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CROATIAN FINANCIAL SERVICES  
SUPERVISORY AGENCY



**HANFA**

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## Introduction

In 2016, the Croatian Financial Services Supervisory Agency (hereinafter: Hanfa) continually performed its regular activities in accordance with its powers arising from laws and regulations governing Hanfa's competence, including on-site and off-site examinations of supervised entities, licensing procedures in relation to supervised entities and responsible persons, as well as the adoption of subordinate regulations.

One of Hanfa's key objectives is to reduce regulatory and administrative burdens imposed on its supervised entities. By participating in working groups focused on the adoption of new legislation regulating operations of certain providers of financial services, Hanfa contributed to the adoption of legal solutions simplifying certain procedures, e.g. in connection with licensing open-ended investment funds with public offering (hereinafter: UCITS) or in connection with the establishment of alternative investment funds. Hanfa thus helped lighten the burden of the regulation and administration carried by its supervised entities. Furthermore, through a digitalisation project, supervised entities were enabled to send a significantly wider range of documentation via an online interface, which simplified their business operations. Hanfa continued its intensive work on the harmonisation of the regulatory framework with the *acquis communautaire* regulating non-banking financial sector as well as its activities ensuring a smooth implementation of new regulations.

Improvements of Hanfa's IT infrastructure relating to the implementation of the business intelligence system led to improved exchange of information with the European supervisory bodies responsible for the non-banking financial sector (EIOPA and ESMA). This project was approved by the European Commission and for the major part financially backed by the European Union.

The year 2016 was marked by a significant increase (16.1%) of the total turnover on the Zagreb Stock Exchange. Total income of investment firms and UCITS management companies from the provision of investment services and performance of investment activities increased by 20.5% and 3.9% respectively, while the total income arising from the same sources recorded by credit institutions fell by 14%. Total net assets of UCITS amounted to HRK 18.4bn at end-2016, increasing by 33.1% compared to 2015. Net assets of alternative investment funds rose as well, by 10.6%, standing at HRK 3.3bn at end-2016.<sup>1</sup>

Total net assets of mandatory pension funds increased by HRK 10.2bn and amounted to HRK 84.2bn at end-2016, with an increase of HRK 4.8bn relating to returns achieved, while the remaining HRK 5.3bn related to net payments of members' contributions. In the same period, the assets of open-ended and closed-ended voluntary pension funds grew by 16.5% and 14.1%, respectively, standing at HRK 3.5bn and HRK 777.1m respectively at the end of the year.

The gross written premium of insurance companies amounted to HRK 8.8bn, increasing slightly by 0.5% compared to 2015. Leasing companies' assets also rose (by 1.6%) and stood at HRK 17.9bn at the end of the year. Factoring companies' assets decreased by 10.4%, amounting to HRK 5.9bn at end-2016.

In addition to regular supervisory activities, work on subordinate regulations and preparation of regulations falling within its competence, Hanfa's activities in 2016 were significantly marked by adjustments to new regulations, such as those defining obligations on the insurance market arising from regulatory framework at the EU level.

Significant financial and human resources were invested in tasks in connection with membership of ESMA and EIOPA, as well as in the work in the ESRB. Costs of membership fees paid to ESMA and EIOPA increased by 30% in relation to the previous year and amounted to HRK 4.9m, making

<sup>1</sup> Corrected data are available on p. 194

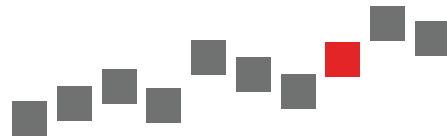
up 36.3% of Hanfa's material costs in 2016. Participation in the activities of ESMA and EIOPA, primarily in preparing implementing regulations important for financial services markets in the Republic of Croatia, required a significant engagement of Hanfa's experts.

In 2016, Hanfa additionally intensified its educational activities and prepared for a more significant engagement in the area of financial literacy. In cooperation with the Croatian National Bank it presented results of the national survey on the financial literacy in the Republic of Croatia, it organised educational visits of university and secondary school students at its premises, it sponsored or partnered expert conferences related to its area of competence, and it paid special attention to public announcements, warnings about different risk types of investments and financial activities and warnings aimed at protecting investors. It also published warnings by ESMA and IOSCO, educational material, frequently asked questions, publications, manuals and information on the results of operations of supervised entities and other notices containing information and announcements from Hanfa's area of competence. Hanfa's representatives gave various lectures at seminars and conferences and took part in panel discussions, debates and round tables organised by various educational, professional and government institutions.

In the past year, Hanfa participated in the Expert Group on barriers to free movement of capital, which was established with the European Commission as a part of activities related to the Capital Markets Union. Hanfa addressed the issue of raising the level of consumer financial literacy, and, at the proposal of the European Commission, it was tasked with chairing a special sub-group in charge with this issue.

I would like to take this opportunity to thank Hanfa staff and Board members for their hard work and dedication aimed at fulfilling Hanfa's legal goals (promoting and preserving financial system stability and monitoring the legality of supervised entities' operations). All of that is particularly demanding, taking into consideration a wide range of Hanfa's activities and a dynamic environment involving the preparation, adjustment and implementation of new regulations related to its scope and competence.

Petar-Pierre Matek  
President of the Board



# Summary



# Summary

## Capital market

In 2016, especially in the second half of the year, capital market in the Republic of Croatia was marked by a slight economic recovery, continuation of increase in investment activities and growth of market indicators. The total trading volume on the Zagreb Stock Exchange (hereinafter: ZSE) amounted to HRK 3.9bn, increasing significantly (16.1%) compared to 2015. 2016 was marked by the removal from trading of all structured products, while the ZSE listed its shares on the official market. Block trade in shares was significantly influenced by the sale of government share in companies Končar elektroindustrija d.d., Sunčani Hvar d.d., HTP Korčula d.d. and Imperial d.d. The total market capitalisation of financial instruments admitted to the regulated market at end-2016 stood at HRK 232.4bn, an increase of 14.1% relative to 2015, while the total market capitalisation on the multilateral trading facility (MTF) amounted to HRK 4.2bn, a decrease of 19.6% compared to the previous year.

Along with the ZSE, FTB Turizam d.d. also listed its shares on the ZSE official market. Corporate bonds of companies Lanište d.o.o., Zagrebački holding d.o.o., Atlantic Grupa d.d. and JGL d.d. were admitted to the regulated market of the ZSE.

Hanfa's representatives participated in the Working Group on the Preparation of Draft Proposal of the Capital Market Act, established with the Ministry of Finance with the aim of implementing MAR<sup>2</sup> and other EU regulations. The adoption of the new act harmonised with the provisions of MAR, MiFID II<sup>3</sup>, MiFIR<sup>4</sup> and Regulation on improving securities settlement in the European Union and on central securities depositories<sup>5</sup> (hereinafter: CSDR) is expected to take place in 2017. In February 2016, the Act Implementing CSDR<sup>6</sup> entered into force, and Hanfa actively participated in the drafting process. It provided conditions for successful implementation of the provisions of the CSDR and Hanfa, along with the Croatian National Bank (hereinafter: the CNB) was appointed a competent authority for its implementation. This provides a legal basis for the Central Depository and Clearing Company (hereinafter: CDCC) to submit a request for compliance with the provisions of the CSDR at the time when it becomes obligatory to do so.

With a view to consistent alignment with the Delegated Commission Regulation (EU) No. 2016/301<sup>7</sup> and taking into account technical progress on capital markets, Hanfa issued the Technical guidance for the development and delivery of requests for prospectus approval electronically, which applies to requests for prospectus approval submitted to Hanfa from 1 July

- 2 Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, OJ L 173/1
- 3 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, OJ L 173/349
- 4 Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012, OJ L 173/84
- 5 Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012, OJ L 257
- 6 Act Implementing Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 (Official Gazette, No 44/2016)
- 7 Commission Delegated Regulation No 2016/301 of 30 November 2015 supplementing Directive 2003/71/EC of the European Parliament and of the Council with regard to regulatory technical standards for approval and publication of the prospectus and dissemination of advertisements and amending Commission Regulation (EC) 809/2004

2016, enabling the submission of requests for prospectus approval, as well as any documentation attached to this request electronically. In relation to the capital market, Hanfa adopted five ordinances prescribing the structure and contents of financial reports of the ZSE, the CDCC and the Investor Protection Fund, as well as reporting of actual or potential infringements of MAR.<sup>8</sup> Hanfa approved the amendments to the Price List of the Zagreb Stock Exchange, as well as the amendments to the Rules of the Zagreb Stock Exchange. It allowed a possibility of admitting to the regular market shares of open-end investment funds, primarily the exchange traded funds (ETFs). In 2016, Hanfa approved seven applications for the approval of prospectuses. Six applications related to the approval of prospectuses relating to the admission of securities on the regulated market (of which four related to the approval of prospectuses relating to the admission of shares, and two were in connection with the admission of bonds on the regulated market).

Hanfa received a total of 15 notifications of prospectuses, as well as 15 notifications of supplements to prospectuses from competent authorities of other Member States. Notified prospectuses were mainly related to programmes of structured securities issues of credit institutions. The highest number of notifications were received from regulators in Austria (16) and Ireland (seven), followed by Luxembourg (four) and other regulators (three).

Eight takeover bids were approved<sup>9</sup>, compared to two in 2015 and six in 2014.

In 2016, Hanfa conducted 154 off-site examinations of issuers related to transparency i.e. publication of regulated information, 24 off-site examinations related to acquisition and/or disposal of issuers' shares by managing persons and 18 off-site examinations related to acquisition and/or disposal of own shares and other financial instruments of issuers. There were also 16 administrative cases of supervision of issuers focused at handling of regulated information

### Investment firms

In 2016, there were eight investment firms, 14 credit institutions with Hanfa's approval to perform investment activities and ancillary services under the Capital Market Act<sup>10</sup> (hereinafter: CMA) and seven companies managing investment funds with public offering operating on the capital market in the Republic of Croatia. Requests for issuing approval for brokerage work were submitted by four candidates to which they were issued. More approvals for the work of investment advisor were issued (13), as the broker's work can also be performed with this approval. Furthermore, seven brokers and six investment advisors ceased to perform their work due to terminations of their employment. During the previous two years, the number of legal entities providing investment services and performing investment activities did not change significantly. In 2016, the number of credit institutions decreased due to bankruptcy proceedings over the bank Splitsko-Dalmatinska d.d.<sup>11</sup>, but on 17 August 2016, the bank Slatinska banka d.d. filed a request for prior approval for the provision of certain investment and ancillary services in accordance with the CMA, thus the number of credit institutions remained unchanged. In 2016, Hanfa received 173 notices of intention to directly provide investment services on the Croatian territory, while in 2015 there were 142 such notices.

<sup>8</sup> The list of ordinances adopted by Hanfa in 2016 is provided in *Appendices*.

<sup>9</sup> Pursuant to Article 9(1) of the Act on the Takeover of Joint-Stock Companies, a person who, directly or indirectly, alone or acting in concert, acquires more than 25% of the voting shares of the target company, is obliged to publish a takeover bid for the remaining shares. In accordance with the provisions of Article 24 of the Act on the Takeover of Joint-Stock Companies, Hanfa approves takeover bids and supervises them in accordance with the provisions of Article 47 of that Act.

<sup>10</sup> Official Gazette, No 88/08, 146/08, 74/09, 54/13, 159/13, 18/15, 110/15 and 123/16

<sup>11</sup> On 27 May 2016 Hanfa issued a Decision on the temporary ban of the provision of investment services and related ancillary services referred to in Article 5 of the CMA, as well as on the disposal of financial instruments and cash funds of clients in the provision of all investment services and related ancillary services, based on the Decision on the submission of the proposal to initiate bankruptcy proceedings of the Croatian National Bank, of 24 May 2016.

Total income from performing investment activities and ancillary services under Article 5 of the CMA of investment firms and companies managing open-ended investment funds with public offering (hereinafter: UCITS management companies) increased in 2016 relative to 2015, by 20.5% and 3.9%, while the total income from corresponding activities of credit institutions decreased by 14%.

In 2016, four authorisations for the function of a member of an investment firm management board were issued, of which only one authorisation referred to the extension of the term for a member of an investment firm management board who had previously held that function.

As at 31 December 2016, there were 568 investment firms with their registered offices in EU Member States entered in the Register of firms from EU Member States, as well as data on tied agents used by some firms to provide services.

In 2016, Hanfa initiated seven on-site examinations of investment firms, companies managing open-ended investment funds with public offering and credit institutions in connection with the provision of investment and ancillary services defined by the CMA. On the basis of on-site examinations that were carried out, Hanfa issued three decisions on the termination of on-site examinations.

Hanfa organised an examination cycle for brokers and an examination cycle for investment advisors. Both examination cycles consisted of two examination terms. The examinations for brokers were taken by 18 candidates, and passed by ten of them. The examinations for investment advisors were taken by 259 candidates, and passed by 109 of them.

## Investment funds

In line with a low interest rate environment and recovery of the real economic activity, investment funds market in the Republic of Croatia saw a significant increase in the value of assets in 2016. The number of open-end investment funds with a public offering (hereinafter: UCITS) increased by six, while the number of alternative investment funds (hereinafter: AIFs) increased by two, relative to the end of the previous year. Four newly funded UCITS bond funds and four UCITS were categorised as other funds, and due to two mergers of equity i.e. balanced funds, the number of UCITS increased by six.

At end-2016, there were 21<sup>12</sup> registered companies managing investment funds<sup>13, 14</sup> one more than in the same period the year before. Eight companies managed UCITS and AIFs, seven companies managed only UCITS and six companies managed only AIFs.<sup>15</sup>

In 2016, three AIFs were founded in the Republic of Croatia, all of them categorised as open-ended alternative funds with private offering. Two funds were categorised as hedge funds (special types), and one as a venture capital fund. Since one AIF was removed from Hanfa's register, the number of AIFs in the Republic of Croatia at end-2016 increased by two relative to the previous year, and it stood at 30.

After a continued decline in net assets of the Fund for Croatian Homeland War Veterans and Members of their Families in the previous years, in 2016, the asset growth of this fund was evident. The assets of the Retired Persons' Fund continued to decline. The value of net assets of the Fund for Croatian Homeland War Veterans and Members of their Families increased by 9.3%,

12 One alternative investment funds management company was founded on 30 December 2016, but it was entered into the register of companies in mid-January 2017 and it started to work only after that.

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

14 The list of Hanfa's supervised entities is available at [www.hanfa.hr](http://www.hanfa.hr).

15 Corrected data are available on p.194.

while net assets of the Retired Persons' Fund decreased by 1.4%. The net assets of the Fund for Croatian Homeland War Veterans and Members of their Families grew as a consequence of the market influence (i.e. growth).

In 2016, Hanfa received a total of 28 notifications from competent authorities of other Member States relating to the intention to conduct cross-border marketing of units of investment funds or to carry out investment fund management activities. Those activities related to AIFs. Since the accession of the Republic of Croatia to the European Union until the end of 2016, Hanfa received a total of 94 notifications relating to the intention to conduct cross-border marketing of units of investment funds i.e. to carry out investment fund management activities, of which 90 notifications related to AIFs and four related to UCITS.

In 2016, Hanfa continued two on-site examinations (started in 2015) of alternative investment fund management companies (hereinafter: AIFMs) managing open-ended venture capital AIFs. Hanfa continued with on-site examinations of UCITS management companies which started in 2015, on the basis of the old Act on Open-Ended Investment Funds with Public Offering<sup>16</sup> (hereinafter: the old AOEIF) and AIFMs, whose aim was to check their adjustment to the provisions of the old AOEIF and the Alternative Investment Funds Act<sup>17</sup> regarding organisational requirements. In 2016, Hanfa initiated and completed examinations of one UCITS management company and one company managing UCITS and AIFMs, which related to organisational requirements, namely investment processes and investments of fund and company assets, as well as internal control mechanisms.

### **Pillar 2 and Pillar 3 pensions and pension payments**

The mandatory and voluntary pension insurance market has been rising since the beginning of the pension reform and as at 31 December 2016, total net assets of mandatory and voluntary pension funds amounted to HRK 88.5bn, which is a HRK 10.7bn increase compared to the end of 2015.

Same as in previous several years, at end-2016, there were four mandatory pension companies operating in the Republic of Croatia. Two of them were directly owned by non-residents, one was indirectly owned by non-residents, while one company was half directly owned by residents and half indirectly owned by non-residents. Each company managed one mandatory pension fund belonging to each of the categories A, B and C. At end-2016, the number of mandatory pension fund members was by 3.1% higher than at end-2015. Data from the Central Registry of Affiliates reveal that mandatory pension fund members are still quite reluctant to participate in the selection of their mandatory pension fund. Out of 59,958 new mandatory pension fund members recorded in 2016, only 1,304 selected their mandatory pension funds themselves, which represents a share of 2.2% out of the entire number of new members and a decrease compared to the previous year. During this period there were a total of 6,970 cases of membership termination or account closing in mandatory pension funds.

As at 31 December 2015, total net assets of mandatory pension funds amounted to HRK 84.2bn, recording an increase of HRK 10.2bn in comparison with the previous year, with an increase of HRK 5.3bn (52.5%) relating to net payments of members' contributions, while the increase in net assets of HRK 4.8bn (47.5%) resulted from returns achieved by mandatory pension funds. Annual rates of return of category B mandatory pension funds ranged from 5.7% to 8.5% at end-2016. Category A mandatory pension funds recorded rates of return ranging from 8.2% to 13.8%, while category C mandatory pension funds recorded rates of return ranging between 7.2% and 8.5%.

There were four voluntary pension companies on the market, managing a total of six open-ended voluntary pension funds and 18 closed-ended voluntary pension funds. This was an increase

<sup>16</sup> Official Gazette, No 16/13 and 143/14

<sup>17</sup> Official Gazette, No 16/13 and 143/14

relative to the previous year due to one closed-ended voluntary pension fund being established in 2016. Two of them were directly owned by non-residents, one was indirectly owned by non-residents, while one company was in direct resident ownership.

Similarly to mandatory pension funds, the number of members of open-ended voluntary pension funds continued to rise in 2016. Their gross contributions grew by 20% compared to 2015. Along with the increase in the number of members and paid gross contribution, total net assets of open-ended voluntary pension funds increased even more pronouncedly (16.5%) compared to the previous year. All open-ended voluntary pension funds recorded positive returns ranging between 5.1% and 11.1%. In 2016, there was an increase in the number of members of voluntary pension funds (1.6%) compared to the previous year, which, in combination with the market influence, was reflected in the growth of funds' net assets (14.1%). Notwithstanding the increase in the number of new members, gross contributions of closed-ended voluntary pension fund members decreased by 16.2%. Returns of closed-ended voluntary pension funds ranged from 4.7% to 12.1% in 2016.

According to data on financial reports, as at 31 December 2016 the value of total assets of the pension insurance company reached HRK 464.1m, increasing by HRK 25.8m or 5.9% compared to the value of total assets as at 31 December 2015. This was primarily a result of increased investments, which accounted for 95.6% of total assets and grew by HRK 16.9m in comparison with 31 December 2015. Significant increase in absolute terms was recorded by other assets, which increased by HRK 8.4m (76.9%) relative to 31 December 2015.

Hanfa adopted two new ordinances under the Mandatory Pension Funds Act<sup>18</sup> and two new ordinances under the Voluntary Pension Funds Act<sup>19</sup> regulating accounting procedures and the content, form, disclosure, manner and deadlines for the preparation and submission of annual reports of a mandatory pension company, financial reports for reporting periods during a financial year submitted to Hanfa and other external users by a mandatory pension company, in order to provide information on its financial position, business performance and cash flows, as well as other reports prepared for Hanfa's purposes.

On-site examinations of four mandatory pension companies that had started in 2015, continued in 2016. They focussed on investment process and the investment of funds' assets and, in relation to that, the establishment and the connection of internal control mechanisms, including risk management functions and compliance with relevant regulations. In 2016, Hanfa conducted an on-site examination of the only pension insurance company, focusing on the compliance of organisational requirements with regards to organisation and performance of activities of risk management function, compliance function with relevant regulations, internal audit function and actuarial function, as well as compliance of contracting process and payment of pensions with the Act on Pension Insurance Companies and other relevant regulations.

## Insurance

The biggest change in the insurance market in the Republic of Croatia in 2016 was the introduction of the new regulatory framework regarding business operations of insurance companies and reinsurance companies based on the Solvency II Directive<sup>20</sup>.

As at 31 December 2016, there were 21 insurance companies and one reinsurance company with their registered offices and operating in the Republic of Croatia. Insurance market participants also included the Croatian Insurance Bureau (hereinafter: the Bureau) as an association of insurance companies also managing the Guarantee Fund, and the Croatian Nuclear Pool (EIG), as an economic interest group of insurance or reinsurance companies conducting insurance or

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

19 Official Gazette, No 19/14

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

reinsurance business covering risks of liability claims for great damage arising from nuclear energy or for other great damage. As at 31 December 2016, insurance representation and insurance and reinsurance brokerage business was conducted by 314 insurance agencies, 45 insurance and reinsurance brokerage companies, 346 insurance representation crafts, 24 credit institutions and HP – Hrvatska pošta d.d. In addition to those entities, in the territory of the Republic of Croatia, companies from other Member States, in accordance with notifications, performed insurance activities, insurance and reinsurance representation and brokerage activities and insurance representation activities through a branch established in the Republic of Croatia.

Total gross written premium of insurance companies in 2016 amounted to HRK 8.8bn, increasing by HRK 42.9m or 0.5% compared to the 2015 premium. The total gross written reinsurance premium in 2016 was negative (HRK -0.4m) because of one reinsurance company's decision to stop actively conducting reinsurance business. Compared to 2015, the gross written reinsurance premium decreased by HRK 42.4m.

As at 31 December 2016, the share of gross written insurance premium in GDP amounted to 2.55%, recording a decrease compared to the previous year when it amounted to 2.61%. In the life insurance group, this share fell from 0.88% in 2015 to 0.85% in 2016, while in the non-life insurance group it fell from 1.73% in 2015 to 1.70% in 2016. As at 31 December 2016, total assets of insurance and reinsurance companies amounted to HRK 39.8bn, increasing by HRK 1.2bn or 3.1% compared to the previous year. This increase was mostly due to a rise in life insurance assets totalling HRK 1.5bn or 7.1%. As at 31 December 2016, life insurance assets accounted for 56.2% of total assets of insurance and reinsurance companies. Non-life insurance assets decreased by HRK 0.3bn or 1.6%. Assets of reinsurance companies accounted for 2.4% of total non-life insurance assets.

In 2016, insurance and reinsurance companies achieved a profit of HRK 589.1m as a result of their operations, HRK 64.6m more than in 2015 when they achieved a profit of HRK 524.5m. Net profit amounting to HRK 617.2m was reported by 17 insurance companies and one reinsurance company, while a HRK 28.1m loss was reported by four insurance companies.

As at 31 December 2016, total assets of the Bureau stood at HRK 11.8m, increasing by 13.8% compared to 2015. Total liabilities of the Bureau at end-2016 amounted to HRK 3.8m, rising by 3.3% in comparison with the preceding year. As at 31 December 2016, total assets of the Guarantee Fund amounted to HRK 16m, decreasing by 29.1% compared to 2015. Total assets of the CN POOL reached HRK 94.1m, decreasing by 2.4%. The asset structure was dominated by investments (81.5% of the total assets) amounting to HRK 76.7m. The largest liability share (78.2%) was accounted for by technical provisions totalling HRK 73.5m.

On 1 January 2016, the new Insurance Act<sup>21</sup> came into force ensuring the preconditions for the implementation of the Delegated Regulation supplementing the Solvency II Directive<sup>22</sup>. This delegated regulation contains rules for the implementation of the Solvency II Directive and it determines procedures for the exercise of delegated power conferred to the European Commission, as defined in Article 301a of the Solvency II Directive.

The new Insurance Act established a regulatory framework which introduced a series of novelties, the most significant being a higher level of consumer protection and new calculation of capital adequacy taking into account company's risk profile as one of the most important components. Moreover, it enabled a greater transparency of business operations and it prescribed higher standards regarding this matter, as well as requirements to achieve higher efficiency in management, especially in risk management. A new reporting and disclosure system was introduced, such as reporting on insurance activities in another EU/EEA country, as well as reporting to Hanfa

21 Official Gazette, No 30/15

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

on, for example, outsourced activities or functions. The new Insurance Act introduced new rules of operation and supervision of insurance and reinsurance companies in accordance with the Solvency II Directive and the Omnibus II Directive<sup>23</sup>, the Regulation on credit rating agencies<sup>24</sup> and regulations establishing the European Supervisory Authority (European Insurance and Occupational Pensions Authority)<sup>25</sup> in terms of the powers of the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority. As at 31 December 2016, all insurance and reinsurance companies fulfilled capital requirements, and the largest number of companies had solvency capital requirement covered by eligible own funds in the range from 100% to 200%.

In 2016, Hanfa adopted 30 new ordinances in the area of insurance and reinsurance, and on its website it published the Recommendations on contents and delivery of key information documents for life insurance where the investment risk is borne by the policyholder.

Hanfa issued authorisations to conduct insurance representation business to 47 insurance agencies and 107 insurance representation crafts. It also issued an authorisation to conduct insurance and reinsurance brokerage business to one insurance and reinsurance brokerage company. Following the reception of applications for authorisations to conduct insurance representation business at the vehicle roadworthiness test garage, Hanfa granted authorisations to six insurance agencies. On the basis of received notifications relating to termination of operation, decisions were adopted establishing the termination of authorisation to conduct insurance representation business granted to eight insurance agencies, seven insurance representation crafts, two insurance and reinsurance brokerage companies and one insurance representation craft conducting insurance business at vehicle roadworthiness test garages. Hanfa's approvals to carry out insurance representation business ceased to be valid for two credit institutions.

In 2016, Hanfa conducted a total of nine on-site examinations of insurance companies, one of which was targeted, and eight were full-scope examinations. One examination started in 2015 and ended in 2016, five examinations started and ended in 2016, while three examinations started in 2016 and continued into 2017.

In 2016, Hanfa issued nine decisions relating to on-site examinations completed in 2015 and 2016. Six of these decisions were related to elimination of violations and irregularities, and supervised entities acted in accordance with the decisions and deadlines prescribed by them. In addition to these six decisions, Hanfa issued three decisions on termination of the on-site examinations, for all supervised entities that acted in accordance with the decisions ordering elimination of violations and irregularities.

Along with quantitative reports for Solvency II, in 2016 Hanfa received and analysed FLAOR/ORSA<sup>26</sup> reports. After the analysis of submitted FLAOR/ORSA reports, Hanfa held meetings with representatives of individual companies. The purpose of these meetings was to understand more

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23 Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2003/71/EC and 2009/138/EC and Regulation (EC) No 1060/2009, (EU) No 1094/2010 and (EU) No 1095/2010 in respect of the powers of the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority), OJ L 153/1

24 Regulation (EU) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, OJ L 302/1

25 Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331/12) and the Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC, OJ L 331/84

26 FLAOR/ORSA report includes a business strategy, risk management, assessment of capital requirements and stress tests. It is not intended for the supervisory body, but for company management so they could make valid, effective and required decisions, and must be approved by the company's management board.

clearly how the ORSA progressed in companies and to provide ideas for advancement and advice to improve future ORSA reports.

## Leasing

As at 31 December 2016, leasing operations were carried out by 19 leasing companies, compared to 21 companies in 2015. During 2016, two companies initiated winding-up proceedings. The majority of leasing companies in the Republic of Croatia belongs to groups of financial institutions. As at 31 December 2016, the initial capital of leasing companies amounted to HRK 544.4m, with the non-resident share accounting for 78.8% or HRK 428.9m and 21.2% or HRK 115.5m being accounted for by the initial capital in direct resident ownership. Only two companies were in resident ownership.

Total assets of leasing companies as at 31 December 2016 amounted to HRK 17.9bn, which was HRK 278.3m or 1.6% more compared to the same day the year before. Leasing companies reported after-tax profit amounting to HRK 443.1m (in 2015, they reported after-tax loss amounting to HRK 742.1m). The after-tax profit was significantly affected by interest income of HRK 275.8m (mainly on the basis of financial lease interest income). Profit from fees and commissions amounted to HRK 9.3m, which was a decrease of HRK 17m (64.7%) compared to 2015. After-tax profit totalling HRK 469.9m was reported by 17 leasing companies, whereas two leasing companies recorded after-tax loss reaching HRK 26.9m.

The value of newly concluded contracts in operating lease in 2016 increased by HRK 240.4m, while the value of newly concluded contracts in financial lease grew by HRK 1.1bn compared to the previous year. The proportion of operating leases in the structure of total value of newly concluded contracts amounted to 26.8%, while the proportion of financial leases accounted for 73.2%. A reduced share of 2016 operating leases was the result of a faster growth of finance leases relative to the previous year. The increase in the proportion of finance leases was mainly a result of an increase in (passenger and commercial) vehicles financing.

As at 31 December 2016, passenger cars recorded the highest value of active contracts by leased/loaned assets, reaching HRK 4.7bn or 33.8% of the total value of active contracts. The value of active contracts for commercial vehicles amounted to HRK 3.5bn (24.7% of the total value of active contracts), whereas the value of active contracts for property amounted to HRK 2.9bn (20.5% of the total value of active contracts).

Hanfa continued carrying out supervisory activities based on off-site examinations, verifying the compliance of business operations with the provisions of the Leasing Act and with ordinances. Off-site examinations were conducted on the basis of reports that leasing companies were obligated to send to Hanfa within prescribed deadlines, as well as on the basis of monitoring, collection and verification of documentation, notifications and data submitted, and monitoring, collection and verification of data and findings obtained from other sources.

Hanfa drew up a total of 32 supervisory reports and 15 amendments to the reports. It also issued a total of 46 decisions, of which ten decisions ordering the elimination of irregularities and 36 decisions establishing that the irregularities had been eliminated and that supervisory procedures had ended.

Hanfa's supervisory activities were also aimed at verifying the establishment and maintenance of internal control mechanisms in accordance with the provisions of the Leasing Act<sup>27</sup> and the Ordinance on organisational requirements<sup>28</sup>. This resulted in the initiation of administrative proceedings relating to off-site examinations in 15 companies, and consequently in 15 supervisory reports, 11 amendments to the reports and ten decisions ordering the companies to eliminate illegalities and irregularities established.

27 Official Gazette, No 141/13

28 Official Gazette, No 68/14

Hanfa initiated one on-site examination focused on lease business processes in the period from 1 January 2015 to 30 June 2016. Further action in relation to this examination and preparation of the supervisory report are expected to take place in 2017.

## Factoring

As at 31 December 2016, factoring companies' assets stood at HRK 5.9bn, decreasing by 10.4% relative to 31 December 2015. The factoring market was dominated by discounting of bills of exchange with a 64% asset share, which is a 2.4% decrease in share compared to 2015. The market was also still dominated by recourse factoring operations (82.8%) and by factoring operations with accounts receivable purchased being invoices of buyers having registered office in the Republic of Croatia (95.7%). As at 31 December 2016, factoring companies' assets decreased by HRK 687.2m in comparison with 31 December 2015. Current assets made up as much as 98.1% of total assets (98% on the same day in the previous year), which is a common occurrence in the factoring industry. The most significant item in the current assets was discounting of bills of exchange (64% of the assets).

Factoring companies' net profit reached HRK 168.5m in 2016, decreasing by 20.7% compared to 2015. Their total income amounted to HRK 772.2m, decreasing by HRK 68.9m (8.2%) in comparison with 2015, while expenses reached HRK 548.7m, declining by HRK 26.4m (4.6%) relative to the previous reporting period. Nine out of 13 factoring companies reported after-tax profit amounting to HRK 203.4m. At the same time, four factoring companies reported after-tax losses amounting to HRK 34.9m. The transaction volume reached HRK 19.3bn, increasing by 8.2% in comparison with 2015. In the period from 1 January 2016 to 31 December 2016, factoring companies purchased invoices under factoring arrangements in the amount of HRK 3.7bn and bills of exchange in the amount of HRK 15.5bn.

As at 31 December 2016, the register of factoring companies contained two active factoring companies authorised to conduct factoring operations, while one factoring company was undergoing winding-up proceedings. Under the Act Amending the Factoring Act<sup>29</sup>, the compliance period for legal entities providing factoring services and entered in the register of companies as at the day of its entry into force was prolonged until 31 December 2016. Two compliance reports were received at the end of December 2016. Five more compliance reports were received by 31 January 2017, i.e. within the legal deadline.

Since the deadline for the alignment of factoring companies with the Factoring Act was extended to 31 December 2016, Hanfa's supervisory activities, as in the previous year, primarily involved off-site examinations and analysis of financial and additional reports received by factoring companies. The focus was primarily on the analysis of the factoring market in the Republic of Croatia with respect to risks related to the factoring industry and types and characteristics of certain products and services provided by factoring companies.

## Judicial proceedings

During its examinations in the field of capital market, investment funds and insurance, Hanfa established misdemeanours committed with respect to regulations resulting in 11 indictments brought before the misdemeanour courts and the Financial Inspectorate of the Republic of Croatia. Final judgement was pronounced in respect of one case, while proceedings relating to the remaining cases have not finished yet. In the course of 2016, a total of 12 administrative disputes were initiated against Hanfa's decisions with the Administrative Court in Zagreb. Eleven of those disputes related to the area of capital market, and one to the area of investment firms. Out of the 11 administrative disputes initiated, two were dismissed as disallowed by decisions of the High Administrative Court of the Republic of Croatia. In one administrative dispute, the verdict of the

<sup>29</sup> Official Gazette, No 41/16

High Administrative Court of the Republic of Croatia confirmed the ruling rejecting the claim for the annulment of Hanfa's decision, and in another administrative dispute the plaintiff did not appeal the ruling rejecting the claim for the annulment of Hanfa's decision. The remaining seven cases are still pending. Hanfa filed criminal charges with the State Attorney Office against six natural persons and one unknown perpetrator. Hanfa's employees participated in the Working Group of the Ministry of Justice of the Republic of Croatia on Amendments to the Criminal Code.

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

In 2016, Hanfa's employees were involved in the work and coordination with relevant national authorities and institutions of the European Union regarding the issues of harmonisation with the regulations and practices of the European Union within the financial sector. Hanfa took part in seven meetings of the Board of Supervisors of the European Securities and Markets Authority (ESMA) and five meetings of the Board of Supervisors of the European Insurance and Occupational Pensions Authority (EIOPA). Hanfa's representatives were involved in the work of 11 committees, three expert networks and one working group of ESMA, as well as nine committees, one working group, network of language editors and five newly formed expert networks of EIOPA. In 2016, committees of ESMA and EIOPA issued over a hundred and fifty decisions and organised more than a hundred and fifty debates, mainly concerning the approval of numerous documents for public consultation, guidelines and recommendations, adoption of implementing and technical standards, analysis of trends, risks and vulnerability of the financial sector, organisation of the common market and, in this light, harmonisation of supervisory practices, activities of trade repositories and credit rating agencies under the competence of ESMA, participation in EIOPA's stress tests, opinion making regarding the European Commission or other European supervisory bodies, combat against money laundering and terrorist financing, identification of new instruments and services on financial markets and future trends, their impact on consumers and the financial stability of the European area, the assessment of equivalence of supervisory systems of third countries etc. Expert committees and working groups of ESMA and EIOPA and their professional services worked on the preparation of these topics through collection of data, information and opinions and analysis on national level. The committees and working groups of ESMA and EIOPA, and Hanfa's members within them, worked on the preparation of all relevant documents which were necessary for decision-making and for debates on specific issues and the needs of special groups to implement peer reviews on specific issues important for the work and activities within the entire European financial market.

Hanfa also participated in EBA's analyses<sup>30</sup> associated with the revision of the prudential requirements for investment firms under CRD IV<sup>31</sup> and CRR<sup>32</sup> and other types of reporting connected with the requirements of BRRD<sup>33</sup>. In cooperation with the Croatian National Bank, the activities started in 2015 on the adoption of the EBA guidelines concerning both supervisory bodies were continued, as well as work in the framework of notifications within the EBA's database. Hanfa participated in four meetings of the ESRB General Committee and one meeting of the ESRB

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30 European Banking Authority (EBA) together with the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA) constitute European Supervisory Authorities – ESAs. More details about EIOPA and ESMA are provided in Chapter 9.1.1 *Participation in the work of ESMA* and 9.1.2 *Participation in the work of EIOPA*.

31 Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, OJ L 176

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

33 Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No (648/2012, of the European Parliament and of the Council, OJ L 173/190

Advisory Technical Committee<sup>34</sup>. Hanfa's employees took part in working and expert groups of the Council and the European Commission related to non-banking financial services. As regards activities relating to the Capital Markets Union, Hanfa participated in the Working Group on Financial Services of the Council, concerning the adoption of the new Prospectus Regulation. Hanfa also took part in the Expert Group on barriers to free movement of capital, which was established with the European Commission as a part of activities related to the Capital Markets Union. It underlined the need for the Member States' synchronised action with the support of the European Commission in raising the level of financial literacy in order to enable consumers to acquire the necessary levels of understanding regarding the characteristics of financial products and their distribution channels. Representatives of the European Commission invited Hanfa to chair the financial literacy subgroup acting within the framework of the above-mentioned working group. Hanfa's initiative on the importance of financial literacy within the Capital Markets Union was supported by many Member States which joined its activities that will be continued in 2017. Throughout 2016, Hanfa's employees participated in working meetings of the European Commission related to the transposition of the new Insurance Distribution Directive and to cross-border marketing of units in investment funds.

Cooperation with domestic institutions included participation in working groups in connection with drafting regulations within Hanfa's competence, participation in the project team for the development of regional capital market aimed at small and medium enterprises started by the ZSE and the European Bank for Reconstruction and Development, participation in meetings of the National Council for Consumer Protection at the Ministry of Economy, Entrepreneurship and Crafts, and the continuation of participation in the activities of the Financial Stability Council, whose members also include the CNB, the Ministry of Finance and the State Agency for Deposit Insurance and Bank Rehabilitation. Cooperation with international institutions included the continuation of collaboration with the representatives of the World Bank on the project aimed at establishing the first Croatian venture capital fund, conducted by the World Bank, the Ministry of Entrepreneurship and Crafts and the Croatian Agency for SMEs, Innovations and Investments. In accordance with the signed Multilateral Memorandum of Understanding, as a member of the International Organisation of Securities Commissions (IOSCO), Hanfa exchanged relevant information with other signatories to the memorandum in its supervision procedures, i.e. for the purposes of supervision of other signatories. Throughout the year, the cooperation also included the submission of opinions on the documents of foreign institutions, such as the European Bank for Reconstruction and Development and the World Bank.

Three examinations were started with respect to the prevention of money laundering and terrorist financing. At the same time, three supervision processes were finished (including one that was started in the previous year.) In 2016, there were no decisions imposing supervisory measures in the area of the prevention of money laundering and terrorist financing on supervised entities, since all violations and irregularities were resolved before the decisions were issued. As a participant in the system for the prevention of money laundering and terrorist financing, via the Committee for the Prevention of Money Laundering and Terrorist Financing, Hanfa participated in the preparation of opinions and responded to questions of supervised entities in the area of the prevention of money laundering and terrorist financing, it organised training sessions for representatives of supervised entities and undertook other activities related to the prevention of money laundering and terrorist financing. Given the obligation of supervisory authorities to exchange data and information related to supervisory procedures, Hanfa continued to report to the Anti-Money Laundering Office at the Ministry of Finance. In the Croatian Chamber of Economy, it held a "Training on the prevention of money laundering and terrorist financing for financial institutions" for representatives of supervised entities, where it provided answers to questions from the

34 Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board, OJ EU L 331/1, and Council Regulation (EU) No 1096/2010 of 17 November 2010 conferring specific tasks upon the European Central Bank concerning the functioning of the European Systemic Risk Board, OJ L 331/162

members of associations of supervised entities at the Croatian Chamber of Economy. Hanfa participated in the Working Group on the Preparation of the New Act on the Prevention of Money Laundering and Terrorist Financing, together with the Ministry of Finance, Anti-Money Laundering Office and the Croatian National Bank. Hanfa continued to actively participate in the work of the Inter-Institutional Working Group on the Prevention of Money Laundering and Terrorist Financing, presided by the Anti-Money Laundering Office. It signed a cooperation and information exchange agreement regarding the implementation of the Act on the Prevention of Money Laundering and Terrorist Financing with the Ministry of Finance (Financial Inspectorate), in order to increase the effectiveness of supervisory and other activities in the area of prevention and detection of money laundering and terrorist financing.

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

In 2016, Hanfa received 136 complaints, of which 45.6% referred to the insurance market, 13.3% to the capital market, 5.9% to the leasing market, 2.9% to investment funds, 4.4% to pension funds and 0.7% to investment firms. A total of 23.5% of complaints received did not concern Hanfa's scope of activity and competence, and 3.7% of the complaints received related to Hanfa's own activities. No complaints concerning factoring services were received.

Regular activities related to consumer protection and provision of information to the public referred to raising awareness of the role and manner of functioning of the financial system and undertaking various activities aimed at providing timely information to users of financial services. Activities connected with consumer protection focused on the prevention through on-site and off-site supervision, while some of the activities focused on the development of awareness of risks related to investments in financial instruments and of rights and obligations of supervised entities and users of their services. Those activities included information on consultations with the interested public in connection with subordinate regulations under Hanfa's competence and calls for comments on their content on the central government portal for public consultations with the interested public (e-consultations). On its website, Hanfa published laws and subordinate regulations and their consolidated versions, public announcements about different types of risky investments and financial transactions, warnings aimed at protecting investors, warnings by ESMA and IOSCO, educational texts, frequently asked questions and answers, bulletins, manuals and information on the results of operations of supervised entities and other notices containing information and announcements from Hanfa's scope of activity. In the area of consumer protection, Hanfa was active within ESMA's Financial Innovation Standing Committee and EIOPA's Committee on Consumer Protection and Financial Innovation, where it reviewed documents received, submitted data requested and reports on complaints, and exchanged experience with other Member States in relation to consumer protection issues. Moreover, in 2016, Hanfa replied positively to 11 requests for access to information, and through the media it enabled the public to become acquainted with its activities by responding to journalists' inquiries and through press releases and interviews with members of the Board published in the media.

In addition to its regular activities, Hanfa continued undertaking educational activities and presented the results of financial literacy survey conducted in the Republic of Croatia, jointly with the Croatian National Bank. The research was conducted in line with the methodology of the Organisation for Economic Co-operation and Development (OECD) and its findings are comparable to the results of the same survey in other countries. The survey was undertaken by personal, face to face interviews, among adults aged 18 to 79, on a representative sample of over 1,000 respondents. It included three main categories: financial knowledge, financial behaviour and financial attitudes. The study showed the level of financial literacy of various social groups (in terms of age, gender and education) in all parts of the Republic of Croatia. The average financial literacy score in the Republic of Croatia is 11.7 out of 21 points. The lowest level of financial literacy was recorded by those younger than 19 (9.3), while the highest level was achieved by those with tertiary education (12.8), by those with household income higher than HRK 6,250 (12.8), and by population in cities of more than 100,000 inhabitants (13.1). As far as financial knowledge is

concerned, 74% of the population are familiar with the influence of inflation over their lives, i.e. they understand that high inflation implies a sharp increase in the cost of living. More than two thirds of the respondents (69%) are familiar with great risks connected with potentially high rewards. Two thirds of the citizens are aware of benefits of sound investment and saving strategies for the purpose of risk protection, i.e. they realise that they are less likely to lose money if they invest and save in different places. Furthermore, 80% of the respondents comprehend the task that requires them to understand the concept of loan interest. More than 60% of the citizens of the Republic of Croatia pay close attention to their financial affairs, expenses, purchases and timely settlement of accounts and debts. However, while such caution means that Croatian citizens tend not to risk a lot as regards their money, avoiding “negative risks”, the same goes for “positive risks” such as investments, which are avoided even by citizens with higher income. Poor correlation between financial knowledge and financial behaviour indicates that citizens of Croatia, even though they are relatively aware of benefits and methods of financially responsible behaviour, do not demonstrate such knowledge in their daily lives. The results indicate that citizens with lower income and education levels are significantly less familiar with basic economic and financial terms, are less likely to plan their own households’ budget, are less confident in their own pension plans, have less knowledge of various financial products and are less likely to use them.

Hanfa was involved in marking the Global and European Money Week from 14 to 18 March 2016, by carrying out a series of educational activities aimed at familiarizing the general public with financial services, Hanfa’s scope of activity and competence and the importance of financial literacy. Hanfa’s representatives gave presentations explaining Hanfa’s work in the area of financial literacy and participated in a series of panels, debates and round tables. Some of these were: a roundtable organised by the Ministry of Science, Education and Sports titled “Financial Literacy and Youth”, a panel organised by the Croatian daily newspaper Jutarnji list named “Promoting Financial Literacy: Policies and Measures Aimed at Raising the Level of Financial Literacy in Croatia”, a panel held by the Faculty of Economics in Osijek and the Croatian Chamber of Economy in Zagreb on financial literacy in the Croatian educational system (where Hanfa also presented the results of the survey on financial literacy in the Republic of Croatia), and a student debate organised by the Croatian Insurance Bureau and the Economics Clinic titled “Life insurance – Savings and/or Investment”. Hanfa’s representatives also held four educational lectures for more than 150 secondary school and university students, explaining Hanfa’s scope of activity in a simple and comprehensible language, with a special emphasis on financial services and risks related to those services, supervision of service providers, cross-border provision of financial services and international cooperation of competent authorities.

In order to establish and develop scientific and development cooperation, especially as regards internships, Hanfa and the Faculty of Economics of the University of Zagreb signed a Cooperation Agreement. The agreement also includes the organisation of educational programmes by Hanfa for teachers of the Faculty of Economics, the possibility of engaging Hanfa’s lecturers on certain specialist postgraduate studies at the Faculty of Economics and other forms of business cooperation between the two institutions. Hanfa continued to organise student debates at educational institutions in Croatia: one of them was a debate titled “Life Insurance – Savings and/or Investment” organised in cooperation with the student association Financial Impulse at the Faculty of Economics in Osijek and the Croatian Insurance Bureau. There were also two debates titled “Challenges of Financing in the Republic of Croatia – Case Study: Bank Financing and/or Capital Markets”. One of the debates was held in cooperation with the Effectus University College for Law and Finance, and the other within the framework of the Global and European Money Week, in cooperation with the student association Economics Clinic at the Faculty of Economics of the University of Zagreb and the Croatian Insurance Bureau.

Following excellent website traffic results and strong interest expressed in the educational campaign carried out at end-2015, containing warnings related to investing in complex financial products, Hanfa launched a similar educational web campaign at the end of 2016. The campaign was based on modern technologies used by providers of the services and products that Hanfa

warned about as being unsuitable for the general public. It contained online advertisements aimed at attracting people interested in quick profit, with the purpose of educating and warning them about pitfalls and risks of the so-called quick profits made by investing in complex financial products. The advertisements, featuring fictional persons presented as the wealthiest Croats, invited people to trade in fictitious financial products called KPNs (Komplicirani Proizvodi za Neupućene – Complicated Products for Dummies). A click to the advertisement led to Hanfa's informative website ([www.hanfa.hr/saznajvise.html](http://www.hanfa.hr/saznajvise.html)), designed especially for this purpose, where potential investors were urged to be cautious and where they were warned about the importance of gathering information on products and services before entering into a business relationship with providers of financial services. During the educational campaign, that lasted 30 days, there were more than 41,000 clicks to the advertisements, i.e. more than 41,000 visits to the informative website.

As part of its educational activities, Hanfa also organised visits of secondary school and university students at its premises. Hanfa's representatives gave a number of lectures at seminars and conferences organised by various educational, professional and state institutions. Hanfa sponsored or partnered expert conferences related to its area of competence.

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

In 2016, Hanfa further improved its existing IT solutions and provided new ones, in order to improve business processes related to receiving data from supervised entities, reporting to EIOPA and ESMA, as well as increasing the efficiency of internal processes. After the completion of the document digitalisation implementation project, it is now possible to receive a wide range of documentation from supervised entities in electronic form via an online interface. The project has enabled leasing companies, insurance and reinsurance companies, pension insurance companies and the Croatian Insurance Bureau to submit documentation electronically, and in 2017 the project will be extended to the remaining supervised entities. In connection with the implementation of the Solvency Supervision Toolbox (SST), a software solution for the receipt and validation of reports, Hanfa continued its cooperation with insurance companies and reinsurance companies, while continuous communication and mutual collaboration improved and developed the quality of reports, probability of errors and irregularities was reduced to a minimum, and technical problems were almost completely eliminated.

ESMA is developing a system which will make available data from all licensed trade repositories at a single point, since each trade repository currently collects and aggregates data in a different way, and delivers it in a different format, making it difficult to compare and use data. In 2016, Hanfa enabled the receipt of two types of reports on a daily basis, while in 2017, it will ensure access to ESMA's central system which will enable it, as a competent authority, to directly pose a question to a trade repository. Some projects were started with the aim of fulfilling obligations under MiFID II<sup>35</sup>, which will come into force on 3 January 2018. The purpose of the projects is to procure or build an IT solution for reporting to ESMA and other national competent authorities in accordance with MiFIR<sup>36</sup>. At end-2016, the projects were merged into one, and the finalisation is planned for end-2017.

2016 saw the finalisation of the IPA project (started in 2015), which managed to improve the effectiveness of supervision in the area of non-banking financial services sector in the Republic of Croatia, in accordance with the purpose of the European System of Financial Supervision, through the implementation of business intelligence systems. The project was funded from the IPA 2012 Programme (IPA Transition Assistance and Institution Building) and to a lesser extent from Hanfa's funds, with foreign experts being involved in its implementation. The result of this project is

35 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, OJ L 173/349

36 Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012, OJ L 173/84

automated reporting to ESMA and EIOPA and automated data exchange with other national supervisory authorities of EU Member States.

By upgrading the office management system, business processes of conducting exams in the organisation of Hanfa and business processes of office management were improved. The adaptation of the existing document management system (DMS) architecture was completed and additional system continuity and stability were ensured by upgrading the system. Most of the activities required for the introduction of internationally recognised standards ISO 20000 and ISO 27001 were completed. IT solutions have had an increasing impact on Hanfa's business operations year after year, so a need arose to improve the quality of IT service management. Implementation of the application for centralised reporting and tracking of requests and incidents for all IT applications (service desk and monitoring) enabled a better monitoring of the information system reliability. Hanfa started to build documentation and introduce additional controls in order to reduce the operational risk in the field of maintenance and management of information technology and communication systems, in connection with the human factor and other identified risks. This created preconditions for the certification of the information system in line with the ISO standard 27001, that will be implemented during 2017. Hanfa devised standard project management methodologies in line with the adjusted Prince2 methodology, with the aim of increasing management efficiency and to implement Hanfa's goals and plans. In order to improve the accounting system, financial planning and reporting ensuring greater business process efficiency, as well as the comprehensiveness and quality of information required for financial management and control system, a new application for accounting, financial planning and reporting was implemented. Due to the importance of planning, coordinating, monitoring and improving activities in the field of human resource management, the Human Resources Unit was established in the Office of the Secretary-General. An application for managing the business process of human resource monitoring was obtained, resulting in better data connectivity, faster and greater data availability, and faster creation of analyses and reports. This also facilitated the implementation of financial management and controls in accordance with the provisions of the Act on the Internal Controls System in Public Sector<sup>37</sup>.

As regards the improvement of the internal control system, a number of activities were carried out in 2016. The vision, mission and core values were defined and published on Hanfa's website. In order to achieve the vision and mission, Strategic Plan for the period 2017 – 2019 was adopted. Three basic general objectives were identified for that period: to preserve the stability and security of the financial system, to strengthen the protection of financial customers and to strengthen the confidence in the role of Hanfa as a participant in the financial system. These general objectives define the three main directions of action and are related to Hanfa's legal scope of activity. Each general objective was elaborated through specific objectives, and for each specific objective, the ways of its realisation, results indicators and performance indicators were defined. Based on the strategic goals, at the end of 2016, the Annual Work Plan for 2017 was developed, as well as the related Financial Plan with identified financial resources for the implementation of activities and objectives.

