d.	96,807	90,669	80,108	87,996	82.8%	97.1%
GRAWE Hrvatska d.d.	247,291	261,709	69,443	78,545	28.1%	30.0%
Osiguranje Helios d.d.	53,003	53,791	21,856	19,806	41.2%	36.8%
Kvarner Vienna Insurance Group d.d.	121,892	144,701	60,398	63,620	49.6%	44.0%
Merkur osiguranje d.d.	210,798	257,471	53,755	62,588	25.5%	24.3%
Triglav osiguranje d.d.	59,591	78,732	21,567	28,471	36.2%	36.2%
UNIQA osiguranje d.d.	48,396	63,094	23,234	23,249	48.0%	36.8%
Velebit životno osiguranje d.d.		2,834		3,413		120.4%
Osiguranje Zagreb d.d.	199,623	201,987	70,043	93,451	35.1%	46.3%
TOTAL	2,026,220	2,332,052	695,846	809,160	34.3%	34.7%

Source: HANFA

Table C8: Claims Incurred in Life Insurance in Gross Amounts without life insurance mathematical provisions (in HRK thousand)

COMPANY	CLAIMS PAID		CHANGES IN CLAIMS PROVISIONS		TOTAL	
	2006	2007	2006	2007	2006	2007
Agram životno osiguranje d.d.	16,275	40,545	2,533	2,483	18,808	43,029
Allianz Zagreb d.d.	34,694	54,502	4,774	3,632	39,468	58,135
Basler životno osiguranje d.d.	725	2,258	336	522	1,061	2,779
Cosmopolitan Life VIG d.d.	4,014	3,392	47	635	4,061	4,027
Croatia osiguranje d.d.	126,931	150,060	3,329	1,186	130,260	151,246
Erste Sparkassen osiguranje d.d.	888	3,588	616	323	1,504	3,911
Generali osiguranje d.d.	7,779	11,553	1,691	4,514	9,471	16,067
GRAWE Hrvatska d.d.	71,024	93,052	1,444	1,577	72,468	94,629
Osiguranje Helios d.d.	23,256	107,897	2,169	-1,606	25,425	106,291
Kvarner Vienna Insurance Group d.d.	33,628	20,813	-4,888	-1,173	28,740	19,640
Merkur osiguranje d.d.	30,353	48,326	1,539	7,273	31,892	55,599
Triglav osiguranje d.d.	20,090	25,856	2,465	590	22,555	26,446
UNIQA osiguranje d.d.	4,997	7,970	279	-575	5,276	7,395
Velebit životno osiguranje d.d.				1		1
Osiguranje Zagreb d.d.	46,392	66,829	-10,929	6,948	35,463	73,777
TOTAL	421,048	636,639	5,405	26,330	426,453	662,969

Source: HANFA

Table C9: Overview of Life and Non-Life Gross Written Premium (in HRK thousand)