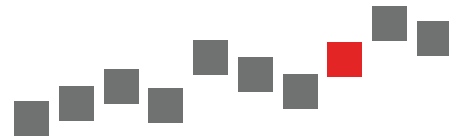
Total income of Hanfa in 2016 amounted to HRK 53.1m, while total expenses amounted to HRK 48.2m. The largest share in expenditure was accounted for by the expenditure for employees amounting to HRK 32.6m (67.6%). The average number of employees in 2016 at the end of the reporting period was 154. Material expenditure made up the next most significant item in Hanfa's total expenditure, amounting to HRK 13.5m. Hanfa recorded 5.5% more material expenditure in relation to 2015, amounting to HRK 703,000. Membership fees paid to European supervisory authorities ESMA and EIOPA made up a significant item in material expenditure amounting to HRK 4.9m, which is 30% more than in 2015, when they totalled HRK 3.8m. The increase in mandatory membership fees was the result of increased budgets of these authorities in 2016, which also led to an increase in Hanfa expenditures. These costs, excluding other expenses re-

<sup>37</sup> Official Gazette, No 78/15

lated to the participation of Hanfa in the work of the European supervisory authorities (obligatory attendance of meetings, participation in the preparation of regulations etc.) made up 36.3% of material expenditure and 10.2% of total expenditure in 2016. Depreciation costs amounted to HRK 1.3m, increasing by 15% compared to 2015, due to implementation of IT projects that continued in 2016, coupled with the acquisition of amortised long-term assets. On the basis of reported data on total revenues and expenditures, Hanfa recorded surplus income over expenditure in the amount of HRK 4.8m.

In 2016, the Board issued 1,346 decisions at a total of 87 meetings, 54 of them being regular and 33 being emergency meetings. The Council held three meetings: on 8 March, 20 September and 22 November, providing opinions and expert advice, for the purpose of improving the supervisory practice, in accordance with its competence under Article 12 of the Act on the Croatian Financial Services Supervisory Agency. The fourth meeting did not take place because of a lack of a quorum. Members of the Council were appointed by the Croatian Government on 24 November 2016, replacing the members whose term expired on 22 March 2016.





# Capital market



# 1 Capital market

## 1.1. Market overview

In 2016, especially in the second half of the year, capital market in the Republic of Croatia was marked by economic recovery, continuation of increase in investment activities and growth of market indicators. The total trading volume on the Zagreb Stock Exchange (hereinafter: ZSE) amounted to HRK 3.9bn, increasing significantly (16.1%) compared to 2015. Trading in shares within the order book<sup>38</sup> amounted to HRK 1.9bn, a decrease of 13.4%, while block trades<sup>39</sup> in shares amounted to HRK 1.2bn, an increase of 123.4%. Trading in bonds within the order book increased by 48.7% compared to 2015, amounting to HRK 0.4bn, while block trades in bonds amounted to HRK 0.3bn, increasing by 22.7%. The increase in total turnover was largely contributed by the increase in block trade in shares and bonds, and the increase of trading in bonds within the order book, as a result of increased activity of institutional investors. Trades in structured securities decreased by 34.5% compared to the previous year. OTC turnover reached HRK 25.9bn, rising by 15.8% in comparison to 2015. Market indicators showed positive trends. The main stock index CROBEX increased by 18.1%, while CROBEX10 grew by 17.1%. The CROBEXTURIST stock index continued its growth in 2016, increasing by 27.9%. The CROBIS bond index grew by 3.6%, while CROBISr rose by 8.6%.

Trading on the MTF<sup>40</sup> (CE Enter market) was marked by a significant decrease in the total turnover (56,9%) relative to 2015 when it stood at HRK 0.09bn. The decline in total turnover was impacted by the exclusion of 23 securities from trading, while only three securities were admitted (15 securities were excluded in 2015 and 14 were admitted), with the delisting of companies Vajda d.d. Čakovec and SN Holding d.d., whose shares accounted for 50% of turnover in 2015, having the largest impact on the decline in turnover. This resulted in the decline in turnover of shares within the order book (54.2%), turnover of rights within the order book (100%) and block trade in shares (74.7%).

*CE Enter market is a multi-lateral trading facility managed by the ZSE, where trading involves shares and rights.*

2016 was marked by the removal from trading of all structured products, while the ZSE listed its shares on the official market. Block trade in shares was significantly influenced by the sale of government share in companies Končar elektroindustrija d.d., Sunčani Hvar d.d. and Imperial d.d., and the sale of share in the company Podravka d.d. by an equity fund from Norway (49% of total block trade in shares in 2016). At the beginning of 2016, the Income Tax Act<sup>41</sup> came into force in the part relating to the taxation of capital gains, and it probably had a negative impact on the turnover of shares within the order book. The trend of issuers' delisting continued on the regulated market.

38 The order book is a segment of the trading system containing all offers used as a basis for concluding transactions.

39 A block trade is a transaction in a financial instrument listed on the regulated market or admitted to trading on the MTF, which includes a member or members of the ZSE, it is arranged privately and concluded via the trading system of the ZSE, in accordance with the Rules of the Zagreb Stock Exchange.

40 MTF is a multilateral system managed by an investment firm or a market operator that combines the supply and demand for financial instruments of several interested third parties.

41 Official Gazette, No 143/14

### 1.1.1 Capital market infrastructure

Zagreb Stock Exchange is the only operator of the regulated market and MTF operator in the Republic of Croatia. In 2016, participants on the regulated market traded in shares, bonds and structured financial products, while MTF trading involved shares and rights. Total market capitalisation of financial instruments admitted to the regulated market at end-2016 stood at HRK 232.4bn, an increase of 14.1% relative to 2015, while the total market capitalisation on the MTF amounted to HRK 4.2bn, a decrease of 19.6% compared to the previous year.

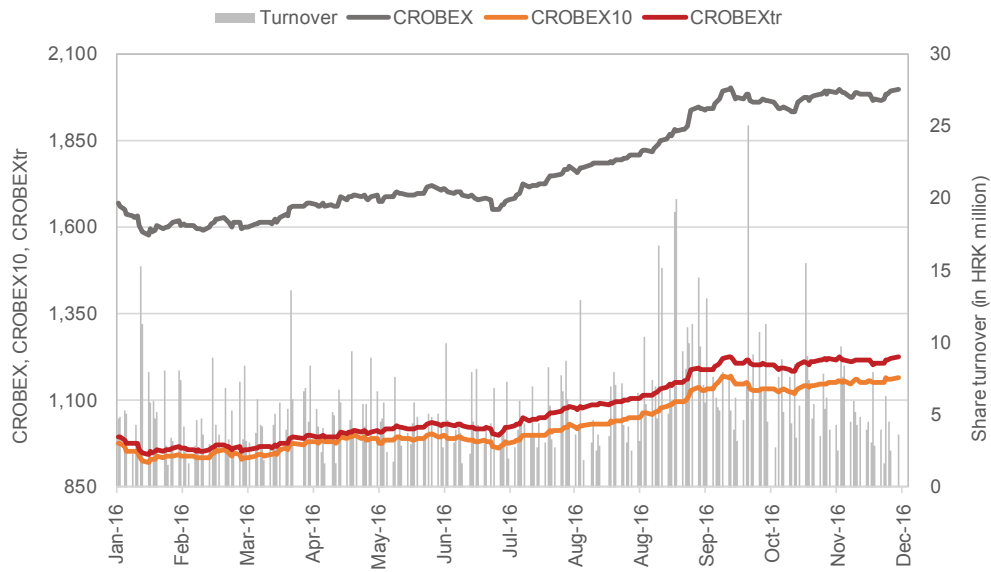
Table 1.1 Number of financial instruments on the regulated market and MTF as at 31/12/2016

Market type	Number of financial instruments	31 Dec 2015	31 Dec 2016	Change relative to 2015 (in %)
Regulated market	Shares	152	147	-3.3
	Official market	27	28	3.7
	Regular market	125	119	-4.8
	Bonds (government, corporate, municipal)	38	36	-5.3
	Official market	35	32	-8.6
	Regular market	3	4	33.3
	Commercial papers	0	0	0.0
	Official market	0	0	0.0
	Regular market	0	0	0.0
	Structured products	72	0	-100.0
	Official market	0	0	0.0
	Regular market	72	0	-100.0
MTF	MTF	46	24	-47.8
	Shares	44	22	-50.0
	Rights	2	2	0.0

Source: ZSE

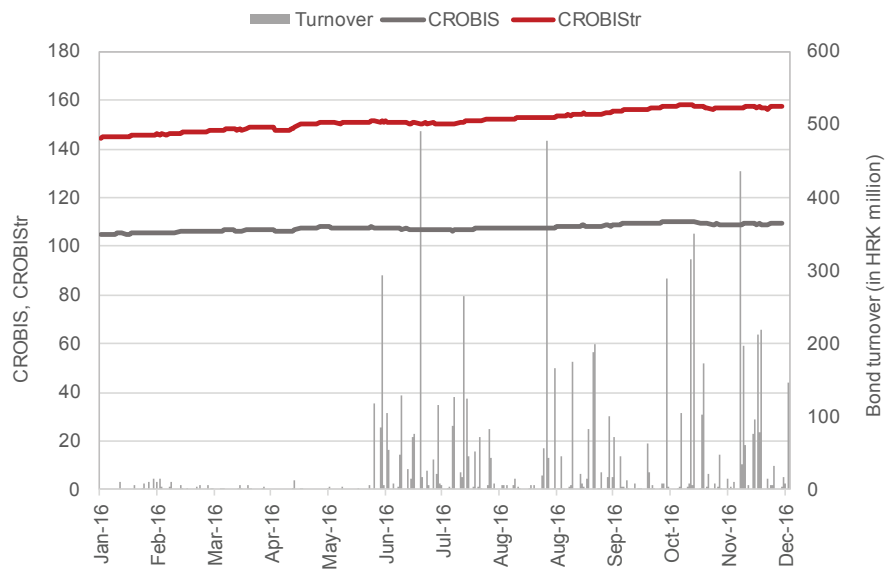
In 2016, 31 new issues were admitted to the regulated market of the ZSE (two shares, five bonds and 24 structured securities). A total of 102 financial instruments were delisted from the regulated market (seven shares, seven bonds and 88 structured products). Bonds were delisted as they became due and structured securities were delisted because their underlying price hit the knock-out barrier, and also because of issuers' decision to withdraw all the remaining structured securities admitted to the regulated market on 13 September 2016. Shares were delisted due to bankruptcy (one issuer), rehabilitation (one issuer), merger (one issuer) and the decision of the general assembly (four issuers). In 2016, three shares were admitted to trading on the MTF, and in the same period 23 shares were excluded from trading (they were excluded due to inactivity of trading and based on the request of persons who submitted an application to be admitted to trading on the MTF).

Chart 1.1 Changes in the values of the CROBEX, CROBEX10 and CROBEXtr indices<sup>42</sup> and in the CROBEX share turnover on the ZSE in 2016



Source: ZSE

Chart 1.2 Changes in the values of the CROBIS and CROBIstr indices and in the CROBIS bond turnover on the ZSE in 2016<sup>43</sup>



Source: ZSE

42 Corrected data are available on p.199.

43 Corrected data are available on p.199.

At end-2016, the ZSE had 17 members i.e. two less than in 2015. In 2016, three ZSE members acted as market makers for nine shares admitted to trading on the regulated market. The Zagreb Stock Exchange decided to transition to the new XETRA trading system and it started the process of switching to this system in 2016.

The Central Depository and Clearing Company (hereinafter: CDCC) was the only entity in the Republic of Croatia in 2016 authorised to manage the central depository of securities and operate the clearing and settlement system for transactions in securities concluded on the regulated market and MTF or outside these markets.

Table 1.2 Number of deposited securities

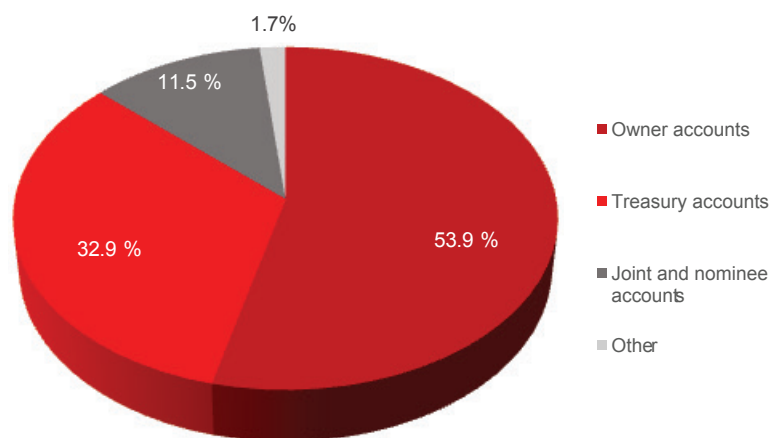
	31 Dec 2015	31 Dec 2016	Change relative to 2016 (in %)
Total	1,053	950	-9.8
Shares	886	845	-4.6
Bonds	66	69	4.5
Other	101	36	-64.4

Source: CDCC

Depository's operations were mostly focused on transfers within the clearing and settlement system and transfers associated with corporate actions. The number of corporate actions continuously decreased in relation to previous years. In 2016, there were 1581 corporate actions (1712 in 2015). Most of the corporate actions were related to general assemblies (707), followed by removal of securities (180), maturity of the principal (153), interest maturity (118) and cash dividend (100).

In 2016, a total of 176,674 transactions worth HRK 266.5bn were settled within the clearing and settlement system, which represents a decrease of 22.4% in the number of transactions, i.e. a decrease of 18.4% in the value of transactions compared to the previous year. The vast majority of transactions were transactions in shares (85.6%), while transactions in bonds and transactions in treasury bills and commercial papers made up only 6.1% i.e. 1.7%. As regards transaction value, transaction in bonds accounted for 51.9% of total transaction value in 2016 (59.5% in 2015), transactions in treasury bills and commercial papers accounted for 36.6% (34.2% in 2015), and transactions in shares accounted for 11.4% (6.2% in 2015).

Chart 1.3 Securities accounts structure in the CDCC depository as at 31/12/2016



Source: CDCC

In 2016, CDCC continued the process of harmonisation with the provisions of the Regulation on OTC derivatives<sup>44</sup> (hereinafter: EMIR) in order to be able to provide central counterparty services. CDCC will also have to align with the provisions of the Regulation on improving securities settlement in the European Union and on central securities depositories<sup>45</sup> (hereinafter: CSDR) in order to continue providing central securities depository services. After long-term preparations for alignment with EMIR and CSDR, submitting official requests for the approval for the operation of the central counterparty or central securities depository is planned for September 2017.

### 1.1.2 Issuers

In 2016, two new issuers – Zagrebačka burza d.d. and FTB Turizam d.d. – listed their shares on the official market of the ZSE. Corporate bonds of companies Lanište d.o.o., Zagrebački holding d.o.o., Atlantic Grupa d.d. and JGL d.d. were admitted to the regulated market of the ZSE. Hanfa instructed those issuers on their obligations and manner of publication of regulated information, and gave them initial support with regard to explaining the application of certain provisions of the Capital Market Act<sup>46</sup> (hereinafter: CMA).

The company Arenaturist d.d. changed its market segment by switching from regular to official market. By changing the market segment, this issuer decided to accept stricter rules concerning the transparent provision of information to the investor community.

In 2016, five issuers admitted to the regulated market listed additional shares on the regulated market; one issuer to the official market, and the remaining four on the regular market.

## 1.2 Hanfa's regulatory activities

### 1.2.1 Normative activities

#### Application of the Market Abuse Regulation

Since 3 March 2016, MAR has been directly applied in the Republic of Croatia<sup>47</sup>, harmonising and prescribing at the EU-level the ban on trade based on inside information, unlawful disclosure of inside information and market manipulation. The purpose of this Regulation is to prevent market abuse, to ensure the integrity of the capital market and to protect investors in the capital market. The following are the most important determinants of new regulations (MAR and delegated acts, implementing acts, regulatory technical standards, implementing technical standards and guidelines adopted in accordance with MAR):

- extended scope of application (financial instruments traded on a regulated market, MTP or an organised trading platform, and any procedures or actions that may affect such financial instruments no matter where they take place)
- a more precise definition of inside information
- market manipulations now include attempts and they also relate to reference values

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

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

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

47 Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, OJ L 173/1

- the existing obligation to report suspicious transactions has also been extended to reporting suspicious orders
- rules for justified communication of inside information in market research procedures have been established, as well as rules for conducting market research
- ban on trade based on inside information and ban on manipulation do not apply to programs of buying (trading in own shares) and stabilisation under certain conditions such as publishing all the program details prior to the beginning of trading, adherence to price and volume constraints, etc.
- issuers publish and retain on their website for a period of at least five years all the inside information that they are required to disclose
- obligation of the issuer's managing person to inform on transactions executed for their own account relating to the issuer's financial instruments and the prohibition of trading with those instruments 30 calendar days prior to the publication of the financial statement
- prescribed template of insider list.

*Stabilisation means any purchase or offer to purchase relevant securities, or any transaction in associated instruments equivalent thereto, by credit institutions or investment firms, which is undertaken in the context of a significant distribution of such relevant securities exclusively for supporting the market price of these relevant securities for a predetermined period of time, due to a selling pressure in such securities.*

Hanfa's representatives participated in the Working Group on the Preparation of Draft Proposal of the Capital Market Act, established with the Ministry of Finance with the aim of implementing MAR and other European Union regulations, thus ensuring further legal alignment of the Croatian capital market with the *acquis communautaire* and European standards, which is very dynamic and subject to frequent changes, so the alignment of the Capital Market Act with the EU regulations is expected. The adoption of a new Act complying with the provisions of MAR, MiFID II<sup>48</sup>, MiFIR<sup>49</sup> and CSDR is expected to take place in 2017.

In order to comply with MAR at Member State level, it was necessary to establish a single administrative body responsible for the implementation of MAR, to prescribe its powers in carrying out supervision procedures, to prescribe sanctions and measures for certain breaches of MAR, to report market abuse and to publish decisions imposing sanctions and penalties for market abuse. Although MAR has been directly applied in the Republic of Croatia since 3 July 2016, no regulation appointing the supervisory authority for the application of the provisions of MAR has been adopted at national level.

Whilst complying with MAR, the EU Member States were also required by 3 July 2016 to issue and publish laws and other regulations needed to comply with CSMAD<sup>50</sup>, which prescribes the introduction of criminal sanctions in all Member States, at least for serious offenses of market abuse. For this reason, the Ministry of Finance set up the Working Group on Amendments to the Criminal Code, with Hanfa actively participating in this group.

### Market abuse reporting

In order to transpose the provisions of the Commission Implementing Regulation (EU) No 2015/2392<sup>51</sup> Hanfa adopted the Ordinance on reporting actual or potential infringements of Reg-

48 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, OJ L 173/349

49 Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012, OJ L 173/84

50 Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse (Market Abuse Directive), OJ L 173/179

51 Commission Implementing Directive (EU) 2015/2392 of 17 December 2015 on Regulation (EU) No 596/2014 of the European Parliament and of the Council as regards reporting to competent authorities of actual or potential infringements of that Regulation, OJ L 332

ulation (EU) No 596/2014 of the European Parliament and the Council<sup>52</sup> (hereinafter: Ordinance on market abuse reporting), which stipulated the communication channels for the receipt of notifications on MAR violations, procedures applicable to violations and their further handling, confidentiality regime and procedures for the protection of persons reporting market abuse (whistle-blowers) and persons reported to have committed market abuse.

### **Suspicious Transaction and Order Report**

Market operators and investment firms managing a trading venue, and any person who negotiates or executes transactions as a part of their work, are required to report suspicious orders and transactions (*Suspicious Transaction and Order Report* – STOR) in line with MAR. For the purpose of receiving such reports, Hanfa set up the e-mail address STOR@hanfa.hr. Commission Delegated Regulation (EU) 2016/957<sup>53</sup> sets up a template for sending the reports.

### **Improving securities settlement in the European Union and central securities depositories**

In February 2016, the Act Implementing CSDR<sup>54</sup> entered into force, and Hanfa actively participated in the drafting process. It provided conditions for successful implementation of the CSDR provisions, and Hanfa, along with the Croatian National Bank (hereinafter: the CNB) was appointed a competent authority for its implementation. This provides a legal basis for the CDCC to submit a request for compliance with the provisions of CSDR at the time when it becomes obligatory to do so. In order to continue providing central securities depository services, the CDCC will have to align its operations with the provisions of CSDR, and within six months from the date of entry into force of technical standards of CSDR, submit to Hanfa a request for approval to operate under CSDR. The CDCC is expected to start the procedure of alignment with the provisions of CSDR at the end of 2017. In this procedure, Hanfa will be the competent authority issuing the work authorisation to the CDCC.

In 2016 Hanfa actively participated in the working group at the Ministry of Finance with a view to implementing the directly applicable CSDR. The main amendments related to Part Five of the CMA, which has until now covered non-materialised securities and other financial instruments in Chapter 1 and the Central Depository and Clearing Company in Chapter 2.

Novelties in relation to the current provisions are that CSDR establishes unique settlement requirements in the European Union and rules on the organisation and behaviour of central depositories, and defines the non-materialised form of securities trading in the sense of electronic records, whether securities are initially issued in an intangible form or they are immobilised. CSDR also opens the European Union market and allows any central depository based in the European Union and licensed under CSDR to provide its services in any Member State but also to the central depositories from third countries when their legal and supervisory frameworks are recognised as equivalent to CSDR.

Given that CSDR introduces the concept of central securities depository, it was necessary to regulate central depositories with the CMA provisions. CSDR defines a central depository as a legal entity that operates a securities settlement system and provides at least one other core service as defined by CSDR. Apart from the settlement service (operating a securities settlement system), these are notary service (initial recording of securities in a book-entry system) and a central maintenance service (providing and maintaining securities accounts at the top tier level). No one in the European Union, except a licensed central securities depository, can now manage a settlement system.

52 Official Gazette, No 60/2016

53 Commission Delegated Regulation (EU) 2016/957 of 9 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the appropriate arrangements, systems and procedures as well as notification templates to be used for preventing, detecting and reporting abusive practices or suspicious orders or transactions, OJ L 160

54 Act Implementing Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 (Official Gazette, No 44/2016)

Certain changes were introduced with regard to the obligation of dematerialisation, immobilisation and initial issue of securities in an intangible form, provisions regulating the operation of the central counterparty have been extended, and, within the framework of a separate chapter, the supervision that Hanfa conducts over the central counterparty and the central depository, as well as over a settlement system operator other than the central counterparty was defined.

### **Request for the approval of prospectus and prospectus drafts in an electronic form**

The prospectus approval process carried out by Hanfa and which, provided the prospectus was drawn up in accordance with the existing prospectus regulations, is to end with Hanfa's decision on prospectus approval, implies submitting a request for prospectus approval and drafting the prospectus by the issuer, offeror or person requesting the listing of securities for trading on the regulated market. In order to ensure that the prospectus meets the requirements relating to the completeness, consistency and comprehensiveness of the information contained, the prospectus approval process conducted by Hanfa implies the implementation of prospectus analysis. In order to provide more security to issuers, offers or persons seeking trading in relation to the approval process, it was necessary to specify at the EU level which documents should be submitted to national competent authorities at various stages of the prospectus approval process.

With a view to consistent alignment with the Delegated Commission Regulation (EU) No. 2016/301<sup>55</sup> and taking into account technical progress on capital markets, Hanfa issued the Technical guidance for the development and delivery of requests for prospectus approval electronically, which applies to requests for prospectus approval submitted to Hanfa from 1 July 2016, enabling the submission of requests for prospectus approval, as well as any documentation attached to this request electronically.

### **Participation in the Working Group of the Council of the EU on Financial Services in Charge of Drafting the Prospectus Regulation**

In 2016, In cooperation with the Ministry of Finance, Hanfa intensified its work in monitoring changes to the European regulations on the prospectus, by submitting written comments, proposals and suggestions on the Proposal for the Prospectus Regulation, as well as by active participation in meetings in Brussels, in the working group of the Financial Stability Council responsible for drafting this proposal.

Efforts on drafting the Prospectus Regulation, at least as far as the political aspect is concerned, were finalised by the end of 2016, when the European Parliament and the Council reached a political agreement on the draft text of the new Prospectus Regulation, which should entirely replace the current European Prospectus Regulatory Framework, with the Prospectus Directive 2003/71/EC<sup>56</sup> at its foundations.

On 20 December 2016, the Permanent Representatives Committee, on behalf of the Council, approved an agreement with the European Parliament of 7 December 2016 with regard to the Proposal for the Prospectus Regulation. The new Prospectus Regulation was published in the Official Journal of the European Union in June 2017, while the application of a minor part of the provisions, given that it is determined in stages, can be expected in the second quarter of 2018 and most of the provisions in the second quarter of 2019.

<sup>55</sup> Commission Delegated Regulation No 2016/301 of 30 November 2015 supplementing Directive 2003/71/EC of the European Parliament and of the Council with regard to regulatory technical standards for approval and publication of the prospectus and dissemination of advertisements and amending Commission Regulation (EC) No 809/2004

<sup>56</sup> The revision of the current European Regulatory Framework for Prospectuses was initiated by the European Commission in 2015 by conducting public consultations within the wider project of the Capital Market Union, with the aim of improving the capital market in the European Union, resulting in the adoption of the Proposal for a Regulation on the Prospectus published by the European Commission at the end of 2015; *Proposal for a Regulation of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading, 2015/0268 (COD)*

Key determinants of the Proposal on the Prospectus Regulation are as follows:

- there is no obligation to publish a prospectus for securities offer with a total fee of up to EUR 1 million in the European Union for a period of 12 months
- the threshold above which the publication of the prospectus is obligatory was raised from the current EUR five million to EUR eight million of the total EU offer fee for a period of 12 months, with the option for Member States to stipulate in their national legislation the obligation to publish a prospectus for securities offer with the total fee from EUR one million and EUR eight million for a period of 12 months, taking into account the specificities of the local capital market
- a new kind of prospectus is introduced, the Prospectus of the EU growing market, which will be used by:
  - small and medium-sized issuers
  - issuers who are not small and medium-sized and whose securities are listed or will be listed in the so-called growing market for small and medium-sized companies whose average market capitalisation for the previous three calendar years amounts to less than EUR 500m, calculated on the basis of data at the end of each business year
  - securities offerors whose issuers are those listed in the previous two indents
  - in the case of securities offers with a total EU fee of less than EUR 20m over a period of 12 months, provided that these issuers do not have securities listed on the MTF and where the average number of employees in the last business year did not exceed 499 employees
- a special prospectus regime for the so-called frequent issuers with a five-day deadline for the prospectus to be approved by Hanfa
- a special, more flexible regime for the so-called secondary issues for issuers whose securities are listed on the regulated market or the so-called growing market of small and medium-sized enterprises
- a simpler regimen to compile prospectus summaries with a limited number of pages (up to ten pages of A4 size)
- abolishment of prospectuses in printed form unless a potential investor expressly requests so
- online prospectus base at the European level that will be managed by ESMA<sup>57</sup>.

### **Working groups on the preparation of normative acts**

In relation to the capital market Hanfa adopted five ordinances prescribing the structure and contents of financial reports of the ZSE, the CDCC and the Investor Protection Fund, as well as reporting of actual or potential infringements of MAR.<sup>58</sup> Hanfa also adopted the Decision on reporting on the failed settlements, the Decision on the documentation accompanying the notification on the intent to apply the intragroup exemption from the clearing obligation as per Article 4(2) of the Regulation (EU) No 648/2012 and the Decision on the manner and form of reporting disputes between counterparties within the meaning of Article 15(2) of the Regulation (EU) No 149/2013. Hanfa notified ESMA of its intention to comply with the Guidelines on the delay in the disclosure of inside information<sup>59</sup>, Guidelines on persons receiving market soundings<sup>60</sup>, Guidelines on alternative performance measures<sup>61</sup> to be applied after the establishment of the appropriate national legal framework necessary for their application.

57 The European Securities and Markets Authority (ESMA) is described in more detail in Chapter 9.1.1 *Participation in the work of ESMA*.

58 The list of ordinances adopted by Hanfa in 2016 is provided in *Appendices*.

59 ESMA/2016/1478

60 ESMA/2016/1477

61 ESMA/2015/1415

### **Working Group on the Preparation of the Act Implementing the Regulation on Transparency of Securities Financing Transactions**

Hanfa actively participated in the Working Group on the Preparation of the Act Implementing the Regulation on Transparency of Securities Financing Transactions<sup>62</sup> (hereinafter: SFT Regulation) which will ensure the implementation of this regulation. Along with Hanfa's representatives, the representatives of the Ministry of Finance and of the CNB were also in the working group. The adoption of this act is expected to take place in 2017. The SFT Regulation was adopted in order to harmonise the legislative framework at the EU level, and it introduces more unique obligations for market participants in certain aspects of transparency in securities financing transactions and re-use of collateral. Its directly applicable rules should ensure that all supervised entities of Hanfa and the CNB have equal, directly applicable obligations and standards, with a view to strengthening the security and transparency of such transactions in the European Union.

### **Working Group on the Preparation of the Act Amending the Act on the Takeover of Joint-Stock Companies**

In 2016, at the request of the Ministry of Finance, Hanfa appointed three representatives in the Working Group on the Preparation of the Act Amending the Act on the Takeover of Joint-Stock Companies<sup>63</sup>. Along with the representatives of Hanfa and the Ministry of Finance, the working group consisted of representatives of academic community, Ministry of Public Administration, Ministry of Justice and the judiciary.

### **Working Group on the Preparation of the Draft Proposal of the Audit Act**

Hanfa also participated in the work on the draft proposal of the new Audit Act, led by the Ministry of Finance. The Working Group on the Achievement of Interoperability of the Clearing and Settlement System, formed at the Ministry of Finance continued its work in 2016. Representatives of Ministry of Finance, Croatian National Bank, CDCC, Croatian Bankers' Association, leading banks in Croatia and Hanfa attended meetings that were held throughout the year.

## **1.2.2 Licensing**

### **1.2.2.1 Licensing capital market infrastructure institutions**

Hanfa received a request from the Zagreb Stock Exchange for the approval of the prospectus for the admission of shares of the Zagreb Stock Exchange on the regulated stock market, and in August 2016, a unique prospectus for the listing of 4,635,700 ordinary shares of the Zagreb Stock Exchange on the regulated market of the Zagreb Stock Exchange was granted. Pursuant to the provision of Article 285(4) of the CMA, which stipulates that stock exchange shares may be admitted to trading on the regulated market only with special approval, on 26 August 2016, Hanfa issued a decision approving the listing of shares concerned to the Zagreb Stock Exchange. This decision replaced the decision on the admission of financial instruments on a regular market, which in all other cases is made by the Zagreb Stock Exchange. 31 August 2016 was the first day of trading in financial instruments.

Hanfa approved the amendments to the Price List of the Zagreb Stock Exchange, as well as the amendments to the Rules of the Zagreb Stock Exchange. The new Rules implemented the separation of Rules in a part of the regulated market and the MTF, while the provisions relating to the MTF were regulated within the framework of a separate legal document, the MTF Rules. They allowed a possibility of admitting to the regular market shares of open-end investment funds, primarily the exchange traded funds (ETFs). They regulate, inter alia, the application of a mechanism

62 Regulation (EU) No 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012, OJ EU L 337/1

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

that allows the withdrawal of already placed orders from the regulated market or MTF, and the ban on placing new orders (kill switch), they unify the application of the term specialist and the term market maker in a way that the term market maker is used regarding all financial instruments, and they introduce changes to the rules relating to structured products (certificates). The extension of work approval was approved in the part of facilitating trading with other financial instruments – units in undertakings for collective investment, on the regulated market and MTF.

In 2016, Hanfa continued with the process of licensing the CDCC-CCP Smart Clear d.d. company (hereinafter: CDCC-CCP) provision of services as a central counterparty under EMIR. Following the extension of the deadline for the submission of complete documentation, which was extended for an additional six months in 2015, in July 2016, after the expiration of the six months deadline, Hanfa granted a new additional deadline of two months to the CDCC-CCP, considering the fact that communication between ESMA, Hanfa and CDCC-CCP indicated that CDCC-CCP would need additional time to align its request with the EMIR requirements. Additionally, in November, a new conclusion was reached regarding the completeness of the request from which the risk assessment and decision making deadlines are running. The licensing of CDCC-CCP will therefore continue in 2017, when it is envisaged that Hanfa, together with other members of the regulatory college composed of representatives of ESMA and the CNB, will make a final decision on the request of the CDCC-CCP for the authorisation to provide services as a central counterparty.

### 1.2.2.2 Prospectuses and takeover bids

In 2016, Hanfa approved seven applications for the approval of prospectuses. Six applications related to the approval of prospectuses relating to the admission of securities on the regulated market (of which four related to the approval of prospectuses relating to the admission of shares, and two were in connection with the admission of bonds on the regulated market). One approved prospectus of securities (bonds) issue was also used for the purpose of listing them on the regulated market. Out of seven approved prospectuses, six of them were single, while one was composed of separate documents. Fifteen prospectuses were approved in 2015, while in 2014 the number of approved prospectuses was seven.

Hanfa received 51 notifications<sup>64</sup> related to the use of exemption from the obligation to publish a prospectus pursuant to the provisions of Article 354 of the CMA, which stipulates the obligation to notify Hanfa about the intention to use the exemption from the obligation to publish a prospectus in relation to securities issue and admission, while in 2015 it received 61 notifications of this kind. In 48 cases, these notifications related to the exemptions to publish a prospectus when securities are issued, as prescribed by Article 351 of the CMA. The exemptions were as follows: offering of securities to fewer than 150 natural or legal entities who were not qualified investors (33), offering of securities solely to qualified investors (11), offering to investors who are to pay at least EUR 100,000 in HRK equivalent per investor for each single offer (nine), offering exclusively to investors who participate in pre-bankruptcy proceedings according to the financial and operating restructuring plan (five), and other exemptions under Article 351 of the CMA (four). As regards the two exemptions to publish a prospectus when securities are listed, referred to in Article 352 of the CMA, they concerned requests for admission of shares that in the 12 months period represent less than 10% of the total number of shares of the same kind that have already been admitted to the same regulated market. The exemptions received concerned shares (31), structured products (ten), and bonds (nine).

*The prospectus contains all information which, according to the particular nature of the issuer and of securities offered to the public or admitted to trading on a regulated market, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses, and prospect of the issuer and of any guarantor, and of the rights attaching to such securities.*

*The prospectus may be drawn up as a single document or composed of separate documents.*

<sup>64</sup> When calculating the total number of received notifications, six notifications in which the author referred to the exemptions provided for in Article 342 of the CMA were not taken into account.

Exemptions associated with offers to a limited circle of investors (offers addressed to fewer than 150 natural or legal entities or offers addressed solely to qualified investors) are in the lead when it comes to use in the past three years.

According to Hanfa's data, HRK 200m was collected through the public offer of securities with published prospectuses, while approximately HRK 3bn was collected through the offers of securities with the use of exemption from the obligation to publish a prospectus.

Hanfa received a total of 15 notifications of prospectuses, as well as 15 notifications of supplements to prospectuses from competent authorities of other Member States. Notified prospectuses were mainly related to programmes of structured securities issues of credit institutions. The highest number of notifications were received from regulators in Austria (16) and Ireland (seven), followed by Luxembourg (four) and other regulators (three).

In 2016, eight takeover bids were approved<sup>65</sup>, compared to two in 2015 and six in 2014.

Hanfa received a total of 13 notifications on the use of exemption to publish the takeover bid. The exemptions were as follows: the decision of the General Assembly in accordance with Article 14(1)(3) of the Act on the Takeover of Joint-Stock Companies approves the acquisition of shares without the obligation to publish a takeover bid (three), the transfer of shares of the target company did not lead to a change of the person who controls the target company (three), acquisition of shares in the pre-bankruptcy procedure (three), there is a shareholder with a larger number of shares in the company (three), the acquisition of shares from the person with whom the acquirer previously worked together (one).

Based on offers in 2016, a total of HRK 308m was paid for the deposited shares, which is significantly more than in 2015, when the amount of HRK 71m was paid for the deposited shares in approved offers.

Hanfa continuously monitored the application of the provisions of the Act on the Takeover of Joint-Stock Companies. After it establishes irregularities or violations, Hanfa may, inter alia, determine the existence of the obligation to publish the takeover bid and order the taking of actions to publish a takeover bid. In 2016, one decision was issued determining the existence of the obligation to publish a takeover bid and imposing taking of actions to publish a takeover bid, and one decision determining the existence of the obligation to publish a takeover bid only, because the bid had already been published and executed. Hanfa also issued five statements clarifying some of the provisions of the Act on the Takeover of Joint-Stock Companies.

*Issuers from other Member States whose prospectus relating to the issue or admission of securities on the regulated market has been approved by the competent authority may, on the basis of that prospectus, offer securities in the Republic of Croatia, or admit them to trading on the regulated market in the Republic of Croatia.*

## 1.2.3 Supervision

### 1.2.3.1 Capital market infrastructure supervision

#### Supervision of the Zagreb Stock Exchange and trading

Hanfa carried out an on-site examination of the ZSE, which concerned the measures and procedures that the ZSE has to undertake with reference to the provisions of Article 292(1) and Article 305 of the CMA. During the on-site examination procedure, trading system as regards the trading phase and volatility interruption was observed, as well as the availability of data on the duration of certain trading phases.

<sup>65</sup> Pursuant to Article 9(1) of the Act on the Takeover of Joint-Stock Companies, a person who, directly or indirectly, alone or acting in concert, acquires more than 25% of the voting shares of the target company, is obliged to publish a takeover bid for the remaining shares. In accordance with the provisions of Article 24 of the Act on the Takeover of Joint-Stock Companies, Hanfa approves takeover bids and supervises them in accordance with the provisions of Article 47 of that Act.

Off-site supervision was carried out through the collection of reports the ZSE is obliged to submit to Hanfa, relating to the functioning of the regulated market and operation of the MTF. Hanfa analysed and verified following notifications that it receives from ZSE pursuant to the CMA in the framework off-site examinations: data on the ZSE ownership structure (on a monthly basis), monthly reports on the acquisition/disposal of financial instruments by the ZSE management, notifications on the admission to/removal from trading on the regulated market and admission to/removal from trading on the MTF, information on current business activities and changes in these activities (such as conclusion of new contracts, etc.), notifications on new market makers, notifications on volatility interruptions and suspensions of trading, monthly report on cancelled transactions, changes in the membership and updated member lists and the annual financial statement for 2015 accompanied by relevant external auditor's report. Hanfa monitored and analysed the process of introducing the new XETRA trading system on the Zagreb Stock Exchange, expected to be available to users during 2017. During on-site and off-site examinations, along with monitoring the compliance with regulatory provisions, Hanfa monitored the risks that ZSE is exposed to.

Hanfa conducted on-site supervision of compliance with prohibitions and obligations under Articles 451 to 470 of the CMA concerning market abuse, and it conducted off-site supervision of trading in financial instruments on the regulated market and MTF via real-time monitoring stations. It supervised placing, changing and cancelling of orders in the trading system, volatility interruptions, publication of information, and placing of issuers or financial instruments into the observation segment. The supervision of trading singles out and analyses financial instruments transactions that deviate from the usual course of trading, and it establishes a possible suspected market abuse by the participants in the transactions.

In accordance with the Ordinance on market manipulation and the obligation to report suspicions of market abuse<sup>66</sup> and the Ordinance on reporting actual or potential infringements of the Market Abuse Regulation, the ZSE and investment firms submitted to Hanfa 11 reports relating to suspicions of market abuse and three reports relating to suspicions of insider dealing. Hanfa received three reports on market abuse from various natural persons. Hanfa processes the reports received in a way that it analyses trading, collects relevant documentation and determines the grounds for the suspicion of market abuse. If there is reasonable suspicion of market abuse, such reports are submitted to competent authorities authorised for further action.

### **Supervision of the Central Depository and Clearing Company**

Supervision of the CDCC's business operations was carried out continuously, through off-site and on-site examinations. Off-site examinations involved the collection of reports the CDCC is obliged to submit to Hanfa pursuant to the provisions of the Capital Market Act, as well as data from other sources. In accordance with the provisions of the CMA, the CDCC regularly submitted monthly work reports, information on holders of qualifying holdings, annual financial reports and annual statement, as well as auditor's report, reports on the acquisition or disposal of financial instruments by members of the CDCC's Management Board, Supervisory Board and employees, notification of changes in membership and termination of membership, etc. Hanfa analysed all the data collected and, where appropriate, asked for further explanations or additional data.

It continued with on-site supervision of CDCC-CCP's information system regarding licencing procedures pursuant to EMIR for providing services as a central counterparty. Risk-based supervision was carried out through the supervision of the licencing process of CDCC-CCP and monitoring the preparation of CDCC for compliance with the provisions of CSDR, which was identified as the core risk of CDCC as they are considered key processes for the further operation of CDCC.

Hanfa participated in the meetings of the Association of operation an brokerage in financial markets organised by the Croatian Chamber of Economy on the transfer of the settlement system in the Republic of Croatia to the system from EMIR. The meetings were also attended by the repre-

66 Official Gazette, No 05/09

representatives of the CDCC, CDCC-CCP, Association of operation and brokerage in financial markets, Association of Investment Funds Management Companies and Association of pension companies and pension insurance companies. In September 2016, Hanfa sent a memo identifying main problems relating to the compliance and giving examples of possible solutions. Hanfa invited the above-mentioned associations to respond by stating the manner and deadlines in which they plan to solve these problems. In November 2016, associations responded to the inquiries and Hanfa, further communicating with CDCC-CCP and the associations, continued to monitor the process of aligning the entire market with the new regulations, and to facilitate consensus on key issues among market participants. For the purpose of educating market participants, Hanfa (as in the previous year) distributed to the associations examples of best practices in other Member States.

Supervision over the Investor Protection Fund was carried out through a continued supervision of the CDCC. On a monthly basis, Hanfa received data on the number of members and the condition of assets of the Investor Protection Fund from CDCC, as the operator of this Fund. In 2016, the Investor Protection Fund had 29 members. There were no cases that would necessitate the use of the Fund's resources.

### **Reporting to ESMA and competent authorities of other Member States**

Pursuant to Article 41 of MiFID<sup>67</sup>, Hanfa shall immediately notify ESMA and other competent authorities of the other Member States of its decision to temporarily suspend and/or remove from trading financial instruments on the regulated market, regardless of the initiator of the suspension i.e. removal. This obligation is fulfilled via the SARIS portal, developed by ESMA. During 2016, Hanfa used this portal to submit 33 notifications on suspension and removal from trading regarding structured securities, 12 notifications on suspension and continuation of trading regarding seven shares, one notification on suspension and continuation of trading in bonds and seven notifications on removal from trading concerning shares.

Pursuant to requirements from Regulation on short selling<sup>68</sup>, Hanfa quarterly submitted to ESMA a summary of information on net short positions relating to issued share capital and to issued sovereign debt and on uncovered positions relating to sovereign credit default swaps. In line with that Regulation and provision of the Commission Delegated Regulation EU No 918/2012<sup>69</sup>, Hanfa submitted to ESMA data on duration-adjusted amount of sovereign debt issued by the Republic of Croatia.

### **Submission of data to ESMA through the MiFID Database**

Articles 33 and 34 of the Regulation as regards record-keeping obligations<sup>70</sup> prescribe the obligations of competent authorities related to calculations, estimates and publication of data for shares admitted to trading on a regulated market. In accordance with the above-mentioned articles, Hanfa shall ensure that calculations are made promptly after the end of each calendar year and that MiFID database is updated. It shall also update the database within six weeks from a new admission to trading, and update it with a removal from trading. In 2016, Hanfa performed an annual update of the MiFID data base, submitted estimates for new listings four times, and updated the database after the publication of the removal from trading.

67 Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC, OJ L 145/1

68 Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps, OJ L 86/1

69 Commission Delegated Regulation No 918/2012 of 5 July 2012 supplementing Regulation (EU) No 236/2012 of the European Parliament and of the Council on short selling and certain aspects of credit default swaps with regard to definitions, the calculation of net short positions, covered sovereign credit default swaps, notification thresholds, liquidity thresholds for suspending restrictions, significant falls in the value of financial instruments and adverse events, OJ L 274/1

70 Commission Regulation (EC) No 1287/2006 of 10 August 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards record-keeping obligations for investment firms, transaction reporting, market transparency, admission of financial instruments to trading, and defined terms for the purposes of that Directive, OJ L 241/1

### 1.2.3.2 Supervision of issuers

Hanfa carried out supervisory activities related to issuers whose financial instruments were admitted to trading on the regulated market. There were 144 such issuers at the beginning of 2016, and 139 at the end of the year.

The supervisory activities concerned the continuous monitoring of the fulfilment of obligations with regard to the publication of regulated information in accordance with the provisions of the CMA and the fulfilment of obligations regarding the publication of a takeover bid in accordance with the provisions of the Act on the Takeover of Joint-Stock Companies. Continuous monitoring of the obligation to publish the regulated information includes verifying whether issuers publish the required information and whether they publish them on time, in places and with content as prescribed by the CMA, as well as whether the issuers have established an appropriate internal process management system for publishing the regulated information that enables orderly and lawful fulfilment of prescribed obligations. Hanfa also carried out targeted examinations related to the obligation to publish issuers' financial statements within the prescribed period, the obligation to include a new issue of shares on the official market, the obligation to publish inside information. Continuous monitoring of the obligation to publish a takeover bid involves verifying whether acquirers of shares in the issuer are obliged to publish a takeover bid as a result of certain acquisition of shares, and whether certain statements are considered to be statements on the intention to publish a takeover bid. Hanfa also carried out supervision regarding the verification of the change in shareholders' structure, which resulted in identifying two obligations to publish a takeover bid, while one procedure concerning the determination of the obligation was suspended due to the subsequent approval of the takeover bid.

In the framework of educational activities aimed at issuers, Hanfa, in cooperation with the ZSE and the CDCC, organised the seventh one-day educational meeting where the publication "Corporate Governance: the Manual" was presented, while handling of regulated information, novelties in the EU regulations (Capital Markets Union), the expected changes in the CDCC's operations (with a focus on the EU regulations and a special focus on the CDCC-CCP's operations) and new developments in conducting corporate actions were discussed.

In 2016, Hanfa conducted 154 off-site examinations of issuers related to transparency i.e. publication of regulated information, 24 off-site examinations related to acquisition and/or disposal of issuers' shares by managing persons and 18 off-site examinations related to acquisition and/or disposal of own shares and other financial instruments of issuers. There were also 16 administrative cases of supervision of issuers focused at handling regulated information.

Table 1.3 Regulated and other information submitted to OAM

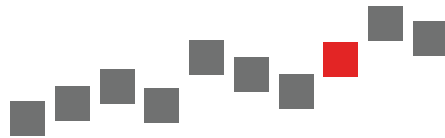
Type of information	Number of reports 2015	Number of reports 2016	Change
Annual reports	308	283	-25
total audited	234	232	-2
consolidated audited	85	87	2
unconsolidated audited	149	145	-4
total unaudited	74	51	-23
consolidated unaudited	26	17	-9
unconsolidated unaudited	48	34	-14
Quarterly reports	806	795	-11
consolidated	275	303	28
unconsolidated	531	492	-39
Information on changes in the percentage of voting rights	64	132	68

Type of information	Number of reports 2015	Number of reports 2016	Change
Acquisition and/or disposal of own shares	204	209	5
Information submitted by persons discharging managerial responsibilities in issuers	205	195	-10
Inside information	370	325	-45
Inside information – change in disclosed inside information	2	2	0
Information on changes in number of shares and/or voting rights	24	14	-10
Information on number of changes in rights arising from issued securities	2	1	-1
Information on new issues of debt securities	8	5	-3
General assembly – information on convocation, counterproposals and decisions	394	401	7
Annual document containing disclosed information	40	25	-15
Other regulated information	465	610	145
Other information (non-regulated)	271	233	-38
List of insiders	49	51	2
Proof of announcements to the media	2,445	2,648	203
Proposal of amendments to the statute	4	0	-4
Statements submitted to Hanfa	1	3	2
Other documents submitted to Hanfa	34	29	-5

Source: Hanfa

### 1.2.3.3 Other examinations

Hanfa continued to engage in activities related to access to information contained in trade repositories, and it concluded the contract and gained access to data of the remaining four trade repositories: UnaVista TR, CME TR, ICE Tvel TR and KDPW (contracts with first two trade repositories were concluded in 2015). By inspecting data reported to trade repositories, Hanfa will be able to effectively supervise non-financial counterparties with their registered offices in the Republic of Croatia, with respect to their obligations under EMIR. As a result of the amendments to the reporting standards under EMIR, which partly modify the layout of the report, which will affect the manner of reporting by the trade repositories and the data that will be reported to them, it is expected that effective monitoring will be possible by the end of 2017.



# Investment firms



## 2 Investment firms

### 2.1 Market overview

The year 2016 was concluded with good trade indicators, which was reflected in the growth of almost all indices. Accordingly, a decreasing trend in the number of legal entities providing investment services and performing investment activities was stopped. In the previous two years, there were no significant changes in the number of legal entities. In 2016, the number of credit institutions decreased due to bankruptcy proceedings over the bank Splitsko-Dalmatinska d.d.<sup>71</sup>, but on 17 August 2016, the bank Slatinska banka d.d. filed a request for prior approval for the provision of certain investment and ancillary services in accordance with the Capital Markets Act<sup>72</sup> (hereinafter: CMA), thus the number of credit institutions remained unchanged. In 2016, Hanfa received 173 notices of intention to directly provide investment services on the Croatian territory, while in 2015 there were 142 such notices.

Table 2.1 Number of active investment firms and credit institutions providing investment services and performing investment activities and UCITS management companies with their registered office in the Republic of Croatia<sup>73,74</sup>

Date	Investment firms	Credit institutions	UCITS management companies
31 Dec 2014	8	15	7
31 Dec 2015	8	15	7
31 Dec 2016	8	14	7

Source: Hanfa

### Income from provision of investment services and performance of investment activities<sup>75</sup>

Total income from performing investment activities and ancillary services under Article 5 of the CMA of investment firms and companies managing open-ended investment funds with public offering (hereinafter: UCITS management companies) increased in 2016 relative to 2015, by 20.5% and 3.9%, while the total income from corresponding activities of credit institutions decreased by 14%.

71 On 27 May 2016 Hanfa issued a Decision on the temporary ban of the provision of investment services and related ancillary services referred to in Article 5 of the CMA, as well as on the disposal of financial instruments and cash funds of clients in the provision of all investment services and related ancillary services, based on the Decision on the submission of the proposal to initiate bankruptcy proceedings of the Croatian National Bank, of 24 May 2016.

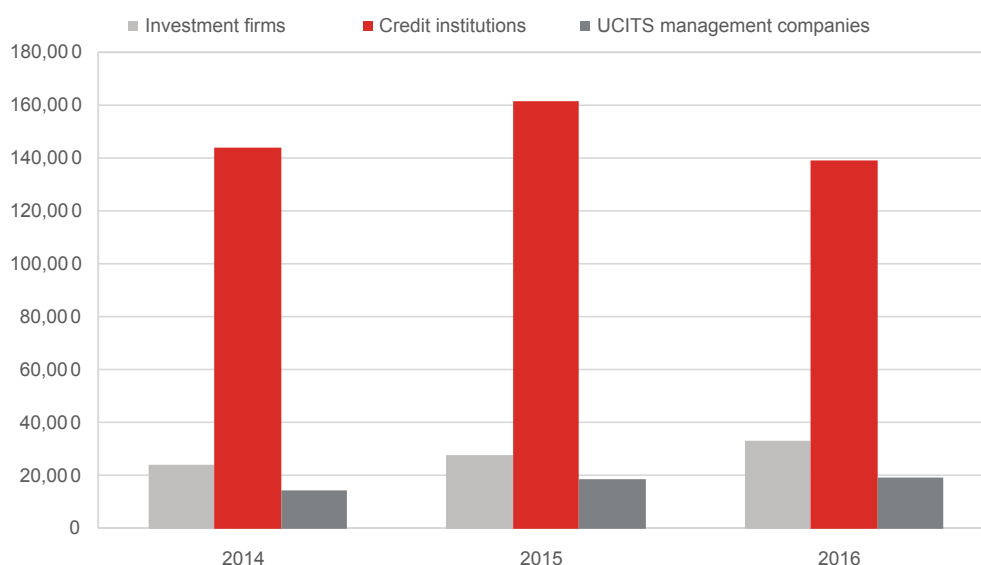
72 Official Gazette, No 88/08, 146/08, 74/09, 54/13, 159/13, 18/15, 110/15 and 123/16

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

74 The list of Hanfa's supervised entities is available at [www.hanfa.hr](http://www.hanfa.hr).

75 The data for previous years shown in Hanfa's 2015 Annual Report might differ from the data in Annual Reports 2014 and 2015 due to the application of the provisions of the Accounting Act (Official Gazette, No 78/15, 134/15 and 120/16), International Financial Reporting Standards, changes in reporting methodology, as well as due to actions taken by investment firms in accordance with Hanfa's instructions.