COMPANY	NON-LIFE INSURANCE				LIFE INSURANCE				TOTAL						
	Dynamics		Share in premium of all companies in %		Dynamics		Share in premium of all companies in %		Dynamics		Share in premium of all companies in %				
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007				
Agram životno osiguranje d.d.					201,491	214,579	106.5	9.3%	8.6%	201,491	214,579	106.5	2.5%	2.4%	
Allianz Zagreb d.d.	519,451	636,355	122.5	8.6%	9.7%	354,083	427,144	120.6	16.4%	17.2%	873,534	1,063,499	121.8	10.7%	11.7%
Basler osiguranje d.d.	21,094	24,015	113.8	0.4%	0.4%				0.0%	0.0%	21,094	24,015	113.8	0.3%	0.3%
Basler životno osiguranje d.d.				0.0%	0.0%	42,072	61,117	145.3	1.9%	2.5%	42,072	61,117	145.3	0.5%	0.7%
Cardif osiguranje d.d.		844		0.0%	0.0%				0.0%	0.0%		844		0.0%	0.0%
Cosmopolitan Life ViG d.d.				0.0%	0.0%	53,822	72,112	134.0	2.5%	2.9%	53,822	72,112	134.0	0.7%	0.8%
Croatia zdravstveno osiguranje d.d.	2,654,716	2,751,953	103.7	44.1%	41.8%	296,670	343,964	115.9	13.7%	13.9%	2,951,386	3,095,917	104.9	36.1%	34.2%
Croatia zdravstveno osiguranje d.d.	59,145	78,213	132.7	1.0%	1.2%				0.0%	0.0%	59,145	78,213	132.2	0.7%	0.9%
Erste Sparkassen osiguranje d.d.				0.0%	0.0%	51,489	65,550	127.3	2.4%	2.6%	51,489	65,550	127.3	0.6%	0.7%
Euroherc osiguranje d.d.	920,601	1,001,296	108.8	15.3%	15.2%				0.0%	0.0%	920,601	1,001,296	108.8	11.3%	11.0%
Generall osiguranje d.d.	63,417	120,980	190.8	1.1%	1.8%	152,763	155,843	102.0	7.1%	6.3%	216,180	276,823	128.1	2.6%	3.1%
GRAWE Hrvatska d.d.	146,145	159,234	109.0	2.4%	2.4%	248,983	263,738	105.9	11.5%	10.6%	395,128	422,972	107.1	4.8%	4.7%
Osiguranje Helios d.d.	69,916	80,442	115.1	1.2%	1.2%	54,217	55,207	101.8	2.5%	2.2%	124,133	135,649	109.3	1.5%	1.5%
HOK osiguranje d.d.	4,965	30,033	604.9	0.1%	0.5%				0.0%	0.0%	4,965	30,033	604.9	0.1%	0.3%
Jadransko osiguranje d.d.	612,059	637,539	104.2	10.2%	9.7%				0.0%	0.0%	612,059	637,539	104.2	7.5%	7.0%
Kvarner Vienna Insurance Group d.d.	232,407	281,066	120.9	3.9%	4.3%	168,433	197,325	117.2	7.8%	7.9%	400,840	478,391	119.4	4.9%	5.3%
Merkur osiguranje d.d.	40,896	30,838	75.4	0.7%	0.5%	218,355	266,768	122.2	10.1%	10.7%	259,251	297,607	114.8	3.2%	3.3%
Sunce osiguranje d.d.	122,293	155,233	126.9	2.0%	2.4%				0.0%	0.0%	122,293	155,233	126.9	1.5%	1.7%
Triglav osiguranje d.d.	258,921	297,857	115.0	4.3%	4.5%	59,461	78,723	132.4	2.7%	3.2%	318,382	376,579	118.3	3.9%	4.2%
UNIQA osiguranje d.d.	47,710	63,020	132.1	0.8%	1.0%	61,947	75,606	122.1	2.9%	3.0%	109,657	138,625	126.4	1.3%	1.5%
Velibit osiguranje d.d.				0.0%	0.0%				0.0%	0.0%				0.0%	0.0%
Velibit životno osiguranje d.d.	241,356	233,272	96.7	4.0%	0.0%	2,851	2,851		0.0%	0.1%	442,633	435,489	98.4	5.4%	4.8%
Osiguranje Zagreb d.d.	6,015,094	6,582,189	109.4	100.0%	100.0%	2,165,061	2,482,743	114.7	9.3%	8.1%	8,180,156	9,064,932	110.8	100.0%	100.0%
TOTAL															

Source: HANFA

Table C10: Result of Technical Account and Total Account by Insurance and Reinsurance Companies (in HRK thousand)