Chart 2.1 Total income of legal entities authorised to provide investment services and perform investment activities from 2014 to 2016 (in HRK thousand)<sup>76</sup>



Source: Hanfa

The largest part of investment firms' income structure was generated from the reception and transmission of orders and execution of orders on behalf of clients, with a significant increase relative to 2015 (as much as 44.8%). This increase largely resulted from an increase in the income from the reception and transmission of orders by one investment firm, based on the income from trading in contracts for difference.

As regards UCITS management companies, the most significant item was income from portfolio management, which slightly increased in 2016 compared to 2015 due to an increase in the number of clients.

As much as 72.4% of total income from investment services and activities related to the income of credit institutions. Income structure of credit institutions was marked by the income from issuing agency and income from safekeeping and administration of financial instruments for the account of clients, including custodianship making up 71.7% of total income, decreasing by 23.6% relative to 2015.

Table 2.2 Total income from provision of investment services and performance of investment activities in 2015 and 2016 (in HRK thousand)

	2015				2016			
	Investment firms	Credit institutions	UCITS management companies	Total	Investment firms	Credit institutions	UCITS management companies	Total
Income from reception and transmission of orders and income from execution of orders on behalf of clients	18,885	15,804	0	34,689	27,348	14,917	0	42,264
Income from portfolio management	561	444	18,631	19,636	764	754	19,347	20,865
Income from investment advice	0	10	118	128	0	10	125	135

<sup>76</sup> Total income from the provision of investment services and performance of investment activities is shown exclusive of income from dealing on own account.

	2015				2016			
	Investment firms	Credit institutions	UCITS management companies	Total	Investment firms	Credit institutions	UCITS management companies	Total
Income from underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis	0	1,525	0	1,525	0	13,756	0	13,756
Income from underwriting of financial instruments and/or placing of financial instruments without a commitment basis	5,104	94,625	0	99,730	834	57,732	0	58,565
Income from safekeeping and administration of financial instruments for the account of clients, including custodianship	972	35,907	0	36,879	1,035	42,006	0	43,041
Income from granting credits or loans to an investor to allow them to carry out a transaction	77	3,452	0	3,529	95	2,493	0	2,588
Income from advice to undertakings on capital structure, industrial strategy and related matters	2,331	10,076	0	35,272	3,568	7,513	0	11,082
<b>Total income</b>	<b>27,930</b>	<b>161,844</b>	<b>18,749</b>	<b>231,388</b>	<b>33,644</b>	<b>139,181</b>	<b>19,472</b>	<b>192,296</b>

Source: Hanfa

### Assets under management and custody of financial instruments

As much as 98.6% of total value of assets under portfolio management service related to the assets of UCITS management companies, increasing by 4.3% relative to 2015. Total assets under custody of financial instruments increased by 7.4%, with the highest share of 99% taken by credit institutions, an increase of 7.0%. As regards investment firms, assets under custody of financial instruments increased significantly (by 56.6%) as a result of increase in assets of two investment firms.

Table 2.3 Portfolio and custody assets as at 31/12/2015 and 31/12/2016 (in HRK thousand)

	Portfolio management		Change (in %)	Custody of financial instruments		Change (in %)
	31 Dec 2015	31 Dec 2016		31 Dec 2015	31 Dec 2016	
Investment firms	32,236	30,210	-6.3	412,357	645,692	56.6
Credit institutions	40,808	45,357	11.1	61,717,258	66,062,392	7.0
UCITS management companies	5,202,635	5,428,324	4.3	0	0	0.0
<b>Total</b>	<b>5,275,679</b>	<b>5,503,891</b>	<b>4.3</b>	<b>62,129,614</b>	<b>66,708,085</b>	<b>7.4</b>

Source: Hanfa

### Investment firms' annual financial statements

While in 2015 financial assets made up 71% of total assets, in 2016 this proportion fell to 53.26% of total assets, with a 44.8% decrease on the annual level. Liability structure also changed. In

2015, obligations amounted to largest part of liabilities, while in 2016 it was equity and reserves (50.6%). Total assets of investment firms decreased by 26.3% compared to the previous year, mainly due to a decrease in financial assets of one investment firm accounting for a significant share of the total assets of all investment firms.

Table 2.4 Statement of financial position of investment firms as at 31/12/2015 and 31/12/2016 (in HRK thousand)

Assets		31 Dec 2015	31 Dec 2016	Change (in %)
1.	Tangible and intangible assets and long-term investments	8,585	7,143	-16.8
2.	Cash and receivables	20,497	27,441	33.9
3.	Financial assets	71,155	39,269	-44.8
	Total assets	100,237	73,853	-26.3
Liabilities				
1.	Capital and reserves	36,494	37,339	2.3
2.	Payables	63,743	36,514	-42.7
	Total liabilities	100,237	73,853	-26.3

Source: Hanfa

In 2016, investment firms made an after-tax profit of HRK 2.3m, which represents a 5.9% decrease compared to the year before. The most significant share in the income structure was accounted for by income from fees and commissions for investment services provided (82.7%) with a 21.8% increase, interest income (6.2%) with 44.4% increase and realised income on financial assets measured at fair value through profit and loss account (6.0%) with a 113.7% increase. In the expense structure, general operating costs accounted for the share of 62.3% with a 18.0% increase, while expenses on fees and commissions for investment services provided accounted for the share of 31.7% with a 44.4% increase.

Table 2.5 Statement of comprehensive income of investment firms for 2015 and 2016 (in HRK thousand)

	2015	2016	Change (in %)
Net income/expenses from fees and commissions	20,149	22,599	12.2
Net realised and unrealised financial assets profit/loss	-1,165	1,561	-233.9
Net interest income/expenses	3,867	2,323	-39.9
Net exchange rate differences	-41	234	-672.5
Total other income	1,014	848	-16.3
Total other expenses	20,664	24,384	18.0
Total income	35,961	42,295	17.6
Total expenses	32,802	39,115	19.2
Pre-tax profit or loss	3,159	3,181	0.7
Profit tax	749	913	21.9
Profit or loss	2,410	2,268	-5.9
Other comprehensive income	-158	-546	244.7
Total comprehensive income	2,252	1,722	-23.5

Source: Hanfa

## Aggregated financial indicators of investment firms

Aggregated financial indicators of investment firms changed in relation to the previous year. Debt ratio was reduced due to significant decrease in total liabilities of investment firms. The return on assets slightly increased primarily due to a decline in asset value, while the return on equity decreased as a result of a decline in aggregated income. The capital adequacy ratio was reduced compared to the previous year, but it is still higher than the minimum required. Investment firms' aggregated income amounted to HRK 2.3m, with four investment firms making profit, and the remaining four recording loss.

Table 2.6 Aggregated financial indicators

	2015	2016
Ratios (in %)		
Debt ratio	63.6	49.4
Return on assets	2.4	3.1
Return on equity	6.6	6.1
Capital adequacy ratio	34.3	23.6
Amounts (in HRK thousand)		
Total risk exposure	70,613	97,193
Total regulatory capital	24,249	22,954
Aggregated profit/loss	2,410	2,268
Aggregated assets	100,237	73,853

Source: Hanfa

## 2.2 Hanfa's regulatory activities

With the aim of attracting as many customers as possible, there is a trend of aggressive advertising on numerous websites, portals and search engines offering a variety of internet platforms for trading in financial instruments. These internet platforms normally address the general public by communicating how to "seize the opportunity" and "earn money by trading on world stock exchanges". Usually they refer to trading in highly risky speculative products such as CFDs, binary options, rolling spot forex and similar. In order to protect the interests of investors, to familiarise them with the characteristics of these products, with risks they are exposed to when trading, and providing them with a way to find out their rights and obligations of service providers, Hanfa repeatedly issued warnings about trading in speculative products, because such products are highly risky, they are not suitable for retail investors and the loss of investment is very likely. Hanfa also issued other warnings for financial services users, listed in Chapter 2.2.3.2 *Off-site supervision*.

*Contracts for difference, binary options and other, similar speculative products are complex products not suitable for retail investors. Trading in such products may cause a loss of more money than it had been originally intended for trading.*

As a result of more and more noticeable and inappropriate ways in which certain investment firms from other Member States offer speculative products (CFDs, binary options, rolling spot forex) to Croatian investors, in 2016, Hanfa joined the CFD Task Force set up by ESMA. In this group, interested regulators from Member States are gathered on issues related to Cypriot investment companies which, on the basis of the principle of freedom to provide investment services, offer these products in the European Union. Work of this group is coordinated by ESMA<sup>77</sup>. Since joining

<sup>77</sup> The European Securities and Markets Authority (ESMA) is described in more detail in Chapter 9.1.1 *Participation in the work of ESMA*.

the group, Hanfa has actively participated in drafting a number of documents relating to the offering of CFDs and other speculative products to retail investors, with the aim of harmonising regulatory actions when selling such products.

Since the entry into force of the new provisions of the CMA in 2015, it has become mandatory to draw up a recovery plan adopted by the investment firm's management board, in order to determine measures that need to be taken to improve the financial position of the company in case of significant deterioration. Consequently, Hanfa adopted the Ordinance on investment firms' recovery plans<sup>78</sup> which prescribes the manner and range for the implementation of requirements related to the drafting of investment firms' recovery plans, contents and deadlines for sending the plan to Hanfa. In 2016, Hanfa assessed recovery plans of investment firms, as stated in Chapter 2.2.3.2 *Off-site supervision*.

### 2.2.1 Normative activities

Hanfa's employees took part in normative activities through their participation in working groups and internal committees as members / active participants in drafting regulations. As members of the working group set up at the Ministry of Finance, Hanfa's employees actively participated in the preparation of the new Capital Market Act, in relation to the transposition of MiFID II<sup>79</sup>. Additionally, as members of internal accounting committees, they gave comments/ideas on the Draft Accounting Act.

Hanfa also adopted the Ordinance on the structure and contents of annual financial statements of investment firms<sup>80</sup> which essentially prescribes structure and contents of financial reports submitted to Hanfa by investment firms and other external users in order to provide information on their financial position, business performance, cash flows, as well as deadlines and manner of submitting the reports.<sup>81</sup>

### 2.2.2 Licensing

In 2016, there were eight investment firms, 14 credit institutions with Hanfa's approval to perform investment activities and ancillary services under the Capital Market Act, and seven companies managing investment funds with public offering operating on the capital market in the Republic of Croatia.

Requests for issuing approval for brokerage work under the Capital Market Act were submitted by four candidates to whom they were issued. In 2016, more approvals for the work of investment advisor were issued, as the broker's work can also be performed with this approval. Hanfa issued 13 work authorisations to investment advisors. Additionally, seven brokers and six investment advisors ceased to perform their activities due to termination of employment.

One investment firm terminated contracts on the performance of activities of tied agents, promotional activities related to investment firm's services, offer of services, receiving and transmitting orders from clients and placement of financial instruments, with two tied agents who performed those activities on the firm's behalf. One of them continued to carry out the activities of a tied agent on behalf of a credit institution, which gave them a new contract authoriz-

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78 Official Gazette, No 26/15

79 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, OJ L 173/349

80 Official Gazette, No 39/16

81 The list of ordinances adopted by Hanfa in 2016 is provided in *Appendices*.

ing them to continue to carry out those activities on its behalf and for whose work it is fully responsible.

Hanfa issued two prior approvals for providing investment services and performing investment activities to credit institutions on the basis of their request, of which one prior approval related to the extension of existing services and activities for which the credit institution already had the approval of the Croatian National Bank (hereinafter: the CNB), specifically, for placing of financial instruments without a firm commitment basis. The other request for prior approval was submitted by a credit institution with an intent to become a capital market entity. Since this credit institution fulfilled all the requirements for the issuance of prior approval, its request was approved. In this case, the approval of the CNB is needed, issued on the basis of Hanfa's prior approval, before the institution can commence with its activities in the capital market.

Investment firms are led by management boards approved by Hanfa for the period of five years, maximum. In 2016, four authorisations for the function of a member of an investment firm management board were issued, of which only one authorisation referred to the extension of the term for a member of an investment firm management board who had previously held that function.

*Tied agent is a natural or legal person who, under the full and unconditional responsibility of the investment firm on whose behalf it acts, promotes investment and/or ancillary services to clients or prospective clients, receives and transmits instructions or orders from the client in respect of investment services or financial instruments, places financial instruments or provides advice to clients or prospective clients in respect of those financial instruments or services.*

*In order to inform the public of changes in licensing procedures, Hanfa transparently and continuously publishes relevant data on its internet website, via registers of investment advisers, brokers, tied agents, companies authorised to provide investment services and perform investment activities.*

Table 2.7 Authorisations and approvals

Work authorisations issued	2013	2014	2015	2016
Brokers	3	10	13	4
Investment advisors	6	13	10	13
Tied agents	3	1	3	0
Investment firms	0	1	0	0
Approvals for Board Members	10	7	0	4
Prior approvals for credit institutions	5	2	0	2

Source: Hanfa

Table 2.8 Terminations of operating licences

Terminations of operating licenses	2013	2014	2015	2016
Brokers	27	15	9	7
Investment advisors	8	11	4	6
Tied agents	2	1	1	1

Source: Hanfa

Pursuant to Hanfa's authority to issue opinions at the request of legal entities and natural persons, an opinion was issued at the request of a credit institution requesting confirmation whether a transaction can be carried out for a client when the client wishes to depart from the investment advice obtained (or disregard the advice) in a way that they want to carry out one or more transactions that would not be considered suitable for them. The service provider, after explicitly warning the client, may carry out such transaction on the basis of his express instruction/orders (upon his initiative), with the obligation to provide record keeping of the aforementioned checks and subsequent proof of all activities performed by the service provider.

In 2016, Hanfa received 173 notifications from European regulators on intention to directly provide investment services and activities in the Republic of Croatia by investment firms based in EU Member States. In 2015, 142 such notifications were received, so the increase in the number of notifications from European regulators is evident. As at 31 December 2016, there were 568 investment firms with their registered offices in EU Member States entered in the Register of firms from EU Member States, as well as data on tied agents used by some firms to provide services. As under the relevant EU regulations, regulators from Member States are not obliged to exchange data on cross-border operations of investment firms, Hanfa does not have accurate data on activities in the Republic of Croatia of investment companies entered into Hanfa's Register of Notifications. Only the provisions of domestic regulations that regulate consumer rights and the prevention of money laundering and terrorist financing apply to them in order to protect the public interest. Hanfa initiated a discussion in ESMA on the need to exchange such information, in order to appropriately perform its supervisory role in cases when financial service providers from other Member States wish to perform such services in the Republic of Croatia.

Table 2.9 Notifications by Member States

Member State	Number of received notifications in 2015	Number of received notifications in 2016
United Kingdom	88	122
Cyprus	32	31
Germany	3	5
The Netherlands	4	3
Ireland	5	3
Gibraltar	2	2
Other	7	7
Total notifications in Croatia	395	568

Source: Hanfa

In addition to registering notifications from companies with head offices in the EU Member States, in 2016, Hanfa paid special attention to registering suspensions of investment firms with the approval of the Cypriot Regulatory Authority, given that in 2016 this entity issued a large number of suspensions to certain Cypriot investment firms.

In 2016, two investment firms with their registered offices in the Republic of Croatia expressed their intent to directly provide investment services and conduct investment activities in EU Member States. Pursuant to the provisions of the CMA, they notified Hanfa thereof, and Hanfa forwarded the notification to the competent authority of the Member States in whose area the investment firms intended to provide investment services and activities. An investment firm may start providing investment services and carry out investment activities in another Member State from the day the competent authority receives the notification from Hanfa.

### 2.2.3 Supervision

The key to supervising investment firms, credit institutions and UCITS management companies when providing investment services and performing investment activities under Article 5 of the CMA is to establish the legality of business operations, the regularity in applying regulations governing the provision of investment services and in financial position and risks that an investment firm is exposed or could be exposed to in its business. Hanfa conducted on-site and off-site supervision examinations of the above mentioned supervised entities. The aim of the on-site supervision was to check the compliance of the entities' operations with the law and regulations,

adoption and monitoring of the implementation of supervisory measures and determination of the risk profile, while the aim of the off-site supervision was to actively monitor the operations of supervised entities, as well as adoption and monitoring of supervisory activities.

Supervisory activities were aimed at the control of investment services and investment activities provision, the protection of clients' assets, the application of new legislation and reporting to Hanfa, and monitoring of the activities of companies from EU Member States and companies from third countries on the territory of the Republic of Croatia.

### **2.2.3.1 On-site supervision**

In 2016, Hanfa initiated seven on-site examinations of investment firms, companies managing open-ended investment funds with public offering and credit institutions in connection with the provision of investment and ancillary services defined by the CMA. One full-scope on-site examination was started over investment firms regarding the provision of investment and ancillary services, as well as two targeted on-site examinations. One full-scope on-site examination was started over UCITS management companies in the part of providing portfolio management investment services, while two full-scope on-site examinations were started over credit institutions in the part of providing investment and ancillary services, as well as one targeted on-site examination.

On the basis of on-site examinations that were carried out, Hanfa issued three decisions on the termination of on-site examinations. In two supervisory procedures, the supervised entities removed the violations and irregularities established during the on-site examinations, prior to the adoption of a decision ordering an appropriate supervisory measure, while in one supervisory procedure Hanfa first issued a decision with supervisory measures, and after that a decision on the termination of the supervisory procedure. Measures were issued due to breaches of the provisions of the CMA and ordinances founded on this Act, and were related to operational risk management, control of business compliance, assessment of client appropriateness, client reporting related to portfolio management service, filling out supervisory reports, internal acts updating and business continuity management. The firm acted pursuant to Hanfa's decision, thus the decision was issued to suspend the supervision process due to violations and irregularities found being eliminated. The activities with respect to other examinations shall continue in 2017.

Hanfa also issued a decision that temporarily prohibited a credit institution from providing and conducting investment services and activities and related ancillary services based on the Decision on the submission of the proposal to initiate bankruptcy proceedings of the CNB. In order to protect the interests of clients providing investment and auxiliary services without delay, Hanfa issued a decision ordering that, after arranging mutual relationships with clients to whom a credit institution provided custody service, the delivery of financial instruments should be executed in accordance with clients' instructions, such instruments being stored at custody accounts with the Central Clearing Deposit Company or with other third parties where financial instruments are deposited in the framework of providing that service. The purpose of the measures is to ensure that clients can dispose of their assets held or administered by the credit institution for their account.

Along with the activities of domestic investment firms, Hanfa actively monitored the activities of foreign firms offering their services to investors in the Republic of Croatia. The number of the so-called notifications, i.e. investment firms from Member States directly providing investment services in the Republic of Croatia, has been growing year-by-year. With the increasing number of investment firms regulated by the competent authorities of other EU Member States, the interest of firms from third countries who are trying to offer their services to investors in the Republic of Croatia has increased, mainly in a legally inadequate manner. If it is established that a particular firm or an individual from the Republic of Croatia or a Member State and/or a third country offers or provides investment services to investors contrary to the provisions of the CMA or MiFID, depending on the case, Hanfa initiates supervisory activities, notifies the competent regulator or in-

forms the public by publishing warnings on its website. In 2016, Hanfa published two public warnings on the risks of establishing a business relationship and the activities of two companies, one from an EU Member State and another from a third country.

Last year saw an increase in the number of Internet sites and other distribution channels aimed at investors in the Republic of Croatia, offering various so-called investment strategies, which seem to consist of investing in prosperous, mainly foreign companies by purchasing certain instruments (not bonds or shares in the usual sense) of various names – certificate, receipt, coupon etc. and thus acquiring right to participate in the profit of a certain company, or the company being obliged to pay a certain yield and/or interest on the funds invested, usually within the defined deadlines for payments that may vary from several months to several years. For this reason, Hanfa issued a public announcement about the characteristics of documents (participatory notes) offered to the investment public as an alternative to investing in classical financial instruments and called for caution when considering the acceptance of such offers as they are not financial instruments.

A step further in attracting new clients is hidden advertising of foreign brokers through websites (blogs, social networks, forums, etc.) where people describe their (alleged) positive experiences in trading with such instruments and how they earned (often) large amounts of money. In this way, they promote trading in speculative financial instruments, such as binary options or CFDs. These web sites explain how to trade via online trading platforms – through which these speculative financial instruments are traded – and ultimately propose trading via a specific broker. Given that such brokerage companies do not have appropriate work authorisation issued by Hanfa, or any other regulator from the European Union, Hanfa issued a public warning so that investors could be aware of the risk if accepting such bids.

*Participatory notes are documents that give their holders the right to participate in the profit of a company. Holders of participatory notes have right to participate in the profit, and if the profits are not realised, the holders participate in the coverage of loss of the company in the amount of the investment. Apart from participatory notes, there are other documents offered on the market (endorsements, certificates etc. – promissory notes) which oblige companies to pay a certain yield and/or interest to holders as a return on investment, at specified percentages and time intervals.*

### **2.2.3.2 Off-site supervision**

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

In 2015, Hanfa issued the Guidelines for conducting assessment of the adequacy of the third party for holding the assets of clients, and in 2016, it continued to monitor the compliance of investment firms with these Guidelines in a way that via off-site supervision it checked whether and to which extent certain investment firms, credit institutions and UCITS management companies aligned its operations when holding the clients' funds and/or financial instruments with third parties.

Hanfa assessed recovery plans of its supervised entities. Recovery plans must be developed by investment firms with the initial capital in the amount of HRK 6m, significant investment firms and investment firms ordered by Hanfa to develop such plans. In 2016, Hanfa assessed recovery plans of two investment firms that fulfilled requirements on the initial capital. This included determining their completeness and quality, taking into account the fact that these firms were not sig-

nificant investment firms and consequently, they can make a recovery plan of a smaller scope. Investment firms are obliged to update their recovery plans at least once a year, and in case of changes in their recovery plans they must submit them to Hanfa for re-assessment.

For the purpose of protecting the clients' assets, Hanfa carried out the control of compliance of financial instruments of investment firms and credit institutions clients by comparing the data from internal company records (internal business support) and from external records (records of the third-party holding the clients' financial instruments).

#### **2.2.4 Examinations taken by candidates for brokers and investment advisors**

Hanfa organised an educational programme which included lectures for certified pension fund managers, certified managers of pension insurance companies, brokers and investment advisors i.e. it covered the area of all examinations (for certified pension fund managers, certified managers of pension insurance companies, brokers and investment advisors) The education programme was attended by 42 persons.

Hanfa organised an examination cycle for brokers and an examination cycle for investment advisors. Both examination cycles consisted of two examination terms. The examinations for brokers were taken by 18 candidates, and passed by ten of them. The examinations for investment advisors were taken by 259 candidates, and passed by 109 of them.





# Investment funds



## 3 Investment funds

### 3.1 Market overview

In line with a low interest rate environment and recovery of the real economic activity, investment funds market in Croatia saw a significant increase in the value of assets in 2016. Consequently, the number of open-end investment funds with a public offering (hereinafter: UCITS) increased by six, while the number of alternative investment funds (hereinafter: AIFs) increased by two, relative to the end of the previous year. Four newly funded UCITS bond funds and four UCITS were categorised as other funds, and due to two mergers of equity i.e. balanced funds, the number of UCITS increased by six.

#### 3.1.1 Management companies

At end-2016, there were 21<sup>82</sup> registered companies managing investment funds<sup>83,84</sup>, one more than in the same period the year before. Eight companies managed UCITS and AIFs, six companies managed only UCITS and seven companies managed only AIFs.

As at 31 December 2016, 13 investment fund management companies were directly owned by residents, four companies were indirectly owned by non-residents and two companies were directly owned by non-residents. Two companies were partly owned by residents and non-residents, of which one company was partly directly owned by residents and partly directly owned by non-residents, and the other company was partly directly owned by non-residents and partly indirectly owned by non-residents. Management companies making a part of a banking group managed 90.8% of UCITS

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

*UCITS has no legal personality, and is established by a management company which manages it in its own name and for the account of holders of units in those assets, pursuant to provisions of the Act on Open-Ended Investment Funds with Public Offering<sup>85</sup> (hereinafter: AOEIF), prospectus and fund rules. UCITS are established for the purpose of raising cash by offering units in the fund through a public offering to all interested investors. Funds collected from investors are invested in transferable securities or other types of liquid financial assets, while observing the principle of risk distribution. Depending on changes in the value of assets in the UCITS, investors earn a return and, in addition to the right to a proportional share in the fund's profit, may require the redemption of units and exit the fund.*

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

*Each open-ended and closed-ended investment fund operating in the Republic of Croatia must have a depository, which carries on a series of activities for the fund, involving safekeeping of separate fund assets, keeping of separate accounts for the fund's assets, and other activities in accordance with the provisions of the Act on Open-Ended Investment Funds with Public Offering and the Alternative Investment Funds Act<sup>86</sup> (hereinafter: AIFA). Duties of depositaries in the Republic of Croatia are carried out by credit institutions.*

*In accordance with the Act on Open-Ended Investment Funds with Public Offering, public offering is a communication to persons in any form and by any means, presenting sufficient information on the terms of the offer and the securities to be offered, so as to enable an investor to decide to subscribe to these securities.*

*In accordance with the Alternative Investment Funds Act, private offering is a communication to persons in any form and by any means, presenting sufficient information on the terms of the offer and the securities to be offered, so as to enable an investor to decide to subscribe to these securities. Private offering is conditioned according to some of its characteristics, such as the minimum investment amount, target group of investors or the number of investors.*

82 One company managing alternative investment funds was founded on 30 December 2016, but it was entered into the register of companies in mid-January 2017 and it started to work only after that.

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

84 The list of Hanfa's supervised entities is available at [www.hanfa.hr](http://www.hanfa.hr).

85 Official Gazette, No 44/16

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

assets, while three management companies making a part of a banking group managed 9.6% of AIF assets at the end of 2016.

Investment fund management companies realised an after-tax profit in the amount of HRK 59m, an increase of 11% compared to 2015. There was an increase in overheads and administrative operating expenses in the amount of HRK 2m, with a more pronounced increase in net results from fees from investment funds management, compared to the previous year. At end-2016, the largest share in total assets was accounted for by financial assets (76.8%), while the largest share in total liabilities was made up of capital and reserves (79.2%).<sup>87</sup>

### 3.1.2 Open-ended investment funds with public offering

In 2016, the increasing trend regarding the number of UCITS continued, and the total number of funds increased by six compared to the previous year. The increase in the number of UCITS was mostly the result of the increase in the number of bond funds and funds categorised as other funds. As at 31 December 2016, three funds were undergoing winding-up proceedings. They were the same funds as in 2015. In 2016, there were two mergers recorded in Hanfa's register, while eight new UCITS were established.

Table 3.1 Comparison of the number of UCITS as at 31/12/2015 with that as at 31/12/2016

UCITS	31 Dec 2015	31 Dec 2016
Cash	20	20
Bond	11	15
Balanced	9	8
Equity	27	26
Other	18	22
Total	85	91

Note: The table does not contain umbrella UCITS.

Source: Hanfa

Table 3.2 Net assets of UCITS as at 31/12/2015 and 31/12/2016 (in HRK thousand)

	31 Dec 2015	31 dec 2016	Share (%)	Change (in %)	Payments in 2016	Payouts in 2016
UCITS	13,857,695	18,440,776		33.1	22,142	17,931
Cash	9,256,527	11,111,297	60.3	20.0	17,724	15,907
Bond	1,457,602	4,048,794	22.0	177.8	3,382	897
Balanced	809,312	866,564	4.6	7.1	210	212
Equity	1,630,344	1,790,136	9.7	9.8	653	642
Other	703,910	623,985	3.4	-11.4	173	274

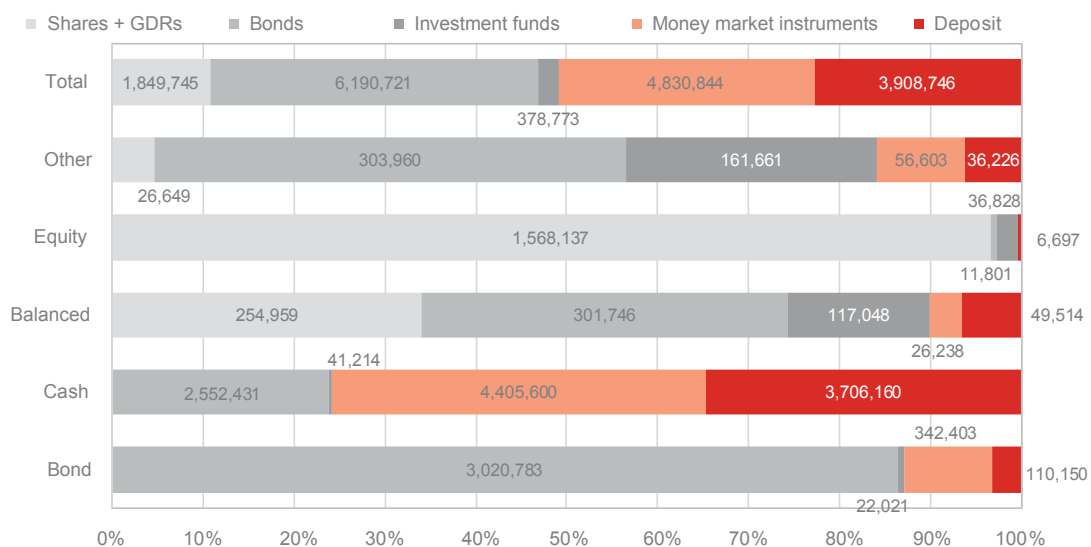
Source: Hanfa

<sup>87</sup> The Statement of financial position and the Statement of comprehensive income of investment fund management companies are provided in *Appendices*.

UCITS' net assets increased by 33.1% compared to 2015, totalling HRK 18.4bn at the end of 2016. Increase in net assets of UCITS was mostly due to the increase in net assets of bond funds, because of the establishment of new funds and the increase in assets of existing funds. On the other hand, the category of other funds recorded a decrease in the total value of net assets in the amount of HRK 79.9m, which can be connected with relatively high net payments from funds.

The performance of UCITS observed in the currency of their unit value shows that, at end-2016, equity funds recorded returns ranging from -4.9% to 24.7%. Only five funds recorded negative returns. Positive returns of a majority of equity funds were mostly the result of the faster recovery of stock markets. Balanced investment funds recorded returns ranging between 5.2% and 13.3%. As a result of unchanged monetary policy in the Eurozone, the returns of cash funds stayed at extremely low levels, as in 2015. Almost all cash funds recorded positive returns, ranging between -0.4% and 1.1%. All bond funds recorded positive returns, ranging between 2.3% and 6.1%. Funds categorised as other funds achieved yields in the range from 1.5% to 20.4%, due to their diverse investment strategies.

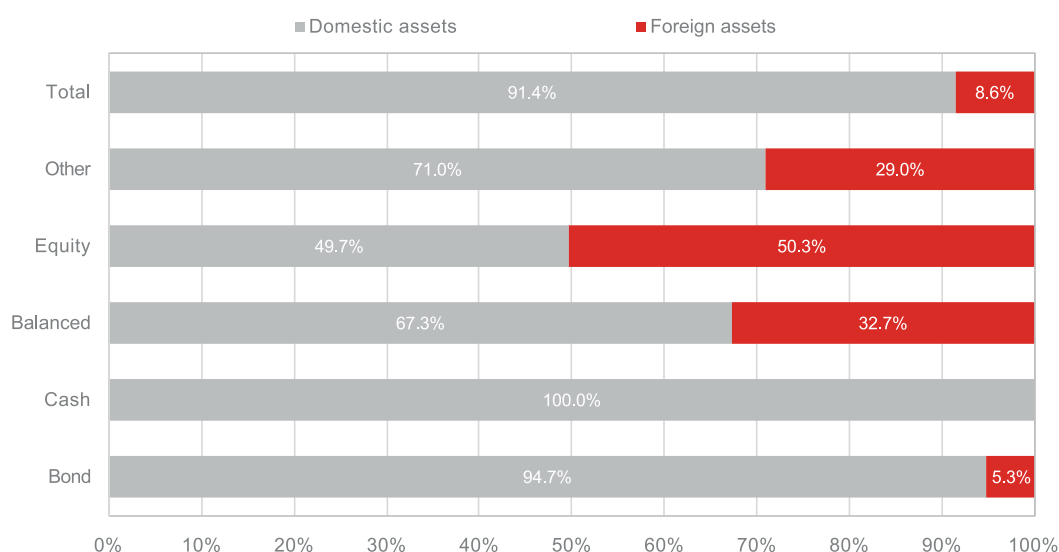
Chart 3.1 Investment structure of UCITS as at 31/12/2016 (in HRK thousand)



Source: Hanfa

Since cash funds dominated the total assets of all UCITS, at the end of 2016, money market instruments and deposits cumulatively accounted for more than one half of the assets of UCITS (28.2% and 22.8%, respectively). In line with their investment strategies, bond funds were the largest investors in bonds, while equity funds were the largest investors in shares. Due to a significant share of bond funds in total assets of all UCITS, bonds accounted for as much as 36.1% of the investment structure of all UCITS. Most of this related to investments of bond funds (48.8%) and cash funds (41.2%), and to a lesser degree to the investments of the remaining UCITS. At the end of 2016, the least represented assets in the UCITS portfolios were investment funds, making it a modest 2.2% of all UCITS investments, while funds categorised as other funds were the largest investors.

Chart 3.2 Share of domestic and foreign assets in UCITS net assets as at 31/12/2016



Source: Hanfa

The share of domestic assets in UCITS total net assets at the end of 2016 further increased compared to the previous year and amounted to 91.4%. This was caused by the fact that the assets of cash funds constituted the largest part of UCITS assets (60.3%), and cash funds were not exposed to foreign markets at end-2016. Investments in foreign assets primarily related to investments in shares, investment funds and, to a certain degree, bonds. Equity funds' portfolios were dominated by investments in foreign assets, i.e. shares and, to a smaller extent, equity investment funds. Significant investors in foreign assets were balanced funds and funds categorised as other funds. Such assets were mostly made up from stocks and shares in investment funds. Bond funds were not heavily exposed to foreign assets, but the portion of their portfolios exposed to foreign securities (5.2%) was mostly related to foreign government bond investments (4.1%).

### 3.1.3 Alternative investment funds

In 2016, three AIFs were founded in the Republic of Croatia, all of them categorised as open-ended alternative funds with private offering. Two funds were categorised as hedge funds (special types), and one as a venture capital fund. Since one AIF was removed from Hanfa's register, the number of AIFs in the Republic of Croatia at end-2016 increased by two relative to the previous year, and it stood at 30.

Table 3.3 Comparison of the number of AIFs as at 31/12/2015 with that as at 31/12/2016

AIF	31 Dec 2015	31 Dec 2016
Private offering	23	25
basic	10	9
hedge (special types)	5	7
venture capital (special types)	2	3
venture capital – economic cooperation (special types)	5	5
closed-ended	1	1

AIF	31 Dec 2015	31 Dec 2016
Public offering	5	5
open-ended	2	2
closed-ended real-estate	1	1
closed-ended	2	2
Total	28	30

Note: The table does not contain umbrella AIFs.

Source: Hanfa

Table 3.4 Net assets of AIFs as at 31/12/2015 and 31/12/2016 (in HRK thousand)<sup>88</sup>

AIF	31 Dec 2015	Share (in %)	31 Dec 2016	Share (in %)	Absolute change	Change (in %)
Private offering	2,610,917	87,3%	2,487,311	85,5%	-123,606	-4.7
basic	381,020	12,7%	382,935	13,2%	1,915	0.5
hedge (special types)	57,047	1,9%	62,817	2,2%	5,770	10.1
venture capital (special types)	71,892	2,4%	72,822	2,5%	930	1.3
venture capital – economic cooperation (special types)	951,589	31,8%	871,449	30,0%	-80,141	-8.4
closed-ended	1,149,368	38,4%	1,097,287	0	-52,081	-5
Public offering	378,477	12,7%	421,103	14,5%	42,627	11.3
open-ended	50,183	1,7%	50,934	1,8%	751	1.5
closed-ended	251,859	8,4%	300,086	10,3%	48,227	19.1
closed-ended real estate	76,435	2,6%	70,083	2,4%	-6,351	-8.3
Total	2,989,394	100,0%	2,908,414	100,0%	-80,980	-2.7

Note: The table does not contain umbrella AIFs.

Source: Hanfa

The increase in net assets of AIFs in 2016 was primarily a result of the increase in net assets of venture capital AIFs with private offering – economic cooperation funds. Net assets of hedge funds (special types) also increased significantly. Net assets of venture capital AIFs with private offering – economic cooperation funds rose by HRK 90.5m compared to 2015, whereas net assets of hedge funds (special types) increased by HRK 67.7m.<sup>89</sup>

### 3.1.4 Funds established under special acts

After a continued decline in net assets of the Fund for Croatian Homeland War Veterans and Members of their Families in the previous years, in 2016, the asset growth of this fund was evident. The net assets of the Fund for Croatian Homeland War Veterans and Members of their Families increased by 9.3% during that period. The net assets of the Fund for Croatian Homeland War Veterans and Members of their Families grew as a consequence of the market influence (i.e. market growth). Net assets of the Retired Persons' Fund amounted to HRK 190m at end-2016. The largest part of those assets was accounted for by receivables from the Republic of Croatia.

<sup>88</sup> Corrected data are available on p.194.

<sup>89</sup> Corrected data are available on p.194.

Table 3.5 Investment funds established under special acts as at 31/12/2015 and 31/12/2016 (net assets in HRK thousand)

Investment fund	Net assets 31 Dec 2015	Net assets 31 Dec 2016
Fund for Croatian Homeland War Veterans and Members of their Families	687,952	818,883
Retired Persons' Fund	193,492	190,813

Source: Hanfa

## 3.2 Hanfa's regulatory activities

### 3.2.1 Normative activities

#### New legal framework regarding open-ended investment funds with public offering

The Act on Open-Ended Investment Funds with Public Offering was adopted on 29 April 2016. Hanfa took part in preparing this Act through a working group for its preparation, and on the basis of previous experience and practice it proposed improvements relative to the previous legislative framework. UCITS V Directive<sup>90</sup> was implemented into the AOEIF, and some improvements were made relative to the previous legislative framework. The Member States of the European Union were obliged to transpose the provisions of this Directive into their national legal systems. This was done in the Republic of Croatia. AOEIF entered into force on 19 May 2016 and, with its entry into force, the Act on Open-Ended Investment Funds with Public Offering (hereinafter: the old AOEIF)<sup>91</sup> ceased to be in force.

The AOEIF implemented the provisions of the UCITS V Directive in a way that it prescribed depositary's duties and obligations in more detail, which includes holding the funds' assets, monitoring cash flows and the supervision and control of management company's operations. It prescribed in more detail how the assets in depositary's or sub-depositary's custody are protected in the event of their insolvency. Depositary's liability for the loss of financial instruments which are in custody is prescribed in more detail, as well as additional requirements relating to the protection of assets in the event of insolvency of the sub-depositary which was delegated custodianship by the depositary, and the requirements regarding the independence of the depositary and the management company. The provisions stipulating remuneration policies have been introduced. More detail has been paid to misdemeanours and fines that can be applied in the case of violation of the provisions of the AOEIF, prescribing fines for major violations of 1% to 10% of the total income realised in the year of committing the offense, as determined by the official financial statements for that year.

In accordance with previous practice and experience, provisions concerning licensing procedures were improved, simplifying the related procedures, providing for simultaneous decision-making by Hanfa and merging of procedures, in view of a more cost-effective and purposeful treatment and disburdening of supervised entities. It simplified procedures to establish management companies (meaning that authorisations for companies, board members and holders of qualifying holdings are decided upon within the same procedure) and procedures to establish UCITS (implying simultaneous approval for fund establishment, approval for the choice of the depositary and approval for a fund's rules and prospectus). It is stipulated that Hanfa would assess adequacy and financial stability solely in relation to the qualified members of management companies.

90 Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions, OJ L 257/186

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

For the purpose of disburdening the supervised entities with provisions regulating the delegation of management company's tasks to third parties, the number activities for which Hanfa's approval is needed was reduced, and the basic tasks and functions for which the delegation is required to obtain the Hanfa approval is concretised. It simplified the procedure of delegating UCITS management tasks, and adjusted deadlines and required documentation.

Master and feeder UCITS are prescribed in more detail, and provisions that had previously been contained in subordinate regulation and transposed from the implementing Directive 2010/44/EU<sup>92</sup> are now listed in the new Act. It amended provisions regarding cross-border activities and marketing of units of UCITS, and it more clearly delimited responsibilities and competences of Hanfa and of foreign regulators in cases in which the UCITS and the management company come from different EU Member States.

### **Changes to the existing legal framework regarding alternative investment funds**

In 2016, Hanfa participated in drafting the new Act on Alternative Investment Funds (hereinafter: the new AIFA), where improvements were made in relation to the current AIFA, based on previous experience and practice in applying the AIFA. Adoption of the new Alternative Investment Funds Act is expected to take place in 2017. With the new AIFA, in accordance with previous practice and experience, provisions concerning licensing procedures were improved, simplifying the related procedures, providing for simultaneous decision-making by Hanfa and merging of procedures, in view of a more cost-effective and purposeful treatment and disburdening of supervised entities. It simplified the procedure to establish AIFMs, as well as AIFs, and it adjusted the required documentation relating to the delegation of AIF management activities. It amended provisions regarding cross-border activities and marketing of units of AIFs, and it more clearly delimited responsibilities and competences of Hanfa and of foreign regulators.

### **Regulations adopted under the Act on Open-Ended Investment Funds with Public Offering and the Alternative Investment Funds Act**

Regarding the AOEIF, in 2016, Hanfa prepared and adopted new ordinances<sup>93</sup> that regulate:

- markets considered to be regulated, more permissible investments and restrictions of UCITS investments, conditions and limitations related to techniques and instruments for effective UCITS asset management, institutions considered to be the counterparty in transactions with OTC derivatives, and due to clarification of some definitions, provisions of the Commission Directive 2007/16/EC<sup>94</sup> were transposed
- notification of trading in UCITS shares in another Member State while the provisions of Articles 30 to 33 of the Commission Directive 2010/44/EU<sup>95</sup> were transposed
- procedure of delegating tasks to third parties by the UCITS management company, and the contents of the contract on delegation of tasks
- the contents of the information exchange agreement between the master UCITS management company and the feeder UCITS management company, the contents of internal business rules, the contents of the information exchange agreement between the main UCITS depository and the feeder UCITS depository, the contents of the information exchange agreement between the auditor and the main UCITS auditor of the feeder UCITS auditor; the provisions of Articles 8 to 19, 24, 25, 27 and 28 of the Commission Directive 2010/44/EU were transposed

92 Commission Directive 2010/42/EU of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards certain provisions concerning fund mergers, master-feeder structures and notification procedure, OJ L 176

93 The list of ordinances adopted by Hanfa in 2016 is provided in *Appendices*.

94 Commission Directive 2007/16/EU implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions, OJ L 79

95 Commission Directive 2010/42/EU of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards certain provisions concerning fund mergers, master-feeder structures and notification procedure, OJ L 176

- content, deadlines, issue and modification of promotional content, and the content and method of presentation of UCITS business results, contents of UCITS business monthly report for investors; manner, content and deadlines for publication of events related to the management company and the UCITS it manages which could affect the operations of the UCITS and any additional information that must be included in the UCITS management company website
- determination of the net asset value and the price of UCITS units, methods for determining the value of UCITS assets and liabilities, frequency of determining the net value of UCITS assets, method of calculating management fees and depositary fees as well as the manner and deadlines for reporting on the net asset value and the price of UCITS units
- structure and contents, publication, manner and deadlines for the submission of annual financial statements; structure and contents, manner and deadlines for the submission of other reports of management companies which they are obliged to send to Hanfa, and chart of accounts of management companies.

Pursuant to the AIFA, Hanfa adopted two new ordinances that<sup>96</sup> regulate:

- structure and contents, publication, manner and deadlines for the submission of annual financial statements of AIFMs; structure and contents, manner and deadlines for the submission of other reports of AIFMs which they are obliged to send to Hanfa, and chart of accounts of AIFMs
- accounting procedures and the content, form, disclosure, manner and deadlines for the preparation and submission of annual and quarterly reports submitted to Hanfa and other users by AIFMs, in order to provide information on their financial position, business performance and cash flows of AIFs managed, as well as of other reports prepared for supervisory purposes.

### Participation in the work of EU institutions

Hanfa participated in the activities of ESMA's Investment Management Standing Committee<sup>97</sup> by elaborating advice for the European Commission, technical standards, as well as guidelines and recommendations relating to the UCITS IV Directive<sup>98</sup>, UCITS V Directive<sup>99</sup> and AIFMD<sup>100</sup> and participating in drawing up proposals for amendments to the Regulation on European venture capital funds<sup>101</sup> and the Regulation on European social entrepreneurship funds<sup>102</sup>.

### 3.2.2 Licensing

As a part of licensing procedures, Hanfa issued approvals for the establishment and operation of UCITS, for the selection of UCITS depositaries, for the rules and approval of the prospectus of UCITS, for major changes of UCITS prospectuses, approvals to change the UCITS depositaries, to delegate UCITS management tasks and approvals for mergers of UCITS. Licensing also related to the analysis of documents in the process of granting exemptions from the investment restrictions referred to in Article 250b of the Act on Open-Ended Investment Funds with Public Offering. Hanfa issued one approval for the acquisition of a qualifying holding in a management company, and one approval for the delegation of management company's tasks to third parties.

96 The list of ordinances adopted by Hanfa in 2016 is provided in *Appendices*.

97 The European Securities and Markets Authority (ESMA) is described in more detail in Chapter 9.1.1 *Participation in the work of ESMA*.

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

99 Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), OJ L 176

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

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

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

Regarding one UCITS management company, Hanfa established the end of operating licence validity for performing the activities of establishing and managing UCITS, at the request of the management company. Hanfa issued work authorisations to two small AIFMs, approvals for the acquisition of a qualifying holding in the AIFM, authorisations to AIFs, approval for the selection of the AIF's depositary and approval for the AIF's rules. It also issued authorisations for the establishment and operation of three AIFs, approvals for rules and changes to rules of AIFs, approval for the selection and change of AIF's depositary and approval for the voluntary transfer of AIF's management tasks to another AIFM from the Republic of Croatia. Licensing operations also included approvals regarding management board members of UCITS management companies and AIFMs.

In 2016, Hanfa received a total of 28 notifications from competent authorities of other Member States relating to the intention to conduct cross-border marketing of units of investment funds or to carry out investment fund management activities. Those notifications concerned AIFs. On its website, Hanfa published a list of financial service providers from other EU Member States who have submitted a notification of their intent to provide services in the Republic of Croatia. In 2016, In relation to four companies, Hanfa received notification on termination of conducting cross-border marketing of units of investment funds or investment fund management activities, so these companies were removed from the list published on Hanfa's website.

Since the accession of the Republic of Croatia to the European Union, Hanfa has received a total of 94 notifications relating to the intention to conduct cross-border marketing of units of investment funds i.e. to carry out investment fund management activities, of which 90 notifications related to AIFs and four related to UCITS.

Table 3.6 Comparison of the number of cases relating to licensing procedures with respect to the operation of investment fund management companies in 2015 with that in 2016

Licensing procedure	2015	2016
Authorisation for operation of AIFM (compliance with the provisions of AIFA)	1	0
Authorisation for operation of a small AIFM	0	2
End of validity of operating licences	3	1
Authorisation for establishment and operation of the fund	10	11
Authorisation for establishment and operation of AIF (compliance with the provisions of AIFA)	14	0
Approval for selection of depositary bank	24	11
Approval for change of depositary bank	6	3
Approval of Agreement with the depositary bank	8	3
Liquidation of funds	4	1
Approval for merger/acquisition of funds	2	2
Granting exemptions from the investment restrictions referred to in Article 250b of the Act on Open-Ended Investment Funds with Public Offering	33	8
Approval to carry out the functions of a management member	13	17

*Notification is a procedure during which Hanfa receives information from the competent authority of another Member State of the European Union of the intention of a UCITS management company or AIFM from the other Member State to trade, in the Republic of Croatia, in units of UCITS or AIFs established in the Member State, or to provide services, directly or through a branch, referred to in Article 13 of the Act on Open-Ended Investment Funds with Public Offering or Article 13 of the Alternative Investment Funds Act in the Republic of Croatia. On its website, Hanfa published the list of UCITS management companies from other Member States and AIFMs from other Member States which have, in accordance with the prescribed proceedings, submitted a notification of their intent to provide services in the Republic of Croatia and the list of their branches in the Republic of Croatia (where they have been established), the list of activities they intend to perform in the Republic of Croatia and the list of UCITS and/or AIFs they offer in the Republic of Croatia. Hanfa is responsible for the supervision of UCITS management companies and AIFMs from other Member States with respect to services and activities they directly provide and perform in the Republic of Croatia, of their branches established in the Republic of Croatia, and of trade in units of UCITS and AIFs from other Member States in the Republic of Croatia, in accordance with the Act on Open-Ended Investment Funds with Public Offering and Alternative Investment Funds Act.*

Licensing procedure	2015	2016
Approval of the prospectus and prospectus amendments	9	14
Approval of the rules of the fund and of their amendments	19	18
Approval for delegating tasks to a third party	7	1
Approval for the acquisition of a qualifying holding in the management company	7	1
Approval for the company's status change (merger)	2	0
Granting exemptions from the application of the provisions of Article 7 of the Ordinance on the organizational requirements for UCITS management companies	3	0
Approval for the transfer of operations of fund management	8	3

Source: Hanfa

### 3.2.3 Supervision

#### 3.2.3.1 On-site supervision

In 2016, Hanfa continued two on-site examinations of AIFMs managing open-ended venture capital AIFs started in 2015, which, apart from these funds, included managing economic cooperation funds in which the Government of the Republic of Croatia participates by means of ownership restructuring through the investment of additional capital, with the aim of fostering the development of economy, preserving the current and creating new jobs and strengthening the existing and setting up new economic entities, in accordance with its Decision on the participation in economic cooperation funds<sup>103</sup> adopted at its meeting held on 28 March 2013. These examinations focused on the investment process and the investment of fund assets, including the conduct in accordance with the AIFM's operating conditions, realisation of managing rights, realised by company on its own account or on the account of funds, in the issuers where funds' assets are invested, as well as the mechanisms of internal control, including risk management functions, compliance with relevant provisions and internal revision. The companies eliminated all the illegalities and irregularities found during the supervision process, and notified Hanfa thereof.

In 2016, Hanfa continued with on-site supervisions of UCITS management companies which started in 2015 (on the basis of provisions of the old AOEIF) and AIFMs, whose aim was to check companies' adjustment to the provisions of the AOEIF and the AIFA regarding organisational requirements. In 2016, Hanfa initiated and completed examinations of one UCITS management company and two companies managing UCITS and AIFMs, which related to organisational requirements, namely investment processes and investments of fund and company assets, internal control mechanisms, including risk management function, compliance function and internal audit function, and handling of conflicts of interest and personal transactions. Regarding the organisational requirements for UCITS management companies and AIFMs, during on-site examinations, with a view of a clearer insight into business operations of supervised entities, Hanfa intensively uses a risk-based supervisory approach. In this way, a clear insight into the business organisation and distribution of responsibilities, human resources and technical capacity as well as business environment was obtained in advance through interviews with managers in those supervised entities. Consequently, the so far mostly quantitative risk-based supervision model was additionally enriched with qualitative indicators. This kind of supervision represents an important tool for

<sup>103</sup> Official Gazette, No 40/13

timely recognition of critical segments of business operations of individual companies or systemically important events and for focusing supervisory activities on these elements in order to prevent the materialisation of identified risks or to reduce the impact of those risks.

One UCITS and AIF management company was issued a decision ordering the elimination of violations and irregularities relating to the establishment of policies and procedures and the application of appropriate measures with the aim that investment decisions on the account of UCITS are made in line with objectives, strategies and limits of risk exposure, as well as the establishment and application of policies and measures with the purpose of ensuring the effectiveness of the compliance function with relevant regulations. Pursuant to the decision, the company eliminated the violations and irregularities and notified Hanfa thereof.