COMPANY	TECHNICAL ACCOUNT RESULT		NON-TECHNICAL ACCOUNT			
	NON-LIFE INSURANCE AND REINSURANCE		TOTAL ACCOUNT (net profit or loss)			
	2006	2007	2006	2007		
Agram životno osiguranje d.d.			29,358	37,905	22,814	27,807
Allianz Zagreb d.d.	30,147	28,708	12,702	5,854	40,951	35,045
Basler osiguranje d.d.	-1,162	239			-551	2,237
Basler životno osiguranje d.d.			-2,282	-3,289	-1,789	-1,754
Cardif osiguranje d.d.		-4,620				-4,620
Cosmopolitan Life VIG d.d.			1,327	2,699	994	1,897
Croatia osiguranje d.d.	49,188	27,675	3,218	4,909	105,078	109,560
Croatia zdravstveno osiguranje d.d.	155	1,308			397	1,432
Erste Sparkassen osiguranje d.d.			-7,499	-3,909	-6,826	-2,846
Euroherc osiguranje d.d.	40,177	42,429			40,648	43,633
Generali osiguranje d.d.	-12,584	-11,030	-10,342	953	-14,997	-5,045
GRAWE Hrvatska d.d.	-5,481	7,180	21,835	6,836	17,680	17,752
Osiguranje Helios d.d.	-310	1,249	615	-812	1,095	176
HOK osiguranje d.d.	-287	-3,697			377	108
Jadransko osiguranje d.d.	13,145	30,013			25,208	31,983
Kvarner Vienna Insurance Group d.d.	-4,886	-6,365	721	8,876	5,991	13,429
Merkur osiguranje d.d.	-741	-3,323	12,711	54,985	12,910	49,053
Sunce osiguranje d.d.	5,115	5,545			4,026	7,110
Triglav osiguranje d.d.	-2,724	-8,214	486	7,152	3,681	5,561
UNICA osiguranje d.d.	-2,723	-4,777	1,713	5,787	2,025	3,157
Velebit osiguranje d.d.		-4,009				-3,589
Velebit životno osiguranje d.d.						-2,976
Osiguranje Zagreb d.d.*	3,757	-37,904	7,381	-42,440	9,958	-43,358
Allianz reosiguranje d.d.	-569	-871			520	453
Croatia Lloyd d.d.	45,638	59,083			41,162	56,674
TOTAL	155,854	118,618	71,944	82,115	311,349	342,881

* Presented business results refer to Restatement acknowledged by Auditor's Opinion in Auditor's report for 2007.

Technical account results before Restatement were: HRK -234,812 for non-life insurance, HRK -228,924 for life insurance, and non-technical account result was HRK -474,592.

Source: HANFA



Table C11: Technical Provisions by Insurance and Reinsurance Companies (in HRK thousand)

COMPANY	TECHNICAL PROVISIONS, TOTAL		TRANSFERABLE PREMIUMS		MATHEMATICAL PROVISIONS		CLAIMS PROVISIONS		PROVISIONS FOR PREMIUM REFUNDS		EQUALISATION RESERVES		OTHER TECHNICAL PROVISIONS	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
Agram životno osiguranje d.d.	543,498	665,188	4,896	3,536	525,063	645,630	13,539	16,022						
Allianz Zagreb d.d.	1,071,526	1,362,488	202,372	255,879	619,875	785,462	248,591	319,601	686	1,481			2	64
Basler osiguranje d.d.	30,866	36,568	12,057	12,649			18,809	23,919						
Basler životno osiguranje d.d.	50,345	87,985	62	92	49,916	87,003	368	890						
Cardif osiguranje d.d.		571						20						551
Cosmopolitan Life VIG d.d.	96,544	129,595	78	231	96,419	128,683	47	682						
Croatia osiguranje d.d.	4,680,459	5,084,601	946,839	1,025,912	1,188,081	1,379,069	2,545,538	2,665,621						14,000
Croatia zdravstveno osiguranje d.d.	42,251	57,353	29,881	39,620			9,293	11,314	3,077	6,419				
Erste Sparkassen osiguranje d.d.	42,505	89,317	-50	-43	41,460	88,663	595	698	500					
Euroherc osiguranje d.d.	995,993	1,128,506	454,987	506,806			541,006	621,700						
Generali osiguranje d.d.	196,219	295,145	16,386	54,507	137,761	190,296	13,242	26,050					28,830	24,292
GRAWE Hrvatska d.d.	1,523,377	1,708,602	61,209	67,431	1,347,180	1,507,957	107,623	126,770					7,366	6,444
Osiguranje Helios d.d.	482,633	440,324	27,851	34,007	366,230	319,559	88,552	86,646				111		
HOK osiguranje d.d.	10,863	33,531	905	18,207			9,958	15,323				1		
Jadransko osiguranje d.d.	585,983	685,557	301,384	312,241			284,599	373,316						
Kvarner Vienna Insurance Group d.d.	527,354	644,625	90,171	105,497	311,109	392,814	123,015	143,644					3,059	2,671
Merkur osiguranje d.d.	1,022,454	1,197,771	15,326	10,397	944,992	1,113,746	61,903	73,242				47	233	339
Sunce osiguranje d.d.	151,554	163,549	57,459	67,926			93,895	95,476	128	147		71		
Triglav osiguranje d.d.	416,898	477,819	109,991	126,828	111,204	130,343	195,157	220,109				387	380	159
UNIQA osiguranje d.d.	103,302	147,276	7,229	12,397	81,806	119,122	13,120	15,757	1,147					
Velebit osiguranje d.d.														
Velebit životno osiguranje d.d.		2,844		17		2,827		1						
Osiguranje Zagreb d.d.	1,118,596	1,405,564	94,191	104,749	873,253	1,068,883	151,153	231,932						
Velebit osiguranje d.d.		571						20						551
Velebit životno osiguranje d.d.														
Allianz reosiguranje d.d.	505	534	6	23			499	511						
Croatia Lloyd d.d.	339,459	359,604	30,434	32,313			284,714	302,093	197	219			24,113	24,978
TOTAL	14,033,184	16,205,487	2,463,663	2,791,221	6,694,349	7,960,055	4,805,217	5,371,356	5,735	8,267	458	539	63,761	74,050

Source: HANFA

Table C12: Profit and Loss Account of Insurance and Reinsurance Companies (in HRK thousand)

Rank	Position mark	Description of position	2006	2007
A TECHNICAL ACCOUNT - NON-LIFE INSURANCE				
001	I	Earned premiums (incomed)	5,166,685	5,590,217
006	II	Allocated investment return from non-technical account (C, VI with opposite sign)	255,294	383,518
007	III	Other technical income, net of reinsurance	369,802	468,401
008	IV	Claims incurred, net of reinsurance	-3,498,256	-3,848,183
015	V	Changes in other technical reserves, net of reinsurance	17,277	-13,978
016	VI	Bonuses and rebates, net of reinsurance	-3,188	-5,981
019	VII	Net operating expenses	-1,703,946	-1,938,906
029	VIII	Other insurance-technical expenses, net of reinsurance	-447,772	-516,391
030	IX	Changes in the equalization provisions (damage fluctuation)	-41	-80
031	X	Technical result account-non-life insurance (position C, I)	155,854	118,618
B TECHNICAL ACCOUNT - LIFE INSURANCE				
032	I	Earned premiums (incomed)	2,026,220	2,332,052
037	II	Investment income	594,801	675,129
047	III	Unrealized profit on investment	8,752	98,555
048	IV	Other insurance-technical income, net of reinsurance	35,590	63,251
049	V	Claims incurred, net of reinsurance	-416,186	-644,645
056	VI	Changes in other technical reserves, net of reinsurance	-1,197,801	-1,350,114
061	VII	Bonuses and rebates, net of reinsurance	8,679	1,147
064	VIII	Net operating expenses	-695,846	-803,309
074	IX	Investment costs	-214,969	-157,967
081	X	Unrealized losses on investments	-99	-66,642
082	XI	Other technical expenses, net of reinsurance	-73,439	-58,424
083	XII	Allocated investment return from non-technical account (C, VI with opposite sign)	-3,759	-6,919
084	XIII	Technical account result - life insurance (position C, II)	71,944	82,115
C NON-TECHNICAL ACCOUNT - TOTAL ACCOUNT				
085	I	Technical account result - non-life insurance (position A, X)	155,854	118,618
086	II	Technical account result - life insurance (position B, XIII)	71,944	82,115
087	III	Investment income	549,819	760,775
097	IV	Allocated investment return from technical accounts of life insurance (position B, XII with opposite sign)	3,759	6,919
098	V	Investment costs	-197,178	-194,345
105	VI	Allocated investment return from technical account of non-life insurance (position A, II with opposite sign)	-255,294	-383,518
106	VII	Other income	77,015	64,681
107	VIII	Other costs, including value adjustments	-17,388	-40,604
108	IX	Tax on profit or loss on ordinary activities	-81,375	-74,926
109	X	Profit or loss on ordinary activities after tax	307,155	339,715
110	XI	Extraordinary income	6,828	3,158
111	XII	Extraordinary costs	-2,634	-3,421
112	XIII	Profit or loss from extraordinary activities	4,194	-263
113	XIV	Tax on extraordinary profit or loss		433
114	XV	Other taxes (that were not shown under previous positions)		2,997
115	XVI	Profit or loss for the calculating period	311,349	342,881