Along with on-site examinations of UCITS and AIFM management companies, Hanfa initiated targeted on-site examinations over one AIFM, with the focus on investment process and investment decision-making, and one UCITS and AIF management company, with the focus on the verification of business processes ensuring the compliance of investment of assets of funds with investment restrictions prescribed by AOEIF, resulting in Hanfa issuing a warning to the management company for overstepping the limitation on the investment of UCITS managed by it, and by failing to provide appropriate internal control mechanisms for ensuring compliance of investment of assets of funds with restrictions prescribed by AOEIF or the UCITS prospectus.

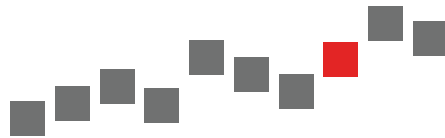
In 2016, Hanfa commenced with on-site examinations of credit institutions regarding depository activities of UCITS and AIFs, with a focus on safekeeping and administration of financial instruments for the account of clients, including custodianship and related services.

### **3.2.3.2 Off-site supervision**

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

In 2016, the off-site examinations were primarily focused on the verification of the alignment of investments of investment fund assets with investment restrictions, on the valuation of assets in investment fund portfolios, verifying the audited financial statements of management companies and UAIFs for 2015, controlling the content of monthly reports for investors in UCITS as well as UAIFs' publications and reviewing the content of key data for investors in UCITS. Off-site examinations also included the preparation of periodic and ad hoc reports on the current situation in the fund industry and on capital markets in general and qualitative and quantitative assessment of risks related to business operations of investment funds and investment fund management companies. The off-site examinations also involved the assessment of the financial stability of supervised entities, verification of the appropriateness of accounting policies of investment fund management companies and investment funds and changes in prospectuses of investment funds as well as the verification of the calculation of charges.

Due to violations and irregularities, nine reports of on-site examinations of supervised entities were drawn, after which violations and irregularities were removed in one part, while in four cases Hanfa issued decisions to management companies and AIFMs to adjust UCITS and AIFs asset investment restrictions and to prescribe clear accounting policies and valuation techniques for the estimation of the fair value of securities traded on the inactive market.



# Pillar 2 and Pillar 3 pensions and pension payments



## 4 Pillar 2 and Pillar 3 pensions and pension payments

### 4.1 Market overview

The mandatory and voluntary pension insurance market<sup>104</sup> has been rising since the beginning of the pension reform and as at 31 December 2016, total net assets of mandatory and voluntary pension funds amounted to HRK 88.5bn, which is a HRK 10.7bn increase compared to the end of 2015. These positive trends were primarily related to mandatory payments into Pillar 2, as well as to a positive market environment.

#### 4.1.1 Mandatory pension funds

Same as in previous several years, at end-2016, there were four mandatory pension companies operating in the Republic of Croatia. Two of them were directly owned by non-residents, one was indirectly owned by non-residents, while one company was half directly owned by residents and half indirectly owned by non-residents<sup>105, 106</sup>. Each company managed one mandatory pension fund belonging to each of the categories A, B and C.

Table 4.1 Mandatory pension fund (MPF) membership and activities in 2016

Categories of MPFs	A	B	C	Total
Balance as at 31 Dec 2015	5,094	1,707,104	18,983	1,731,181
First registrations	207	916	116	1,239
Subsequently completed registrations	0	65	0	65
Allocation by REGOS	0	58,654	0	58,654
Total new members	207	59,635	116	59,958
Transfers to another category within the same fund	41	6240	2	6,283

104 Historical data in Hanfa Annual Report for 2016 may differ from data in previous Hanfa's annual reports due to application of provisions of the Accounting Act (Official Gazette, No 109/07, 54/13 and 121/14), International Financial Reporting Standards, changes in reporting methodology, as well as due to actions taken by investment firms in accordance with Hanfa's instructions.

105 All mandatory pension companies are registered and have their registered offices in the Republic of Croatia.

106 The list of Hanfa's supervised entities is available at [www.hanfa.hr](http://www.hanfa.hr).

107 Official Gazette, No 19/14

108 Official Gazette, No 19/14

*The Croatian pension insurance system based on individual capitalised savings, i.e. the establishment and management of mandatory and voluntary pension funds (known as Pension Insurance Pillar 2 and 3) is regulated by the Mandatory Pension Funds Act<sup>107</sup> and Voluntary Pension Funds Act<sup>108</sup> which entered into force in February 2014, repealing the Mandatory and Voluntary Pension Funds Act.*

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

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

Categories of MPFs	A	B	C	Total
Transfers from categories within the same fund	114	43	6126	6,283
Net change	73	-6197	6124	0
Transfers to another MPF	25	357	2	384
Transfers from other MPFs	25	357	2	384
Total termination of membership	5	4,719	2246	6,970
Balance as at 31 Dec 2016	5,369	1,755,823	22,977	1,784,169
Annual change (in %)	5.4	2.9	21.0	3.1

Source: Central Registry of Affiliates (REGOS)

At end-2016, the number of mandatory pension fund members was by 3.1% higher than at end-2015. Data from the Central Registry of Affiliates (hereinafter: REGOS) reveal that mandatory pension fund members are still quite reluctant to participate in the selection of their mandatory pension fund. Out of 59,958 new mandatory pension fund members recorded in 2016, only 1,304 selected their mandatory pension funds themselves, which represents a share of 2.2% out of entire number of new members and a slight decrease compared to the previous year. During this period there were a total of 6.970 cases of membership termination or account closing in mandatory pension funds. Transfers were made from 4.973 personal accounts to the Croatian Pension Insurance Institute due to retirement (family pension 17.84%, disability pension 19.28%, early retirement 1.25% and exit from Pillar II in the process of exercising right to retirement 61.63%). In case of 775 personal accounts, funds were transferred to heirs. Transfer of funds to pension insurance companies in order to pay pensions based on individual capitalised savings in 2016 was recorded for 61 personal accounts. Under the Regulation amending the Mandatory Pension Funds Act<sup>109</sup> REGOS closed 1,113 personal accounts<sup>110</sup>.

Table 4.2 Net assets of mandatory pension funds as at 31/12/2015 and 31/12/2016 (in HRK thousand)

	31 Dec 2015	31 Dec 2015	Change (in %)
MPF – Category A	416,563	506,297	21.5
MPF – Category B	71,351,783	80,624,190	13.0
MPF – Category C	2,236,322	3,048,878	36.3
Total	74,004,667	84,179,365	13.7

Source: Hanfa

As at 31 December 2015, total net assets of mandatory pension funds amounted to HRK 84.2bn, recording an increase of HRK 10.2bn in comparison with the previous year, with an increase of HRK 5.3bn (52.5%) relating to net payments of members' contributions, while the increase in net assets of HRK 4.8bn (47.5%) resulted from returns achieved by mandatory pension funds.

109 Official Gazette, No 93/15

110 Data available at [www.regos.hr](http://www.regos.hr)

Table 4.3 Payments to and from mandatory pension funds in 2016 (in HRK thousand)

MPF categories	A	B	C	Total
Net contributions	33,549	5,177,253	127,727	5,338,529
Payments from other MPFs	12,033	21,103	777,766	810,901
Disbursements to other MPFs	7,268	803,447	402	811,117
Disbursements of funds upon adjustments	376	72,419	432	73,227
Disbursements of funds upon the closure of personal accounts	388	242,909	279,328	522,625

Source: REGOS

A total of HRK 5.3bn was paid into personal accounts of mandatory pension fund members in 2016, while HRK 0.5bn was paid out upon the closing of personal accounts of mandatory pension fund members.

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

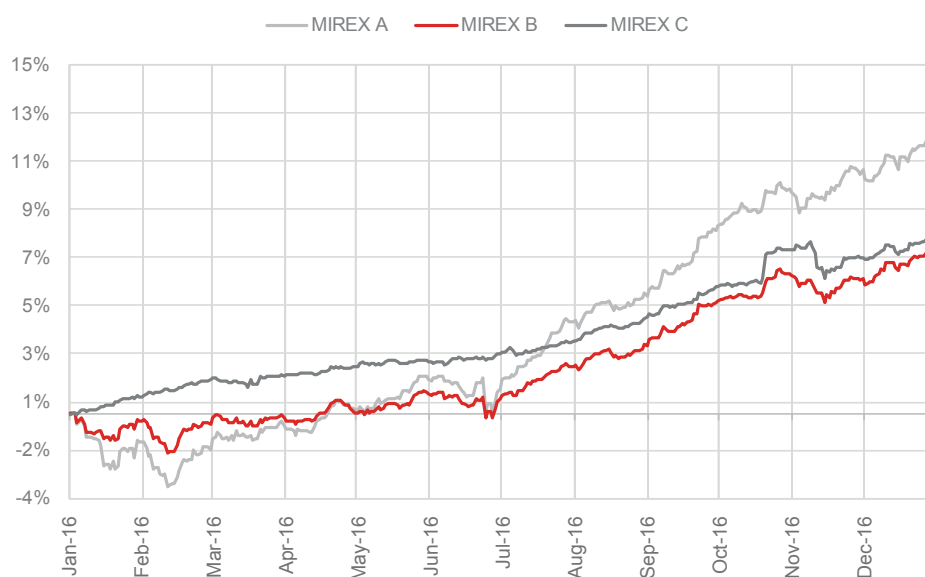
	Values of accounting units		Mandatory pension funds' rate of return (in %)	
	31 Dec 2015	31 Dec 2016	2016	Annualised rates of return since the beginning of operation
MIREX category A	114.1	127.6	11.8	10.9
MIREX category B	218.4	233.6	6.9	5.9
MIREX category C	109.9	118.1	7.4	7.3

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

Source: Hanfa

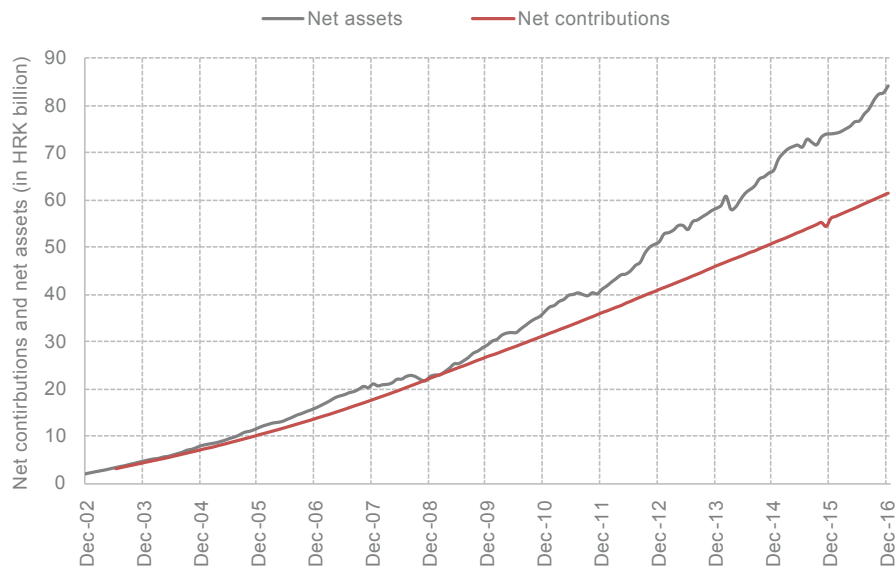
Annual rates of return of category B mandatory pension funds ranged from 5.7% to 8.5% at end-2016. Category A mandatory pension funds recorded rates of return ranging from 8.2% to 13.8%, while category C mandatory pension funds recorded rates of return ranging between 7.2% and 8.5%.

Chart 4.1 Growth rates of the MIREX A, MIREX B and MIREX C indices during 2016



Source: Hanfa

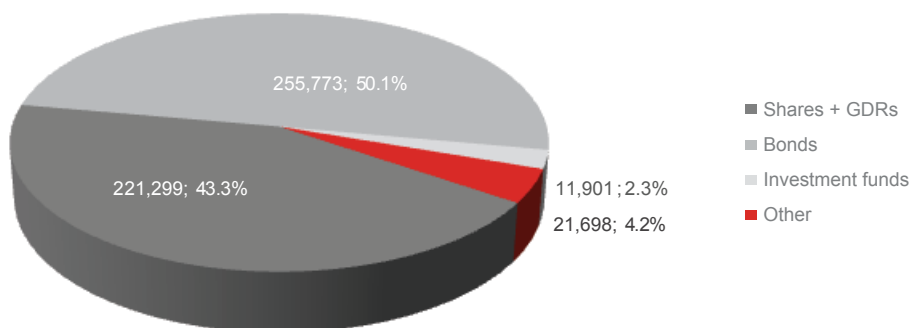
Chart 4.2 Net contributions to mandatory pension funds and net assets of mandatory pension funds



Source: Hanfa

The net assets of mandatory pension funds grew steadily from the beginning of 2002, mainly owing to continued payments of mandatory pension funds members and positive returns.

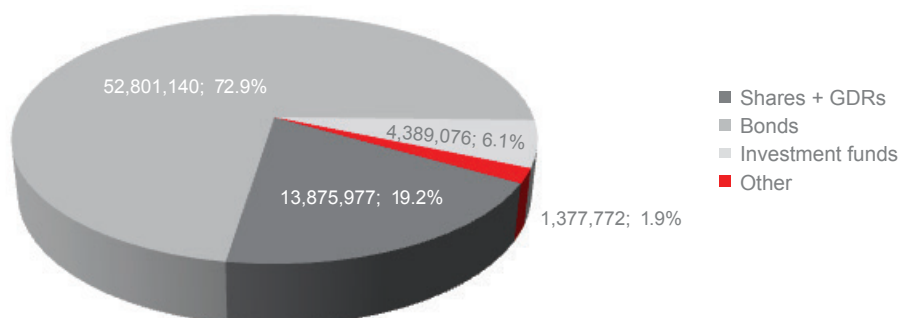
Chart 4.3 Investment structure of category A mandatory pension funds in 2016 (in HRK thousand and in %)



Source: Hanfa

As at 31 December 2016, half of investment structure of category A mandatory pension funds was accounted for by long-term debt securities. Investments in long-term debt securities were mainly accounted for by domestic government bond investments (95.6%). In addition to this, a significant share of total assets of category A mandatory pension funds was invested in shares, primarily in issuers from the Republic of Croatia (72.2%). Apart from bonds and shares, assets of category A mandatory pension funds were also invested in investment funds, primarily in foreign equity investment funds (98.3%), and minor share in domestic funds (1.7%).

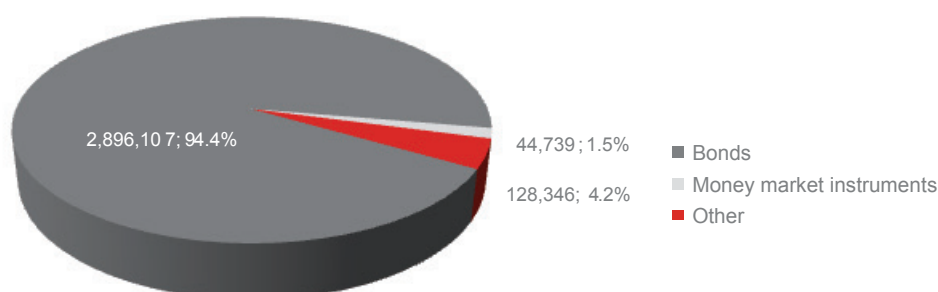
Chart 4.4 Investment structure of category B mandatory pension funds in 2016 (in HRK thousand and in %)



Source: Hanfa

Category C mandatory pension fund investments in 2016 were mainly accounted for by bond investments, primarily by domestic government bond investments (97.7%). Unlike category A funds, a smaller amount of investments in total investments related to shares, with the share of domestic issuers in these investments accounting for 62.6%, while the remainder related to foreign issuers. In addition to investments in bonds and shares, assets of category B mandatory pension funds were also invested in investment funds, domestic and foreign in equal measure. Significantly larger amounts were invested in UCITS, i.e. investments in open-ended investment funds with public offering made up 93.7% of all investments in investment funds, while AIFs accounted for only 6.3%.

Chart 4.5 Investment structure of category C mandatory pension funds in 2016 (in HRK thousand and in %)



Source: Hanfa

At end-2016, category C mandatory pension fund investments were mainly accounted for by bond investments (domestic government bond investments exclusively). Investments in domestic corporate bonds represented a smaller part of total investments (5.2%), while the rest was related to government bonds. Category C mandatory pension funds also invested their assets in treasury bills of the Ministry of Finance (1.5%) and domestic UCITS (1.5%).

#### 4.1.2 Voluntary pension funds

There were four voluntary pension companies on the market, managing a total of six open-ended voluntary pension funds and 18 closed-ended voluntary pension funds. This was an increase relative to the previous year due to one closed-ended voluntary

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

pension fund being established in 2016. Two of them were directly owned by non-residents, one was indirectly owned by non-residents, while one company was in direct resident ownership.<sup>111</sup>

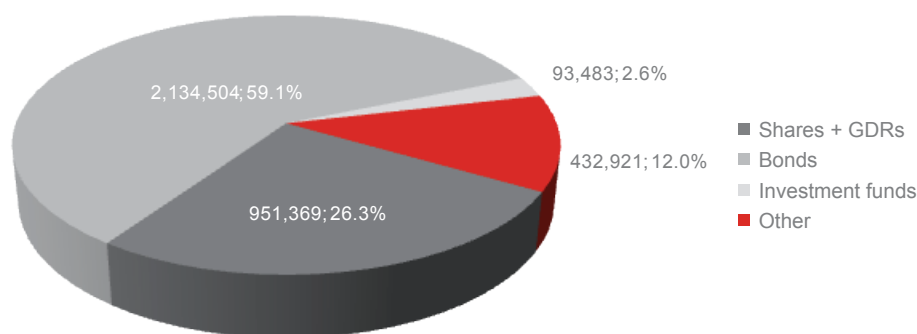
Similarly to mandatory pension funds, the number of members of open-ended voluntary pension funds continued to rise in 2016. Their gross contributions grew by 20% compared to 2015. Along with the increase in the number of members and paid gross contribution, total net assets of open-ended voluntary pension funds increased even more pronouncedly (16.5%) compared to the previous year. All open-ended voluntary pension funds recorded positive returns ranging between 5.1% and 11.1% at the end of the year.

Table 4.5 Key indicators for open-ended voluntary pension funds (OVPF)

Data	31 Dec 2015	31 Dec 2015	Change (in %)
Total membership of OVPFs	236,948	257,049	8.5
Total contributions to OVPFs (in HRK thousand)	386,781	464,138	20.0
Total assets of OVPFs (in HRK thousand)	3,044,842	3,548,401	16.5

Source: Hanfa

Chart 4.6 Investment structure of open-ended voluntary pension funds in 2016 (in HRK thousand and in %)



Source: Hanfa

At the end of 2016, total investments of open-ended voluntary pension funds mainly consisted of investments in bonds, primarily of investments in domestic government bonds (86.7%). Apart from investing in bonds, open-ended voluntary pension funds also invested in shares, mainly shares of domestic issuers (76.9%). They also invested in UCITS. In the framework of investing in UCITS, they largely invested in foreign investment funds (69.5%) and to a lesser degree in domestic UCITS (30.5%).

Table 4.6 Key indicators for closed-ended voluntary pension funds (CVPF)

Data	31 Dec 2014	31 Dec 2015	31 Dec 2016	Change (in %)
Total membership of CVPFs	23,927	28,776	29,237	1.6
Total gross contributions to CVPFs (in HRK thousand)	86,400	103,227	86,534	-16.2
Total assets of CVPFs (in HRK thousand)	596,188	681,211	777,088	14.1

Source: Hanfa

<sup>111</sup> All voluntary pension companies are registered and have their registered offices in the Republic of Croatia.

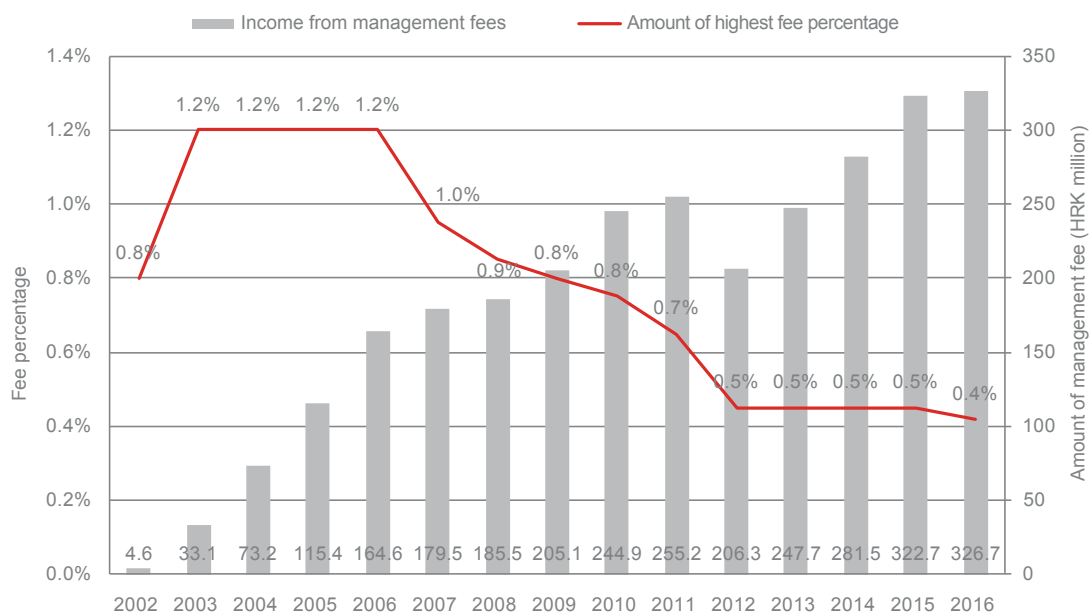
The increase in the number of members of voluntary pension funds (1.6%) in 2016, compared to the previous year, in combination with the market influence, caused the growth of funds' net assets (14.1%). Notwithstanding the increase in the number of new members, gross contributions of closed-ended voluntary pension fund members decreased by 16.2%. Returns of closed-ended voluntary pension funds ranged from 4.7% to 12.1% in 2016.

### 4.1.3 Mandatory and voluntary pension companies

Mandatory and voluntary pension companies recorded an increased after-tax profit in the amount of HRK 188.2m, down by 5.5% relative to 2015. Income from mandatory and voluntary pension fund management in 2016 grew by 3.4% at annual level. Total assets of mandatory and voluntary pension companies decreased by 1.7% compared to 2015. The largest share in total assets was accounted for by financial assets (86.8%), while the largest share in total liabilities was made up of capital and reserves (91.3%).<sup>112</sup>

One of the fees that pension companies can charge for covering costs, and which makes up the majority of fund management income, is management fee. The Mandatory Pension Funds Act defines the maximum management fee, and all mandatory pension fund management companies apply the same fee, however its amount varies depending on the size of the asset under the management of a particular company. The basis for the fee calculation is made up from total assets minus financial liabilities of the fund. Unlike in previous years (2013, 2014 and 2015), when the fee stood at 0.45% per annum, in 2016 the fee was reduced by 7% compared to the 2015 (from 0.45% to 0.419%). An annual reduction in compensation of 7% is anticipated in relation to the remuneration from the previous year until it is reduced to a level of 0.3%. Chart 4.7 shows the parallel movement of the percentage of mandatory pension fund management fee and the aggregate amount of fee by mandatory pension companies.

Chart 4.7 Mandatory pension fund management fee



Source: Hanfa

112 The Statement of financial position and the Statement of comprehensive income of mandatory and voluntary pension companies are provided in *Appendices*.

#### 4.1.4 Pension insurance companies

According to the provisions of the Act on Pension Insurance Companies<sup>113</sup>, a pension insurance company is a joint-stock company offering retirement programs and paying pensions to pension beneficiaries and other persons. There is only one pension insurance company operating in the Republic of Croatia.

According to financial reports<sup>114</sup>, the value of total assets of the pension insurance company as at 31 December 2016 reached HRK 464.1m, increasing by HRK 25.8m or 5.9% compared to 31 December 2015. This was primarily a result of increased investments, which accounted for 95.6% of total assets and grew by HRK 16.9m in comparison with 31 December 2015. Significant increase in absolute terms was recorded by other assets, which increased by HRK 8.4m (76.9%) relative to 31 December 2015.

As at 31 December 2016, technical provisions amounted to HRK 394.9m and accounted for 85.1% of the pension insurance company's liabilities. Capital and reserves reached HRK 39.3m, decreasing by HRK 4.6m compared to 2015 due to a decrease in the profit of the current period.

Pursuant to the provisions of the Act on Pension Insurance Companies, technical provisions are formed separately for mandatory and voluntary pension insurance. Technical provisions of voluntary pension insurance totalled HRK 278.5m, while assets covering technical provisions of voluntary pension insurance amounted to HRK 336m, with the excess of assets over the provisions reaching HRK 57.5m. Technical provisions of mandatory pension insurance stood at HRK 61.4m, while assets covering technical provisions of mandatory pension insurance amounted to HRK 67.5m, with the excess of assets over the provisions totalling HRK 6.1m.

*Technical provisions are formed from remittances and lump sum payments of persons made into the account of the pension insurance company. Considering that these assets are intended for covering current and future liabilities under pension contracts, the pension insurance company is obliged to invest them in the best interest of pension beneficiaries, taking into account statutory principles and investment restrictions.*

In the period from 1 January 2016 to 31 December 2016, the pension insurance company recorded profit before tax in the amount of HRK 4m, while profit after tax amounted to HRK 3.2m, which is HRK 3.2m less than in the same period in 2015. Total income amounted to HRK 217.2m, which is HRK 38.1m less compared to the same period in 2015. The income structure was dominated by income from payments of pension companies and direct lump-sum payments from voluntary pension insurance (56.0%).

Total expenses amounted to HRK 214m, decreasing by HRK 34.9m compared to 2015. The most significant part of the expenses (67.2%) was accounted for by expenses arising from pension insurance contracts, of which HRK 118.6m was made up of payments from pension insurance, and HRK 25.2m of changes in technical provisions.

As at 31 December 2016, the total number of pension contracts reached 13,704, of which 13,515 contracts were related to voluntary pension insurance (Pillar 3 and direct lump-sum payments), and 189 contracts to mandatory pension insurance (Pillar 2). The number of contracts fell by 1,335 relative to 31 December 2015. At end-2015, the total number of beneficiaries stood at 13,161, of which there were 13,006 voluntary pension insurance beneficiaries and 191 mandatory pension insurance beneficiaries.

<sup>113</sup> Official Gazette, No 22/14

<sup>114</sup> Financial statements of the pension insurance company are provided in *Appendices* (Tables A3 and A4).

## 4.2 Hanfa's regulatory activities

### 4.2.1 Normative activities

On the basis of the Mandatory Pension Funds Act<sup>115</sup> Hanfa adopted two new ordinances<sup>116</sup> regulating the following:

- accounting procedures and the content, form, disclosure, manner and deadlines for the preparation and submission of annual reports of a mandatory pension company, financial reports for reporting periods during a financial year submitted to Hanfa and other external users by a mandatory pension company, in order to provide information on its financial position, business performance and cash flows, as well as other reports prepared for Hanfa's purposes
- accounting procedures and the content, structure, disclosure, manner and deadlines for the preparation and submission of annual and quarterly reports of mandatory pension funds for reporting periods during a financial year, submitted to Hanfa and other external users by mandatory pension companies, in order to provide information on mandatory pension fund's financial position, business performance and cash flows, mandatory pension fund's chart of accounts, as well as other reports prepared for Hanfa's purposes.

The ordinance determining the net asset value and the value of accounting units of mandatory pension funds was amended.

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

On the basis of the Voluntary Pension Funds Act<sup>117</sup>, Hanfa adopted two new ordinances regulating the following:

- accounting procedures and the content, form, disclosure, manner and deadlines for the preparation and submission of annual financial statements and financial reports of a mandatory pension company for reporting periods during a financial year submitted to Hanfa and other external users by a mandatory pension company, in order to provide information on its financial position, business performance and cash flows, as well as other reports submitted for Hanfa's purposes.
- accounting procedures and the content, structure, disclosure, manner and deadlines for the preparation and submission of annual and semi-annual reports of voluntary pension funds for reporting periods during a financial year, submitted to Hanfa and other external users by pension companies, in order to provide information on voluntary pension fund's financial position, business performance and cash flows, voluntary pension fund's chart of accounts, as well as other reports prepared by pension companies for Hanfa's purposes

The ordinances determining the net asset value and the price of units of voluntary pension funds were made.

In 2016, on the basis of the Act on Pension Insurance Companies, Hanfa adopted three new ordinances regulating structure and contents of financial statements and additional reports of the pension insurance company, characteristics of buffer stock of the pension insurance company, and requirements for professional training and examination of professional knowledge required to perform duties of a certified actuary. A total of eight ordinances were amended, mostly due to the digitalisation project introducing a new, digitised way of receiving letters in Hanfa, i.e. the delivery of notices and reports prescribed by these ordinances is now possible via the domain reports@hanfa.hr.

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

116 The list of ordinances adopted by Hanfa in 2016 is provided in *Appendices*.

117 Official Gazette, No 19/14

## 4.2.2 Licensing

As part of licensing operations, Hanfa issued one authorisation for the establishment and management a closed-ended voluntary pension fund. Approvals were also issued for the pension company management board members and supervisory board members, for the selection of depositaries for pension funds, for statutes and prospectuses of voluntary pension funds and the approval for the delegation of tasks of the pension company managing voluntary pension funds.

Table 4.7 Number of cases related to business operations of pension companies and pension funds

Case type	2015	2016
Approval of the appointment of a management board member of a mandatory/ voluntary pension company	5	4
Approval of the appointment of a supervisory board member of a mandatory pension company	8	5
Approval of the establishment and operation of a mandatory pension fund	2	1
Approval of the choice and change of depositary	8	1
Approval of an agreement with a depositary	8	0
Approval of the statute/amendments to the statute of a voluntary pension fund	18	1
Approval of the informative prospectus and amendments to the informative prospectus of a voluntary pension fund	2	1
Approval of the merger of voluntary pension funds	1	0
Approval of the delegation of tasks to a third party	2	2
Granting exemptions from the application of the provisions of Article 7 of the Ordinance on organisational requirements for pension companies managing mandatory pension funds	1	0

Source: Hanfa

## 4.2.3 Supervision

### 4.2.3.1 On-site supervision

On-site examinations of four mandatory pension companies that had started in 2015, continued in 2016. They focussed on investment process and the investment of funds' assets and in relation to that the establishment and the connection of internal control mechanisms, including risk management functions and compliance with relevant regulations. Such examinations of the investment process and the risk management system additionally completed and improved the internal approach to a risk-based supervision process.

After the completion of an on-site examination and the establishment of violations and irregularities, Hanfa issued a decision to a mandatory pension fund management company ordering it to define risk profile of pension funds, define an acceptable level of all identified risks of pension companies and funds, and obligating it to prescribe internal limitations of risk exposure for all risks to which the pension company and the funds are exposed. Additionally, the pension company was prescribed the obligation to draw up a report on compliance between the existing level of risk exposure of pension funds and a predetermined risk profile of pension funds, as well as to compile a report on the compliance of each pension fund managed by the pension company with limits of risk exposure, determined or prescribed for that pension fund.

In 2016, Hanfa commenced with on-site examinations of credit institutions regarding depository activities of mandatory and voluntary pension funds, with a focus on safekeeping and administration of financial instruments for the account of clients, including custodianship and related services.

In 2016, Hanfa conducted an on-site examination of the pension insurance company, focusing on the compliance of organisational requirements with regards to organisation and performance of activities of risk management function, compliance function with relevant regulations, internal audit function and actuarial function, as well as compliance of contracting process and payment of pensions with the Act on Pension Insurance Companies and other relevant regulations.

#### **4.2.3.2 Off-site supervision**

In 2016, Hanfa conducted continuous off-site supervisions of pension companies and pension funds. The supervisions focused on the compliance of pension fund asset investments with legal provisions, verification of legality and accuracy of the assets valuation procedure, control of the content of key data for members of pension funds, control of prospectuses, verification of monthly publications of investment structure of mandatory pension funds, quarterly reports for members of voluntary pension funds and control of financial reports of companies and funds.

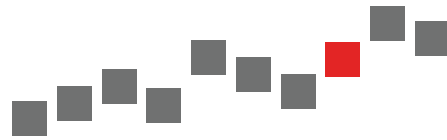
Supervised entities were issued four decisions that referred to the adjustment of the investment of mandatory pension fund assets into the bonds of one issuer with regard to their share in the issue, the adjustment of the investment of the mandatory pension fund assets with respect to the obligation to invest the fund assets into assets listed on the regulated market, valuation techniques of transferable securities and money market instruments in the assets of pension funds traded on the inactive market.

Throughout the year, Hanfa continuously conducted off-site supervision of the pension insurance company in accordance with applicable regulations, through the process of collecting, analysing and controlling submitted reports (financial and additional reports, audit report, regular notifications), as well as on the basis information and documentation received upon a special request.

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

As mentioned earlier in Chapter 2.2.4 *Examinations taken by candidates for brokers and investment advisors*, Hanfa organised an educational programme which included lectures for certified pension fund managers, certified managers of pension insurance companies, brokers and investment advisors i.e. it covered the area of all examinations (for certified pension fund managers, certified managers of pension insurance companies, brokers and investment advisors). The programme was attended by 42 persons.

Hanfa organised an examination cycle for certified pension fund managers, and an examination cycle for certified managers of pension insurance companies. Both examination cycles consisted of two examination terms. In the examination cycle for certified pension fund managers, 16 candidates took the exam and successfully passed it. In the examination cycle for certified managers of pension insurance companies, ten candidates took the exam and successfully passed it.



# Insurance



## 5 Insurance

### 5.1 Market overview

The biggest change in the insurance market<sup>118</sup> in the Republic of Croatia in 2016 was the introduction of the new regulatory framework regarding business operations of insurance companies and reinsurance companies, based on the Solvency II Directive<sup>119</sup>. The Insurance Act<sup>120</sup>, which came into force on 1 January 2016, introduced significant changes to companies in relation to the manner of capital requirements calculation, including the valuation of assets and liabilities, calculation of technical provisions, determination of own funds and the calculation of the solvency capital requirement and minimum capital requirement. Companies were faced with new requirements regarding reporting to the supervisory authority, publication and market discipline. Additionally, insurance companies and reinsurance companies are also required to comply with the requirements of applying an appropriate management system that includes qualitative requirements for the establishment of an effective management system, management system key functions (risk management function, actuarial function, internal audit function and compliance and internal control function) and the implementation of own risk and solvency assessment, which was to a certain extent implemented by the previous regulation.

As at 31 December 2016, there were 21 insurance companies and one reinsurance company with their registered offices and operating in the Republic of Croatia.<sup>121,122</sup> Insurance market participants also included the Croatian Insurance Bureau (hereinafter: the Bureau) as an association of insurance companies conducting the Guarantee Fund management activities, and the Croatian Nuclear Pool (EIG), as an economic interest group of insurance or reinsurance companies conducting insurance or reinsurance business, covering risks of liability claims for great damage arising from nuclear energy or for other great damage. As at 31 December 2016, insurance representation and insurance and reinsurance brokerage business<sup>123</sup> was conducted by 314 insurance agencies, 45 insurance and reinsurance brokerage companies, 346 insurance representation crafts, 24 credit institutions and HP – Hrvatska pošta d.d.

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118 The 2016 insurance market overview was presented on the basis of the analysis of financial, statistical and additional reports, as well as reports under Solvency II, submitted to Hanfa and following examinations of business operations of insurance companies and reinsurance companies, the Croatian Nuclear Pool (EIG), the Croatian Insurance Bureau, insurance and reinsurance brokerage companies, insurance agencies, insurance representation crafts, HP – Hrvatska pošta d.d. and credit institutions authorised to conduct insurance representation business. The data for previous years shown in Hanfa's 2016 Annual Report might differ from the data in Annual Reports 2014 and 2015 due to the application of the provisions of the Accounting Act (Official Gazette, No 78/15, 134/15 and 120/16), the Insurance Act (Official Gazette, No 30/15), International Financial Reporting Standards adopted by the EU, as well as due to actions taken by insurance and reinsurance companies following Hanfa's instructions.

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

120 Official Gazette, No 30/15

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

122 The list of Hanfa's supervised entities is available at [www.hanfa.hr](http://www.hanfa.hr).

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

## 5.1.1 Insurance companies and reinsurance companies

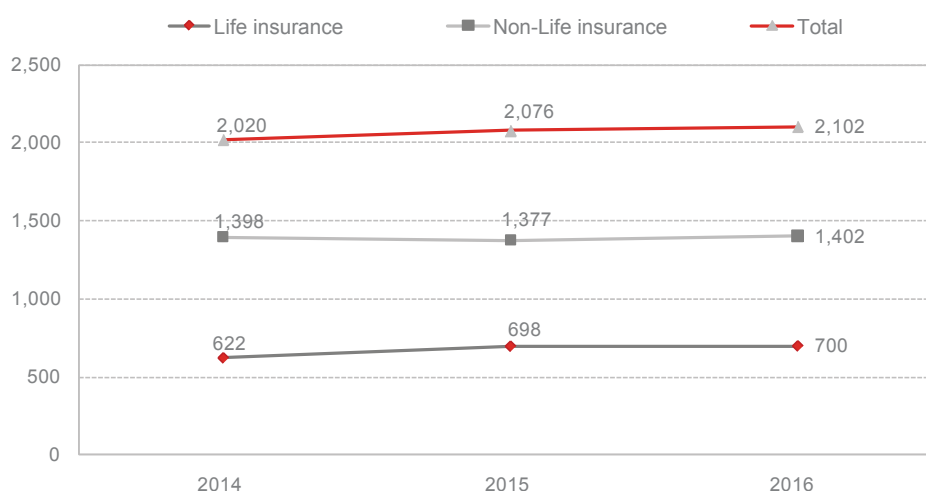
As at 31 December 2016, there were 21 insurance companies and one reinsurance company operating in the insurance market of the Republic of Croatia. Five companies conducted life insurance business only, eight insurance companies conducted non-life insurance business only, while life and non-life insurance business was conducted by eight insurance companies. In comparison with 31 December 2015, the number of insurance companies decreased by two due to cross-border merger of two insurance companies. As at 31 December 2016, eight insurance companies were directly majority-owned by residents, while 13 insurance companies were directly majority-owned by non-residents. The only reinsurance company was directly majority owned by residents.

### 5.1.1.1 Gross written premium<sup>124</sup>

The total gross written premium of insurance companies<sup>125</sup> in 2016 amounted to HRK 8.8bn, increasing by HRK 42.9m or 0.5% compared to the 2015 premium. The total gross written reinsurance premium in 2016 was negative (HRK -0.4m) because of one reinsurance company's decision to stop actively conducting reinsurance business.<sup>126</sup> Compared to 2015, the gross written reinsurance premium decreased by HRK 42.4m.

The 2016 insurance density<sup>127</sup> amounted to HRK 2,102 or EUR 278<sup>128</sup> in both life and non-life insurance. Insurance density in non-life insurance amounted to HRK 1,402, increasing compared to the previous year, whereas in life insurance it totalled HRK 700, continuing its upward trend.

Chart 5.1 Insurance density in the 2014-2016 period (in HRK)



Source: Hanfa, Croatian Bureau of Statistics

124 Gross written insurance premium and gross written reinsurance premium for 2016 include insurance and reinsurance companies' premium realised via the Croatian Nuclear POOL EIG, which was not the case in previous periods.

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

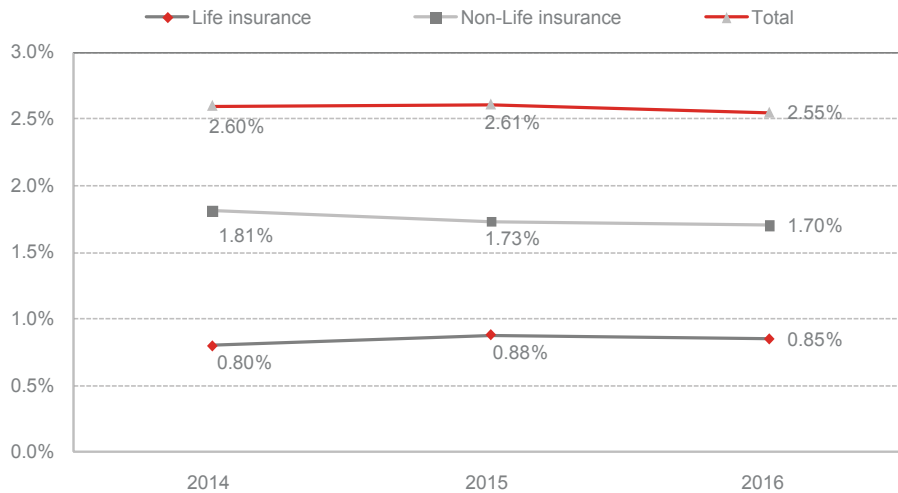
126 This reinsurance company was merged with an insurance company in 2017.

127 The insurance density is calculated as the ratio of gross written premium to total population. The population numbers were taken from the website of the Croatian Bureau of Statistics (document Population by age and sex – mid-year estimate, average age of population, life expectancy and temporary data of 2016 mid-year estimate, of 24 February 2017).

128 Calculated according to the midpoint exchange rate of the Croatian National Bank as at 31 December 2016

As at 31 December 2016, the share of gross written insurance premium in GDP<sup>129</sup> amounted to 2.55%, recording a decrease compared to the previous year when it amounted to 2.61%. In the life insurance group, this share fell from 0.88% in 2015 to 0.85% in 2016, while in the non-life insurance group it fell from 1.73% in 2015 to 1.70% in 2016.

Chart 5.2 Proportion of the gross written premium in GDP in the 2014-2016 period

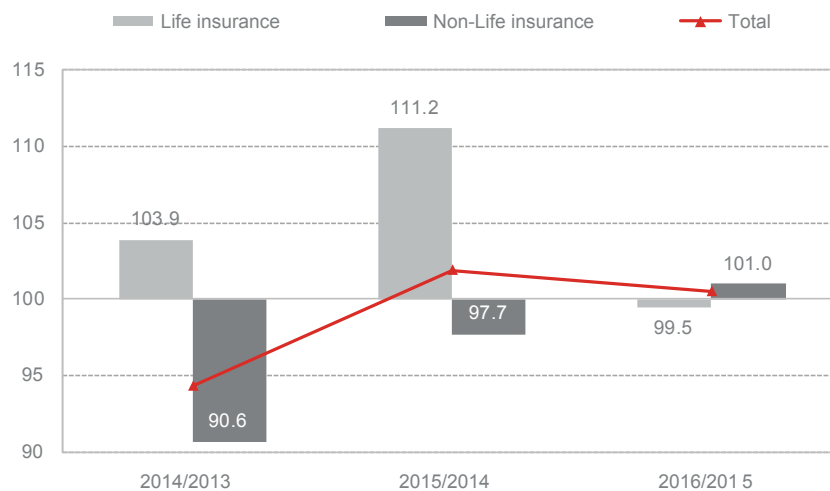


Source: Hanfa, Croatian Bureau of Statistics

The gross written premium concentration in the five largest insurance companies declined from 63.4% in 2015 to 61.6% in 2016. The non-life insurance group recorded a higher concentration than the life insurance group, with five insurance companies accounting for 69.2% of the total nonlife insurance premium, while the life insurance group recorded 64% of the premium concentrated in five insurance companies.

The gross written premium structure was dominated by non-life insurance with a 66.7% share, which was a slight increase compared to 2015 when the share was 66.4%, after a long trend of decline, mainly as a result of a significant decrease in compulsory motor vehicle liability insurance premiums, but also of an increase in life insurance premiums.

Chart 5.3 Gross written premium indices in the insurance industry in the 2014-2016 period



Source: Hanfa

129 GDP data published in the Communication of the Croatian Bureau of Statistics, No 12.1.1/4. of 7 March 2017

Gross written premium in the non-life insurance group in 2016 amounted to HRK 5.8bn, increasing by HRK 58.9m or 1% in relation to 2015, thus discontinuing the trend of continued decline in premiums in this insurance group. The increase in premiums was mainly influenced by the increase in premiums in the insurance class 03 – Motor vehicle insurance (increase of HRK 89.5m or 12.5%) and in the insurance class 02 – Health insurance (increase of HRK 79.9m or 24.3%). An increase in premium in the amount of HRK 29.1m was recorded with another five classes of non-life insurance. Other 11 classes of non-life insurance recorded a decrease in premium in the amount of HRK 139.7m, with the largest share relating to the premium in class 10 – Motor vehicle liability insurance (decrease of HRK 58.8m) and in class 13 – Other liability insurance lines (decrease of HRK 30.9m).

Life insurance gross written premium stood at HRK 2.9bn, a decrease of HRK 16m or 0.5% compared to 2015. Life insurance premium involving lump-sum premium payments accounted for HRK 1.1bn, rising by HRK 43m compared to 2015, thus continuing the trend of the increase in lump-sum premium payments, however to a significantly smaller degree relative to 2015, which saw an increase of HRK 0.4bn in relation to 2014. Life insurance premium paid in instalments recorded a decrease. The largest proportion (76.9%) of gross written premium in life insurance related to the insurance class 19 – life insurance, and it decreased significantly compared to the previous year when it amounted to 84.5%. Such decrease in share is the consequence of the decrease in premiums in this insurance class by HRK 234.9m compared to the previous year. At the same time, a significant premium increase in the life insurance group of HRK 243.7m was recorded in the insurance class 23 – Life or annuity insurance where the investment risk is borne by the policyholder, by which the share of this insurance class in the life insurance group rose from 8.2% in 2015 to 16.6% in 2016.

In 2016, just like the year before, the class of insurance which took the largest share in the structure of gross written premium was class 19 – Life insurance, while class 10 – Motor vehicle liability insurance, took the second place regarding the proportion in the total gross written premium. Other insurance classes in the structure of gross written premium took less than 10% each.

Table 5.1 Gross written premium by insurance classes in 2015 and 2016 (in HRK thousand)

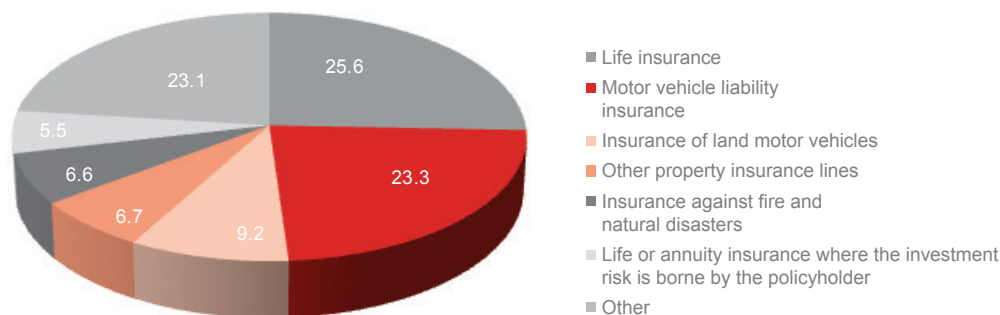
Code	Insurance class	2015	Share (%)	2016	Share (%)	Change (%)
01	Personal accident insurance	477,047	5.5	475,197	5.4	-0.39
02	Health insurance	329,278	3.8	409,206	4.7	24.27
03	Insurance of land motor vehicles	714,287	8.2	803,831	9.2	12.54
04	Insurance of railway rolling stocks	7,100	0.1	4,552	0.1	-35.89
05	Insurance of aircraft	11,105	0.1	10,794	0.1	-2.81
06	Insurance of vessels	161,345	1.8	141,464	1.6	-12.32
07	Insurance of goods in transit	39,305	0.5	33,838	0.4	-13.91
08	Insurance against fire and natural disasters	566,816	6.5	582,124	6.6	2.70
09	Other property insurance lines	597,795	6.9	586,945	6.7	-1.81
10	Motor vehicle liability insurance	2,101,687	24.1	2,042,862	23.3	-2.80
11	Aircraft liability insurance	7,449	0.1	7,195	0.1	-3.41
12	Insurance against liability arising out of the use of vessels	45,009	0.5	43,527	0.5	-3.29
13	Other liability insurance lines	377,078	4.3	346,195	3.9	-8.19
14	Credit insurance	159,649	1.8	152,344	1.7	-4.58

Code	Insurance class	2015	Share (%)	2016	Share (%)	Change (%)
15	Suretyship insurance	4,536	0.1	5,853	0.1	29.06
16	Insurance against miscellaneous financial losses	118,848	1.4	122,238	1.4	2.85
17	Legal expenses insurance	2,588	0.0	3,743	0.0	44.61
18	Travel insurance	69,330	0.8	77,246	0.9	11.42
19	Life insurance	2,478,271	28.4	2,243,389	25.6	-9.48
20	Annuity insurance	60,901	0.7	42,814	0.5	-29.70
21	Supplementary insurance linked with life insurance	147,679	1.7	141,557	1.6	-4.15
22	Marriage and birth insurance	6,304	0.1	5,676	0.1	-9.96
23	Life or annuity insurance in which the investment risk is borne by the policyholder	241,266	2.8	485,005	5.5	101.02
24	Tontines	0	0.0	0	0.0	-
25	Assurance with paid-up sum assured	0	0.0	0	0.0	-
Total non-life insurance (classes 01 – 18)		5,790,252	66.4	5,849,154	66.7	1.02
Total life insurance (classes 19 – 25)		2,934,421	33.6	2,918,441	33.3	-0.54
Total (classes 01 – 25)		8,724,673	100.0	8,767,595	100.0	0.49

Source: Hanfa

Motor vehicle insurance, which includes motor vehicle liability insurance (class 10) and motor vehicle insurance (class 03), in 2016 accounted for 32.5% of the total gross written premium, while in the previous year the same two classes of insurance accounted for 32.3% of the total gross written premium.

Chart 5.4 Premium structure by insurance classes in 2016 (in %)



Source: Hanfa

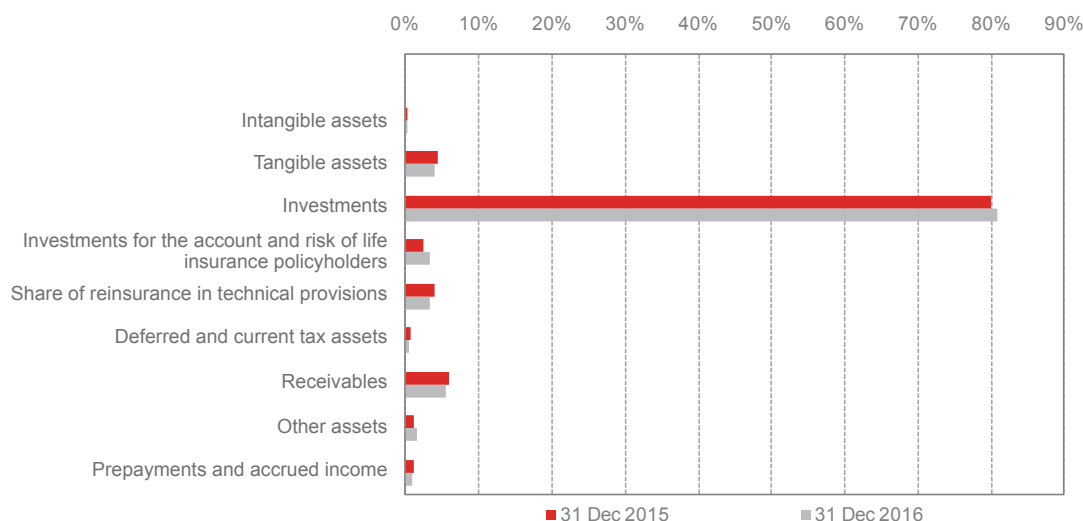
The largest share of the gross written premium recorded in class 10 – insurance against liability arising out of the use of motor vehicles was accounted for by risk 10.01 – Compulsory insurance of owners or users of motor vehicles against liability for damage to third parties (hereinafter: motor vehicle liability insurance). Motor vehicle liability insurance premium totalled HRK 1.9bn and accounted for 22.2% of the total gross written premium recorded in 2016, decreasing by HRK 101.1m (5%) relative to 2015, as a result of the decrease in average premium from HRK 993 in 2015 to HRK 930.4 in 2016.

A decrease in motor vehicle liability insurance premiums was recorded by 8 out of 12 insurance companies that were engaged in providing motor vehicle liability insurance services at 31 December 2016.

### 5.1.1.2 Asset structure

As at 31 December 2016, total assets of insurance and reinsurance companies amounted to HRK 39.8bn, increasing by HRK 1.2bn or 3.1% compared to the previous year. This increase was mostly due to a rise in life insurance assets totalling HRK 1.5bn or 7.1%. As at 31 December 2016, life insurance assets accounted for 56.2% of total assets of insurance and reinsurance companies. Non-life insurance assets decreased by HRK 0.3bn or 1.6%. Assets of reinsurance companies accounted for 2.4% of total non-life insurance assets.

Chart 5.5 Asset structure of insurance and reinsurance companies in 2015 and 2016 (in %)



Source: Hanfa

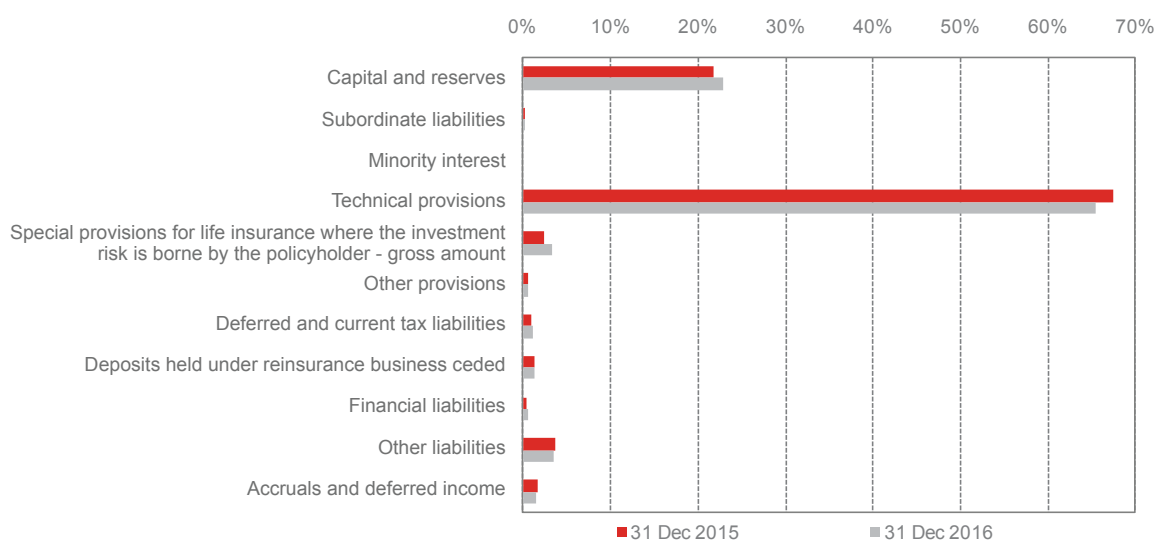
The most significant share (89%) in life insurance assets was accounted for by investments, while investments for the account of life insurance policyholders who bear the investment risk accounted for 5.9% of the assets. The major investment share was accounted for by investments in debt financial instruments classified in the portfolio of financial assets available for sale (41.7% of life insurance assets) and investments in debt financial instruments classified in the portfolio of investments held to maturity (26% of life insurance assets). In the life insurance group, the top five companies (as regards the amount of assets) accounted for 66.8% of total life insurance assets.

The most significant share (69.9%) in non-life insurance assets (reinsurance excluded) was also accounted for by investments. As in life insurance investments, the major investment share was accounted for by investments in debt financial instruments classified in the portfolio of financial assets available for sale (20.7% of non-life insurance assets). In addition to investments, a significant proportion was related to receivables (11.6%) and tangible assets (8.3%). In the non-life insurance group, the top five insurance companies (as regards the amount of assets) accounted for 77.9% of total non-life insurance assets.

### 5.1.1.3 Liability structure

As at 31 December 2016, the largest share (65.5%) in total liabilities recorded by insurance and reinsurance companies was accounted for by technical provisions, while capital and reserves made up 22.8% of their liabilities.

Chart 5.6 Liability structure of insurance and reinsurance companies in 2015 and 2016 (in %)



Source: Hanfa

The life insurance liability structure was dominated by technical provisions (75.4%), with mathematical provisions reaching HRK 16.6bn (74.2% of life insurance liabilities) and accounting for the largest part. A significant share was also related to capital and reserves, which accounted for 13.8% of the life insurance liability structure, while special provisions for life insurance policies where the investment risk is borne by the policyholder (gross amount) made up 5.9% of life insurance liabilities.

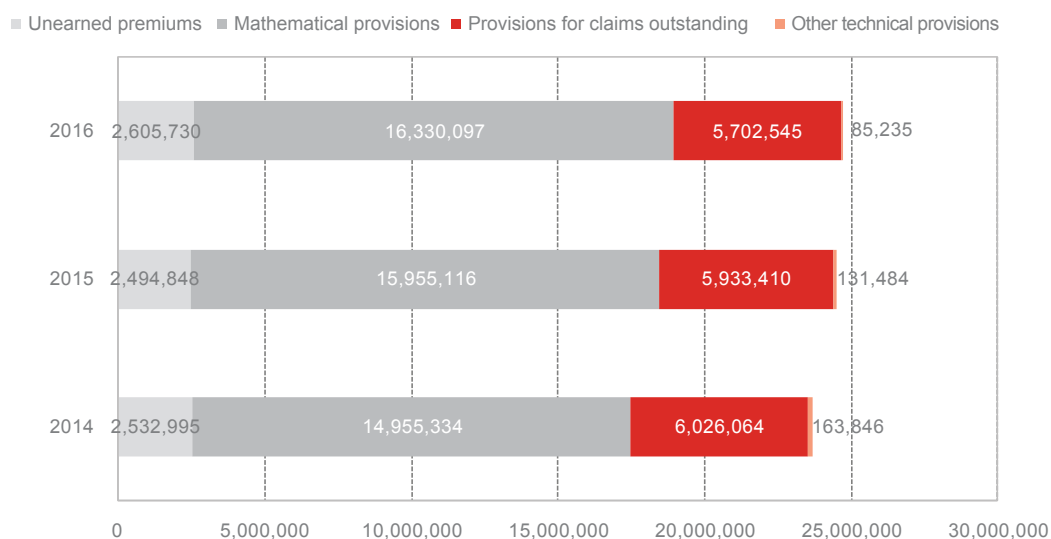
Technical provisions dominated the non-life insurance liability structure (reinsurance excluded) as well (a 53.8% share), and were mostly related to provisions for claims outstanding, which amounted to HRK 6.1bn (35.9% of total liabilities). Capital and reserves accounted for 33.0%, while the remaining liability items made up a 5.9% share in total liabilities.

#### 5.1.1.4 Technical provisions according to accounting rules

Insurance companies and reinsurance companies are obliged to establish appropriate technical provisions with respect to all insurance and reinsurance business operations they engage in, in line with the accounting rules intended to cover liabilities from insurance contracts or reinsurance contracts, and any loss due to risks arising from insurance business i.e. reinsurance business operations they engage in. As at 31 December 2016, net technical provisions of insurance and reinsurance companies, as presented in the statement of financial position, amounted to HRK 24.7bn, rising by HRK 208.7m or 0.9% compared to 31 December 2015. This increase was mainly due to a HRK 375m or 2.4% increase in mathematical provisions. Provisions for claims recorded a decline in the amount of HRK 230.9m or 3.9%.

*The insurance company or reinsurance company is obliged to set up the following types of technical provisions in line with the accounting rules depending on insurance and/or reinsurance operations it carries out: provisions for unearned premiums, provisions for bonuses and rebates, provisions for claims, mathematical provisions, special provisions, equalisation provisions and other technical provisions according to accounting rules.*

Chart 5.7 Net technical provisions according to accounting rules in the 2014 – 2016 period (in HRK thousand)



Source: Hanfa

Mathematical provisions were also the largest item in the structure of net technical provisions, continuing its growing trend within total technical provisions, which ranged from 63.2% in 2014 to 66.1% in 2016. A significant part of net technical provisions was allocated by companies to claims for provisions outstanding. Unlike the share of mathematical provisions, the share of provisions for claims outstanding in total net technical provisions kept declining and ranged from 25.4% in 2014 to 23.1% in 2016. The share of provisions for unearned premiums was stable during that period and ranged between 10.2% (2015) and 10.7% (2016).

#### 5.1.1.5 Investments in assets covering technical provisions according to accounting rules

With respect to asset investment, the Insurance Act and the European Commission regulations prescribe general principles, i.e. qualitative requirements for identification, measurement, monitoring and management of risks arising from investments that insurance companies or reinsurance companies are required to abide by when making investment decisions, with particular regard to the prudent person principle. It is stipulated that insurance companies or reinsurance companies may invest only in assets whose risks can be appropriately identified, measured and monitored, which can be properly managed, monitored and reported on. Likewise, investments in derivative financial instruments are permitted only if these instruments contribute to risk reduction or facilitate efficient portfolio management, and that investments in assets are not listed on the regulated market are maintained at reasonable levels. Appropriate assets diversification is also required in order to avoid over-reliance on a particular asset type, one issuer, issuer group, geographic area, as well as excessive risk accumulation in a portfolio.

The value of assets covering mathematical provisions must at any time be at least equal to the amount of technical provisions according to accounting rules intended for covering liabilities from life insurance contracts and other insurance contracts that use similar probability tables and calculations to that of life insurance for which insurance company must establish mathematical provisions. As at 31 December 2016, insurance companies invested HRK 18bn in assets covering mathematical provisions, i.e. HRK

*Assets covering mathematical provisions are assets intended for covering liabilities under life insurance contracts and other insurance contracts involving probability tables and calculations similar to those of life insurance contracts in respect of which insurance companies are obliged to set up mathematical provisions.*

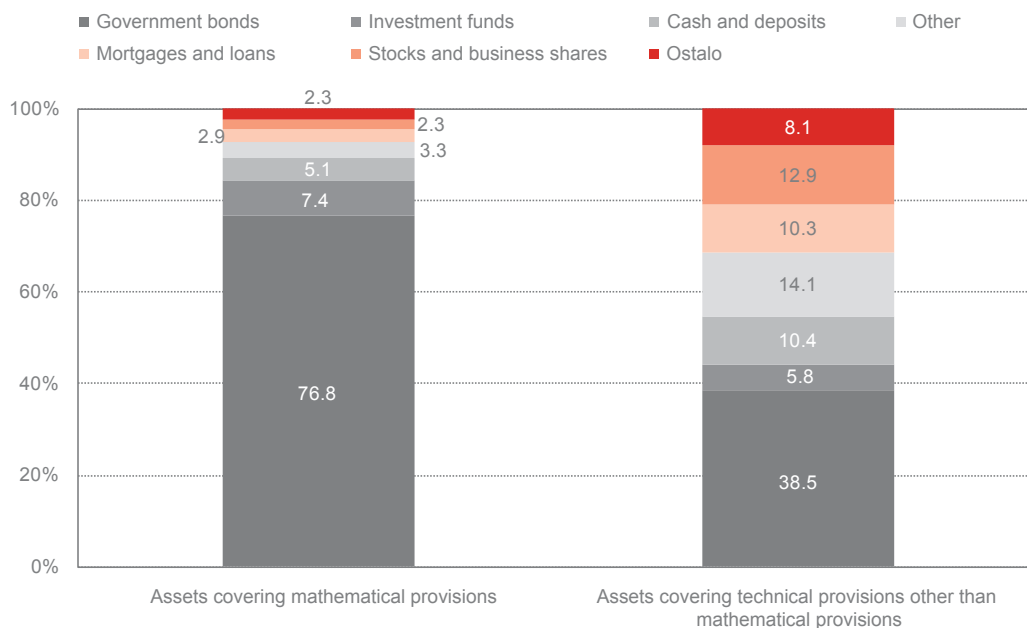
1.5bn or 9.2% more than the required coverage of mathematical provisions, which amounted to HRK 16.5bn.

The value of assets covering technical provisions according to accounting rules, except for mathematical provisions intended to cover liabilities from insurance contracts for which an insurance company or reinsurance company is obliged to establish technical provisions according to accounting rules other than mathematical provisions, must at all times be at least equal the amount of these technical provisions. As at 31 December 2016, the required coverage of technical provisions, other than mathematical provisions<sup>130</sup>, amounted to HRK 8.2bn. Insurance and reinsurance companies invested a total of HRK 11.4bn in assets covering technical provisions, which was HRK 3.1bn or 38.2% more than the required coverage.

*Assets covering technical provisions according to accounting rules are assets intended for covering underwriting liabilities of insurance companies and any losses due to risks arising from insurance operations carried out by insurance companies, and regarding which insurance companies must establish technical provisions according to accounting rules.*

Insurance companies or reinsurance companies are required to maintain a special register of assets covering technical provisions according to accounting rules, separately for assets covering mathematical provisions and assets covering technical provisions other than mathematical provisions.

Chart 5.8 Structure of investments in assets covering technical provisions according to accounting rules as at 31/12/2016 (in %)



Source: Hanfa

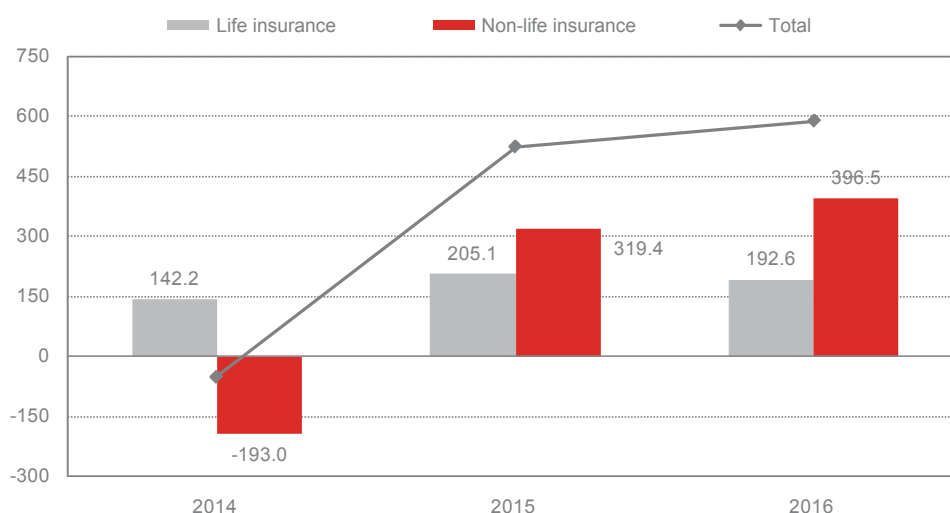
As at 31 December 2016, 76.8% of assets covering mathematical provisions and 38.5% assets covering technical provisions were invested in government bonds. Apart from government bonds, a significant share in the structure of assets covering technical provisions other than mathematical reserves related to investments in real estate, investments in stocks and business shares, money and deposits, and mortgages and loans.

130 The requested coverage of technical provisions, other than mathematical provisions, is comprised of provisions for unearned premiums, provisions for bonuses and rebates, provisions for claims, equalisation provisions and other technical provisions according to accounting rules.

### 5.1.1.6 Financial operating results

In 2016, insurance and reinsurance companies achieved a profit of HRK 589.1m as a result of their operations, HRK 64.6m more than in 2015 when they achieved a profit of HRK 524.5m. Net profit amounting to HRK 617.2m was reported by 17 insurance companies and one reinsurance company, while a HRK 28.1m loss was reported by four insurance companies.

Chart 5.9 Operating results of insurance and reinsurance companies from 2014 to 2016 (in HRK million)



Source: Hanfa

The profit in the non-life insurance group was HRK 396.5m. Of this amount, HRK 430.6m accounted for the profit of 14 insurance companies and one reinsurance company, while three insurance companies reported loss amounting to HRK 34.1m. The life insurance group recorded a HRK 192.6m profit, of which a HRK 199.3m profit was generated by 11 insurance companies, while a HRK 6.7m loss was realised by three insurance companies.

### 5.1.1.7 Insurance industry performance indicators

The key performance indicators<sup>131</sup> for insurance and reinsurance companies are loss ratio, expense ratio and combined ratio.

In 2016, the loss ratio reached 61.2% and was somewhat more favourable compared to 2015, when it stood at 63.9%. The loss ratio of the life insurance business amounted to 91.5%, falling slightly compared to 2015, when it stood at 93.1%. The loss ratio of the non-life insurance business was 45.7%, decreasing in comparison with 2015, when it reached 49.1%.

The expense ratio amounted to 38.9%, a decrease compared to 2015, when it stood at 39.2%. The expense ratio of the life insurance business totalled 26.2%, rising slightly in comparison to 2015, when it reached 26.7%. This indicator stood at 45.4% in the

*Loss ratio is the ratio of the gross sum of claims settled and the gross amount of changes in provisions (provisions for claims outstanding, mathematical provisions, other technical provisions and life insurance technical provisions where the policyholder bears the investment risk) to the sum of gross written premium, value adjustment and charged adjustment of insurance premium value and changes in gross provisions for unearned premiums.*

<sup>131</sup> Data on 2015 and 2016 indicators calculated on the basis of data from the statement of comprehensive income, do not include data relating to insurance companies acquired by other companies during this period due to the accounting impact of the acquisition, and they also do not include data relating to companies merged with other insurance companies with their registered office in another Member State.

nonlife insurance business, almost exactly the same as in 2015, when it reached 45.5%.

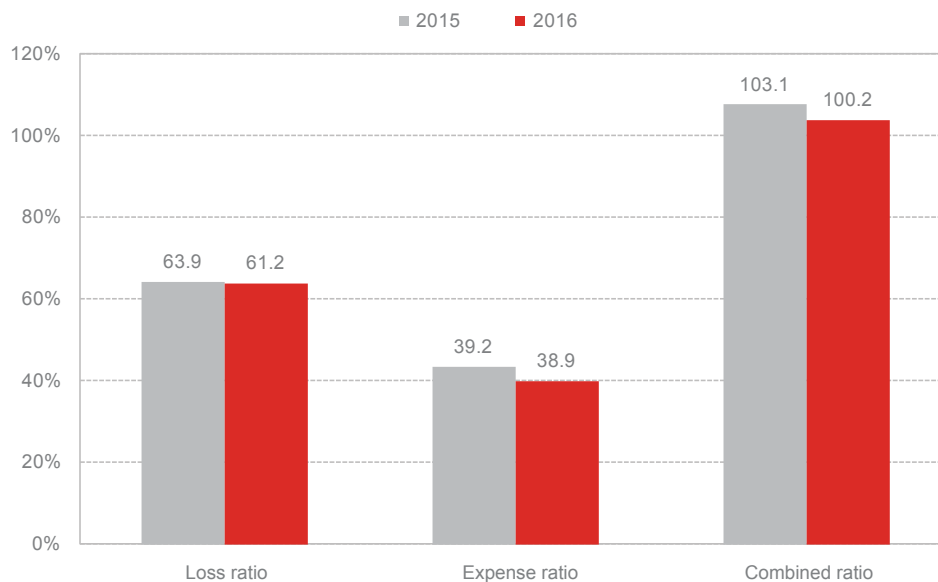
The combined ratio totalled 100.2%, somewhat more favourable than in 2015, when it stood at 103.1%. The combined ratio of the life insurance business reached 117.8%, declining relative to 2015, when its value was 119.8%. In the non-life insurance business, this ratio amounted to 91.1%, an improvement compared to 2015, when it reached 94.6%. A combined ratio lower than 100% is considered desirable. This ratio is more significant as a non-life insurance business indicator, as in the life insurance business investment results must be taken into account as well, because the interest rate is implicitly included in the insurance premium and mathematical provisions.

Taking into account the investment result when calculating the life insurance loss ratio, the increase from 66% in 2015 to 66.8% in 2016 is evident.

*Expense ratio is the ratio of the sum of operating expenses (acquisition expenses and administrative expenses), other technical expenses and other insurance-technical income to the sum of gross written premium, value adjustment and charged adjustment of insurance premium value and changes of gross provisions for unearned premiums.*

*Combined ratio is calculated as the sum of the claims ratio and the expense ratio, and shows operating results prior to inclusion of income from investments.*

Chart 5.10 Insurance industry performance indicators for 2015 and 2016 (in %)



Source: Hanfa

Return on investment, return on assets (ROA) and return on equity (ROE) also represent important insurance industry performance indicators.

In 2016, the return on investment totalled 3.8%, while in 2015 it stood at 4%. In the life insurance industry, return on investment amounted to 3.9%, falling compared to 2015, when it totalled 4.4%. In the non-life insurance industry, this ratio reached 3.6%, rising in comparison with 2015, when it amounted to 3.2%.

*Return on investment is calculated as the ratio of income from investments reduced by investment costs for an accounting period to the investment balance as at the last day of the accounting period.*

Return on assets (ROA) in the insurance sector stood at 1.5% in 2016, while in 2015 it stood at 1.4%. In the life insurance industry, this indicator stood at 0.9%, an improvement relative to 2015 when it stood at 1%. In the non-life insurance group, this indicator stood at 2.3%, unlike in 2014 when it was negative and amounted to 1.8%. A high indicator implies a high return on assets.

In 2016, the total return on equity amounted to 6.5%, a significant improvement in comparison with 2015, when it stood at 6.2%. In life insurance industry, ROE stood at 6.2%, falling relative to 2015, when it reached 7.8%. In the non-life insurance industry, ROA reached 6.6%, increasing compared to 2015, when it stood at 5.5%.

*Profitability of assets or return on assets (ROA) represents a ratio of after-tax profit or loss of the accounting period to total assets.*

#### 5.1.1.8 Capital requirements under Solvency II

Under Solvency II the basic approach to valuation of assets and liabilities on an economic basis is measurement at fair value. Two valuation models can be used: valuation approach when market values are known and available (Mark to Market) and valuation approach used when it is not possible to value at current fair value (Mark to Model). Under Solvency II, technical provisions are calculated as a sum of a best estimate (making up the largest part of technical provisions) and a risk margin. Total assets of insurance companies and reinsurance companies, valued according to the Solvency II principles, amounted to HRK 39.5bn, while total liabilities according to the Solvency II principles amounted to HRK 27.8bn.

*Return on equity (ROE) represents the relationship between after-tax profit or loss of the accounting period and equity (subscribed capital, premium on shares issued, revaluation reserves, reserves and accumulated profit or loss). It shows how much net profit or loss of the accounting period can be generated by HRK 100 of equity.*

As with valuation accounting, investments continue to hold the largest share in the structure of assets, while technical provisions account for most of their liabilities. The most significant asset categories according to the Solvency II valuation system were government bonds that accounted for 51.5% of assets. Other significant items were investments in real estate with a 6.5% share, investments in investment funds with a 6.3% share, deposits with a 5.8% share and loans with a 5.4% share. The most significant liability items were life insurance technical provisions (59.3% of liabilities) and non-life insurance technical provisions (23.1%).

#### Solvency capital requirement and minimum capital requirement

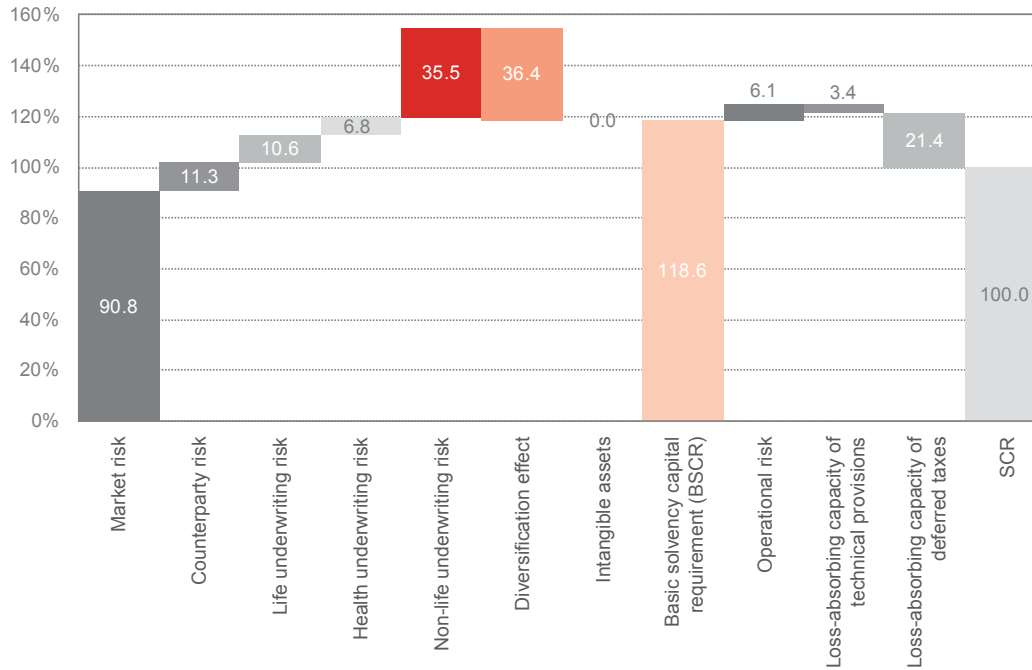
There are two levels of capital in the framework of Solvency II: solvency capital requirement (hereinafter: SCR) and minimum capital requirement (hereinafter: MCR). SCR is calculated using a standard formula or using a full or partial internal model. All insurance companies and re-insurance companies in Croatia have so far used the standard formula. SCR consists of basic solvency capital requirement (hereinafter: BSCR) plus the capital requirement for operational risk minus the adjustment for the loss-absorbing capacity of technical provisions and deferred taxes. BSCR consists of several risk modules (market risk, life underwriting risk, non-life underwriting risk, health underwriting risk, central counterparty default risk, intangible assets risk), while certain modules consist of risk sub-modules. Given that it is not expected that certain risks would materialise at the same time (e.g. shocks on financial markets and insurance risk will not necessarily occur at the same time), using the linear correlation techniques, diversification is calculated for which the sum of capital requirements reduces in order to ultimately obtain the BSCR.

*SCR represents the level of capital that enables an insurance company or reinsurance company to absorb almost all adverse events and allows solvent operations with respect to the risks assumed.*

*MCR represents the lowest allowed level of company's capital below which the insured persons and beneficiaries would be exposed to an unacceptable level of risk, should the company be allowed to continue its operations.*

At the level of insurance market, as at 31 December 2016, insurance companies and reinsurance companies reported their SCR in the amount of HRK 4.9bn, with the largest part of capital requirements referring to market risk.

Chart 5.11 Structure of SCR as at 31/12/2016 (in %)



Source: Hanfa

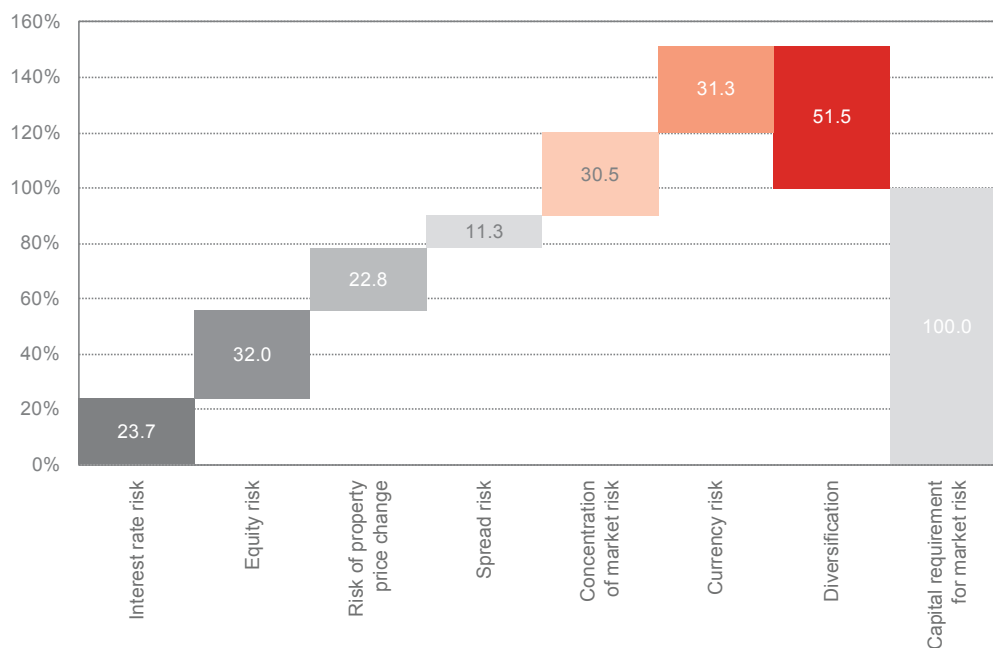
The second most significant risk in the SCR structure is non-life underwriting risk, where 79.1% of capital requirements represent capital requirement for premium risk and non-life insurance provisions risk.

In non-life underwriting risk, the most significant risks are life insurance costs risk (37.7% of capital requirements for the life insurance risk assumed) and risk-bearing (37.4% of the capital requirements for non-life underwriting risk), while as regards health underwriting risk the most significant risk by capital requirements is the risk of health insurance that does not have similar technical bases as life assurance.

The counterparty risk module, the third most significant risk, reflects possible losses due to unexpected default by the issuer or significant deterioration of the issuer's credit standing over the next 12 months.

Chart 5.12 shows the market risk structure generated by the major share of capital requirements of insurance companies and reinsurance companies as at 31 December 2016.

Chart 5.12 Structure of capital requirements for market risk as at 31/12/2016 (in %)



Source: Hanfa

### Own funds

Two types of own funds are defined under Solvency II: basic own funds and ancillary own funds. Own funds are classified into three categories in accordance with their loss absorbing characteristics. Category 1 own funds are the best-performing funds that possess the capacity of permanent availability and subordination, taking into account the length of time, the lack of recall options, the absence of mandatory servicing costs, and the absence of a burden. Such funds do not have restrictions with respect to including own funds into SCR and MCR coverage. Category 2 own funds are funds that possess the capacity of permanent subordination, taking into account the length of time, the lack of recall options, the absence of mandatory servicing costs, and the absence of a burden. Category 3 own funds consist of funds that cannot be categorised as category 1 or category 2 own funds.

*Basic own funds consist of the excess of assets over liabilities, which mainly consist of subscribed capital, provisions and retained earnings including profit for the current year, and subordinated liabilities.*

*When determining ancillary own funds, insurance companies take into account items other than basic own funds which can be called up to absorb losses. Ancillary own-fund items can be taken into account when determining own funds only on the basis of Hanfa's prior approval.*

### Solvency capital requirement and minimum capital requirement coverage

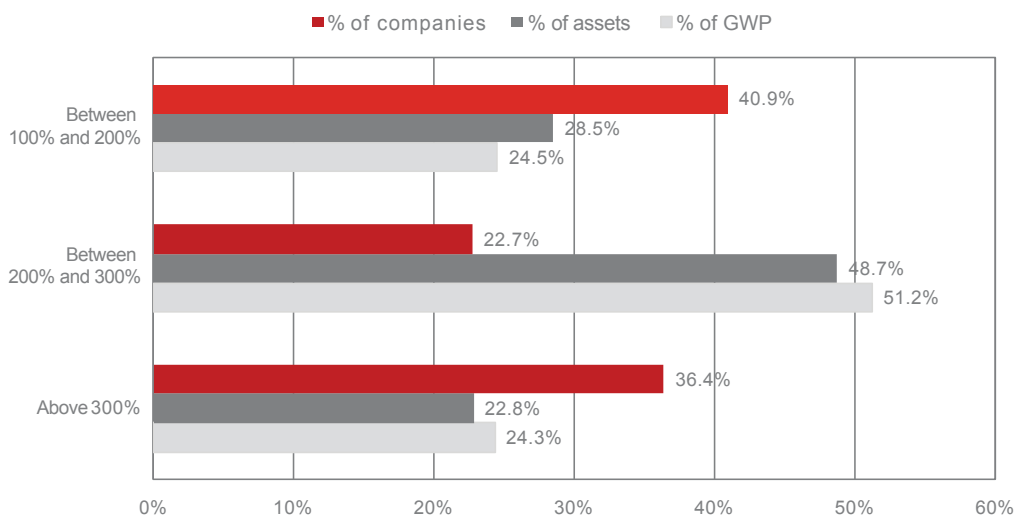
Insurance companies must at all times have eligible own funds to cover the solvency capital requirement. Eligible amount of basic own funds to cover the solvency capital requirement of an insurance company is equal to the sum of amount of category 1 own funds and the eligible amount of category 2 and category 3 basic own funds. Regarding the coverage of insurance company's solvency capital requirement, eligible amounts of Category 2 and Category 3 items are subject to quantitative restrictions.

As at 31 December 2016, total eligible own funds for the coverage of solvency capital requirement of insurance companies or reinsurance companies amounted to HRK 11.41bn, of which HRK 11.37bn (99.6%) referred to category 1 funds, which can be included in own funds for the cover-

age of SCR or MCR without restrictions. The amount of HRK 15.1m represented only category 1 limited funds, the amount of HRK 18.3m represented category 2 basic own funds, while HRK 7.7m represented category 3 basic own funds. Basic own funds of categories 2 and 3 were not reported.

Most of the insurance companies or reinsurance companies, analysed by the number of companies, reported SCR coverage ranging between 100% and 200%. Looking at the share in total assets and the share in total gross written premium, most of them had SCR coverage ranging between 200% and 300% (48.7% of total assets, or 51.2% of total gross written premium). Solvency ratio under 100%, i.e. uncovered capital requirements in respect of SCR, was not reported by any insurance company or reinsurance company.

Chart 5.13 SCR coverage distribution



Source: Hanfa

Also, insurance companies and reinsurance companies must at all times have eligible basic own funds to cover the minimum capital requirement. The amount of eligible basic own funds to cover the minimum capital requirement is equal to the sum of amount of own funds of category 1 and the amount of eligible basic own funds of category 2. Regarding the coverage of insurance company's solvency minimum capital requirement, eligible amounts of Category 2 basic own funds items are subject to quantitative restrictions.

As at 31 December 2016, all insurance companies and reinsurance companies had sufficient eligible own funds for the coverage of MCR. As much as 72.7% of companies recorded a ratio of basic own funds for the coverage of MCR above 300%, for 22.7% companies it was between 100% and 200%, while for 4.5% of companies it was between 200% and 300%.

### 5.1.2 Croatian Insurance Bureau

The Croatian Insurance Bureau (hereinafter: the Bureau) is a non-profit organisation funded by insurance companies as members of the Bureau. Membership in the Bureau is mandatory for insurance companies engaged in activities relating to compulsory insurance within the transport sector, while other insurance and reinsurance companies may join the Bureau voluntarily. Financial operations of the Bureau include Regular operations (including taxable activity) and the Guarantee Fund.

### 5.1.2.1 Regular business operations

According to the balance sheet of the regular business operations of the Bureau<sup>132</sup>, as at 31 December 2016, the total assets of the Bureau amounted to HRK 11.8m, growing by 13.8% relative to 2015. The total liabilities of the Bureau as at 31 December 2016 stood at HRK 3.8m, increasing by 3.3% in comparison with the preceding year. Sources of financing amounted to HRK 8.1m, and were comprised of own funds of the establisher and of the excess of income over expenses. The excess of income is accounted for by all unspent funds since the beginning of the Bureau's business operations and by all acquisitions of long-term assets from funds obtained in line with the budget, and reduced by the long-term asset value impairment.

Table 5.2 Abbreviated balance sheet of the Regular Business Operations of the Bureau as at 31/12/2015 and 31/12/2016 (in HRK thousand)

No	Item	2015	2016	Change (in %)
<b>Assets</b>				
	Total assets	10,391	11,828	13.8
1	Non-financial assets	6,139	6,257	1.9
2	Financial assets	4,252	5,571	31.0
<b>Liabilities</b>				
	Total liabilities and own sources	10,391	11,828	13.8
1	Liabilities	3,654	3,775	3.3
2	Sources of financing	6,737	8,053	19.5

Source: Hanfa

In the period from 1 January 2016 to 31 December 2016, income from regular business operations of the Bureau (excluding taxable activity) amounted to HRK 10.3m, with the largest part being accounted for by income from members, while expenses from the Regular Business Operations totalled HRK 8.6m and mainly related to salaries and fringe benefits and functional expenses (expenses linked to regular activities of the Bureau and additional projects).

Total income from taxable activity of the Bureau reached HRK 858.1 thousand, comprising income from the Insurance Education Centre (hereinafter: CEDOH), income from consulting services, income from services provided to leasing companies and income from services provided to insurance agencies. Expenses of the Taxable Activity reached HRK 1.1m and comprised expenses relating to the organisation of expert consulting, expenses relating to the organisation of CEDOH seminars and other expenses.

Table 5.3 Income and expenses from Regular Business Operations of the Bureau for 2015 and 2016 (in HRK thousand)

No	Description	2015	2016	Change (in %)
A	Income	9,940	11,141	12.1
1	Total income – Regular business operations	8,891	10,282	15.6
2	Total income – Taxable activity	1,048	858	-18.1
B	Expenses	9,370	9,711	3.6
1	Total expenses – Regular business operations	8,185	8,647	5.6
2	Total expenses – Taxable activity	1,186	1,064	-10.2

Source: Hanfa

<sup>132</sup> Balance sheet of the regular business operations includes a non-profit business operations segment, which is financed by members, and a profitable segment (taxable activity), which refers to the organisation of seminars and consultations, and other activities that are not financed by the members of the Bureau.

### 5.1.2.2 Guarantee Fund

Pursuant to Article 45(1) of the Act on Compulsory Insurance within the Transport Sector<sup>133</sup>, insurance companies conducting compulsory insurance business<sup>134</sup> are obliged to pay contributions to the Bureau for the Guarantee Fund, in proportion to the premium or number of risks recorded in a certain class of compulsory insurance in the current year.

The Bureau is obliged to separate assets of the Guarantee Fund from other assets of the Bureau and keep them in a special account. As at 31 December 2016, total assets of the Guarantee Fund amounted to HRK 16m, decreasing by 29.1% compared to the previous year.

Table 5.4 Abbreviated balance sheet of the Guarantee Fund for 2015 and 2016  
(in HRK thousand)

No	Item	2015	2016	Change (in %)
Assets				
	Total assets	22,620	16,027	-29.1
1	Non-financial assets	416	416	0.0
2	Financial assets	22,204	15,610	-29.7
Liabilities				
	Total liabilities and own sources	22,620	16,027	-29.1
1	Liabilities	1,257	1,095	-12.9
2	Sources of financing	21,363	14,932	-30.1

Source: Hanfa

### 5.1.3 Croatian Nuclear Insurance and Reinsurance Pool, EIG

Pursuant to Article 351(1) of the Insurance Act, two or more insurance or reinsurance companies may establish an insurance or reinsurance pool, for the purpose of carrying on insurance or reinsurance business covering risks of liability claims for great damage arising from nuclear energy or for other great damage. The only association of such nature in the Republic of Croatia is the Croatian Nuclear Insurance and Reinsurance Pool, EIG (hereinafter: CN POOL), consisting of five members as at 31 December 2016 (four insurance companies and one reinsurance company). CN POOL accepts risks with respect to insurance and reinsurance in its name and for the account of its members. Distribution of premiums and claims is based on the proportional share of an individual member within the CN POOL capacity, for each contractual year, separately for insurance and reinsurance.

#### 5.1.3.1 Financial statements

As at 31 December 2016, the total assets of the CN POOL reached HRK 94.1m, decreasing by 2.4% compared to 2015. The asset structure was dominated by investments (81.5% of the total assets) amounting to HRK 76.7m. The largest liability share (78.2%) was accounted for by technical provisions totalling HRK 73.5m.

In the period from 1 January 2016 to 31 December 2016, the CN POOL generated a profit totalling HRK 35,600, increasing by HRK 25,300 or 243.4% compared to the preceding year. Gross written

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

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

premium in the amount of HRK 17.2m represented the most significant part of the income, decreasing by 32.1% compared to the previous year, while most of the expenses of the CN POOL related to acquisition expenses in the amount of HRK 14.1m, increasing by HRK 3.8m relative to the previous year.

#### **5.1.4 Insurance representation business and insurance and reinsurance brokerage business**

Data on insurance representation business and insurance and reinsurance brokerage business was collected from financial statements and statistical reports submitted to Hanfa by insurance agencies, insurance and reinsurance brokerage companies, insurance representation crafts, HP – Hrvatska pošta d.d., and credit institutions having their registered office in the Republic of Croatia in accordance with the scope, deadlines and manner defined by the Ordinance on the structure and content of financial and statistical reports of persons authorised to conduct insurance representation business and insurance and reinsurance brokerage business<sup>135</sup>. According to the data received, the total income from insurance representation services and insurance and reinsurance brokerage services provided in 2016 reached HRK 547.6m, rising by HRK 115.3m or 26.7% relative to the preceding year.

Insurance agencies generated income from insurance representation services totalling HRK 192m and accounting for a 35.1% share in the total income recorded in insurance representation and insurance and reinsurance brokerage business. Credit institutions reported income from insurance representation business in the amount of HRK 190.5m, which accounted for a 34.8% share in the total income structure of insurance representation and insurance and reinsurance brokerage business. Income of insurance and reinsurance brokerage companies amounted to HRK 95.7m (17.5% of total income), while the income of insurance representation crafts amounted to HRK 64.1m accounted for 11.7% of total income arising from this activity.

## **5.2 Hanfa's regulatory activities**

### **5.2.1 Solvency II**

#### **Application of Solvency II**

As of 1 January 2016, the rules for the new Solvency II regulatory framework have been fully applicable in accordance with the CMA and the Solvency II Directive. This started a new era in the insurance framework of supervising solvency, rules of conduct and consumer protection. The deadline to prepare the new regulatory system, given to insurance companies and reinsurance companies, came to an end. This process lasted for two years, giving the opportunity for the quality preparation for the implementation of legal provisions. Certain changes in capital coverage, the application of rules on cross-border service provision, greater level of transparency and consumer protection, publication and reporting came into the forefront, thus setting a higher level of protection for all participants in the insurance market in the Republic of Croatia and the European Union.

By applying the provisions of the CMA as early as in the beginning of 2016, insurance companies and reinsurance companies fully adapted to the new management system that defined not only the establishment of key functions and management of risks and conflicts of interest, but also a new way of documenting work processes, their adequate management and effective planning. Companies thoroughly monitor their environment and assess their own risks and solvency at least once a year.

<sup>135</sup> Official Gazette, No 37/16

## Reporting and validation of reports

In 2016, Hanfa received first reports within the full implementation of Solvency II, in line with provisions of Article 314. of the Commission Delegated Regulation supplementing the Solvency II Directive<sup>136</sup> relating to quantitative and qualitative information and reporting on the initial values of assets and liabilities and the value of minimum capital requirements, solvency capital requirements and eligible own funds of a company from the date of the initial financial statement (Day 1 Report). The range of information delivered within the Day 1 report is significantly smaller than the range of information in annual reports.

Verification of Day 1 reports lasted until 20 May 2016, and by that date all the reports successfully passed technical validation. The validation process of submitted quantitative information lasted from 23 May 2016 to 21 June 2016, covering all insurance and/or reinsurance companies in the Republic of Croatia. Each company was asked to present its solvency capital requirement in more detail, by capital requirements of related modules and sub-modules.

Validation of Day 1 reports and Q1 reports required intensive labour efforts. As regards certain companies, specificities that significantly affect the calculation of own funds were analysed. The deadline for submitting Day 1 reports for groups was 1 July 2016, while the deadline for submitting Q1 reports for groups was 7 July 2016. Validation of quantitative data was carried out with continued communication with companies. The validation process for Q2 reports took place from 25 August 2016 to 23 September 2016, while for Q3 reports it took place from 25 November 2016 to 23 December 2016. All validated reports were submitted to EIOPA within the prescribed deadlines.

In 2016, insurance companies and reinsurance companies conducted their own risk and solvency assessment of total solvency needs, taking into account specific risk profile, permitted risk limitations (risk appetite, tolerance to individual risks) and company's business strategy, continuous compliance with capital requirements and requirements on technical provisions and the significance in which the risk profile of the company in question departs from the assumptions on which the capital solvency requirement is based. Consequently, during 2016, meetings were held with representatives of insurance companies with a focus on ORSA reports, and such practice is planned to continue in the years to come.

## EU regulations

In addition to the application of the provisions of the Insurance Act and the provisions of the Delegated Regulation amending the Solvency II Directive and Delegated Regulation amending Delegated Regulation (EU) 2015/35<sup>137</sup> which all the participants of the insurance market must abide by, a large number of regulations were adopted in 2016, particularly implementing regulations. Eight implementing regulations<sup>138</sup> were issued, concerning the following laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 September until 30 December 2016 in accordance with the Solvency II Direc-

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

137 Commission Delegated Regulation (EU) 2016/467 of 30 September 2015 amending Commission Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for several categories of assets held by insurance and reinsurance undertakings

138 The following implementing regulations were issued:

- Commission Implementing Regulation (EU) 2016/1976 of 10 November 2016 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 September until 30 December 2016 in accordance with Directive 2009/138/EC of the European Parliament and of the Council (Solvency II)
- Commission Implementing Regulation (EU) 2016/1800 of 11 October 2016 laying down implementing technical standards with regard to the allocation of credit assessments of external credit assessment institutions to an objective scale of credit quality steps in accordance with Directive 2009/138/EC of the European Parliament and of the Council
- Commission Implementing Regulation (EU) 2016/1630 of 9 September 2016 laying down implementing technical standards with regard to the procedures for the application of the transitional measure for the equity risk sub-module in accordance with Directive 2009/138/EC of the European Parliament and of the Council

tive, laying down implementing technical standards with regard to the allocation of credit assessments of external credit assessment institutions to an objective scale of credit quality steps in accordance with the Solvency Directive, laying down implementing technical standards with regard to the procedures for the application of the transitional measure for the equity risk sub-module in accordance with the Solvency II Directive, laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 June to 29 September 2016 in accordance with the Solvency II Directive, laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 31 March until 29 June 2016 in accordance with the Solvency II Directive, laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 1 January until 30 March 2016 in accordance with the Solvency II Directive, laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with the Solvency II Directive, laying down implementing technical standards with regard to the templates for the submission of information to the supervisory authorities in accordance with the Solvency II Directive.

Consistent amendments to these regulations caused changes to the Hanfa internet site, regulating the publication of notices of the national competent authority.

### Participation in the work of EU institutions

In 2016, Hanfa followed the development of instructions on key information document, while awaiting the application of the PRIIPs Regulation<sup>139</sup>. Given that the implementation of the said Regulation has been postponed, further communication with companies and educational activities are planned.

At the end of May 2016, the Republic of Croatia expressed its intent to comply with the Guidelines on the supervision of branches of third country insurance undertakings<sup>140</sup>, and in July 2016 with the Preparatory Guidelines on product oversight and governance arrangements by insurance undertakings and insurance distributors<sup>141</sup>. Compliance with the Preparatory Guidelines on product oversight and governance arrangements started a process of adjustment to novelties brought by the implementation of the Insurance Distribution Directive<sup>142</sup> whose provisions will start to be applied on 28 February 2018, at the latest. However, the adjustment process is planned for the similar period as the adjustment to Solvency II, and it will last until the legislation regulating insurance distribution comes into force.

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- Commission Implementing Regulation (EU) 2016/1376 of 8 August 2016 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 June until 29 September 2016 in accordance with Directive 2009/138/EC of the European Parliament and of the Council (Solvency II)
  - Commission Implementing Regulation (EU) 2016/869 of 27 May 2016 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 31 March until 29 June 2016 in accordance with Directive 2009/138/EC of the European Parliament and of the Council (Solvency II)
  - Commission Implementing Regulation (EU) 2016/165 of 5 February 2016 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 1 January until 30 March 2016 in accordance with Directive 2009/138/EC of the European Parliament and of the Council (Solvency II)
  - Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with Directive 2009/138/EC of the European Parliament and of the Council
  - Commission Implementing Regulation (EU) 2016/1868 of 20 October 2016 amending and correcting Implementing Regulation (EU) 2015/2450 laying down implementing technical standards with regard to the templates for the submission of information to the supervisory authorities according to Directive 2009/138/EC of the European Parliament and of the Council

139 Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs)

140 EIOPA-BoS-15/110

141 EIOPA BoS 16/071

142 Directive (EU) 2016/97 of the European Parliament and of the Council of the 20 January 2016 on insurance distribution (Insurance Distribution Directive)

In 2016, Hanfa's representatives were involved in the work of nine committees, one working group, EIOPA's network of language editors and, since June 2016, five newly formed expert networks. In addition, the committees and working groups of ESMA and EIOPA, and Hanfa's members within them, worked on the preparation of all relevant documents which were necessary for decision-making and for debates on specific issues and the needs of special groups to implement peer reviews on specific issues important for the work and activities within the entire European financial market. Hanfa's employees participated in working meetings of the European Commission related to the transposition of the new Insurance Distribution Directive and cross-border marketing of units in investment funds.

## **5.2.2 Normative activities**

### **New Insurance Act**

On 1 January 2016, the new Insurance Act came into force fulfilling the preconditions for the implementation of the Delegated Regulation supplementing the Solvency II Directive. This delegated regulation contains rules for the implementation of the Solvency II Directive and it determines procedures for the exercise of delegated power conferred to the European Commission, as defined in Article 301a of the Solvency II Directive.

The new Insurance Act established a regulatory framework which introduced a series of novelties, the most significant being a higher level of consumer protection and new calculation of capital adequacy taking into account company's risk profile as one of the most important components. Moreover, it enabled a greater transparency of business operations and it prescribed higher standards regarding this matter, as well as requirements to achieve higher efficiency in management, especially in risk management. The supervision process in line with the provisions of the new Insurance Act is risk-based and prospective (oriented towards possible future events), promoting the best supervisory practice. The main objective of the new supervision mode is the identification and control of the risk that insurance company is exposed to or might be exposed to, and the assessment of vulnerability to potential negative experience through stress tests. In order to ultimately promote and maintain the stability of the financial system and the supervision of the legality of business operations, it is important to timely identify the existing and potential disadvantages in the operations of insurance companies and the circumstances that may lead to them. To this end, it is vital to be aware of anything that might go wrong at any time.

The new Insurance Act also introduces a new manner of reporting and publication, such as reporting on insurance activities in another EU / EEA country, as well as reporting to Hanfa on, for example, outsourced activities or functions. It prescribes about which facts and circumstances insurance companies are obliged to inform Hanfa, regularly or on demand. An insurance company shall annually prepare and publish on its website a report on the solvency and financial state containing a description of the company's business operations and results, description of the management system and the assessment of its adequacy regarding the company's risk profile, description of risk exposure etc. On the other hand, under the provisions of the new Insurance Act, Hanfa is obliged to report annually to the European Supervisory Authority on Insurance and Vocational Pension Insurance (EIOPA) on the average capital allowance and its distribution, expressed as a percentage of solvency capital requirement, the number of insurance and re-insurance companies benefiting from the restrictions of regular supervisory reporting and benefiting from reporting exemptions per items under items from Article 217(1) and 217(4) of the Insurance Act, together with the extent of the capital requirement, premiums, technical provisions and assets and the number of groups benefiting from the restrictions of regular supervisory reporting and benefiting from reporting exemptions per items under Article 334(3) and 334(4) of the Insurance Act, together with the extent of capital requirement, premiums, technical provisions and assets.

The new Insurance Act introduced new rules of operation and supervision of insurance and reinsurance companies in accordance with the Solvency II Directive and the Omnibus II Directive<sup>143</sup>, the Regulation on credit rating agencies<sup>144</sup> and regulations establishing the European Supervisory Authority (European Insurance and Occupational Pensions Authority)<sup>145</sup> in terms of the powers of the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority.

The aim of the transposition of the above-mentioned directives is to establish new, more stringent rules and requirements with respect to capital adequacy, introduce changes to the risk management system, improve the asset and liability valuation rules (including technical provisions), introduce risk based supervision and provide for sanctions against inadequate risk management procedures, and introduce a new reporting and public disclosure system, which will result in adequate protection for policy holders and insured persons and prevent market disturbances.

Implementation of these directives in the Croatian legal system, i.e. the new Insurance Act, contributes to a greater consumer protection, or in this sense the protection of insured persons and policy holders, as well as to greater transparency and competitiveness of the market in the Republic of Croatia in relation to the entire market of the European Union and other financial institutions. This should ultimately have a positive impact on the overall exposure and security of business operations. The assumption is that the new rules of the Insurance Act will increase the level of required capital, which could result in further recapitalisation requirements or different understanding of business and investment policy in order to achieve substantial capital relief and reduce capital requirements for individual risks. Finally, the intention is to ensure greater risk diversification, or the use of collateral and risk transfer.