Table C13: Share of Individual Insurance and Reinsurance Companies' Assets in Total Assets

COMPANY	2006	share	2007	share
Agram životno osiguranje d.d.	696,009	3.5%	874,192	3.8%
Allianz Zagreb d.d.	1,510,799	7.7%	1,989,438	8.6%
Basler osiguranje d.d.	67,899	0.3%	70,196	0.3%
Basler životno osiguranje d.d.	84,098	0.4%	121,012	0.5%
Cardif osiguranje d.d.			25,699	0.1%
Cosmopolitan Life VIG d.d.	138,850	0.7%	180,623	0.8%
Croatia osiguranje d.d.	6,246,419	31.8%	7,238,406	31.1%
Croatia zdravstveno osiguranje d.d.	77,073	0.4%	93,476	0.4%
Erste Sparkassen osiguranje d.d.	73,998	0.4%	115,358	0.5%
Euroherc osiguranje d.d.	1,757,066	8.9%	1,944,882	8.4%
Generali osiguranje d.d.	425,724	2.2%	535,392	2.3%
GRAWE Hrvatska d.d.	1,700,262	8.6%	1,899,751	8.2%
Osiguranje Helios d.d.	560,969	2.9%	511,327	2.2%
HOK osiguranje d.d.	34,647	0.2%	59,219	0.3%
Jadransko osiguranje d.d.	1,148,657	5.8%	1,305,734	5.6%
Kvarner Vienna Insurance Group d.d.	898,926	4.6%	1,062,167	4.6%
Merkur osiguranje d.d.	1,169,360	5.9%	1,369,998	5.9%
Sunce osiguranje d.d.	259,472	1.3%	283,149	1.2%
Triglav osiguranje d.d.	530,888	2.7%	760,584	3.3%
UNIQA osiguranje d.d.	269,669	1.4%	322,471	1.4%
Velebit osiguranje d.d.			35,997	0.2%
Velebit životno osiguranje d.d.			39,287	0.2%
Osiguranje Zagreb d.d.	1,353,224	6.9%	1,654,766	7.1%
Allianz reosiguranje d.d.	30,086	0.2%	31,443	0.1%
Croatia Lloyd d.d.	628,706	3.2%	721,299	3.1%
TOTAL	19,662,801	100.0%	23,245,868	100.0%

Source: HANFA

Table D1: Aggregate Balance Sheet of Leasing Companies - ASSETS (at the end of period, in HRK thousand)