Another novelty is that the insurance company may perform insurance and reinsurance activities, i.e. reinsurance activities may be carried out by a reinsurance company and an insurance company with registered offices in the Republic of Croatia which possesses Hanfa's prior approval for the provision of reinsurance services, and a reinsurance company and an insurance company with registered offices in another Member State which possesses the approval of the competent supervisory authority for the provision of reinsurance services and which has the right to engage in reinsurance activities under the freedom to provide services and under the freedom of establishment i.e. via a branch.

Given that until the entry into force of the new Insurance Act, insurance agencies could offer only accident insurance and motor vehicle liability insurance at the vehicle roadworthiness test garages, one of the novelties in this regard is that insurance agencies can perform insurance representation business in the following classes of insurance:

- personal accident insurance
- insurance of land motor vehicles
- insurance of goods in transit
- motor vehicle liability insurance
- legal expenses insurance
- assistance insurance.

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143 Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2003/71/EC and 2009/138/EC and Regulation (EC) No 1060/2009, (EU) No 1094/2010 and (EU) No 1095/2010 in respect of the powers of the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority), OJ L 153/1

144 Regulation (EU) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, OJ L 302/1

145 Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331/12) and the Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC, OJ L 331/84

It is also more clearly stipulated that persons performing insurance representation services in the framework of their employment in an insurance company, insurance representation company, insurance representation craft, credit institution, Financial Agency, Croatian Post and investment firm may hire an insurance assistant, which greatly facilitates the process of obtaining insurance. This is stipulated under certain conditions such as the time allowed to perform assistants' activities.

### **Regulations adopted under the new Insurance Act**

In 2016, Hanfa adopted 30 new ordinances<sup>146</sup> regulating the following

- audit in insurance companies
- additional requirements for small insurance companies
- form and contents of financial and additional reports of insurance companies or reinsurance companies
- structure and content of financial and statistical reports of persons who have a license to perform insurance representation business and insurance and reinsurance brokerage business
- classification of risk types by groups and classes of insurance or reinsurance
- statistical insurance standards and the content of the planned reinsurance program
- requirements for professional training and examination of professional knowledge required to obtain authorisation to carry out insurance representation or insurance/reinsurance brokerage business, and entering persons into registries
- content of regular reports and reports submitted at the request of Hanfa
- minimum standards, the method of calculation and parameters for the calculation of technical provisions according to accounting rules
- detailed rules and criteria for taking account of gender
- outsourcing of activities or functions of insurance companies and/or reinsurance companies
- requirements for management board members and supervisory board members and key functions in insurance companies or reinsurance companies
- requirements for issuing authorisations to acquire a qualifying holding in insurance companies or reinsurance companies
- content of the application and the documentation submitted along with the application for issuing authorisation to carry out statutory changes of the insurance and reinsurance company
- other services provided by insurance agencies
- additional services provided by insurance and reinsurance brokerage companies
- technical and organisational conditions to conduct insurance representation business at vehicle roadworthiness test garages
- requirements for professional training and examination of professional knowledge required to perform duties of a certified actuary, and
- contents of requirements for issuing authorisations for transfer or to accept the insurance portfolio of insurance or reinsurance companies.

On its website, Hanfa published the Recommendations on contents and delivery of key information documents for life insurance where the investment risk is borne by the policyholder. These Recommendations were issued in order to, before the above-mentioned PRIIP Regulation comes into force, encourage insurance companies to adapt their business with the purpose of greater transparency of procedures, confidence building among financial market participants, reduction of risks and potential disputes on one hand, and on the other hand, refer individuals to what they need to pay attention to when concluding insurance contracts and to be able to recognise and

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<sup>146</sup> The list of ordinances adopted by Hanfa in 2016 is provided in *Appendices*.

accept substantial, unbiased, concrete and easily understandable information about that insurance, and to inform individuals about the insurance-based investment products (their advantages and disadvantages) which is an important component of financial capability enabling the making of a valid, economically justified decision regarding the conclusion of a life insurance contract where the policyholder bears the investment risk.

In addition to the above, with respect to the expansion of products offered by insurance companies, Hanfa published an announcement on its website regarding the clarification of life insurance where the investment risk is borne by the policyholder. This announcement explained basic characteristics of life insurance where the investment risk is borne by the policyholder, such as:

- insured amounts and/or premiums linked with a financial instrument (for example, open-ended investment fund, index, securities etc.)
- the policy holder bears the investment risk (yields or losses are potentially higher relative to traditional life insurance)
- the insurer bears the insurance risk (defined compensation in case of death, accident etc.)
- depending on a product, more flexible additional lump-sum payments are possible
- the policy value depends on the market value of investment
- Investment can be more conservative or more risky, depending on the type of investment offered with the insurance product and risk preference of the policyholder
- some type of payment in case of survivorship is optional.

These novelties in regulation introduced a certain streamlining of business processes, which is particularly evident in the part of the business process of obtaining insurance, which ultimately led to disburdening of supervised entities.

As a part of the digitalisation project introducing a new, digitised way of receiving letters in Hanfa, five ordinances were adopted which changed the manner of submitting notifications and reports prescribed by these ordinances via the e-mail address [report@hanfa.hr](mailto:report@hanfa.hr).

### 5.2.3 Licensing

In 2016, Hanfa received and processed 16 requests for the issuance of approval to candidates for the position of a member of the management board of an insurance or reinsurance company, two requests for the approval for the merger of the insurance company, one request for the authorisation to conduct insurance and reinsurance business in the non-life insurance group and two requests for the authorisation to acquire a qualifying holding in an insurance company. One decision was issued prohibiting the operations of a supplementary pension purchase company.

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

Following the reception of applications, Hanfa issued authorisations to conduct insurance representation business and insurance and reinsurance brokerage business to 47 insurance agencies and 107 insurance representation crafts. It also issued an authorisation to conduct insurance and reinsurance brokerage business to one insurance and reinsurance brokerage company. Following the reception of applications for authorisations to conduct insurance representation business at vehicle roadworthiness test garages, Hanfa granted authorisations to six insurance agencies. On the basis of received notifications relating to termination of operation, decisions were adopted establishing the termination of authorisation to conduct insurance representation business granted to eight insurance agencies, seven insurance representation crafts, two insurance and reinsurance brokerage companies and one insurance representation craft conducting insurance business at vehicle roadworthiness test garages. Hanfa's approvals to carry out insurance representation business ceased to be valid for two credit institutions.

Table 5.5 Authorisations issued

Authorisations issued to carry out insurance representation or insurance/reinsurance brokerage business	2015	2016
Insurance agency	9	47
Insurance representation craft	103	107
Insurance and reinsurance brokerage company	2	1
Insurance agency at vehicle roadworthiness test garages	1	6

Source: Hanfa

Table 5.6 Authorisations/approvals that ended

Termination of approval/authorisation to carry out insurance representation or insurance/ reinsurance brokerage business	2015	2016
Insurance agency	6	8
Insurance representation craft	22	7
Insurance and reinsurance brokerage company	0	2
Insurance agency at vehicle roadworthiness test garages	3	0
Insurance representation craft at vehicle roadworthiness test garages	1	1
Credit institution	1	2

Source: Hanfa

There were six examination cycles for applicants taking exams to obtain authorisation to carry out insurance representation or insurance/reinsurance brokerage business, taken by 1,484 candidates. Examination for insurance agents was taken for 1,413 candidates, and examination for insurance and reinsurance brokers was taken by 71 candidates. A total of 1,277 candidates passed the examination (1,220 insurance agents and 57 insurance and reinsurance brokers), while 207 candidates failed.

In 2016, Hanfa received a total of 303 notifications from other Member States, 53 of which related to direct pursuit of insurance business by insurance companies, 247 related to direct pursuit of activities of insurance and reinsurance mediation and two related to pursuit of insurance representation business through a branch in the Republic of Croatia. In 2016, in the Republic of Croatia, two branches of insurance companies from another Member State were established in accordance with the right of establishment, while one domestic insurance company established a branch on the territory of another Member State. At the same time, one domestic insurance company, two insurance representation companies and six insurance and reinsurance brokerage companies sent notifications on the intention to directly provide direct services in the EU Member States, which Hanfa, in accordance with the rules on cross-border provision of services, sent to competent supervisory bodies in the Member States of the European Union.

Since the accession of the Republic of Croatia to the European Union, Hanfa has received a total of 1,173 notifications, of which 296 related to direct pursuit of insurance business by insurance companies, 870 to direct pursuit of activities of insurance and reinsurance mediation and three to pursuit of insurance representation business through a branch, while four branches of insurance companies from a Member State have been established in accordance with the right of establishment.

Additionally, since Croatia's EU accession, Hanfa has received a total of 34 notifications of activities on the territory of another Member State, of which 11 notifications referred to direct pursuit of insurance business by insurance companies, one to the pursuit of insurance business under the freedom of establishment in another Member State, and 22 to direct pursuit of activities of insurance and reinsurance representation and brokerage on the territory of another Member State.

## 5.2.4 Supervision

### 5.2.4.1 On-site supervision

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

In accordance with the provisions of the Insurance Act, Hanfa conducted supervision based on an approach that is prospective (oriented towards possible future events) and risk-based, so when carrying out the supervision and assessment of insurance companies' risks, it took into account risks that companies are exposed to or might be exposed to, and it assessed and evaluated their ability to endure possible events or future changes in economic conditions that could adversely affect the overall financial position of the company and its ability to assess the risks, taking into account the environment in which it operates.

Hanfa also assessed the qualitative requirements associated with the management system, the risks that insurance companies face or may face, and the ability of insurance companies to assess risks taking into account the environment in which it operates.

In defining the frequency and intensity of supervision, Hanfa was guided by the size and importance of insurance companies, as well as the scope, nature and complexity of risks present in the insurance companies' business.

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

In 2016, Hanfa conducted a total of nine on-site examinations of insurance companies, one of which was targeted, and eight were full-scope examinations. One examination started in 2015 and ended in 2016, five examinations started and ended in 2016, while three examinations started in 2016 and continued into 2017.

Supervision of insurance companies included the process of modelling and sufficiency of provisions for claims for class 3 (motor vehicle insurance) and class 10 (motor vehicle liability insurance), the process of operational risk management and IT risk management, the appropriateness of management system in relation to reporting and outsourcing, outsourcing and key functions' compliance with legal provisions, the appropriateness of established organisational structure, process of calculating and recording commissions and other acquisition costs, the appropriateness of internal procedures, practices and behaviours that influence the protection of interested parties including the provision of information prior to the conclusion of an insurance contract and during its term, especially regarding life insurance, administrative processing of portfolio of life insurance where the investment risk is borne by the policyholder, investment process, inspection and assessment of technical provisions design, calculation and recording of commission payments, conclusion and recording of insurance contract and calculation and recording of costs.

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

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

All the above-mentioned violations and irregularities resulted from a failure to comply with the provisions of the Insurance Act<sup>147</sup>, Act on Compulsory Insurance within the Transport Sector<sup>148</sup> and regulations adopted under these acts and the Commission Delegated Regulation supplementing the Solvency II Directive<sup>149</sup>.

In 2016, Hanfa issued nine decisions relating to on-site examinations completed in 2015 and 2016. Six of these decisions were related to elimination of violations and irregularities, and supervised entities acted in accordance with the decisions and deadlines prescribed by them. In addition to these six decisions, Hanfa issued three decisions on termination of the on-site examinations, for all supervised entities that acted in accordance with the decisions ordering elimination of violations and irregularities.

#### **5.2.4.2 Off-site supervision**

Throughout the year, Hanfa continuously conducted off-site examinations of supervised entities, relying on new regulations, regulations prescribed by EU institutions, as well as EIOPA guidelines. Along with the standard verification of the correct performance of operations of supervised entities and their compliance with supervisory provisions, Hanfa collected, analysed and controlled the submitted reports (financial, statistical and additional reports, audit reports, reports under Solvency II), those delivered within the prescribed deadlines, as well as data, documentation and notifications received upon a special request. Other than on information gathered in this way, verification of business operations was based on other sources as well, and since new regulations encourage greater communication with supervised entities, numerous interviews with management board members, supervisory board members and other relevant persons played an important part in the assessment of business operations.

In March 2016, off-site examination was initiated with respect to insurance companies performing insurance activities in the risk class 10.01 – compulsory insurance of owners or users of motor vehicles against liability for damage to third parties. Depending on the business model, the movement of indicators, the results of stress testing of key indicators, off-site examination administrative proceedings were initiated regarding eight insurance companies, in relation to the establishment of a fully effective and reliable management system for risk type 10.01, as a result of supervision based on an approach that is prospective (oriented towards possible future events) and risk-based. In April 2016, off-site examination administrative proceedings were initiated with respect to two insurance companies where the monitoring of premium sufficiency indicators in 2015 in the insurance class 03 Motor vehicle insurance was carried out as a part of non-administrative proceedings. The administrative procedures targeted the premium sufficiency in the insurance class 03 Motor vehicle insurance. Similarly, in 2016, Hanfa issued six decisions on the elimination of violations and irregularities in relation to off-site examinations from 2015 focused on the premium

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

148 Official Gazette, No 151/05, 36/09, 75/09 and 76/13

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

sufficiency in the insurance class 03 – Motor vehicle insurance and the risk 10.01 – Motor vehicle liability insurance. Three decisions were issued in relation to violations and irregularities in off-site examination administrative cases focused at the valuation of financial assets.

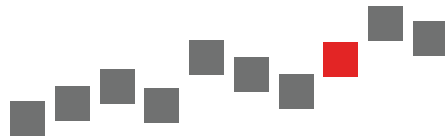
In addition to the targeted off-site examinations, a significant part of activities was focused on the receipt, validation and analysis of quantitative reports for Solvency II. In 2014 and 2015, a preparatory phase for Solvency II was conducted in order to better prepare for its full implementation, both by companies and by Hanfa, and to make the process of future reporting less difficult, regarding technical issues or errors related to incorrect data. Companies obliged to report under Solvency II (i.e. all insurance companies in the Republic of Croatia) submitted a report on the initial state of Solvency II application (Day 1 report) with a reference date of 1 January 2016, as well as quarterly reports. The verification of the reports' technical appropriateness was followed by their intensive validation. During the validation process, with continuous communication with the companies, the completeness of the forms was checked, as well as meaningfulness and consistency of data. In accordance with European Commission regulations, after completion of the validation process, all reports were sent to EIOPA within the foreseen deadlines.

Along with quantitative reports for Solvency II, in 2016 Hanfa received and analysed FLAOR/ORSA reports. After the analysis of submitted FLAOR/ORSA reports, Hanfa held meetings with representatives of individual companies. The purpose of these meetings was to understand more clearly how the ORSA progressed in companies and to provide ideas for advancement and advice to improve future ORSA reports.

*The FLAOR/ORSA report must be a unified and documented report, which includes a business strategy, risk management, assessment of capital requirements and stress tests. It is not intended for the supervisory body, but for company management for the purpose of making valid, effective and required decisions, and must be approved by the company's management board.*

Within the framework of off-site supervision of insurance companies in 2016, Hanfa also carried out the stress test launched by EIOPA on 24 May 2016, prescribing all the parameters needed. Stress testing for 2016 was focused on two major market risks: a long period of low interest rates and a long period of low interest rates with a decline in asset value. In other words, the first part concerned the influence of low interest rate environment during a longer period, while in the second part, it concerned simultaneous influence on assets and liabilities. The testing was primarily focused on life insurance activities of individual companies. In the Republic of Croatia, six companies were obliged to participate in testing, covering 74% of the life insurance market i.e. 61.8% of the total insurance market, as regards the gross written premium. Two more companies participated on a voluntary basis. By 15 July 2016, the insurance companies submitted their test results, validated by Hanfa at individual level in the following month. On 22 August 2016 the results were sent to EIOPA and validated centrally. The second national validation round was carried out in September, and the final results were published by EIOPA on 15 December 2016.

In 2016, Hanfa's employees participated in 12 colleges of supervisors organised by group supervisors, for each individual company operating in the Republic of Croatia and being a member of the group with its registered office in another Member State. Apart from participation at meetings organised in the Member State in which a group has its registered office, membership of colleges of supervisors also implies Hanfa's on-going cooperation with group supervisors. Such cooperation implies regular reporting on activities carried out by insurance companies operating in the Republic of Croatia, participating in bilateral and multilateral teleconferences and dealing with various issues relating to companies that are group members.



# Leasing

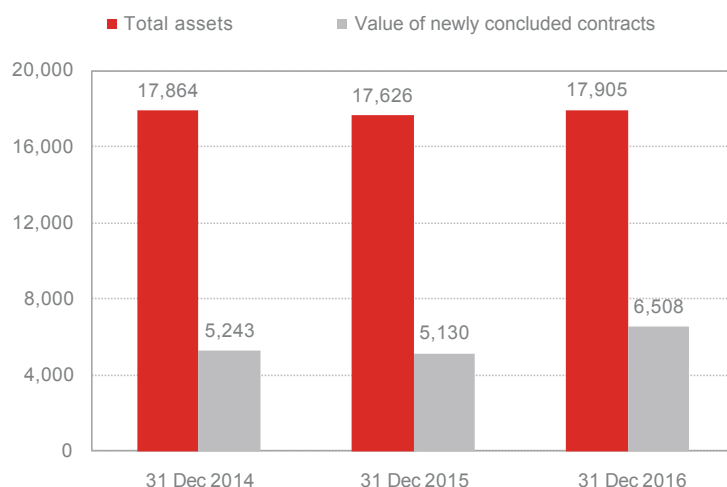


## 6 Leasing

### 6.1 Market overview

In 2016, leasing activity in the Republic of Croatia recorded a rise (in the number and value of newly concluded contracts), due to increased economic activity. As at 31 December 2016, leasing operations<sup>150</sup> were carried out by 19 leasing companies<sup>151</sup>, compared to 21 companies in 2015. In the past year, two companies initiated winding-up proceedings. The majority of leasing companies in the Republic of Croatia belong to groups of financial institutions. As at 31 December 2016, the initial capital of leasing companies amounted to HRK 544.4m, with the non-resident share accounting for 78.8% or HRK 428.9m and 21.2% or HRK 115.5m being accounted for by the initial capital in direct resident ownership. Only two companies were in resident ownership.

Chart 6.1 Assets and value of newly concluded contracts of leasing companies in the period from 2014 to 2016 (in HRK million)



Source: Hanfa

#### 6.1.1 Asset structure

Total assets of leasing companies as at 31 December 2016 amounted to HRK 17.9bn, rising by HRK 278.3m or 1.6% compared to 2015.

<sup>150</sup> The data for previous years shown in Hanfa's 2016 Annual Report might differ from the data in Annual Reports 2014 and 2015 due to the application of the provisions of the Accounting Act (Official Gazette, No 109/07, 54/13, 121/14, 78/15 and 134/15), the Leasing Act (Official Gazette, No 135/06 and 141/13), International Financial Reporting Standards, changes in reporting methodology, as well as due to actions taken by leasing companies in accordance with Hanfa's instructions.

<sup>151</sup> The list of Hanfa's licensed supervised entities is available at [www.hanfa.hr](http://www.hanfa.hr).

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

Excluding from the calculation two leasing companies undergoing winding-up proceedings whose assets reaching HRK 762.1m at 31 December 2015 were not recorded in the 2016 report, total assets reported by 19 active companies grew by HRK 1,040.4m or 6.2% relative to end-2015.

This asset growth was mostly due to a HRK 479.8m rise in operating lease receivables and a HRK 223.9m rise in investments in branches, associates and joint ventures (reported by one company), in spite of a HRK 213.1m fall in inventories, a HRK 116.5m decline in other financial assets, a HRK 73.6m fall in loans granted and a HRK 79.6m decline in tangible assets under operating leases.

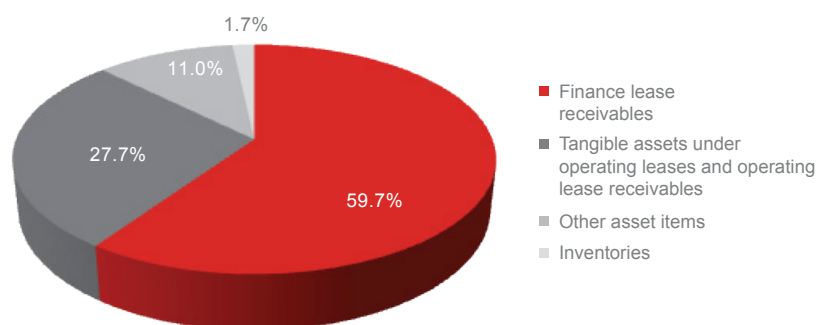
Table 6.1 Leasing companies' asset structure as at 31/12/2015 and 31/12/2016 (in HRK thousand)

Item	31 Dec 2015	31 Dec 2016	Change (in %)
Tangible assets under operating leases	4,865,000	4,785,435	-1.6
Operating lease receivables	174,127	166,397	-4.4
Finance lease receivables	10,201,614	10,681,394	4.7
Loans given	144,486	70,870	-51.0
Inventories	521,579	308,427	-40.9
Other assets	1,719,446	1,892,062	10.0
Total assets	17,626,251	17,904,585	1.6

Source: Hanfa

The largest asset item was accounted for by finance lease receivables, making up 59.7% of the assets. Of this amount, short-term receivables accounted for HRK 3.1bn, and long-term receivables for HRK 7.6bn. Tangible assets under operating leases and operating lease receivables accounted for 27.7% of the total assets.

Chart 6.2 Leasing companies' asset structure as at 31/12/2016



Source: Hanfa

The share of three largest leasing companies in the total assets of leasing companies reached 41.6% in 2016, increasing compared with the previous year, when it stood at 36.9%. The three largest leasing companies are members of bank groups.

## 6.1.2 Liability structure

As regards the leasing companies' financing structure, the year 2016 saw a rise in liabilities to banks and financial institutions and a growth in own capital (capital and reserves). The largest liability item (81.5%) was accounted for by liabilities for credits and loans from banks and financial institutions reaching HRK 14.6bn and rising by HRK 657.9m or 4.7% compared to the previous year.

Liabilities for credits and loans from foreign banks and financial institutions grew by HRK 424.9m, while liabilities for credits and loans from domestic banks and financial institutions rose by HRK 233m.

Liabilities for deposits and guarantees relating to amounts guaranteed under operating lease contracts decreased by HRK 82.1m or 18.9%, in line with the reduction in the value of active operating lease contracts.

Capital and reserves amounted to HRK 2.2bn, accounting for 12.4% of liabilities and rising by HRK 397m relative to 2015. This rise was mostly due to the profit of the current year amounting to HRK 443.1m.

Leasing companies' initial capital reached HRK 544.4m, falling by 48.6% in comparison with the previous year due to the fact that leasing companies undergoing winding-up proceedings and recording the initial capital of HRK 514.5m were not covered by the report.

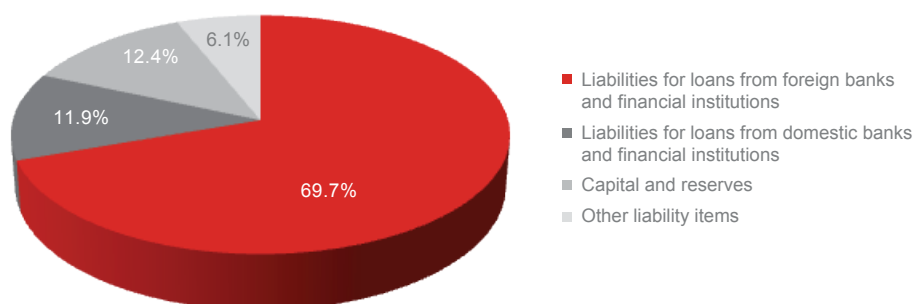
Table 6.2 Leasing companies' liability structure as at 31/12/2015 and 31/12/2016 (in HRK thousand)

Item	31 Dec 2015	31 Dec 2016	Change (in %)
Capital and reserves	1,815,507	2,212,487	21.9
Liabilities for loans from foreign banks and credit institutions	12,046,495	12,471,356	3.5
Liabilities for loans from domestic banks and credit institutions	1,891,240	2,124,236	12.3
Other liabilities	1,873,009	1,096,506	-41.5
Total assets	17,626,251	17,904,585	1.6

Source: Hanfa

In 2016, there was a rise in leasing companies' business activity, leading to a higher level of borrowing. Leasing companies' liability structure shows that their assets were still primarily financed by credits and loans from foreign banks and financial institutions, which made up 69.7% of total liabilities. Most of the companies were majority-owned by foreign banks and related financial institutions that finance their business operations.

Chart 6.3 Leasing companies' liability structure as at 31/12/2016



Source: Hanfa

### 6.1.3 Financial operating results

Leasing companies reported after-tax profit amounting to HRK 443.1m (in 2015, they reported after-tax loss amounting to HRK 742.1m). The after-tax profit was largely due to interest income totalling HRK 275.8m (mainly resulting from financial lease interest income). Profit from fees and commissions amounted to HRK 9.3m, decreasing by HRK 17m (64.7%) compared to 2015. The leasing industry reported elimination of costs for value adjustments for impairment losses amounting to HRK 299.5m (mostly due to elimination of costs for value adjustments by one leasing company). In 2016, leasing companies reported no significant costs for value adjustments for impairment losses, as opposed to 2015, when those costs reached HRK 943.1m.

Table 6.3 Statement of comprehensive income of leasing companies for 2015 and 2016 (in HRK thousand)

Item	1 Jan – 31 Dec 2015	1 Jan – 31 Dec 2016	Change (in %)
Interest income	573,185	544,542	-5.0
Interest expenses	319,462	268,769	-15.9
Interest profit/loss	253,723	275,773	8.7
Income from fees and commissions	48,917	32,288	-34.0
Expenses on fees and commissions	22,604	23,004	1.8
Profit/loss on fees and commissions	26,312	9,285	-64.7
Other operating income	1,844,875	1,720,630	-6.7
Other operating expenses	1,848,226	1,774,517	-4.0
Profit/loss on other income and expenses	-3,351	-53,887	1,508.1
Profit/loss before expenses on value adjustment for impairment losses	276,684	231,170	-16.4
Expenses on value adjustment for impairment losses	943,129	-299,509	-
Profit/loss before profit tax	-666,445	530,679	-
Profit tax	75,654	87,621	15.8
Profit/loss after profit tax	-742,099	443,058	-

Source: Hanfa

After-tax profit totalling HRK 469.9m was reported by 17 leasing companies, whereas two leasing companies recorded after-tax loss reaching HRK 26.9m.

### 6.1.4 Leasing companies' portfolio structure

The main indicator of leasing market activity is the value of newly concluded contracts. In 2016, the total number of newly concluded contracts in leasing companies' portfolio structure rose (by 8,321 or 22.9%) relative to the previous year, as did the value of those contracts (by HRK 1.4bn or 26.9%). This rise led to a growth in the number and value of active contracts as well.

The share of newly concluded contracts amounted to 46.3% (in 2015 it reached 37.3% and in 2014 it stood at 36.7%), pointing to increased business activity in the leasing industry.

Data on the number and value of newly concluded contracts testify to the recovery of the leasing market.

Table 6.4 Leasing companies' portfolio structure as at 31/12/2015 and 31/12/2016

Date/period from 1 Jan to	Newly concluded contracts in the period			Active contracts as at		
	Number of newly concluded contracts	Value of newly concluded contracts (in HRK thousand)	Average value of newly concluded contracts (in HRK thousand)	Number of active contracts	Value of active contracts (in HRK thousand)	Average value of active contracts (in HRK thousand)
31 Dec 2015	36,363	5,129,588	141	112,320	13,740,852	122
31 Dec 2016	44,684	6,507,691	146	113,200	14,047,241	124

Source: Hanfa

The value of newly concluded contracts in operating lease increased by HRK 240.4m, while the value of newly concluded contracts in finance lease rose by as much as HRK 1.1bn compared to the previous year. The proportion of operating leases in the structure of total value of newly concluded contracts amounted to 26.8%, while the proportion of financial leases accounted for 73.2%. A reduced share of 2016 operating leases was due to a faster growth of finance leases relative to the previous year. The increase in the proportion of finance leases was mainly a result of an increase in (passenger and commercial) vehicles financing.

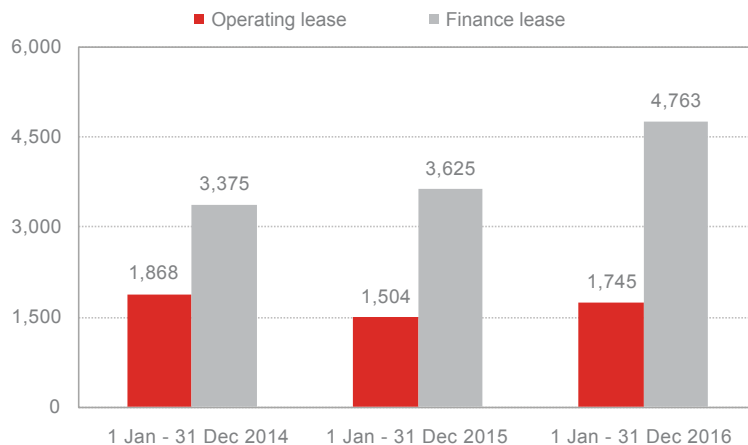
The 2016 rise in financing (particularly of commercial vehicles) was a result of increased economic activity.

Table 6.5 Number and value of newly concluded contracts of leasing companies in 2015 and 2016

Type of lease/ period	Number of newly concluded contracts in the period			Value of newly concluded contracts in the period (in HRK thousand)		
	1 Jan – 31 Dec 2015	1 Jan – 31 Dec 2016	Change (in %)	1 Jan – 31 Dec 2015	1 Jan – 31 Dec 2016	Change (in %)
Operating lease	17,798	19,428	9.2	1,504,247	1,744,661	16.0
Finance lease	18,565	25,256	36.0	3,625,340	4,763,030	31.4
Total	36,363	44,684	22.9	5,129,588	6,507,691	26.9

Source: Hanfa

Chart 6.4 Leasing companies' portfolio structure – comparison of the values of newly concluded contracts in the period from 2014 to 2016 (in HRK million)



Source: Hanfa

Considering the fact that leasing companies are prohibited from concluding loan contracts, the proportion of loans in the structure of the value of active contracts has been decreasing constantly, since the loan contracts that had been active until the day of entry into force of the law regulating leasing industry (21 December 2006) are held until the expiration, with no possibility of their extension.

Table 6.6 Number and value of active contracts in the leasing industry in 2015 and 2016

Investment type / as at	Number of active contracts as at			Value of active contracts as at (in HRK thousand)		
	31 Dec 2015	31 Dec 2016	Change (in %)	31 Dec 2015	31 Dec 2016	Change (in %)
Operating lease	50,998	46,979	-7.9	3,356,963	3,201,019	-4.6
Finance lease	60,112	65,466	8.9	10,308,096	10,803,204	4.8
Loans	1,210	755	-37.6	75,793	43,018	-43.2
Total	112,320	113,200	0.8	13,740,852	14,047,241	2.2

Source: Hanfa

The structure of leasing companies' newly concluded contracts from 2009 to 2015 was influenced by the decline in economic activity. Leasing operations in the several past years have been focused on the financing of passenger cars and commercial vehicles. Although the value of newly concluded property contracts rose slightly in comparison with 2015, those contracts account for no significant share in leased asset financing. The highest number and value of newly concluded contracts were related to passenger cars, which recorded the sharpest increase (of as much as HRK 974.8m), and were followed by commercial vehicles (which recorded a HRK 326m value increase).

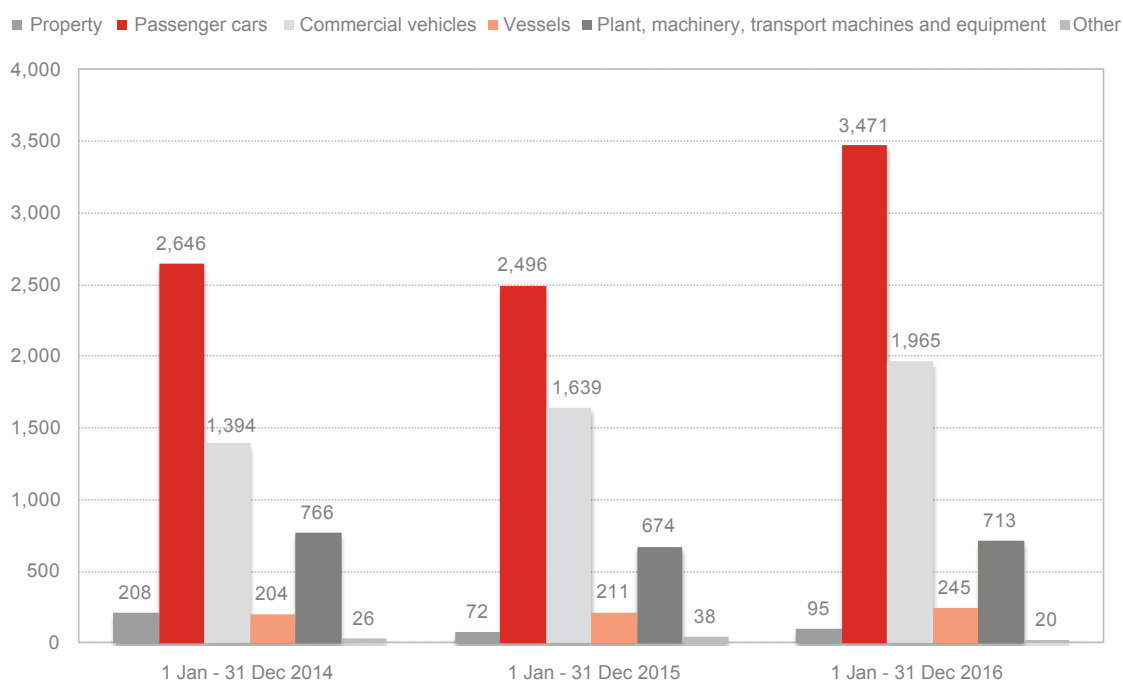
As regards the exposure of leasing companies by sectors, the largest share (79%) in the total value of newly concluded contracts was accounted for by non-financial institutions (companies). They were followed by households with an 18.5% share. As concerns leasing companies' exposure by lessees' activities, the largest share was recorded by wholesale and retail trade, transportation and storage, accommodation and food service activities (38.1% of the value of newly concluded contracts), which were followed by professional, scientific, technical, administrative and support service activities with a 13.3% share.

Table 6.7 Value of newly concluded contracts of leasing companies by leased assets in 2015 and 2016 (in HRK thousand)

Leased asset	Value of newly concluded contracts in the period			Share (in %)	Change (in %)
	1 Jan – 31 Dec 2015	Share (in %)	1 Jan – 31 Dec 2016		
Property	72,098	1.4	94,750	1.5	31.4
Passenger cars	2,495,798	48.7	3,470,569	53.3	39.1
Commercial vehicles	1,638,860	31.9	1,964,896	30.2	19.9
Vessels	211,465	4.1	244,840	3.8	15.8
Aircraft	854	0.02	0	0.0	0.0
Plant, machinery, transport machines and equipment	673,720	13.1	713,008	11.0	5.8
Other	36,793	0.7	19,628	0.3	-46.7
Total	5,129,588	100.0	6,507,691	100.0	26.9

Source: Hanfa

Chart 6.5 Leasing companies' portfolio structure – value of newly concluded contracts by leased assets in the period from 2014 to 2016 (in HRK million)



Source: Hanfa

As at 31 December 2016, passenger cars recorded the highest value of active contracts by leased/loaned assets, reaching HRK 4.7bn or 33.8% of the total value of active contracts. The value of active contracts for commercial vehicles amounted to HRK 3.5bn or 24.7% of the total value of active contracts, whereas the value of active contracts for property amounted to HRK 2.9bn or 20.5% of the total value of active contracts.

Until the end of 2010, the largest share in the total value of active contracts had been accounted for by passenger cars, followed by property. In the period from 2011 to 2014, in spite of a sharp turnover fall in the property market, property was the largest single item in the value of active contracts, due to their higher value and longer repayment period compared to most other leased assets.

Table 6.8 Value of leasing companies' active contracts by leased/loaned assets as at 31/12/2015 and 31/12/2016 (in HRK thousand)

Leased/loaned asset	Value of active contracts as at				
	31 Dec 2015	Share (in %)	31 Dec 2016	Share (in %)	Change (in %)
Property	3,396,350	24.7	2,882,769	20.5	-15.1
Passenger cars	4,070,627	29.6	4,749,771	33.8	16.7
Commercial vehicles	3,065,636	22.3	3,463,223	24.7	13.0
Vessels	451,029	3.3	440,298	3.1	-2.4
Aircraft	804	0.01	643	0.005	-20.0
Plant, machinery, transport machines and equipment	2,645,340	19.3	2,447,794	17.4	-7.5
Other	111,067	0.8	62,744	0.4	-43.5
<b>Total</b>	<b>13,740,852</b>	<b>100.0</b>	<b>14,047,241</b>	<b>100.0</b>	<b>2.2</b>

Source: Hanfa

### 6.1.5 Capital adequacy

Leasing companies are obliged to meet capital adequacy requirements laid down in the Leasing Act<sup>152</sup> and Ordinance on leasing companies' capital<sup>153</sup>. In order for a leasing company to meet the capital adequacy requirements, two conditions must be fulfilled: both the initial capital and the capital level of the company must amount to no less than HRK 1m. As at 31 December 2016, all the leasing companies were meeting the prescribed requirements on capital adequacy. One leasing company carried out recapitalisation through owners' payments in capital reserves totalling HRK 12.5m.

### 6.1.6 Leasing industry performance indicators

The debt ratio measures the share of leasing companies' assets financed by external funds (loans and credits from banks and financial institutions and other sources). As at 31 December 2016, this ratio totalled 0.876, meaning that 87.6% of the total assets of leasing companies were financed by external funds, which is in line with business practices of leasing companies that base their business operations on borrowing. As at 31 December 2015, this ratio was somewhat higher and stood at 0.897.

Return on assets (ROA) is a ratio that measures net profit against total assets of the leasing industry. As at 31 December 2016, the aggregate return on assets for leasing companies amounted to 2.5%. As at 31 December 2015, this ratio stood at 4.2%. The negative value of the said ratio was due to the after-tax loss recorded in the leasing industry in the year 2015.

## 6.2 Hanfa's regulatory activities

### 6.2.1 Normative activities

For the purpose of complying with the provisions of the revised Accounting Act<sup>154</sup>, Hanfa adopted a new ordinance<sup>155</sup> governing the structure and contents of, and the delivery methods and deadlines for financial statements and additional reports of leasing companies. Within the digitalisation process, that introduces a new method of receiving letters, Hanfa adopted an ordinance governing and two ordinances amending the method of delivering notices and reports defined in those ordinances through the address [reports@hanfa.hr](mailto:reports@hanfa.hr).

Hanfa responded to inquiries regarding the changes of these regulations on an ongoing basis.

### 6.2.2 Licensing

As at 31 December 2016, the register of leasing companies contained 19 leasing companies authorised to conduct lease operations, whereas four leasing companies were undergoing winding-up proceedings. During the year, two companies adopted decisions initiating voluntary winding-up proceedings. In line with legal provisions, leasing companies undergoing winding-up proceedings retain their authorisations to conduct lease operations. Winding up of those companies was a result of strategic decisions made by their members. In accordance with its authority and competence, Hanfa continuously supervises the winding-up proceedings in these leasing companies.

<sup>152</sup> Official Gazette, No 141/13

<sup>153</sup> Official Gazette, No 60/14

<sup>154</sup> Official Gazette, No 78/15, 134/15, 120/16

<sup>155</sup> The list of ordinances adopted by Hanfa in 2016 is provided in *Appendices*.

Hanfa issued 18 decisions approving the appointment of members of management boards of leasing companies, some of which were due to the regular end of their term of office. Several approvals for new management board members were issued following the early end of term of office (e.g. resignation).

Six decisions were issued approving the acquisition of qualifying holdings in leasing companies. These cases related to intra-group rearrangements, in other EU countries where the parent company is registered. This indirectly led to a change in the ownership structure of domestic leasing companies, because they belong to the same group.

Table 6.9 Approvals/authorisations in 2015 and 2016

Authorisations/approvals issued	2015	2016
Authorisations for the acquisition of qualifying holdings in a leasing company	5	6
Authorisations for the acquisition of leasing company qualifying holdings in another company	1	0
Authorisation for performing the function of leasing company management board member	12	18
Authorisations for operation of the leasing company	0	0

Source: Hanfa

### 6.2.3 Supervision

Hanfa continued carrying out supervisory activities based on off-site examinations, verifying the compliance of business operations with the provisions of the Leasing Act and with ordinances. Off-site examinations were conducted on the basis of reports that leasing companies were obligated to send to Hanfa within prescribed deadlines, as well as on the basis of monitoring, collection and verification of documentation, notifications and data submitted, and monitoring, collection and verification of data and findings obtained from other sources.

Hanfa drew up 32 supervisory reports and 15 amendments to the reports. It also issued 46 decisions, of which ten decisions ordering the elimination of irregularities and 36 decisions establishing that the irregularities had been eliminated and that supervisory procedures had ended.

The supervisory activities focused on reporting to Hanfa in line with the Leasing Act and accompanying ordinances, namely: Ordinance on the structure and contents of financial statements and additional reports of leasing companies and on the manner of and time limits for their submission<sup>156</sup>, Ordinance on the chart of accounts for leasing companies<sup>157</sup>, Ordinance on the audit of leasing companies' reports<sup>158</sup>, Ordinance on leasing companies' capital<sup>159</sup> and Ordinance on the content of leasing companies' regular reports and reports submitted at the request of the Croatian Financial Services Supervisory Agency and on the manner of and time limits for their submission<sup>160</sup>. Illegals and irregularities established during the off-site supervision resulted in the initiation of administrative proceedings relating to off-site supervision in 17 leasing companies, and drawing up of 17 supervisory reports. The irregularities established included incorrect completion of financial statements and additional reports, inaccurate application of the chart of accounts, incorrect completion of the report on the calculation of capital requirements, irregularities related to the submission of regular reports and reports submitted at the request of Hanfa and management

<sup>156</sup> Official Gazette, No 57/16

<sup>157</sup> Official Gazette, No 63/14

<sup>158</sup> Official Gazette, No 68/14 and 57/16

<sup>159</sup> Official Gazette, No 60/14

<sup>160</sup> Official Gazette, No 54/14

of the reporting process in general. Further steps following these supervisory activities or drawing up of any amendments to the reports and decisions ordering elimination of the illegalities and irregularities are expected in 2017.

Off-site supervision of leasing companies also covered the establishment and maintenance of internal control mechanisms according to the Leasing Act and the Ordinance on organisational requirements<sup>161</sup>. This was followed by the initiation of administrative procedures relating to off-site supervision in 15 companies and drawing up of 15 supervisory reports, 11 amendments to the reports and ten decisions ordering elimination of illegalities and irregularities. The irregularities established included a failure to establish the risk management function, failure to draw up a business plan of the risk management function and internal audit function, failure to prescribe and implement working procedures, processes and methodologies of the risk management function and internal audit function, failure to draw up annual activity reports of the risk management function and the appointment of the risk officer. As a result, decisions were issued for all of the 15 companies establishing that the illegalities and irregularities had been eliminated.

On the basis of documentation received from 19 companies, Hanfa verified the compliance of outsourcing business processes of the companies with the Leasing Act and the Ordinance on outsourcing business processes of leasing companies<sup>162</sup>. No significant discrepancies between the outsourcing procedures and the provisions of the Leasing Act and the ordinance were found, therefore, Hanfa's further steps were taken within the framework of non-administrative proceedings.

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

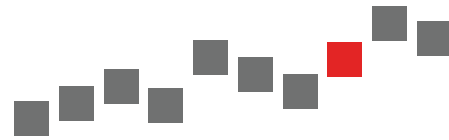
Hanfa's employees verified, on an on-going basis, timeliness and accuracy of reports received with respect to requirements laid down in the Leasing Act, Ordinance on the structure and contents of financial statements and additional reports of leasing companies and on the manner of and time limits for their submission, Ordinance on the chart of accounts for leasing companies, Ordinance on the audit of leasing companies' reports, Ordinance on leasing companies' capital and Ordinance on the content of leasing companies' regular reports and reports submitted at the request of the Croatian Financial Services Supervisory Agency and on the manner of and time limits for their submission. They also checked the process of entry of data on leased assets into the Register of Leased Assets (hereinafter: RLA). Following the on-going analysis of data entered in the RLA (as regards the accuracy of data entry and failure to activate and deactivate leased assets) and irregularities established with respect thereto, Hanfa initiated an off-site examination focused on the RLA data entry. The supervisory report and further steps in connection with the examination are expected in 2017.

As regards on-site examinations, Hanfa carried out one such examination focused on lease business processes in the period from 1 January 2015 to 30 June 2016. Further action in relation to this examination and preparation of the supervisory report is expected to take place in 2017.

Hanfa's activities related to monitoring and identification of systemically important institutions imply regular annual update and use of the model designed to identify systemically important institutions in respect of the leasing market as well.

<sup>161</sup> Official Gazette, No 68/14

<sup>162</sup> Official Gazette, No 66/14



# Factoring



# 7 Factoring

## 7.1 Market overview

As at 31 December 2016, factoring companies' assets stood at HRK 5.9bn, decreasing by 10.4% relative to 31 December 2015. According to data from statistical reports submitted by the factoring companies, the Croatian factoring market was dominated by discounting of bills of exchange with a 64.0% asset share, which is a 2.4% fall in comparison with 2015. The market was also still

*Pursuant to Article 15(2) of the Act on the Croatian Financial Services Supervisory Agency<sup>163</sup>, Hanfa is responsible for the supervision of legal entities carrying out factoring operations, unless those operations are conducted by banks within their registered activity. The Factoring Act<sup>164</sup> came into force on 8 August 2014, defining factoring operations as arrangements under which a factor purchases from a business accounts receivable, arising from goods delivered and/or services provided, under a factoring agreement, with or without recourse.*

*In addition to carrying out factoring operations, Articles 12 and 21 of the Factoring Act allow factoring companies to purchase bills of exchange issued as a collection instrument for receivables arising from goods delivered and/or services provided in the country or abroad. Bills of exchange are discounted not only by factoring companies, but by other companies as well, therefore, factoring companies occupy only a small part of this market.*

*According to the Factoring Act, legal entities carrying out factoring operations and entered in the register of companies on the day of entry into force of the act were obligated to align their business operations with provisions of the act by 8 August 2015.*

*The Regulation amending the Factoring Act<sup>165</sup> of 30 July 2015 amended Article 117 of the Factoring Act extending the compliance deadline to 31 March 2016 for legal entities carrying out factoring operations and entered in the register of companies on the day of entry into force of the Factoring Act. The Act Amending the Factoring Act<sup>166</sup> of 21 April 2017 amended Article 117 of the Factoring Act extending the compliance deadline to 31 December 2016 for legal entities carrying out factoring operations and entered in the register of companies on the day of entry into force of the Factoring Act.*

*Hanfa provided official negative opinions on all proposals for the amendments extending the compliance deadline. Repeated extensions of the compliance deadline, causing a lack of authority to impose supervisory measures on unauthorised companies, made it impossible for Hanfa to achieve one of its statutory objectives, namely the supervision of the legality of factoring companies' operation. The extended deadlines also caused prolonged unequal treatment of authorised and unauthorised factoring companies on the market lasting for 29 months, i.e. over the compliance period.*

*From the moment of the adoption of the Factoring Act, Hanfa carried out off-site supervision examinations systematically and responsibly, in accordance with its competence, on the basis of financial statements and other supervisory reports collected from factoring companies and legal entities known to Hanfa to be providing factoring services. On the basis of those examinations Hanfa identified, among other things, factoring market risks.*

*In addition, Hanfa developed and regularly updated methodology for the preparation of analyses and reports aimed at identifying systematically important institutions. Based on those analyses and reports no factoring company was identified as a systemically important institution. All the analyses and their findings were notified, in a timely manner, to other competent authorities as well.*

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

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

164 Official Gazette, No 94/14

165 Official Gazette, No 85/15

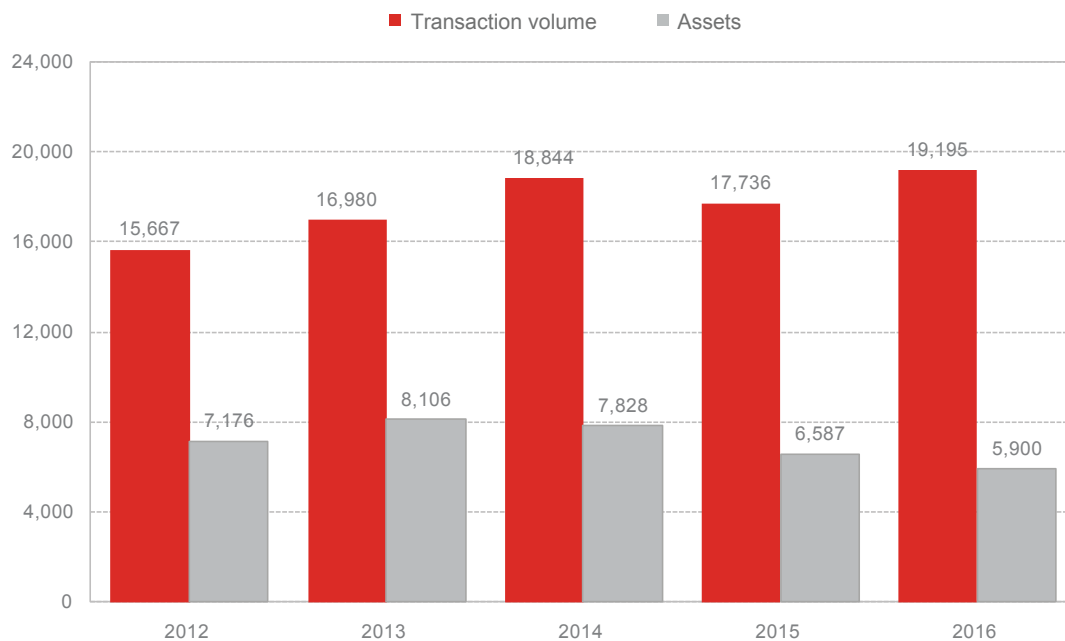
166 Official Gazette, No 41/16

dominated by recourse factoring operations (82.8%) and by factoring operations with accounts receivable purchased being invoices of buyers having registered office in the Republic of Croatia (95.7%).

As at 31 December 2016, there were three factoring companies on the market authorised by Hanfa (of which one company initiated winding-up proceedings at the end of the year) and ten companies known to Hanfa to be providing factoring services that had not complied with the Factoring Act<sup>167</sup> yet.

Factoring companies' assets had grown until 2013. In the period from 2014 to 2016 they recorded a fall, while the transaction volume increased.

Chart 7.1 Aggregate assets and transaction volume of factoring companies in the 2012-2016 period (in HRK million)



Source: Hanfa

The market share of two largest factoring companies did not fluctuate significantly in the period from 2014 to 2016, and it amounted to 71% of total assets as at 31 December 2016, still indicating a high concentration level of the market. The factoring company with the largest share in total assets remained the same as in the last three calendar years. As at 31 December 2016, the market share of the remaining 11 factoring companies reached 29% of total assets.

### 7.1.1 Asset structure

As at 31 December 2016, factoring companies' assets decreased by HRK 687.2m in comparison with 31 December 2015. Current assets made up 98.1% of total assets (98% in 2015), which is a common occurrence in the factoring industry. The most significant item in the current assets was discounting of bills of exchange (64.0% of the assets).