Description	31 Dec 2005 ¹⁾	31 Dec 2006 ¹⁾	31 Dec 2007 ²⁾
ASSETS			
A LONG TERM ASSETS (fixed assets)	18,409,748	24,699,527	26,913,287
I. INTANGIBLE ASSETS	44,611	75,073	23,924
II. TANGIBLE ASSETS	7,708,095	10,402,958	11,294,819
2.1. Tangible assets in preparation (investments in progress)	768,634	1,602,920	417,245
2.2. Tangible assets given under operating lease	6,786,582	8,585,080	10,655,907
in that assets given under operating lease to non-residents	26,015	32,249	3,528
2.2.1. Passenger cars	3,604,841	4,711,876	6,100,747
2.2.2. Commercial (load and transport) vehicles	813,913	956,534	958,429
2.2.3. Machines and equipment	936,450	1,039,250	1,939,812
2.2.4. Plants	31,063	27,877	15,031
2.2.5. Real estates	966,788	1,179,058	682,405
2.2.6. Vessels	348,705	579,767	899,939
2.2.7. Other	84,822	90,719	59,545
2.3. Other tangible assets	152,880	214,958	221,667
III. LONG TERM FINANCIAL ASSETS	4,398,594	5,663,369	4,492,072
3.1. Investments in subsidiaries, associates and joint ventures	1,261	18,828	79,659
3.2. Long term loans to related companies	1,413	189,459	0
3.3. Investments in subsidiaries, associates and joint ventures	64,310	96,888	103,215
3.4. Long term loans	4,326,719	5,351,956	4,295,006
3.5. Long term deposits	0	650	509
3.6. Other financial assets	4,891	5,587	13,684
IV. LONG TERM RECEIVABLES	6,258,448	8,558,127	11,102,471
4.1. Receivables under finance lease	6,258,187	8,547,397	11,097,553
4.2. Receivables from related parties	0	0	0
4.3. Other receivables	261	10,730	4,919
B SHORT TERM ASSETS	1,933,714	2,172,971	3,250,652
I. INVENTORY	51,894	198,040	96,778
II. SHORT TERM RECEIVABLES	1,242,884	1,313,182	1,810,948
2.1. Receivables under operating lease	252,749	271,333	239,221
2.2. Receivables under finance lease	585,649	501,364	778,280
2.3. Receivables from related companies	6,459	18,811	18,040
2.4. State and other institutions receivables	125,927	122,864	100,883
2.5. Other receivables	272,099	452,811	674,523
III. SHORT TERM FINANCIAL ASSETS	417,874	309,862	967,441
Investments in subsidiaries, associates and joint ventures	0	0	0
3.1. Investments in securities	2,504	16,710	102,244
3.2. Given loans	278,122	187,571	463,602
3.3. Given deposits	121,585	88,566	382,160
3.4. Other assets	15,663	17,015	19,437
IV. CASH WITH BANK AND IN HAND	221,063	351,887	375,484
C PREPAYMENTS AND ACCRUED INCOME	60,140	96,093	152,091
D TOTAL ASSETS	20,403,602	26,968,591	30,316,030
E Off-balance sheet items	107,490	111,739	760,153

1) Data for 57 companies registered for lease activities at 31 December 2005 and 31 December 2006

2) Preliminary data for 25 companies registered for lease activities at 31 December 2007



Table D2: Aggregate Balance Sheet of Leasing Companies - LIABILITIES (at the end of period, in HRK thousand)

Description	31 Dec 2005 ¹⁾	31 Dec 2006 ¹⁾	31 Dec 2007 ²⁾
LIABILITIES			
A CAPITAL AND RESERVES	742,138	860,497	794,324
I. Subscribed capital	342,040	380,419	429,256
in that owned by non-residents	180,619	197,350	287,270
II. Revaluation reserves	733	5,692	7
III. Other reserves	368,479	442,903	279,510
IV. Retained profit/trasferred loss	-196,210	-58,419	153,559
V. Profit/loss for the year	227,096	89,902	-68,008
B LONG-TERM LIABILITIES	17,749,955	23,367,423	26,265,275
I. Liabilities towards related companies	10,330,070	12,463,963	12,936,471
II. Foreign banks and financial institutions loans	5,818,973	8,837,153	11,415,486
III. Domestic banks and financial institutions loans	388,555	558,976	414,074
IV. Liabilities for advances, deposits and guarantees in respect of lease	1,112,955	1,384,174	1,595,008
Liabilities for issued securities	0	0	0
V. Other long term liabilities	99,401	123,258	4,236
C SHORT-TERM LIABILITIES	1,574,636	2,274,685	2,641,372
I. Short-term liabilities towards related companies	545,226	601,178	712,790
II. Foreign banks and financial institutions loans	358,047	572,944	523,357
III. Domestic banks and financial institutions loans	150,312	331,988	649,962
Liabilities for short-term securities	0	0	0
IV. Liabilities for advances, deposits and guarantees in respect of lease	158,372	179,278	346,053
V. Other short-term liabilities	362,679	589,297	409,210
D ACCRUALS AND DEFERRED INCOME	336,874	465,986	615,059
E TOTAL LIABILITIES	20,403,602	26,968,591	30,316,030
F Off-balance sheet items	107,490	111,739	760,153

1) Data for 57 companies registered for lease activities at 31 December 2005 and 31 December 2006

2) Preliminary data for 25 companies registered for lease activities at 31 December 2007

Source: HANFA

Table D3: Structure of Operating Lease Contracts by Object of Lease (at the end of period, contracted value in HRK thousand)