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

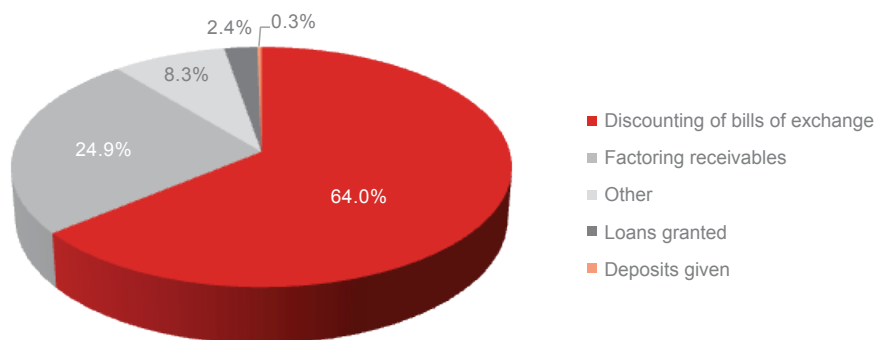
Table 7.1 Factoring companies' aggregate assets as at 31/12/2015 and 31/12/2016  
(in HRK thousand)

Assets	31 Dec 2015	31 Dec 2016	Change (in %)
Receivables for subscribed capital unpaid	0	0	0.0
Fixed assets	123,058	100,391	-18.4
Current assets	6,452,212	5,786,673	-10.3
Factoring receivables	1,752,740	1,471,948	-16.0
Domestic factoring	1,544,585	1,244,377	-19.4
Export factoring	33,554	65,837	96.2
Import factoring	174,601	161,734	-7.4
Discounting of bills of exchange	3,867,882	3,773,592	-2.4
Loans granted	130,426	144,391	10.7
Deposits given	84,627	20,614	-75.6
Cash at bank and in hand	484,298	176,945	-63.5
Other current assets	132,239	199,182	50.6
Prepayments and accrued income	11,950	12,994	8.7
Total assets	6,587,220	5,900,059	-10.4

Source: Hanfa

The decrease in assets was mostly due to a decline in cash at bank and in hand totalling HRK 307.3m, a fall in factoring receivables reaching HRK 280.8m and a decrease in receivables for discounting for bills of exchange amounting to HRK 94.3m.

Chart 7.2 Factoring companies' asset structure as at 31/12/2016



Source: Hanfa

### 7.1.2 Liability structure

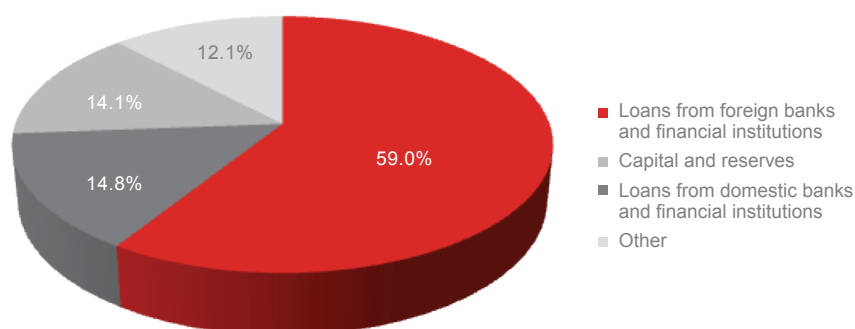
As at 31 December 2016, capital and reserves accounted for 14.8% of liabilities, increasing by HRK 140.7m (19.3%) compared with the previous year, when they made up 11.1% of total liabilities. The increase was largely due to the profit registered by factoring companies in 2016.

Table 7.2 Factoring companies' aggregate liabilities as at 31/12/2015 and 31/12/2016  
(in HRK thousand)

Item	31 Dec 2015	31 Dec 2016	Change (in %)
Capital and reserves	730,100	870,808	19.3
Long-term liabilities	307,306	402,769	31.1
Loans from domestic banks and financial institutions	21,229	17,101	-19.4
Loans from foreign banks and financial institutions	183,241	276,525	50.9
Other long-term liabilities	102,836	109,143	6.1
Short-term liabilities	5,538,974	4,617,182	-16.6
Loans from domestic banks and financial institutions	772,986	815,256	5.5
Loans from foreign banks and financial institutions	4,249,217	3,207,227	-24.5
Other short-term liabilities	516,771	594,699	15.1
Accruals and deferred income	10,840	9,299	-14.2
Total liabilities	6,587,220	5,900,059	-10.4

Source: Hanfa

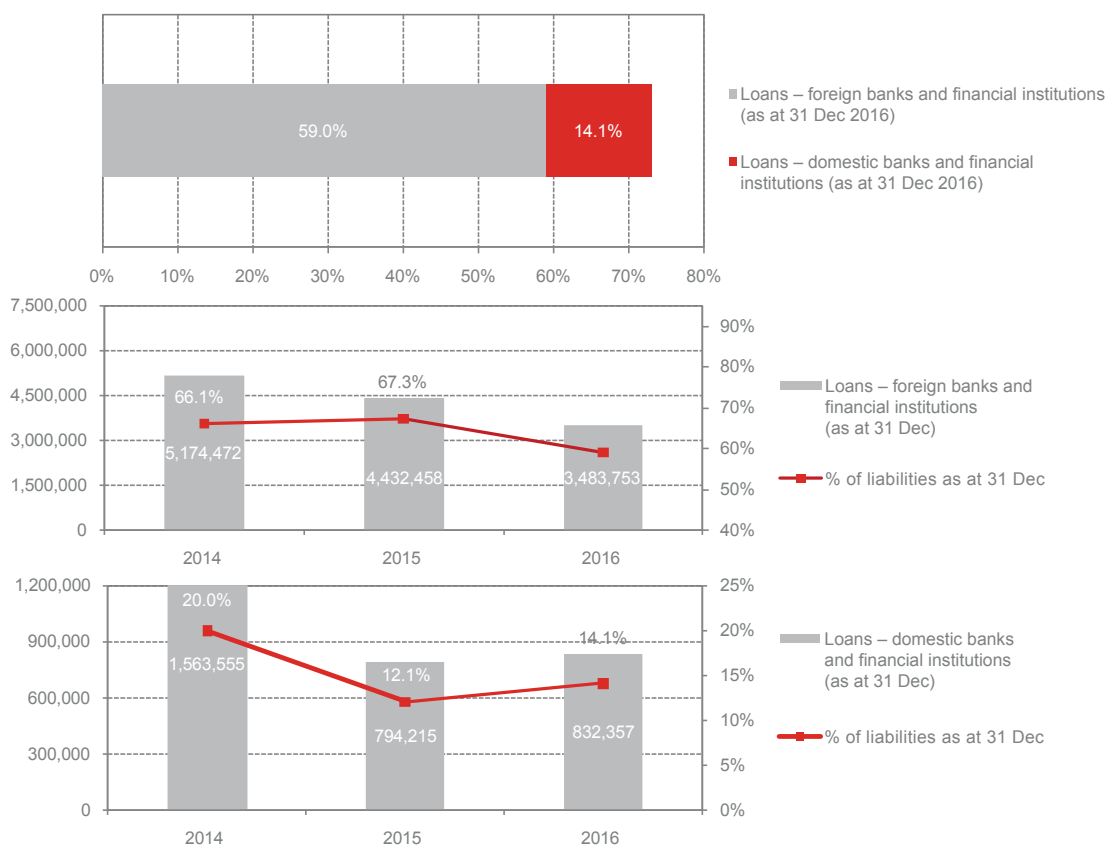
Chart 7.3 Factoring companies' liability structure as at 31/12/2016



Source: Hanfa

Factoring companies were mostly financed by foreign banks and financial institutions, whose liability share reached 59% at end-2016, decreasing by 8.2% relative to end-2015. The share of domestic banks and financial institutions accounted for 14.1% of liabilities, rising by 2.1% relative to 2015. Looking at liabilities by maturity, there was a change in their structure compared to end-2015, with long-term liabilities increasing from 4.7% to 6.8%.

Chart 7.4 The largest liability items as at 31/12/2016 and their movements from 2014 to 2016 (in HRK thousand)



Source: Hanfa

### 7.1.3 Financial operating results

Factoring companies' net profit reached HRK 168.5m in 2016, decreasing by 20.7% compared to 2015.

Table 7.3 Aggregate profit and loss account of factoring companies in 2015 and 2016 (in HRK thousand)

Item	1 Jan – 31 Dec 2015	1 Jan – 31 Dec 2016	Change (in %)
Interest income	408,975	336,889	-17.6
Interest expense	187,067	146,562	-21.7
Interest profit/loss	221,909	190,327	-14.2
Income from fees and commissions	69,943	55,058	-21.3
Expenses on fees and commissions	25,037	24,844	-0.8
Profit/loss on fees and commissions	44,906	30,214	-32.7
Other operating income	362,194	380,301	5.0
Other operating expenses	362,979	377,268	3.9
Profit/loss from other income and expenses	-784	3,033	286.8
Profit/loss before profit tax	266,030	223,574	-16.0
Profit tax	53,568	55,024	2.7
Profit/loss after profit tax	212,462	168,550	-20.7

Source: Hanfa

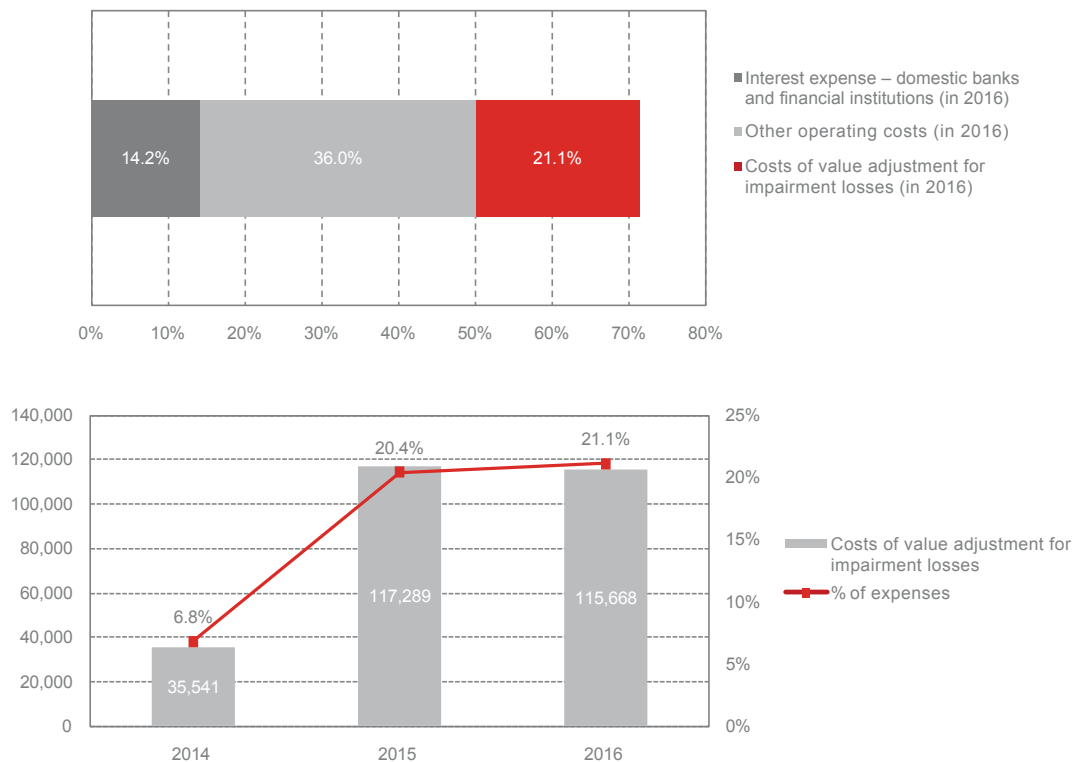
Factoring companies' total income amounted to HRK 772.2m, decreasing by HRK 68.9m (8.2%) in comparison with 2015, while expenses reached HRK 548.7m, declining by HRK 26.4m (4.6%) relative to the previous reporting period.

Other operating income accounted for the largest share in the income structure, amounting to 49.2% of total income reported in 2016 and mostly relating to positive exchange differences. Interest income made up 43.6% of total income. As in the previous reporting period, the major part of interest income was made up of interest income from discounting of bills of exchange and factoring operations, which constitute key business activities of factoring companies.

The major share in total expenditures was attributable to other operating expenses amounting to 68.8%, with other operating costs being the most important item and making up 36.0% of total expenditures, primarily relating to negative exchange differences. Interest expense accounted for 26.7% of total expenditures, with interest expense with domestic banks and financial institutions accounting for 14.2% of total expenditures, and interest expense with foreign banks and financial institutions accounting for 10.4% of total expenditures.

Costs of value adjustment for impairment losses relating to factoring companies' investments totalled HRK 115.7m and accounted for 21.1% of total expenses. These costs grew slightly relative to 2015, when they amounted to 20.4% of total expenditures.

Chart 7.5 The largest expense items in 2016 and costs of value adjustment for impairment losses from 2014 to 2016 (in HRK thousand)



Source: Hanfa

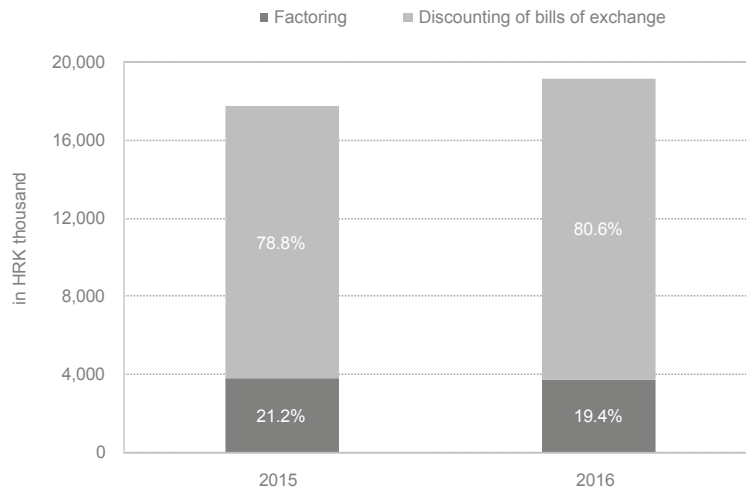
Nine out of 13 factoring companies reported after-tax profit amounting to HRK 203.4m. At the same time, four factoring companies reported after-tax losses amounting to HRK 34.9m.

## 7.1.4 Transaction volume

Transaction volume represents the cumulative amount of invoices purchased under factoring arrangements and the cumulative amount of discounted bills of exchange. In 2016, transaction volume amounted to HRK 19.3bn, increasing by 8.2% in comparison with 2015.

In the period from 1 January 2016 to 31 December 2016, factoring companies purchased invoices under factoring arrangements in the amount of HRK 3.7bn and bills of exchange in the amount of HRK 15.5bn.

Chart 7.6 Structure of transaction volume by activity in 2015 and 2016



Source: Hanfa

## 7.1.5 Factoring industry performance indicators

In 2016, the debt ratio for factoring companies stood at 0.85, decreasing in comparison with the previous year, when it stood at 0.89. Even though the assets of factoring companies are still largely financed by external funds, there was an apparent declining trend in favour of own funds.

Aggregate return on total assets (ROA) for factoring companies totalled 2.9%, decreasing relative to the previous year, when it reached 3.2%.

Aggregate return on equity (ROE) for factoring companies stood at 19.4% on 31 December 2016, declining compared with the same day in the previous year, when it amounted to 29.1%.

## 7.2 Hanfa's regulatory activities

### 7.2.1 Normative activities

The Factoring Act entered into force on 8 August 2014, providing for a 12-month period for the harmonisation of legal entities performing factoring operations and being registered in the register of companies on the day of its entry into force. On 30 July 2015, the Croatian Government adopted the Regulation amending the Factoring Act, which extended the period of 12 months for the harmonisation of companies referred to in Article 117(2) of the Factoring Act, expiring on 8 August 2015, until 31 March 2016. The Act Amending the Factoring Act prolonged this period until 31 December 2016.

In 2016, the Ministry of Finance set up the Working Group on the Preparation of Amendments to the Factoring Act, which included Hanfa's representatives. For the purpose of drawing up the Amendments to the Factoring Act, Hanfa prepared reports and analyses aimed at proposing necessary adequate amendments to the existing Factoring Act.

2016 saw the adoption of the new Ordinance on financial statements and additional reports and on the chart of accounts of factoring companies<sup>168</sup>, enacted for the purpose of complying with the Accounting Act<sup>169</sup>. The old Ordinance on financial statements and additional reports and on the chart of accounts of factoring companies<sup>170</sup> was amended so as to provide for deadlines for the first submission of quarterly and annual reports of factoring companies and to align the deadline for the submission of those reports with the deadlines laid down in the Act Amending the Factoring Act.

Hanfa issued one opinion on the implementation of the provisions of the Factoring Act, regarding the possibility to appoint several deputy management board members from among supervisory board members. It also answered many inquiries relating to the implementation of the Factoring Act, mainly concerning the harmonisation with the provisions of the Factoring Act, establishment of factoring companies, deletion of factoring activities, issuance of approvals in accordance with the Factoring Act, winding-up procedures in factoring companies, cross-border activities, register of factoring companies, documentation needed for the procedures of issuing approvals/authorisations etc.

### **7.2.2 Licensing**

As at 31 December 2016, the register of factoring companies contained two active factoring companies authorised to conduct factoring operations. One factoring company was undergoing winding-up proceedings, following the entry into force of a decision of that company to initiate voluntary winding-up proceedings. In accordance with legal provisions, factoring companies undergoing winding-up proceedings retain their authorisations to conduct factoring operations.

Hanfa issued three decisions granting prior approval for the appointment of members of management boards of factoring companies. One of the companies changed its management structure so as to create conditions for the initiation of winding-up proceedings. A management board of the other company resigned.

Two compliance reports were received at the end of December 2016. In accordance with Article 117(4) of the Factoring Act, five more compliance reports were received by 31 January 2017, i.e. within the legal deadline.

### **7.2.3 Supervision**

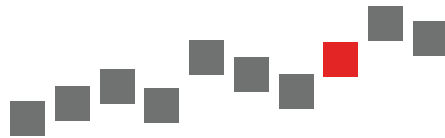
Considering the fact that the deadline for factoring companies to comply with the Factoring Act was extended to 31 December 2016, Hanfa's supervisory activities primarily involved, as in 2015, off-site examinations and the analysis of financial statements and additional reports received from factoring companies. The focus of those activities was on the analysis of the factoring market in the Republic of Croatia with respect to risks related to the factoring industry and types and characteristics of certain products and services provided by factoring companies. The analysis was used in the process of adopting implementing acts and subordinate legislation and for the purpose of launching an initiative on amendments to the Factoring Act and on authority referred to in Article 15 of the Act on the Croatian Financial Services Supervisory Agency.

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<sup>168</sup> Official Gazette, No 41/16

<sup>169</sup> Official Gazette, No 78/15 and 134/15

<sup>170</sup> Official Gazette, No 61/16



# Judicial proceedings



## 8 Judicial proceedings

Hanfa takes part in judicial proceedings on a regular basis, both as an authorised plaintiff in misdemeanour proceedings related to its public authority and as a defendant in administrative disputes upon a lawsuit filed against any of its administrative acts. In the event of a criminal offense that is prosecuted ex officio, Hanfa files criminal charges to the State Attorney's Office in accordance with criminal procedural regulations.

According to the provisions of the Act on the Croatian Financial Services Supervisory Agency<sup>171</sup>, the provisions of the General Administrative Proceedings Act<sup>172</sup> apply to cases which are handled by Hanfa within the framework of its competence, unless otherwise provided by law. Acts issued by Hanfa are final and administrative disputes may be initiated against them, therefore making Hanfa a party in such administrative disputes.

After having established the existence of an offense, Hanfa, as an authorised prosecutor, submits an indictment to the competent authorities (misdemeanour courts and the Financial Inspectorate of the Republic of Croatia) and actively participates in the above-mentioned misdemeanour proceedings. Before submitting an indictment, Hanfa submits a notice of initiation of misdemeanour proceedings to natural and legal entities in relation to which it intends to initiate the proceedings, in accordance with the provisions of the Misdemeanour Act<sup>173</sup>, and informs them of the possibility to negotiate the conditions for the recognition of guilt and sanctions and measures. The purpose of this legal concept is an attempt to speed up the duration of misdemeanour proceedings, and to reduce the number of cases expiring by statute. The validity of settled disputes, in accordance with the law, is confirmed by a competent misdemeanour court.

On its website, under the Court Decisions section and following the principles of anonymisation, Hanfa publishes final court decisions relating to misdemeanour and administrative court proceedings that Hanfa is a party to. Publication of anonymised court decisions on Hanfa's website allows the interested public to search through decisions of administrative and misdemeanour courts.

Hanfa's employees participated in the Working Group of the Ministry of Justice of the Republic of Croatia for Amendments to the Criminal Code.

### 8.1 Misdemeanour proceedings

During supervisory procedures in the area of capital markets, investment funds and insurance, Hanfa established illegalities prescribed by the Capital Market Act<sup>174</sup> the Act on Open-Ended Investment Funds with Public Offering<sup>175</sup>, (hereinafter: AOEIF), the Insurance Act<sup>176</sup> and the Act on the Prevention of Money Laundering and Terrorist Financing<sup>177</sup> (hereinafter: APML) and on the basis of its authority, it filed 11 indictments with the competent misdemeanour court and the Financial Inspectorate of the Republic of Croatia in 2016.

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

172 Official Gazette, No 47/09

173 Official Gazette, No 107/07, 39/13, 157/13 and 110/15

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

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

176 Official Gazette, No 151/05, 87/08, 82/09, 54/13 and 94/14

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

Table 8.1 Indictments brought in 2016

Area	Act	Number of indictments
Investment funds	Act on Open-Ended Investment Funds with Public Offering	4
	Act on the Prevention of Money Laundering and Terrorist Financing	3
	Total	7
Capital market	Capital Market Act	2
	Total	2
Insurance market	Act on the Prevention of Money Laundering and Terrorist Financing	1
	Insurance Act	1
	Total	2
Total indictments brought in 2016		11

Source: Hanfa

Since its establishment on 1 January 2006 until 31 December 2016, Hanfa brought a total of 448 indictments for initiating misdemeanour proceedings.

Amendments to the Misdemeanour Act<sup>178</sup> introduced the possibility in the misdemeanour-legal system for the competent body in the procedure to accept the agreement between Hanfa and the defendant on the choice and the amount of sanctions. The competent body in the procedure shall not accept the parties' agreement in the misdemeanour proceedings, if such agreement is at the expense of the defendant considering the rules on the choice and type of sanctions, or if it is not lawful. This legal arrangement resulted in an increased number of convictions in the period from 2014 to 2017.

Table 8.2 Indictments brought in the 2006 – 2016 period

Year	Number of indictments	Final judgment	Discontinuance*	Expiration of statute of limitations	Ongoing
2006	75	33	15	27	0
2007	72	15	13	44	0
2008	65	14	6	45	0
2009	49	13	1	34	1
2010	52	15	2	32	3
2011	33	13	1	13	6
2012	27	6	1	8	12
2013	30	12	0	4	14
2014	17	4	0	0	13
2015	17	4	0	0	13
2016	11	1	0	0	10
Total	448	130	39	207	72

\* the cases without legal continuity between the part from the indictment and the part provided for by amended acts, or where Hanfa withdrew the indictment or the court rejected the indictment

Source: Hanfa

178 Official Gazette, No 15/13

### **8.1.1 Capital market**

Within the framework of supervision of the capital market, following established misdemeanours committed in this area, Hanfa brought two indictments against misdemeanour perpetrators for violations of the provisions of laws regulating the capital market.

One of the two indictments was brought against a legal entity, issuer and a responsible person in the legal entity due to their failure to inform the public of inside information relating directly to the issuer in line with the prescribed manner and prescribed requirements. The other indictment was brought against a legal entity because they failed to deliver a notice within the prescribed deadline to Hanfa and the issuer as regards falling below the stipulated threshold of voting rights.

### **8.1.2 Investment funds**

As regards investment funds, during supervision procedures Hanfa detected certain illegalities, therefore in 2016 it filed seven indictments against perpetrators of misdemeanour offenses for violating the provisions of the AOEIF. During these supervision procedures, certain illegalities were found as prescribed by the APML.

Of the seven indictments filed, four of them related to offenses prescribed by the AOEIF, because investment fund management companies and responsible persons in them did not establish effective and appropriate general organisational conditions as prescribed by this Act, because they did not establish and maintain adequate function of monitoring compliance with relevant regulations, because they did not provide management, monitoring and prevention or disclosure of conflict of interest in an appropriate and effective manner in accordance with the provisions of the Act, and because they did not establish a comprehensive and effective risk management system for the investment fund management company and the investment funds it manages.

At the same time, misdemeanour proceedings were initiated against an investment fund management company and responsible persons in a legal entity because they invested the assets of an open-ended investment fund with a public offering contrary to the provisions of the ZOIPJ, and because they did not comply with the legal provisions regarding proceedings, records keeping and business documentation of the company, and because they invested the assets open-ended investment funds with a public offering contrary to legal provisions.

Three misdemeanour proceedings were initiated for violating the provisions of the APML.

These misdemeanour proceedings were initiated against legal entities and responsible persons within legal entities because they did not perform client due diligence in accordance with the APML, and because during the monitoring of client's business activities they did not apply the measures prescribed under this Act, as well as did not carry out risk analysis, i.e. determine the risk assessment of a particular group or a type of a client, business relationship, product or transaction in accordance with guidelines issued by the competent authority.

### **8.1.3 Insurance market**

During its supervision of insurance companies, Hanfa determined misdemeanours committed in relation to the Insurance Act and the APML, and it brought two indictments in 2016. The first indictment was filed against members of insurance companies' boards for failure to comply with their obligations under the provisions of the Insurance Act, i.e. because they failed to ensure the insurance company's business operations under the provisions of that Act, and because they did not ensure monitoring of risks that insurance company is exposed to in its business operations, and did not take appropriate measures to limit the risks. The other indictment was filed to the Financial Inspectorate of the Republic of Croatia, against an insurance company and responsible persons for carrying out payment in cash in the amount in excess of HRK 105,000.00, as prescribed by the APML.

## 8.2 Administrative disputes

In the course of 2016, a total of 12 administrative disputes were initiated against Hanfa's decisions following complaints filed with the Administrative Court in Zagreb. Pursuant to the Administrative Disputes Act<sup>179</sup>, Hanfa provided responses and submitted files requested based on the complaints filed. In these proceedings, as well as proceedings initiated in previous years, Hanfa's employees filed reports and attended hearings before the Administrative Court in Zagreb, as a local authority in accordance with plaintiffs' residence.

Out of 12 administrative disputes initiated, 11 referred to administrative decisions in the area of capital market, and one in the area of investment firms.

Three administrative disputes were initiated in order to annul Hanfa's decision on approving the publication of a takeover bid of a joint stock company, while four disputes were initiated to renew the administrative proceedings in which this decision was issued.

The remaining four administrative disputes in relation to the capital market referred to the annulment of a decision on the determination of the obligation to take over a joint stock company, to Hanfa's conduct in the decision-making process for the approval of the takeover of a joint stock company, and to the recognition of a party in a publication of a joint-stock company takeover procedure.

An administrative dispute concerning the field of investment firms was in relation to obtaining Hanfa's decision, and it was suspended by a final court ruling.

At the same time, out of the 11 administrative disputes initiated, two were dismissed as disallowed by decisions of the High Administrative Court of the Republic of Croatia. In one administrative dispute, the verdict of the High Administrative Court of the Republic of Croatia confirmed the ruling rejecting the claim for the annulment of Hanfa's decision, and in another administrative dispute, the plaintiff did not appeal the ruling rejecting the claim for annulment of Hanfa's decision.

The remaining seven cases are still pending.

## 8.3 Criminal charges

Within the framework of its regular business activities, Hanfa established that there were grounds for suspicion that a number criminal offences had been committed pursuant to the provisions of Article 204 of the Criminal Procedure Act<sup>180</sup> and in 2016, it filed a criminal charge with the State Attorney Office against six natural persons and one unknown perpetrator. This criminal charge was filed for unauthorised disclosure of inside information to other persons, as well as acquisition of financial instruments by disposing of such inside information. The criminal offense in question is inside information abuse, as prescribed by the Criminal Code<sup>181</sup>.

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

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179 Official Gazette, No 20/10, 143/12 and 152/14

180 Official Gazette, No 152/08, 76/09, 80/11, 121/11, 91/12, 143/12, 56/13, 145/13 and 152/14

181 Official Gazette, No 125/11, 144/12, 56/15 and 61/15



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



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

### 9.1 Participation in the work of the EU institutions

In 2016, Hanfa's employees were involved in work and coordination with relevant national authorities and institutions of the European Union regarding the issues of harmonisation with the regulations and practices of the European Union within the financial sector. These work assignments are setting increasing demands on Hanfa's employees, with Hanfa's resources becoming more and more burdened in the coming years in setting aside a significant part of working time in for these assignments. With the existing capacities, and with workloads increasing day by day, this staffing challenge is becoming increasingly important.

#### 9.1.1 Participation in the work of ESMA

In 2016, the President of the Board of Hanfa or his alternate attended seven meetings of ESMA's Board of Supervisors<sup>182</sup>.

The priorities of ESMA in 2016 were the harmonisation of supervisory practices, transposition and implementation of MiFID II<sup>183</sup> and MiFIR<sup>184</sup> in Member States, and the collection and processing of data. MiFID II and MiFIR represent a demanding and significant change in market infrastructure and the provision of investment services, and therefore the activities within ESMA were particularly focused on these issues. Over the past five years, the emphasis has been on the development of a unique standards book and the establishment of ESMA as a relevant supervisory body for direct supervision, whereas in the forthcoming mid-term the emphasis shall be placed on the application and harmonisation of supervisory practices, so the change from regulatory to implementing direction is in effect.

Hanfa's representatives were involved in the work of 11 committees, three expert networks and one working group of ESMA:

- Committee for Economic and Markets Analysis
- Corporate Finance Standing Committee
- Corporate Reporting Standing Committee
- Credit Rating Agencies Technical Committee
- Market Integrity Standing Committee
- Financial Innovation Standing Committee
- Investment Management Standing Committee
- Investor Protection & Intermediaries Standing Committee
- IT Governance Committee
- Post Trading Standing Committee
- Secondary Market Standing Committee

182 Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC, OJ L 331/84

183 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, OJ L 173/349

184 Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012, OJ L 174/84

- Takeover Bids Network
- Legal Network
- Market Data Reporting Working Group
- Translation Network
- European Enforcement Coordination Sessions

### 9.1.2 Participation in the work of EIOPA

In 2016, the President of the Board of Hanfa or his alternate attended five meetings of EIOPA's Board of Supervisors<sup>185</sup>. Hanfa's representatives were involved in the work of nine committees, one working group, EIOPA's network of language editors and, since June 2016, five newly formed expert networks.

In 2016, EIOPA continued the trend that began in 2015, i.e. shifting its focus from regulatory framework to supervisory framework. Strengthening the role of voluntary pension insurance also continued to be in the focus of action. Strengthening the role of voluntary pension insurance and reinforcing consumer confidence in this segment of insurance also continued.

Five strategic goals of EIOPA remained the same as in 2015.

- to ensure transparency, simplicity, accessibility and fairness for consumers throughout the internal market
- to develop reliable and reasonable rules that support the internal market of the European Union
- to improve quality, efficiency and consistency of supervision of European insurers and occupational pensions
- to identify, assess, mitigate and manage risks and threats to financial stability of the insurance and occupational pensions sector
- to ensure the operation of EIOPA as a modern, capable and professional organisation, with effective management system, efficient processes and reputation.

Hanfa also participated in the exchange of experience and supervisory practices, coordinated its activities with other supervisory authorities of Member States and submitted relevant information through participation and work in the following committees, work groups and networks of EIOPA:

- Financial Requirements Committee (FRC)
- Equivalence Committee (EC)
- Internal Governance, Supervisory Review and Reporting Committee (IGSRR)
- Financial Stability Committee (FSC)
- Internal Models Committee (IMC)
- IT and Data Committee (ITDC)
- Insurance Group Supervision Committee (IGSC)
- Occupational Pensions Committee (OPC)
- Committee on Consumer Protection and Financial Innovation (CCPFI)
- Stress Test Subgroup (STSG)
- Network of Quality Checks for Translation
- Expert network – quantitative requirements

<sup>185</sup> Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC, OJ L 331/12

- Expert network – risk management
- Expert network – information
- Expert network – internal models
- Expert network – financial stability

On 24 May 2016, EIOPA initiated a stress-testing procedure in the area of insurance aimed at life insurance of individual companies and focused on two major market risks: a long period of low interest rates and a long period of low interest rates with a decline in asset value. The Republic of Croatia took part in this test which was carried out by Hanfa for the Croatian insurance market. The results were published in December 2016.

In 2016, committees of ESMA and EIOPA issued over a hundred and fifty decisions and organised more than a hundred and fifty debates, mainly concerning the approval of numerous documents for public consultation, guidelines and recommendations, adoption of implementing and technical standards, analysis of trends, risks and vulnerability of the financial sector, organisation of the common market and, in this light, harmonisation of supervisory practices, activities of trade repositories and credit rating agencies under the competence of ESMA, participation in EIOPA's stress tests, opinion making regarding the European Commission or other European supervisory bodies, combat against money laundering and terrorist financing, identification of new instruments and services on financial markets and future trends, their impact on consumers and the financial stability of the European area, the assessment of equivalence of supervisory systems of third countries etc. Expert committees and working groups of ESMA and EIOPA and their professional services worked on the preparation of these topics through collection of data, information and opinions and analysis on national level.

The committees and working groups of ESMA and EIOPA, and Hanfa's members within them, worked on the preparation of all relevant documents which were necessary for decision-making and for debates on specific issues and the needs of special groups to implement peer reviews on specific issues important for the work and activities within the entire European financial market.

Hanfa continued to participate in the work of EIOPA by filling out the Database of Pension Plans and Products, commenting on the Report on Good Practice in relation to communication methods and communication channels to members of occupational pension funds, processing materials and commenting on the draft proposal for a Directive 2016/2341 on the activities and supervision of institutions for occupational retirement provision, and completing the Questionnaire on self-assessment / supervisory practices in connection with the Statement on investment principles for IORPs.

Hanfa actively participated in the work EIOPA Board of Supervisors by participating in the development of documentation and giving advice to the European Commission regarding the single market for personal pension products. Hanfa participated in the work of the Occupational Pensions Committee (OPC) by filling out the Questionnaire on market development.

### **9.1.3 Participation in the work of EBA**

Pursuant to Article 16 of the Act on the Croatian Financial Services Supervisory Agency<sup>186</sup> Hanfa's employees participate in the preparation of materials and the provision of information needed to

<sup>186</sup> Official Gazette, No 140/05 and 12/12

make decisions and statements related to the operations of investment firms for meetings of the EBA's Board of Supervisors<sup>187</sup>.

Hanfa participated in EBA's analyses associated with the revision of the prudential requirements for investment firms under CRD IV<sup>188</sup> and CRR<sup>189</sup> and other types of reporting connected with the requirements of BRRD<sup>190</sup>.

In cooperation with the Croatian National Bank, the activities started in 2015 on the adoption of the EBA guidelines concerning both supervisory bodies were continued, as well as work in the framework of notifications within the EBA's database.

### 9.1.4 Participation in the work of the ESRB

In 2016, the President of the Board of Hanfa or his alternate attended four meetings of the General Committee and one meeting of the Advisory Technical Committee of the ESRB<sup>191</sup>.

The ESRB continued with its activities concerning macroprudential analysis and risk identification, the analysis of macroprudential policies of Member States and assessment of national macroprudential measures. The process of the assessment of implementation of the issued recommendations was continued. At the end of January, the ESRB published two recommendations extending the framework of the European macro-prudential framework, while at the end of November it published eight warnings on medium-term residential real estate vulnerabilities, a recommendation on real estate data, and a special report on Macroprudential policy issues arising from low interest rates and structural changes in the European Union financial system. In June, the ESRB held a conference on macro-prudential use of margins and haircuts, while in September it held the second workshop on shadow banking that followed the July issue of the EU Shadow Banking Monitor with the accompanying methodology document.

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

Hanfa's employees took part in working and expert groups of the Council and the European Commission related to the non-banking financial services. Regarding activities within the setup of the Capital Markets Union, Hanfa participated in the Working Group on Financial Services of the Council, concerning the adoption of the new Prospectus Regulation. Hanfa was a part of the Expert Group on barriers to free movement of capital. Given that one of Hanfa's key objectives is to raise the level of financial literacy of Croatian citizens and entrepreneurs, as a part of presentations within the Expert Group on barriers to free movement of capital, Hanfa highlighted the need for synchronised action of Member States with the support of the European Commission in raising the level of financial literacy in order to enable consumers to acquire the necessary degrees of

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187 European Banking Authority (EBA) together with the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA) constitute European Supervisory Authorities – ESAs). More details about EIOPA and ESMA are provided in Chapter 9.1.1 *Participation in the work of ESMA* and 9.1.2. *Participation in the work of EIOPA*.

188 Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, OJ L 176

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

190 Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No (648/2012, of the European Parliament and of the Council, OJ L 173/190

191 Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board, OJ EU L 331/1, and Council Regulation (EU) No 1096/2010 of 17 November 2010 conferring specific tasks upon the European Central Bank concerning the functioning of the European Systemic Risk Board, OJ L 331/162

understanding regarding the characteristics of financial products and their distribution channels. Representatives of the European Commission invited Hanfa to chair the financial literacy sub-group acting within the framework of the above-mentioned working group. Hanfa's initiative on the importance of financial literacy within the Capital Markets Union was supported by many Member States which joined its activities that will be continued in 2017. Hanfa's employees participated in working meetings of the European Commission related to the transposition of the new Insurance Distribution Directive and to cross-border marketing of units in investment funds.

## 9.2 Cooperation with domestic and international institutions

Hanfa continued its cooperation with domestic institutions. At the request of the Ministry of Finance, it participated in working groups in connection with drafting regulations within Hanfa's competence, in the project team for the development of regional capital market aimed at small and medium enterprises started by the ZSE and the European Bank for Reconstruction and Development, in meetings of the National Council for Consumer Protection at the Ministry of Economy, Entrepreneurship and Crafts, and in the activities of the Financial Stability Council, whose members also include the CNB, the Ministry of Finance and the State Agency for Deposit Insurance and Bank Rehabilitation.

Cooperation with international institutions included the continuation of collaboration with the representatives of the World Bank on the project aimed at establishing the first Croatian venture capital fund, conducted by the World Bank, the Ministry of Entrepreneurship and Crafts and the Croatian Agency for SMEs, Innovations and Investments. In accordance with the signed Multilateral Memorandum of Understanding, Hanfa is a member of the International Organisation of Securities Commissions (IOSCO), on the basis of rights and obligations arising from the relevant this memorandum, and during 2016, it exchanged relevant information with other signatories of the memorandum in its supervisory procedures, i.e. for the purposes of monitoring other signatories of the memorandum. Throughout the year, the cooperation also included the submission of opinions on the documents of foreign institutions, such as the European Bank for Reconstruction and Development and the World Bank.

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

In 2016, in accordance with the provisions of the Act on the Prevention of Money Laundering and Terrorist Financing<sup>192</sup>, Hanfa continued with supervisory activities regarding the implementation of the provisions of this Act in supervised entities. Three examinations were started with the focus on the prevention of money laundering and terrorist financing. At the same time, three supervision processes were finished (including one that was started in the previous year.) In 2016, there were no decisions imposing supervisory measures in the area of prevention of money laundering and terrorist financing to supervised entities, since all violations and irregularities were resolved before the decisions were issued.

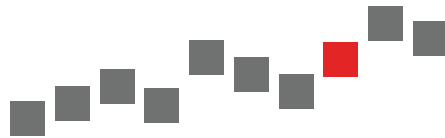
As a participant in the system for the prevention of money laundering and terrorist financing, via the Committee for the Prevention of Money Laundering and Terrorist Financing, Hanfa participated in drawing up opinions and responded to questions of supervised entities in the area of the prevention of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

<sup>192</sup> Official Gazette, No 87/08, 25/12

Given the obligation of supervisory authorities to exchange data and information related to supervisory procedures, Hanfa continued to report to the Anti-Money Laundering Office at the Ministry of Finance. At the Croatian Chamber of Economy, it held a “Training on the prevention of money laundering and terrorist financing for financial institutions” for representatives of the supervised entities, where it provided answers to questions from the members of associations of supervised entities at the Croatian Chamber of Economy. Hanfa participated in the Working Group on the Preparation of the New Act on the Prevention of Money Laundering and Terrorist Financing, together with the Ministry of Finance, Anti-Money Laundering Office and the Croatian National Bank.

Hanfa continued to actively participate in the work of Inter-Institutional Working Group on the Prevention of Money Laundering and Terrorist Financing, presided by the Anti-Money Laundering Office. This group was mostly concerned with drafting the new Act on the Prevention of Money Laundering and Terrorist Financing, consideration of issues with the identification of the real owner and mutual cooperation between the members of the working group. Hanfa signed a cooperation and information exchange agreement regarding the implementation of the Act on the Prevention of Money Laundering and Terrorist Financing with the Ministry of Finance (Financial Inspectorate), in order to increase the effectiveness of supervisory and other activities in the area of prevention and detection of money laundering and terrorist financing. In the context of inter-institutional cooperation, Hanfa submitted responses, information and opinions in relation to the questions of supervised entities associated with international restrictive measures.





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



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

### 10.1 Consumer protection and educational activities

In 2016, Hanfa received 136 complaints and this number includes complaints submitted following certain activities of Hanfa's supervised entities, complaints which do not fall within Hanfa's area of competence and other general inquiries and complaints. The majority of complaints were submitted by natural persons. The table below shows the number of complaints according to submitters.

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

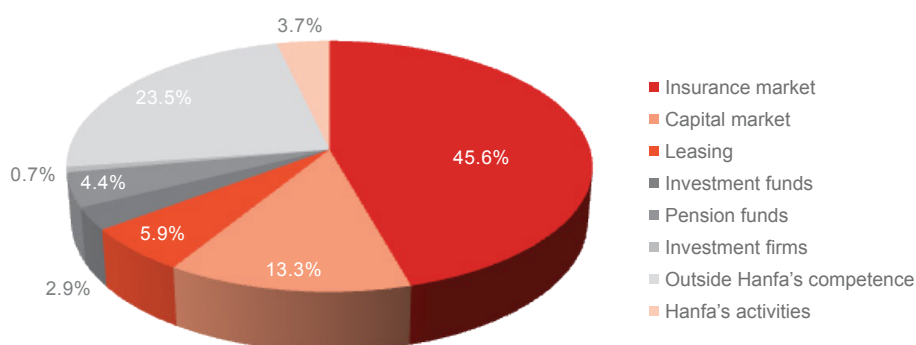
Table 10.1 Number of complaints received in 2015 and 2016 by submitters

Type of complaint	Number of complaints in 2015	Number of complaints in 2016
Natural persons	122	111
Legal persons	24	19
Anonymous	3	6
Total	149	136

Source: Hanfa

The majority of complaints falling within Hanfa's scope of activity and competence related to the insurance market (45.6%) and capital market (13.3%). A total of 23.5% of the complaints received fell outside Hanfa's scope of activity and competence, whereas 3.7% of the complaints related to its own activities. No complaints concerning factoring services were received.

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



Source: Hanfa

A total of 62 complaints concerned the insurance market: 48.4% of those complaints referred to clients' discontent concerning the claims handling procedure, i.e. discontent with the insured amount paid or a failure to pay the insured amount, while 22.6% of the complaints referred to conclusion of insurance agreements, i.e. high insurance premiums, discounts and incorrect application of the bonus/malus system. A total of 12.9% of the complaints referred to insurance agree-

ment disputes, i.e. failures to fulfil obligations under the insurance agreement and terms and conditions, and 16.1% of the complaints referred to activities of supervised entities, i.e. their business operations carried out contrary to the legal framework.

A total of 18 complaints related to the capital market, of which 61.1% concerned the notification of potential market abuse, i.e. insider dealing and market manipulation, whereas 16.7% of the complaints were related to the takeover of joint-stock companies. The remaining complaints concerned the fulfilments of transparency requirements, transfer of stocks, etc. All the data contained in the complaints is taken into account within the framework of Hanfa's examinations carried out as part of its regular activities.

Out of eight complaints pertaining to the leasing market two were related to the calculation of lease agreement fees and collection of dunning charges, and another two concerned the debt calculation and fee resulting from the cancellation of agreements and costs relating to leased assets. The remaining complaints related to the dispute regarding rights of third parties pertaining to leased assets, sufficient provisions made by leasing companies for any potential losses of court disputes, calculation of road tax, and irregularities in lease agreements. One of the submitters appealed against Hanfa's response, which was followed by a decision declining the appeal and upholding the response previously given.

Six complaints concerned pension funds, of which three related to information provided to fund members at the moment of signing the membership agreement in a voluntary pension fund. The remaining complaints concerned the operation of pension companies related to the right to pension payment, the operation of pension funds regarding investments of pension funds and transparency of investment reporting of mandatory pension funds.

Four complaints concerning investment funds related to methods of informing fund members about the sale and redemption of units, activities of sales agents regarding issuance of units in investment funds, the operation of supervised entities, and fund management.

One complaint was received regarding an investment company and its failure to pay cash into the client's account and to the lack of possibility to break the contract. Hanfa initiated administrative proceedings in the form of a targeted on-site examination in the investment company, based on, among other things, the complaint received from the client.

Hanfa provided prompt responses to all the complaints falling within its area of competence not later than within 30 days following their reception. Depending on specificities of each case, the responses included information on the course of action taken or on the result of such action. The complaints related to Hanfa's own activities were also taken into account and responded to promptly. Submitters of complaints falling outside Hanfa's area of competence were referred to relevant authorities.

In addition to handling complaints of financial services users, Hanfa continued with its efforts in the area of consumer protection by informing the public of the importance and the manner of functioning of the financial system and by undertaking various activities aimed at providing timely information to users of financial services. Activities connected with consumer protection focused on the prevention through on-site and off-site supervision, while some of the activities focused on the development of awareness of risks related to investments in financial instruments and of rights and obligations of supervised entities and users of their services. Those activities included information on consultations with the interested public in connection with subordinate regulations under Hanfa's competence and calls for comments on their content on the central government portal for public consultations with the interested public (e-consultations). On its website, Hanfa published laws and subordinate regulations and their consolidated versions. Special emphasis was placed on the publication of press releases and warnings aimed at investor protection and related to various risky investments and financial operations. In addition, Hanfa published warn-

ings issued by ESMA<sup>193</sup> and IOSCO, educational texts, frequently asked questions and answers, bulletins, manuals and information on the results of supervised entities' operations, and other information and announcements related to Hanfa's scope of activity.

In the area of consumer protection, Hanfa was active within ESMA's Financial Innovation Standing Committee and EIOPA's<sup>194</sup> Committee on Consumer Protection and Financial Innovation. Hanfa reviewed documents received, submitted data requested and reports on complaints, and exchanged experience with other Member States in relation to consumer protection issues.

In addition to its regular consumer protection activities, Hanfa also carried out some new projects: in February 2016, the Croatian National Bank and Hanfa presented the results of the financial literacy survey that was conducted in the Republic of Croatia and financed by the two institutions. The survey was conducted in accordance with the methodology of the Organisation for Economic Co-operation and Development (OECD) and its results are comparable with the results of the same survey in other countries. This project was carried out within the framework of the second international measurement exercise coordinated by the OECD. The questionnaire that served as a survey instrument was developed in 2009, and used for the first time in 2010 during a coordinated survey in 14 countries. Since then, another 30 countries have used it for the purpose of collecting data on the financial literacy of their citizens. Given that Croatia joined the survey carried out on the international level, the results will allow the comparison of the national level of literacy of Croatian citizens with the results of surveys conducted in other countries. Such a comprehensive survey will serve as a useful basis for measuring the outcomes of future educational projects.

The survey was undertaken by personal, face to face interviews, among adults aged 18 to 79, on a representative sample of over 1,000 respondents. Taken into account that the OECD has defined financial literacy as a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing, the survey included three main categories: financial knowledge, financial behaviour and financial attitudes. The study showed the level of financial literacy of various social groups (in terms of age, gender and education) in all parts of the Republic of Croatia. The average financial literacy score in the Republic of Croatia is 11.7 out of a maximum of 21 points. The lowest level of financial literacy was recorded by those younger than 19 (9.3), while the highest level was achieved by those with tertiary education (12.8), by those with household income higher than HRK 6,250 (12.8), and by population in cities of more than 100,000 inhabitants (13.1). As far as financial knowledge is concerned, 74% of the population are familiar with the influence of inflation over their lives, i.e. they understand that high inflation implies a sharp increase in the cost of living. More than two thirds of the respondents (69%) are familiar with great risks connected with potentially high rewards. Two thirds of the citizens are aware of benefits of sound investment and saving strategies for the purpose of risk protection, i.e. they realise that they are less likely to lose money if they invest and save in different places. Furthermore, 80% of the respondents comprehend the task that requires understanding of the concept of loan interest. More than 60% of the citizens of the Republic of Croatia pay close attention to their financial affairs, expenses, purchases and timely settlement of accounts and debts. However, while such caution means that Croatians tend not to risk a lot as regards their money, avoiding "negative risks", the same goes for "positive risks" such as investments, which are avoided even by citizens with higher income. Poor correlation between financial knowledge and financial behaviour indicates that Croatian citizens, even though they are relatively aware of benefits and methods of financially responsible behaviour, do not demonstrate such knowledge in their daily lives. The results indicate that citizens with lower income and education levels are significantly less familiar with basic economic and financial terms, are less likely to plan their households' budget, are less confident about their own pension plans, have less knowledge of various financial products and are less likely to use them.

193 The European Securities and Markets Authority (ESMA) is described in more detail in Chapter 9.1.1 *Participation in the work of ESMA*.

194 The European Insurance and Occupational Pensions Authority (EIOPA) is described in more detail in Chapter 9.1.2 *Participation in the work of EIOPA*.

As in the previous years, Hanfa participated in Global and European Money Week 2016, that took place from 14 to 18 March, by carrying out a series of educational activities aimed at providing the general public with information on financial services, Hanfa's scope of activity and competence and the importance of financial literacy. Last year, the Global and European Money Week programme focused on young people. Hanfa's representatives gave various presentations explaining Hanfa's work in the area of financial literacy and participated in a series of panels, debates and round tables. Some of these were a round table organised by the Ministry of Science, Education and Sports titled "Financial Literacy and Youth", a panel organised by the Croatian daily newspaper Jutarnji list named "Promoting Financial Literacy: Policies and Measures Aimed at Raising the Level of Financial Literacy in Croatia", and a student debate organised by the Croatian Insurance Bureau and the Economics Clinic titled "Life Insurance – Savings and/or Investment". During the panel held by the Faculty of Economics in Osijek and the Croatian Chamber of Economy in Zagreb on financial literacy in the Croatian educational system, Hanfa presented the results of the survey on financial literacy of Croatian citizens. Hanfa's employees also held four lectures for more than 150 secondary school and university students, explaining Hanfa's scope of activity in a simple and comprehensible language, with a special emphasis on financial services and risks related to those services, supervision of service providers, cross-border provision of financial services and international cooperation of competent authorities.

In order to establish and develop scientific cooperation, especially as regards internships, Hanfa and the Faculty of Economics of the University of Zagreb signed a Cooperation Agreement. The agreement also covers the organisation of educational programmes by Hanfa for teachers of the Faculty of Economics, the possibility of engaging Hanfa's lecturers in certain specialist postgraduate studies at the Faculty of Economics and other forms of business cooperation between the two institutions.

Hanfa continued to organise student debates at educational institutions in Croatia: one of them was a debate titled "Life Insurance – Savings and/or Investment" organised in cooperation with the student association Financial Impulse at the Faculty of Economics in Osijek and the Croatian Insurance Bureau. The students analysed characteristics of combined life insurance that includes investment-linked life insurance and savings components, concluding that investment-linked life insurance policy holders manage their assets by themselves and make their own choices as regards investment funds and allocation of assets. Hanfa organised two debates titled "Challenges of Financing in the Republic of Croatia – Case Study: Bank Financing and/or Capital Markets". One of the debates was held in cooperation with the Effectus University College for Law and Finance, and the other within the framework of the Global and European Money Week, in cooperation with the student association Economics Clinic at the Faculty of Economics of the University of Zagreb and the Croatian Insurance Bureau. The students discussed the case of a company dealing with financial problems and facing an uncertain business future. They carried out two case studies analysing options of additional financing and investing possibilities for the company that would allow it to continue its business operations. The debate focused on different sources of financing: banks, leasing and factoring on the one hand and capital markets on the other hand.