Number of active contracts	31 Dec 2005 ¹⁾	31 Dec 2006 ¹⁾	31 Dec 2007 ²⁾
Passenger cars	40,371	50,801	63,334
Commercial (load and transport) vehicles	7,879	9,042	9,275
Machines and equipment	2,004	2,336	2,986
Plants	14	13	14
Real estates (property)	91	118	107
Vessels	335	514	721
Other	338	789	178
Total	51,032	63,613	76,615
Contracted value	31 Dec 2005 ¹⁾	31 Dec 2006 ¹⁾	31 Dec 2007 ²⁾
Passenger cars	5,023,123	6,391,657	7,841,217
Commercial (load and transport) vehicles	1,688,519	1,976,496	2,018,378
Machines and equipment	1,103,303	1,252,528	2,327,172
Plants	32,540	32,084	21,930
Real estates (property)	888,680	1,360,724	780,849
Vessels	490,707	781,817	1,216,158
Other	110,965	173,540	113,252
Total	9,337,836	11,968,846	14,318,956

1) Data for 57 companies registered for lease activities at 31 December 2005 and 31 December 2006

2) Preliminary data for 25 companies registered for lease activities at 31 December 2007

Source: HANFA

Table D4: Structure of Active Finance Lease Contracts by Object of Lease (at the end of period, contracted value in HRK thousand)

Number of active contracts	31 Dec 2005 ¹⁾	31 Dec 2006 ¹⁾	31 Dec 2007 ²⁾
Passenger cars	23,428	28,929	34,615
Commercial (load and transport) vehicles	9,731	11,494	15,692
Machines and equipment	4,937	5,703	9,254
Plants	22	25	38
Real estates (property)	205	413	701
Vessels	389	521	836
Other	624	890	659
Total	39,336	47,975	61,795

Financed value	31 Dec 2005 ¹⁾	31 Dec 2006 ¹⁾	31 Dec 2007 ²⁾
Passenger cars	2,754,947	3,760,242	4,543,497
Commercial (load and transport) vehicles	2,327,840	2,920,447	4,427,536
Machines and equipment	1,794,568	2,321,544	3,977,177
Plants	16,210	21,027	32,280
Real estates (property)	2,068,659	2,694,705	2,844,969
Vessels	290,233	416,852	611,974
Other	143,867	225,738	227,399
Total	9,396,325	12,360,555	16,664,831

1) Preliminary data for 57 companies registered for lease activities at 31 December 2005 and 31 December 2006

2) Preliminary data for 25 companies registered for lease activities at 31 December 2007

Source: HANFA

Table D5: Structure of Active Loan Contracts by Object of Lease (end of period, contracted value in HRK thousand)

Number of active contracts	31 Dec 2005 ¹⁾	31 Dec 2006 ¹⁾	31 Dec 2007 ²⁾
Passenger cars	13,170	13,282	11,637
Commercial (load and transport) vehicles	5,119	5,029	4,495
Machines and equipment	2,510	2,628	2,565
Plants	18	21	12
Real estates (property)	601	743	725
Vessels	423	504	472
Other	360	307	91
Total	22,201	22,514	19,997

Financed value	31 Dec 2005 ¹⁾	31 Dec 2006 ¹⁾	31 Dec 2007 ²⁾
Passenger cars	1,268,266	1,302,187	1,152,555
Commercial (load and transport) vehicles	1,073,444	1,092,869	965,227
Machines and equipment	1,095,900	1,110,066	1,132,209
Plants	5,593	8,639	7,064
Real estates (property)	2,268,097	4,026,892	3,877,154
Vessels	325,170	394,886	361,251
Other	197,654	190,978	297,591
Total	6,234,124	8,126,518	7,793,352

1) Preliminary data for 57 companies registered for lease activities at 31 December 2005 and 31 December 2006

2) Preliminary data for 25 companies registered for lease activities at 31 December 2007

Source: HANFA



Abbreviations

GDP	Gross Domestic Product
CROBEX	The share index of Zagreb Stock Exchange
HANFA	Croatian Financial Services Supervisory Agency
HRK	Croatian Kuna
IMF	International Monetary Fund
MOD	Pension Insurance Company
MSFI	International Financial Reporting Standards
ODMF	Open-End Voluntary Pension Fund
OIF	Open-End Investment Fund
OMF	Mandatory Pension Fund
REGOS	Central Registry of Insured Persons
ZDMF	Closed-End Voluntary Pension Fund
ZIF	Closed-End Investment Fund



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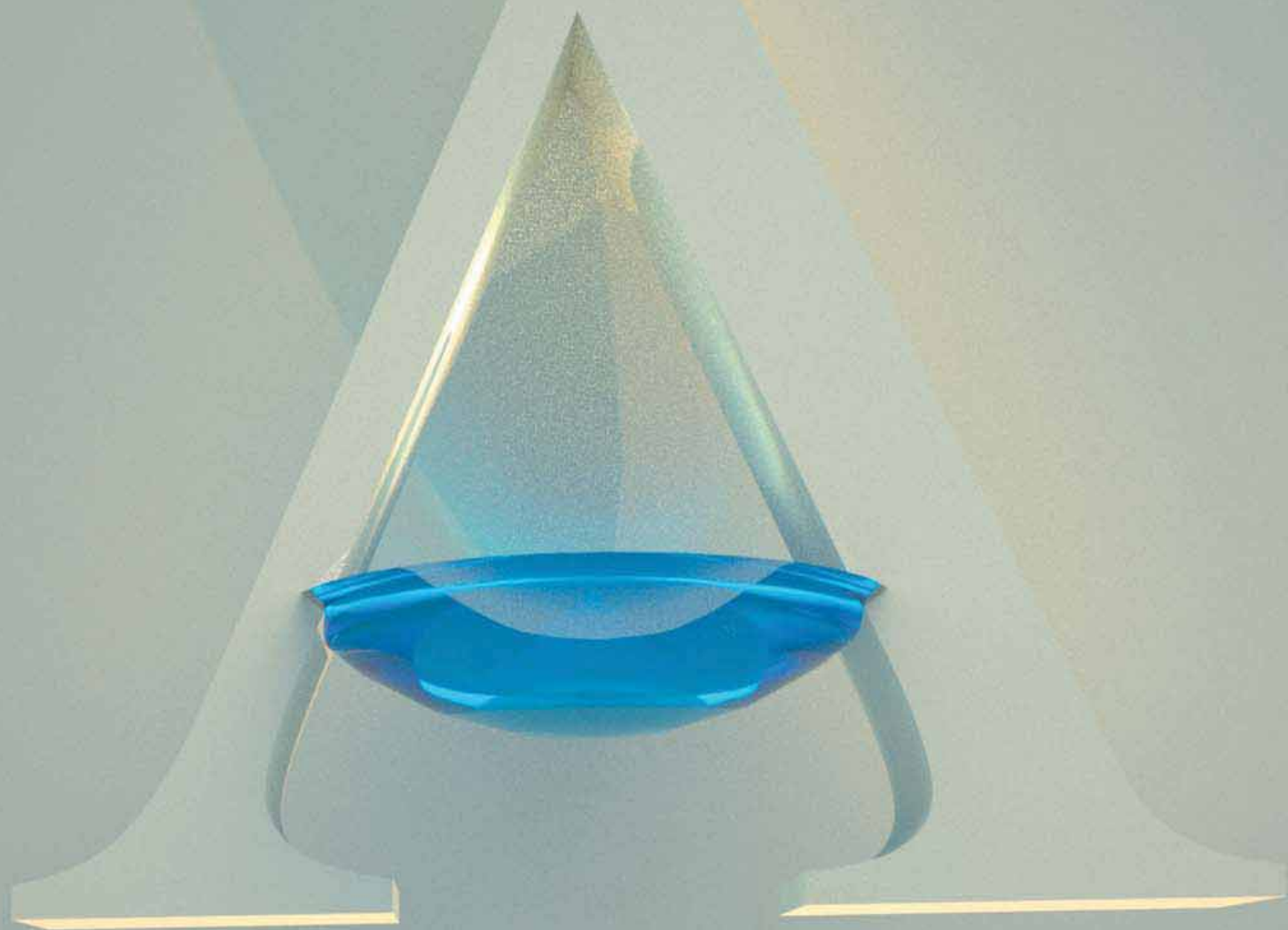


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