Following excellent website traffic results and strong interest expressed in the educational campaign carried out at end-2015, containing warnings related to investing in complex financial products, Hanfa launched a similar educational campaign at the end of 2016. The campaign was based on modern technologies used by providers of the services and products that Hanfa warned about as being unsuitable for the general public. It contained online advertisements aimed at attracting people interested in quick profit, with the purpose of educating and warning them about pitfalls and risks of the so-called quick profits made by investing in complex financial products. The advertisements, featuring fictional persons presented as the wealthiest Croats, invited people to trade in fictitious financial products called KPNs (Komplicirani Proizvodi za Neupućene – Complicated Products for Dummies). A click to the advertisement led to Hanfa's informative website ([www.hanfa.hr/saznajvise.html](http://www.hanfa.hr/saznajvise.html)), designed especially for this purpose, where potential investors were urged to be cautious and where they were warned about the importance of gathering information on products and services before entering into a business relationship with providers of fi-

nancial services. During the educational campaign, that lasted 30 days, there were more than 41,000 clicks to the advertisements, i.e. more than 41,000 visits to the informative website.

As part of its educational activities, Hanfa also organised visits of secondary school and university students at its premises. During the visits, the students were given information about the scope of activity and competence of Hanfa with the emphasis on the legal framework, activities of ESMA and EIOPA and the concepts related to Hanfa's membership of those institutions, procedures of on-site and off-site supervision and licensing, as well as examinations falling within Hanfa's competence. Hanfa's representatives also gave a number of lectures at seminars and conferences organised by various educational, professional and state institutions. The lectures covered topics relating to, among other things, Hanfa's scope of activity and competence, technical knowledge required to carry out actuarial work, financial literacy, implementation of Solvency II, Insurance Distribution Directive, problems faced by insurance companies while trying to meet supervisory reporting requirements, with the emphasis on key challenges in the Croatian insurance market, Capital Markets Union, handling regulated/inside information, market abuse, options as regards financing small and middle enterprises with a focus on experiences in Croatian leasing and factoring markets, etc. During the year, Hanfa participated in several conferences: it was the sponsor of the fourth conference titled "Supervisory Challenges and Practice Related to Insurance Companies in South-Eastern Europe", organised by Tectus d.o.o. In cooperation with the Ministry of Finance, it was also a sponsor of the first Croatian Actuarial Conference named "The Only Constant is Change", organised by the Croatian Actuarial Association. In partnership with the Ministry of Finance, Hanfa participated in the conference "Croatian Financial Institution Day", organised by the Croatian Chamber of Economy in cooperation with the Faculty of Economics and Business Zagreb, under the patronage of the President of the Republic of Croatia.

Hanfa assisted in conducting a panel dealing with EU regulation and Capital Markets Union at the conference titled "The Challenge of Change", organised by the Zagreb Stock Exchange and Association of Pension Fund Management Companies and Pension Insurance Companies. Hanfa's representative also participated in the panel, along with representatives from regulatory authorities from the Czech Republic, Slovakia, Slovenia and Romania, who joined the panel at Hanfa's invitation.

The Croatian Insurance Days Conference, organised by the Croatian Insurance Bureau, included a lecture held by one of EIOPA's employees, who presented, at Hanfa's invitation, the role of EIOPA in the wake of Solvency II implementation.

## 10.2 Transparency

In accordance with its obligation to comply with the Act on the Right of Access to Information<sup>195</sup> (hereinafter: ARAI), Hanfa continued with implementation of its provisions: it replied to requests for access to information, ensured the re-use of information, published regulated information on its website, carried out consultation procedures and submitted documents to the Central Catalogue of Official Documents of the Republic of Croatia.

Eleven requests for access to information were received, drawn up and submitted in accordance with the ARAI, and all of them received positive replies. Since some of the requests related to the right to access Hanfa's documents, the applicants were informed, pursuant to the ARAI, within the eight-day deadline that their requests were not considered requests for access to information. Hanfa also received a request that, in line with the ARAI, was forwarded to another public authority, as Hanfa did not have the information requested.

<sup>195</sup> Official Gazette, No 25/13 and 85/15

While handling requests for access to information, Hanfa followed the provisions of the ARAI closely: it observed the rules on limited rights to access information and handled the requests within the prescribed deadline of 15 days, or 30 days in case of need to provide more information.

On its website Hanfa published data defined by the ARAI and updated so as to provide timely information to the public. Special attention was paid to public disclosure of information from Hanfa's Board meetings not subject to rules on restricted access to information. In order to place emphasis on the importance of financial transparency, Hanfa provides information covering several areas: regulations falling within Hanfa's competence, decisions made at Board meetings, data on the internal structure, data related to the right to access information, answers to frequently asked questions, registers and databases, warnings and notices, information on tenders and on the results of the tenders.

In mid-2016 Hanfa introduced the possibility for all the registers on its website to be published so as to allow re-use and download of registers in an open format. The obligation imposed on public authorities to publish registers, among other things, in a manner that facilitates the search for documents and in a machine-readable format, is laid down in the ARAI.

*Re-use means the use by persons or legal entities of information held by public sector bodies, for purposes other than the initial purpose within the public task for which the information was produced.*

Hanfa continued holding public consultations relating to subordinate regulations (primarily ordinances) falling within its scope of activity and competence through the central government portal e-Consultations. The consultations lasted 30 days in general, a total of 26 consultation procedures were closed prior to this deadline for legitimate reasons, while they rarely lasted for less than 17 days. The consultations were related to subordinate regulations governing investment and pension funds, investment companies and capital markets, insurance market, factoring business and Hanfa's general business activities. There were a total of 54 consultation procedures, and 27 of them received comments from associations, companies or natural persons. Hanfa replied to all the comments in due course, and every consultation procedure was followed by a report published in a regulated format through the e-Consultation system.

*e-Consultations is a central web portal allowing access to information of the executive branch of government and enabling public consultations.*

In order to carry out consultations procedures successfully, Hanfa's employees acting as e-Consultation system administrators took part in educational workshops organised by the Government School for Public Administration, at the invitation of the Government Office for Cooperation with NGOs.

In May 2016 Hanfa's representatives participated in a forum titled Digital Single Market – European dimension to the publication of data and tenders for open data projects in the Republic of Croatia, organised on 17 May to celebrate the World Information Society Day. Another event was organised in October, namely a round table under the title Open Data, for the purpose of discussing and promoting the importance of open data for modern democracies and the role of the French presidency of the initiative called Open Government Partnership.

Acting in accordance with the ARAI, at end-2016 Hanfa's Board adopted the Annual Plan of Hanfa's Public Consultations for 2017, which was published on the website and contained an overview of future subordinate regulations, deadlines for their adoption, foreseen duration of consultations and manner of carrying out consultation procedures.

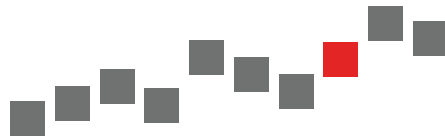
In the previous year, Hanfa continued submitting its documents to the Central Catalogue of Official Documents of the Republic of Croatia through the Digital Information and Documentation Office of the Government of the Republic of Croatia.

Pursuant to the obligation imposed on public authorities to submit a report on the implementation of the ARAI by 31 January of the current year, Hanfa acted accordingly and drew up the Report on the Implementation of the ARAI, submitted it to the Information Commissioner and, following

the confirmation of receipt, published it on its website. Hanfa also met its annual obligation to the Government Office for Cooperation with NGOs by submitting the Report on Public Consultations within the Procedure Used for Adopting Laws, Regulations and Administrative Provisions in 2016.

Hanfa also provided access to information on its activities to the public through the media, whose representatives sent their inquiries via the e-mail address [press@hanfa.hr](mailto:press@hanfa.hr). Hanfa's employees took into consideration the need for a prompt delivery of the information requested, with special effort devoted to providing detailed information. Hanfa received and provided answers to 32 media inquiries. It communicated with the public through notices and interviews with the Board members published in the media.





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



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

## 11.1 Business operations and human resources

In 2016, Hanfa further upgraded its existing IT solutions and provided new ones, in order to improve business processes related to receiving data from supervised entities, reporting to EIOPA<sup>196</sup> and ESMA<sup>197</sup>, as well as increasing the efficiency of internal processes.

### Cooperation with supervised entities

After the completion of the document digitalisation implementation project, it is possible to receive a wide range of documentation from supervised entities in electronic form via an online interface. Hanfa has so far received financial reports in digital format, and this project has significantly expanded the scope of documentation that can be submitted electronically (e.g. reports on status changes, examination documentation, notifications to regulator, special reports, requests etc.). In 2016, delivery of such documentation by electronic means was made possible to leasing companies, insurance and reinsurance companies, pension insurance companies and the Croatian Insurance Bureau. In 2017, the project will encompass the remaining supervised entities. This will result in regulatory disburdening and simpler business operation for supervised entities.

### Reporting to EIOPA and ESMA

On 1 January 2016, Hanfa was ready for the full implementation of Solvency II because it had started preparatory activities in cooperation with supervised entities on time. At the beginning of 2015, in cooperation with the supplier, Hanfa began implementing the Solvency Supervision Toolbox (SST) – a software solution used to receive and validate reports, as well as to store them in a database. This tool consists of a test part, where companies can check the technical accuracy of the report, and a production part, through which the technically correct reports are stored in the database. In 2016, Hanfa continued its cooperation with insurance companies, i.e. reinsurance companies, while continued communication and mutual collaboration improved and developed the quality of reports, probability of errors and irregularities was reduced to a minimum, and technical problems were almost completely eliminated.

EIOPA developed a taxonomy for the full application of Solvency II (version 2.0.1, which is still the current version), together with the accompanying documentation and the checklist for technical validation of reports. This list continues to be periodically updated by EIOPA, and in line with new versions of controls, the SST tool is also updated. Hanfa still keeps the test part of the SST tool available, so that companies can check the accuracy of their reports before their final submission. As a part of the development of the SST tool used for receiving and technical validation of reports and sending them to EIOPA, which was successfully completed within all set deadlines, it was envisaged to produce indicators based on information submitted in the predefined reports received from insurance or reinsurance companies. It is foreseen to develop additional reports and controls in order to facilitate future validation and analysis of received reports.

ESMA is developing a system through which data from all licensed European trading repositories will be available at one centralised place. At present, each store repository collects and aggregates data on transactions in derivatives in a different way, and delivers it in a different format,

<sup>196</sup> The European Insurance and Occupational Pensions Authority (EIOPA) is described in more detail in Chapter 9.1.2 *Participation in the work of EIOPA*.

<sup>197</sup> The European Securities and Markets Authority (ESMA) is described in more detail in Chapter 9.1.1 *Participation in the work of ESMA*.

making it difficult to compare and use data. Hanfa started with preparations in 2015, and in 2016 it secured the receipt of two types of reports on a daily basis: all open transactions at the end of the reporting period and any transactions due, for which an error occurred or the termination of which was reported during the previous day. In 2017, Hanfa will ensure access to ESMA's central system which will enable it, as a competent authority, to directly pose a question to a trade repository. In this way, the supervision will be made easier by controlling the fulfilment of supervised entities' obligations to notify trade repositories on their derivatives transactions (derivative contracts), analysing how many such contracts are concluded in a given time period etc. Access to and insight into these data will enable better supervision of market functioning and business operations of all Hanfa's supervised entities.

Some IT projects were started with the aim of fulfilling obligations under MiFID II<sup>198</sup>, which will come into force on 3 January 2018. The purpose of the projects is to procure or build an IT solution for reporting to ESMA and other national competent authorities in accordance with MiFIR<sup>199</sup>. At end-2016, the projects were merged into one, and the finalisation is planned for end-2017. Expected benefits at the end of the project are the establishment of an automated system for the production and processing of prescribed reports and the exchange of report files with ESMA and other national competent authorities.

### **IPA Project**

The project, which was initiated in 2015 and finalised in 2016, managed to improve the effectiveness of supervision in the area of non-banking financial services sector in the Republic of Croatia, in accordance with the purpose of the European System of Financial Supervision, through the implementation of business intelligence. The project was funded from the IPA 2012 Programme (IPA Transition Assistance and Institution Building) and to a lesser extent from Hanfa's funds, with foreign experts being involved in its implementation. The result of this project is automated reporting to ESMA and EIOPA and automated data exchange with other national supervisory authorities of EU Member States. 2016 saw the finalisation of connecting to external data sources, the Central Depository Clearing Company and Bloomberg, for the purpose of data warehouse building. The scope of data for the analysis and supervision of supervised entities expanded. Some data that used to be reached via individual requests can now be reached automatically.

### **Improvement of internal business processes**

By upgrading the office management system, business processes of conducting exams in the organisation of Hanfa and business processes of office management were improved. Reduction of the administrative burden in carrying out the above-mentioned business processes enabled greater work efficiency of Hanfa's employees. Adaptation of the existing document management system (DMS) architecture has been completed and additional system continuity and stability were ensured by upgrading the system. Most of the activities required for the introduction of internationally recognised standards ISO 20000 and ISO 27001 were completed.

IT solutions have had an increasing impact on Hanfa's business operations year after year, so a need arose to improve the quality of IT Service Management (ITSM). Implementation of the application for centralised reporting and tracking of requests and incidents for all IT applications (service desk and monitoring) enabled better monitoring of the information system reliability. In order to comply with the ISO 20000 standard, all the necessary documentation was created, roles were assigned and processes established (from the process group Control, Release, Resolution and Relationship), and previously established processes were verified in order to begin the certification process in 2017.

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198 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, OJ L 173/349

199 Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012, OJ L 173/84

In the second half of 2016, Hanfa started to draw up documentation and introduce additional controls in order to reduce the operational risk in the field of maintenance and management of information technology and communication systems, in connection with the human factor and other identified risks. Under this project, document management procedures were defined and improved, which created preconditions for the certification of the information system in line with the ISO standard 27001 that will be implemented during 2017.

In 2016, Hanfa started to devise standard project management methodologies in line with the adjusted Prince2 methodology, with the aim to increase management efficiency and to implement Hanfa's goals and plans. Implementation of this methodology is carried out using Hanfa's internal resources.

In 2016, a new application for accounting, financial planning and reporting was implemented. This project was carried out with the aim of improving the system for accounting, financial planning and reporting ensuring greater business process efficiency, as well as the comprehensiveness and quality of information required for financial management and control system. The replacement of the existing accounting application (in use by Hanfa since 2006) was implemented on the basis of new business requirements, as well as requirements based on legal regulations regulating fiscal responsibility and the system of internal controls in the public sector. For the purposes of comprehensive planning, detailed and up-to-date monitoring of the realisation of plans, financial reporting and data analysis using various parameters throughout the year to ensure good financial resources management, it was indispensable to ensure a more modern system in comparison to the existing ones. This project was successfully carried out by the end of 2016.

### **Human resources**

Due to the importance of planning, coordinating, monitoring and improving activities in the field of human resource management, the Human Resources Unit was established in the Office of the Secretary-General. An application to manage the business process of human resource monitoring was purchased. Groups of data that used to be separate are now unified in a single database. Some records that used to be manually managed are now automated. This resulted in better connectivity, faster and greater data availability, and faster development of analyses and reports. This also facilitated the implementation of financial management and controls in accordance with the provisions of the Act on the internal controls system in public sector<sup>200</sup>.

Because of Hanfa's role and competence, as well as constant changes requiring adjustments, great importance is given to the continuous professional training of employees, those who carry out tasks within Hanfa's competence, as well as those who support business operations. About 75% of the employees participated in at least one training in 2016, and three employees were given opportunity to attend postgraduate studies in actuarial science. There were also internal trainings of employees for the purpose of acquiring and transferring knowledge and getting acquainted with internal business processes.

As regards the improvement of the internal control system, a number of activities were carried out in 2016. The vision, mission and core values were defined and published on Hanfa's website. In order to achieve the vision and mission, Strategic plan for the period 2017 – 2019 was adopted. Three basic general objectives have been identified for that period: to preserve the stability and security of the financial system, to strengthen the protection of financial services users and to strengthen the confidence in the role of Hanfa as a participant in the financial system. These general objectives define the three main directions of action and are related to Hanfa's legal scope. Each general objective has been elaborated through specific objectives, and for each specific objective, the ways of its realisation, results indicators and performance indicators have been defined. The strategic plan recognises several internal projects, which will be a support to the achievement of certain goals. Systematic continuous monitoring of the achievement of individual goals ensures efficient management of available resources, timely prevention and solving

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200 Official Gazette, No 78/15

of obstacles, and it ensures the purposefulness of Hanfa's employees and Hanfa as a whole. Based on the performance monitoring system, the realisation of each employee's individual goals is monitored on a yearly basis, as well as the realisation of the educational needs plan. At the level of goals, the most important risks that may affect their realisation were identified and some employees were designated as responsible persons for the achievement of specific strategic goals and projects. Based on the strategic goals, at the end of 2016, the Annual Work Plan for 2017 was made, as well as the related Financial Plan with identified financial resources for the implementation of activities and objectives. Other operative plans for the achievement of goals were adopted, such as plans of Hanfa's supervisory, normative and communication activities, projects plan, plan of education and professional training of employees in order to develop and maintain the required competencies needed to accomplish the goals and other operative plans.

## 11.2 Hanfa's financial operations

In relation to its accounting and financial operations, Hanfa applies the provisions of the Act on Financial Operations and Accounting of Non-Profit Organisations<sup>201</sup> and the provisions of subordinate regulations adopted under this Act.

In accordance with the provisions of the Fiscal Responsibility Act<sup>202</sup>, in 2016 Hanfa conducted the self-assessment of financial management and control systems, and consequently the 2015 Statement on fiscal responsibility was sent to the Croatian Parliament. By issuing the Statement on fiscal responsibility, the Secretary General, in charge of Hanfa's financial and accounting affairs, confirmed legal, dedicated and purposeful use of funds and the effective and efficient functioning of financial management and control system, within the amount of funds determined in the financial plan.

As at 31 December 2016, Hanfa's total assets amounted to HRK 33.2m, with 78.6% being accounted for by financial assets, and 21.35% by non-financial assets. Total payables reached HRK 8.5m, making up 25.6% of total liabilities, while own sources accounted for 74.3% of total liabilities.

Table 11.1 Hanfa's abbreviated balance sheet as at 31/12/2016 (in HRK thousand)<sup>203</sup>

<b>Assets</b>	<b>33,237</b>
Non-financial assets	7,095
Financial assets	26,142
<b>Liabilities</b>	<b>33,237</b>
Payables	8,536
Own sources	24,701

Source: Hanfa

In 2016, Hanfa was financed from fees from assets and revenue of supervised entities and fees charged for the provision of services, in accordance with Article 20 of the Act on the Croatian Financial Services Supervisory Agency.

The calculation and amount of fees and the manner of charging fees from assets and revenue of supervised entities charged by Hanfa in 2016 are defined by the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency in 2016<sup>204</sup>, while type and amount of fees and administrative charges for the provision of services

201 Official Gazette, No 121/14

202 Official Gazette, No 139/10 and 19/14

203 A detailed balance sheet of Hanfa is provided in Table 3.2 in *Appendices*.

204 Official Gazette, No 136/15, 3/16 and 75/16

falling within Hanfa's competence in 2016 are defined by the Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency<sup>205</sup>.

Total income in 2016 amounted to HRK 53.1m, while total expenses amounted to HRK 48.2m.

Table 11.2 Hanfa's aggregate income and expenditure account for 2016 (in HRK thousand)<sup>206</sup>

<b>Income</b>	<b>53,090</b>
Income received under special regulations from other sources	52,325
Income received under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2016	45,714
Income received under the Ordinance on the type and amount of fees and administrative charges paid to Hanfa	6,575
Other income received under special regulations	36
Income from assets	310
Other income	455
<b>Expenditure</b>	<b>48,250</b>
Expenditure on employees	32,660
Material expenditure	13,502
Costs for employees	1,738
Costs for external staff	14
Expenditure on service	5,768
Expenditure on materials and energy	720
Other material expenditure	5,262
Depreciation expenditure	1,309
Donations – scholarships	10
Financial expenditure	445
Other expenditure	324

Source: Hanfa

### 11.2.1 Income

Hanfa's total income in 2016 amounted to HRK 53.1m, of which 98.5% or HRK 52.3m was accounted for by income received under special regulations from other sources, realised from fees from assets and income of supervised entities, fees for the provision of services within Hanfa's competence and other income under special regulations. Less than 1.0% was accounted for by income from assets and other income.

The largest part of income received under special regulations from other sources (87.4%) consisted of income received under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2016, while 12.6% of total income was received under the provisions of the Ordinance on the type and amount of fees and administrative charges paid to Hanfa. Total income in 2016 was almost at the level of 2015 income, i.e. higher by 0.5%.

On 19 August 2016, pursuant to the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency for 2016, Hanfa issued a Decision on

<sup>205</sup> Official Gazette, No 3/16 and 75/16

<sup>206</sup> Detailed statement on Hanfa's income and expenditure is shown in Table 3.2 in *Appendices*.

the exemption paying a portion of the fees, which exempted supervised entities from paying part of the fees for certain periods in 2016. This decision was adopted with a view to financially disburdening supervised entities in 2016.

The following is a presentation of income generated by fees from assets and income from supervised entities under the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2016.

Table 11.3 Income from fees from assets and income of supervised entities in 2016  
(in HRK thousand)

Income generated under the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency in 2016	Amount in HRK thousand	Share in total income (in %)
Income from pension companies	25,673	48.4
Income from insurance companies	4,939	9.3
Income from credit institutions	3,217	6.1
Income from investment fund management companies	4,897	9.2
Income from leasing companies	3,266	6.2
Income from factoring companies	1,233	2.3
Income from the Central Depository and Clearing Company	1,314	2.5
Income from the Zagreb Stock Exchange	364	0.7
Income from insurance brokers and agents	304	0.6
Income from companies managing funds established under special regulations	253	0.5
Income from pension insurance companies	119	0.2
Income from investment firms	135	0.3
Total	45,714	86.1

Source: Hanfa

Pursuant to the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency in 2016, Hanfa realised income from supervision, calculated from total assets and income of supervised entities in the amount of HRK 45.7m.

The total fees collected pursuant to this Ordinance accounted for 86.1% of total revenues in 2016, with the largest share in total revenues (48.4%) accounted for revenues of pension companies.

Pursuant to the Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency, Hanfa charges fees for services rendered within its jurisdiction and competence based on the authorisations prescribed by the Act on the Croatian Financial Services Supervisory Agency, the Capital Market Act<sup>207</sup>, the Act on the Takeover of Joint-Stock Companies<sup>208</sup>, the Act on Open-Ended Investment Funds with Public Offering<sup>209</sup>, the Alternative Investment Funds Act<sup>210</sup>, the Insurance Act<sup>211</sup>, the Mandatory Pension Funds Act<sup>212</sup>,

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

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

209 Official Gazette, No 44/16

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

211 Official Gazette, No 30/15

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

the Voluntary Pension Funds Act<sup>213</sup>, the Act on Pension Insurance Companies<sup>214</sup>, the Act on Life-long Severance Payment or Supplementary Pension Purchase<sup>215</sup>, the Leasing Act<sup>216</sup>, the Factoring Act<sup>217</sup> and the Act Implementing Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories<sup>218</sup>.

Hanfa imposes fees and administrative charges on its supervised entities and all other legal and natural persons and entities without legal personality addressing Hanfa with requests to take measures from its area of competence. Persons obliged to pay fees and charges are also all other persons addressing Hanfa with information or requests to take actions within its area of competence or submitting information to Hanfa on the provision of services in the Republic of Croatia through competent supervisory authorities of Member States.

The said fees constitute Hanfa's income whereas administrative charges are paid into the State Budget. Income from fees generated in 2016 under the above-mentioned Ordinance amounted to HRK 6.6m.

The following table provides a detailed overview of income realised from services provided within Hanfa's area of competence under special acts, amounting to 12.4% of total income in 2016.

Table 11.4 Income from services provided by Hanfa under special acts in 2016  
(in HRK thousand)

Income generated under the Ordinance on the type and amount of fees and administrative charges paid to Hanfa	Amount in HRK thousand	Share in total income (in %)
Income generated under the Insurance Act	2,604	4.90%
Income generated under the Act on the Takeover of Joint-Stock Companies	1,196	2.25%
Income generated under the Capital Market Act	975	1.84%
Income generated under the Act on Open-Ended Investment Funds with Public Offering	458	0.86%
Income generated under the Alternative Investment Funds Act	241	0.45%
Income generated under the Leasing Act	223	0.42%
Income generated under the Factoring Act	272	0.51%
Income generated under the Mandatory Pension Funds Act, the Voluntary Pension Funds Act and the Act on Pension Insurance Companies	165	0.31%
Income generated from the Register of Leased Assets	109	0.21%
Income from fees for educational programmes and examinations for brokers, investment advisors, pension fund managers and managers of pension insurance companies	252	0.47%
Income generated under the Act on the Croatian Financial Services Supervisory Agency (issuing opinions and copies)	80	0.15%
<b>Total</b>	<b>6,575</b>	<b>12.38%</b>

Source: Hanfa

213 Official Gazette, No 19/14

214 Official Gazette, No 22/14

215 Official Gazette, No 153/13

216 Official Gazette, No 141/13

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

218 Official Gazette, No 54/13

In 2016, Hanfa charged the highest amount of fees for services provided within its scope of competence under the Insurance Act, mostly based on verification of expert knowledge and granting authorisations and approvals for conducting insurance representation and brokerage business.

### **11.2.2 Expenditure**

Hanfa's operational expenditure in 2016 amounted to HRK 48.2m, 7.0% more in relation to total expenditure in 2015.

The largest share in expenditure was accounted for by the expenditure for employees (67.6%). Expenses for employees amounted to HRK 32.6m. The average number of employees in 2016 at the end of the reporting period was 154.

Material expenditure made up the next most significant item in Hanfa's total expenditure, amounting to HRK 13.5m i.e. 27.9% of total expenses. In 2016, Hanfa recorded 5.5% more material expenditure in relation to 2015, amounting to HRK 703,000.

Membership fees paid to European supervisory bodies ESMA and EIOPA made up a significant item in material expenditure. Costs of membership fees paid to ESMA and EIOPA amounted to HRK 4.9m, which is 30% more than in 2015, when they amounted to HRK 3.8m. The increase in mandatory membership fees is the result of increased budgets of the above-mentioned bodies in 2016, which also led to an increase in Hanfa expenditures. These costs, excluding other expenses related to the participation of Hanfa in the work of European supervisory authorities (obligatory attendance of meetings, participation in the preparation of regulations etc.) made up 36.3% of material expenditure and 10.2% of total expenditure in 2016.

Depreciation costs amounted to HRK 1.3m, increasing by HRK 171,000 relative to 2015. Depreciation costs increased by 15% due to implementation of IT projects that continued in 2016, coupled with the acquisition of amortised long-term assets.

On the basis of reported data on total revenues and expenditures, Hanfa recorded surplus income over expenditure in the amount of HRK 4.8m.

Pursuant to the provisions of the Act on the Croatian Financial Services Supervisory Agency, surplus income over expenditure shall be paid into the state budget at the end of the year, so the surplus income realised in 2016 was paid into the state budget of the Republic of Croatia.

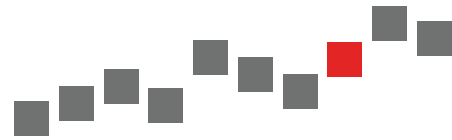
On the basis of the provisions of the Act on Financial Operations and Accounting of Non-Profit Organisations, an external audit of Hanfa's 2016 financial statements was carried out, and the Independent Auditor's Report was published on Hanfa's website.

### **11.3 Meetings of the Board and of the Council**

In 2016, the Council issued 1346 decisions on a total of 87 meetings, 54 of them being regular and 33 being emergency meetings.

The Council is Hanfa's advisory body, established pursuant to Article 11 of the Act on the Croatian Financial Services Supervisory Agency. The Council consists of nine members, three of them being appointed by the Government of the Republic of Croatia and five by representatives of associations of supervised entities at the Croatian Chamber of Economy. The President of Hanfa's Board is a member of the Council by virtue of his office.

In 2016, the Council held three meetings: on 8 March, 20 September and 22 November, where the Council, in accordance with its competence under Article 12 of the Act on the Croatian Financial Services Supervisory Agency, provided opinions and expert advice, for the purpose of improving the supervisory practice. The fourth meeting did not take place because of a lack of a quorum. Members of the Council were appointed by the Croatian Government on 24 November 2016, replacing the members whose term expired on 22 March 2016.



# Appendices



## 12 Appendices

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

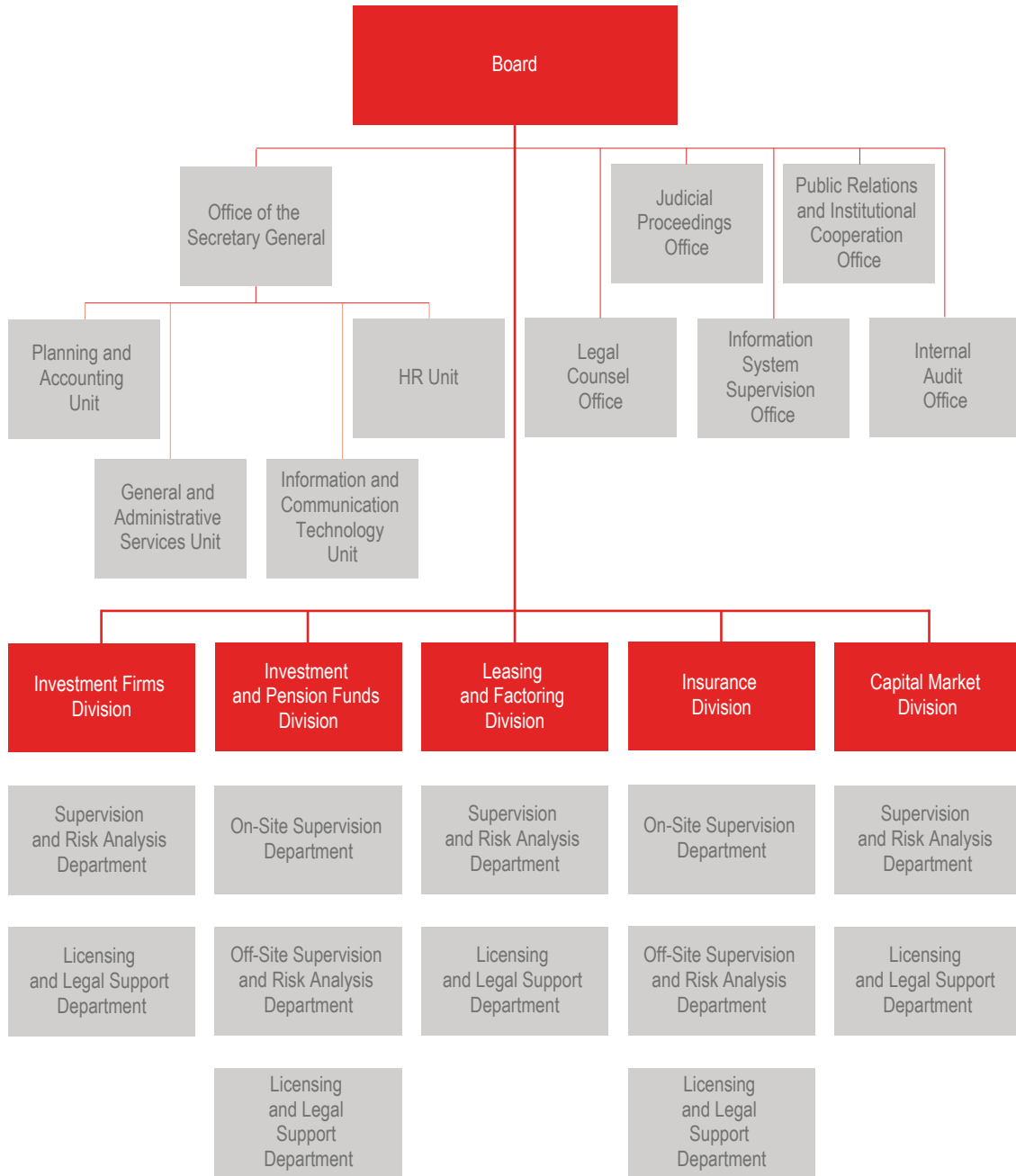
Members of Hanfa's Board as at 31 December 2016:

Petar-Pierre Matek (President)  
Mario Radaković (Deputy President)  
Branka Bjedov Kostelac  
Silvana Božić  
Gordana Letica

Members of Hanfa's Council as at 31 December 2016:

Boris Galić (President of the Council), representative of the Insurers Association at the Croatian Chamber of Commerce  
Petar-Pierre Matek, President of the Board, Croatian Financial Services Supervisory Agency  
Eugen Paić-Karega, representative of the Association of Leasing Companies at the Croatian Chamber of Commerce  
Ivan Tadin, representative of the Association of operation and brokerage in financial markets at the Croatian Chamber of Commerce  
Josip Glavaš, Chairman of the Board, representative of the Association of Investment Funds Management Companies at the Croatian Chamber of Commerce  
Damir Grbavac, representative of the Association of pension companies and pension insurance companies at the Croatian Chamber of Commerce  
Danka Mihaljević, Head of State Budget Exercise Division at the Ministry of Finance  
Ivana Ravlić Ivanović, Head of Financial System Division at the Ministry of Finance  
Stipe Župan, Head of Department for Macroeconomic and Fiscal Analyses at the Ministry of Finance

**Internal structure:**



## **Appendix 2: List of ordinances adopted in 2016**

### **Capital market**

1. Ordinance on reporting actual or potential infringements of Regulation (EU) No 596/2014 of the European Parliament and the Council (Official Gazette, No 60/2016)
2. Ordinance repealing the Ordinance on the form, type and number of copies of mandatory attachments to the application for the approval of the prospectus and on mandatory content of the application (Official Gazette, No 67/16)
3. Ordinance on the structure and contents of annual financial statements of the stock exchange (Official Gazette, No 41/16)
4. Ordinance on the structure and contents of annual financial statements of the central clearing and depository company (Official Gazette, No 41/16)
5. Ordinance on the structure and contents of semi-annual and annual financial statements of the Investor Protection Scheme (Official Gazette, No 41/16)

### **Investment firms**

1. Ordinance on the structure and contents of annual financial statements of investment firms (Official Gazette, No 39/16)

### **Open-ended investment funds with public offering**

1. Ordinance on permitted investments and investment limitations relating to UCITS (Official Gazette, No 110/16)
2. Ordinance on notification as regards the marketing of units of UCITS in another Member State (Official Gazette, No 108/16)
3. Ordinance on delegating activities of UCITS management companies (Official Gazette, No 108/16)
4. Ordinance on master and feeder UCITS (Official Gazette, No 108/16)
5. Ordinance on marketing and other information for investors in UCITS (Official Gazette, No 102/16)
6. Ordinance on determining the net asset value of UCITS and the price of UCITS units (Official Gazette, No 69/16)
7. Ordinance on the structure and contents of financial statements and other reports of UCITS management companies (Official Gazette, No 100/13) 21. 39/16)
8. Ordinance on the structure and contents of annual and semi-annual reports and other reports of UCITS (Official Gazette, No 39/16)

### **Alternative investment funds**

1. Ordinance on the structure and contents of annual and semi-annual financial statements and other reports of AIFMs (Official Gazette, No 40/16)
2. Ordinance on the structure and contents of annual and semi-annual reports and other reports of alternative investment funds (Official Gazette, No 40/16)

### **Mandatory pension funds**

1. Ordinance on the structure and content of financial statements and other reports of pension companies managing mandatory pension funds (Official Gazette, No 40/16)
2. Ordinance on annual, quarterly and other reports of mandatory pension funds (Official Gazette, No 40/16)

3. Ordinance amending the Ordinance on determining the net asset value and the value of accounting units of mandatory pension funds (Official Gazette, No 7/16)

#### **Voluntary pension funds**

1. Ordinance on the structure and content of financial statements and other reports of pension companies managing voluntary pension funds (Official Gazette, No 40/16)
2. Ordinance on annual, semi-annual and other reports of voluntary pension funds (Official Gazette, No 40/16)
3. Ordinance amending the Ordinance on determining the net asset value and the price of units in voluntary pension funds (Official Gazette, No 7/16)

#### **Pension insurance companies**

1. Ordinance on intervention provisions of pension insurance companies (Official Gazette, No 121/16)
2. Ordinance on the structure and contents of financial statements and additional reports of pension insurance companies (Official Gazette, No 37/16)
3. Ordinance amending the Ordinance on the structure and contents of financial statements and additional reports of pension insurance companies (Official Gazette, No 121/16)
4. Ordinance on the requirements for professional training and examination of professional knowledge required to perform duties of the certified actuary (Official Gazette, No 7/16)
5. Ordinance amending the Ordinance on minimum standards, manner of calculating and criteria for calculating technical provisions of the pension insurance company (Official Gazette, No 45/16)
6. Ordinance amending the Ordinance on minimum standards, manner of calculating and criteria for calculating technical provisions of the pension insurance company (Official Gazette, No 121/16)
7. Ordinance amending the Ordinance on pension insurance companies' pension scheme offer (Official Gazette, No 91/16)
8. Ordinance amending the Ordinance on regular reports of the pension insurance company (Official Gazette, No 91/16)
9. Ordinance amending the Ordinance on capital adequacy of the pension insurance company (Official Gazette, No 121/16)
10. Ordinance amending the Ordinance on marketing activities and website of the pension insurance company (Official Gazette, No 91/16)
11. Ordinance amending the Ordinance on the content and manner of keeping the register of pension insurance companies (Official Gazette, No 91/16)

#### **Supplementary pension purchase companies**

1. Ordinance on the accounting of the supplementary pension purchase companies (Official Gazette, No 37/16)

#### **Insurance**

1. Ordinance on the audit in the insurance company (Official Gazette, No 78/16)
2. Ordinance on additional requirements for small insurance companies (Official Gazette, No 72/16)
3. Ordinance on the structure and contents of financial statements and additional reports of insurance companies and reinsurance companies (Official Gazette, No 37/16)
4. Ordinance on the structure and contents of financial statements and statistical reports of persons authorised to carry out insurance agents activities or insurance and reinsurance brokerage activities (Official Gazette, No 37/16)

5. Ordinance on the classification of risk types according to groups and classes of insurance and reinsurance business (Official Gazette, No 23/16)
6. Ordinance amending the Ordinance on the classification of risk types according to groups and classes of insurance and reinsurance business (Official Gazette, No 27/16)
7. Ordinance on statistical standards of insurance business (Official Gazette, No 23/16)
8. Ordinance amending the Ordinance on statistical standards of insurance business (Official Gazette, No 27/16)
9. Ordinance on the contents of planned reinsurance programme (Official Gazette, No 23/16)
10. Ordinance amending the Ordinance on the contents of planned reinsurance programme (Official Gazette, No 27/16)
11. Ordinance on the requirements for professional training and examination of professional knowledge required to obtain authorisation to carry out insurance agents activities or insurance and reinsurance brokerage activities (Official Gazette, No 16/16)
12. Ordinance on registers of persons authorised to conduct insurance agents activities and insurance and reinsurance brokerage activities (Official Gazette, No 16/16)
13. Ordinance on the content of regular reports and reports submitted at the request of the Croatian Financial Services Supervisory Agency (Official Gazette, No 13/16)
14. Ordinance amending the Ordinance on the content of regular reports and reports submitted at the request of the Croatian Financial Services Supervisory Agency (Official Gazette, No 91/16)
15. Ordinance on minimum standards, manner of calculating and criteria for calculating technical provisions of the pension insurance company (Official Gazette, No 10/16)
16. Ordinance on detailed rules and criteria for taking account of gender (Official Gazette, No 10/16)
17. Ordinance on documentation for outsourcing activities or functions of insurance or reinsurance companies (Official Gazette, No 7/16)
18. Ordinance amending the Ordinance on documentation for outsourcing activities or functions of insurance or reinsurance companies (Official Gazette, No 91/16)
19. Ordinance on requirements for membership in management and supervisory boards of insurance or reinsurance companies (Official Gazette, No 7/16)
20. Ordinance on requirements for persons performing key functions in insurance or reinsurance companies (Official Gazette, No 7/16)
21. Ordinance on requirements for issuing authorisations to acquire a qualifying holding in insurance or reinsurance companies (Official Gazette, No 7/16)
22. Ordinance amending the Ordinance on requirements for issuing authorisations to acquire a qualifying holding in insurance or reinsurance companies (Official Gazette, No 91/16)
23. Ordinance on the content of the application and documentation submitted along with the application for issuing authorisation to carry out status changes of insurance and reinsurance companies (Official Gazette, No 7/16)
24. Ordinance amending the Ordinance on the content of the application and documentation submitted along with the application for issuing authorisation to carry out status changes of insurance and reinsurance companies (Official Gazette, No 91/16)
25. Ordinance on other services provided by insurance agencies (Official Gazette, No 97/13)
26. Ordinance on additional services provided by insurance and reinsurance brokerage companies (Official Gazette, No 7/16)
27. Ordinance on technical and organisational requirements for conducting insurance agents activities at vehicle roadworthiness test garages (Official Gazette, No 7/16)

28. Ordinance on requirements for professional training and examination of professional knowledge required to perform duties of the certified actuary (Official Gazette, No 7/16)
29. Ordinance on the content of the application for authorisation do transfer or accept the insurance portfolio of the insurance or reinsurance company (Official Gazette, No 7/16)
30. Ordinance amending the Ordinance on the content of the application for authorisation do transfer or accept the insurance portfolio of the insurance or reinsurance company (Official Gazette, No 91/16)

### **Leasing**

1. Ordinance on the contents of leasing companies' regular reports and reports submitted at the request of the Croatian Financial Services Supervisory Agency and on the manner of and time limits for their submission (Official Gazette, No 57/16)
2. Ordinance on the structure and contents of financial statements and additional reports of leasing companies and on the manner of and time limits for their submission (Official Gazette, No 41/16)
3. Ordinance amending the Ordinance on the audit of leasing companies' reports (Official Gazette, No 57/16)
4. Ordinance amending the Ordinance on the application of the provisions of the Leasing Act and other regulations to leasing companies in liquidation (Official Gazette, No 57/16)

### **Factoring**

1. Ordinance amending the Ordinance on financial statements and additional reports and on the chart of accounts of factoring companies (Official Gazette, No 61/16)

### **Hanfa**

1. Ordinance amending the Ordinance on the calculation, level and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2016 (Official Gazette, No 36/16 and 75/16)
2. Ordinance on the calculation, level and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2017 (Official Gazette, No 121/16)

## Appendix 3: Hanfa's financial reports

Table 3.1: Hanfa's balance sheet as at 31/12/2016 (in HRK)

Account from the chart of accounts	ITEM	Balance as at 1 January	Balance as at 31 December	Index (4/3)
1	2	3	4	5
<b>ASSETS</b>				
	<b>ASSETS</b>	<b>33,359,374</b>	<b>33,237,066</b>	<b>99.6</b>
<b>0</b>	<b>Non-financial assets</b>	<b>5,603,159</b>	<b>7,095,154</b>	<b>126.6</b>
<b>01</b>	<b>Non-produced fixed assets</b>	<b>193,128</b>	<b>166,763</b>	<b>86.3</b>
011	Tangible assets – natural resources	0	0	-
012	Intangible assets	1,653,812	1,705,557	103.1
0123	Licences	1,438,504	1,483,250	103.1
0124	Other rights	157,241	164,241	104.5
0128	Other intangible assets	58,067	58,066	100.0
019	Value adjustment for non-produced fixed assets	1,460,684	1,538,794	105.3
<b>02</b>	<b>Produced fixed assets</b>	<b>4,817,633</b>	<b>6,894,157</b>	<b>143.1</b>
021	Buildings	3,564,810	3,564,810	100.0
0212	Commercial buildings	3,450,670	3,450,670	100.0
0213	Other buildings	114,140	114,140	100.0
022	Plant and equipment	6,649,742	6,968,684	104.8
0221	Office equipment and furniture	5,448,307	6,066,936	111.4
0222	Telecommunications equipment	398,318	80,736	20.3
0223	Maintenance and security equipment	675,308	685,883	101.6
0225	Instruments and machines	23,137	30,123	130.2
0227	Machines and equipment for other purposes	104,672	105,006	100.3
023	Means of transportation	1,043,102	957,770	91.8
0231	Means of transportation in road traffic	1,043,102	957,770	91.8
024	Books, artwork and other exhibition valuables	167,044	167,044	100.0
0242	Work of arts (in galleries, museums etc.)	167,044	167,044	100.0
025	Permanent crops and breeding livestock	0	0	-
026	Intangible produced assets	717,780	3,013,644	419.9
0261	Software investments	717,780	3,013,644	419.9
029	Value adjustment for produced fixed assets	7,324,845	7,777,795	106.2
<b>03</b>	<b>Precious metals and other valuables</b>	<b>0</b>	<b>0</b>	<b>-</b>
<b>04</b>	<b>Small inventories</b>	<b>0</b>	<b>0</b>	<b>-</b>
042	Small inventories in use	289,259	297,011	102.7
049	Value adjustment for small inventory	289,259	297,011	102.7
<b>05</b>	<b>Non-financial assets under construction</b>	<b>574,605</b>	<b>0</b>	<b>0.0</b>
052	Plant and equipment under construction	574,605	0	0.0
<b>06</b>	<b>Produced current assets</b>	<b>17,793</b>	<b>34,234</b>	<b>192.4</b>
061	Inventories for the pursuit of activities	17,793	34,234	192.4
0612	Inventories of materials for regular needs	17,793	34,234	192.4

Account from the chart of accounts	ITEM	Balance as at 1 January	Balance as at 31 December	Index (4/3)
1	2	3	4	5
062	Production and products	0	0	-
063	Goods for resale	0	0	-
<b>1</b>	<b>Financial assets</b>	<b>27,756,215</b>	<b>26,141,912</b>	<b>94.2</b>
11	Cash at bank and in hand	6,285,298	8,328,146	132.5
111	Cash at bank	6,279,520	8,326,671	132.6
1111	Cash in the account with domestic commercial banks	6,279,520	8,326,671	132.6
112	Allocated funds	0	0	-
113	Cash in hand	5,778	1,475	25.5
114	Securities in hand	0	0	-
12	Deposits, guarantee deposits and receivables from employees, for prepayments made regarding taxes and other	21,082,053	17,104,733	81.1
121	Deposits with banks and other financial institutions	21,000,000	17,000,000	81.0
1211	Deposits with domestic banks and other financial institutions	21,000,000	17,000,000	81.0
122	Guarantee deposits	0	0	-
123	Receivables from employees	2,773	705	25.4
124	Receivables for prepayments made regarding taxes and contributions	1,195	0	0.0
1241	Receivables for prepayments made regarding taxes	1,195	0	0.0
129	Other receivables	78,085	104,028	133.2
1291	Receivables for remuneration refunded	6,956	25,705	369.5
1293	Receivables for advance payments	13,806	21,000	152.1
1294	Other receivables	57,323	57,323	100.0
13	Loans	0	0	-
14	Securities	0	0	-
15	Shares and participations in equity	0	0	-
16	Income receivables	0	0	-
19	Prepayments and accrued income	388,864	709,033	182.3
191	Prepayments	268,825	452,672	168.4
192	Accrued income	120,039	256,361	213.6
<b>LIABILITIES AND OWN SOURCES</b>				
	<b>LIABILITIES AND OWN SOURCES</b>	<b>33,359,374</b>	<b>33,237,066</b>	<b>99.6</b>
<b>2</b>	<b>Liabilities</b>	<b>5,679,059</b>	<b>8,535,957</b>	<b>150.3</b>
24	Liabilities for expenses	5,291,308	7,006,517	132.4
241	Liabilities for employees	3,666,545	4,890,870	133.4
2411	Liabilities for salaries – net	1,223,695	2,249,996	183.9
2412	Liabilities for salary compensation – net	135,676	155,403	114.5

Account from the chart of accounts	ITEM	Balance as at 1 January	Balance as at 31 December	Index (4/3)
1	2	3	4	5
2414	Liabilities for tax and surtax regarding salaries	303,279	264,641	87.3
2415	Liabilities for contributions from salaries	414,715	419,912	101.3
2416	Liabilities for contributions on salaries	342,490	345,660	100.9
2417	Other liabilities for employees	1,246,690	1,455,258	116.7
242	Liabilities for material expenses	1,551,893	1,466,484	94.5
2421	Remuneration of employees' costs	54,672	53,047	97.0
2424	Remuneration to other non-employed persons	2,224	0	0.0
2425	Liabilities towards domestic suppliers	1,488,518	1,254,723	84.3
2426	Liabilities towards foreign suppliers	6,479	158,714	2,449.7
244	Liabilities for financial expenses	0	403,323	-
2443	Liabilities for other financial expenses	0	403,323	-
245	Liabilities for aid collected	0	0	-
246	Liabilities for fines, penalties and damages	0	209,735	-
249	Other liabilities	72,870	36,105	49.5
2493	Liabilities for advance payments, deposits, guarantees received and other liabilities	72,870	36,105	49.5
25	Liabilities for securities	0	0	-
26	Liabilities for credits and loans	0	0	-
29	Accrued expenses and deferred income	387,751	1,529,440	394.4
291	Accrued expenses	227,552	183,918	80.8
292	Deferred income	160,199	1,345,522	839.9
2921	Accrued income	88,758	265,299	298.9
2922	Deferred income	71,441	1,080,223	1,512.0
<b>5</b>	<b>Own sources</b>	<b>27,680,315</b>	<b>24,701,109</b>	<b>89.2</b>
51	Own sources	2,512,880	2,464,040	98.1
511	Own sources	2,512,880	2,464,040	98.1
5221	Surplus income	25,167,435	22,237,069	88.4
<b>OFF-BALANCE SHEET ITEMS</b>				
61	Off-balance sheet items - assets	0	0	-
62	Off-balance sheet items - liabilities	0	0	-

Source: Hanfa

Table 3.2: Statement of Hanfa's income and expenditure for the period from 1/1/2016 to 31/12/2016 (in HRK)

Account from the chart of accounts	Item	Realised in the previous year	Realised in the reporting period	Index (4/3)
1	2	3	4	5
<b>Income</b>				
<b>3</b>	<b>INCOME</b>	<b>52,851,341</b>	<b>53,089,927</b>	<b>100.5</b>
31	Income from sale of goods and provision of services	0	0	-
32	Income from membership fees and membership contributions	0	0	-
33	Income under special regulations	52,166,110	52,324,310	100.3
3312	Income under special regulations from other sources	52,166,110	52,324,310	100.3
34	Income from assets	194,478	310,622	159.7
341	Income from financial assets	194,478	310,622	159.7
3413	Interest on time deposits and demand deposits	188,190	293,926	156.2
3415	Income from positive exchange rate differences	6,288	16,696	265.5
35	Income from donations	0	0	-
36	Other income	490,753	454,995	92.7
361	Income from damages and refunds	404,701	368,703	91.1
3611	Income from damages	33	11,219	>>100
3612	Income from refunds	404,668	357,484	88.3
362	Income from the sale of long-term assets	18,000	35,000	194.4
363	Other income not mentioned	68,052	51,292	75.4
3633	Other income not mentioned	68,052	51,292	75.4
37	Income from other non-profit organisations	0	0	-
<b>Expenses</b>				
<b>4</b>	<b>EXPENSES</b>	<b>45,080,588</b>	<b>48,249,540</b>	<b>107.0</b>
41	Expenses for employees	30,956,855	32,659,528	105.5
411	Salaries	24,459,592	25,952,915	106.1
4111	Salaries for regular work	24,344,450	25,846,273	106.2
4112	Salaries in kind	115,142	106,642	92.6
412	Other expenses for employees	2,182,726	2,412,057	110.5
413	Contributions on salaries	4,314,537	4,294,556	99.5
4131	Contributions for health insurance	3,888,469	3,870,094	99.5
4132	Employment contributions	426,068	424,462	99.6
42	Material expenses	12,799,375	13,502,486	105.5
421	Remuneration of employees' costs	1,748,555	1,738,403	99.4
4211	Business trips	573,351	509,147	88.8
4212	Remuneration of transport costs, field work and separate lives	684,001	668,327	97.7
4213	Employees' professional training	491,203	560,929	114.2

Account from the chart of accounts	Item	Realised in the previous year	Realised in the reporting period	Index (4/3)
1	2	3	4	5
422	Reimbursement of costs to members in representative and executive bodies, committees, and similar	0	0	-
423	Compensations for volunteers	0	0	-
424	Compensations for external associates	12,483	14,373	115.1
4243	Compensations for other costs	12,483	14,373	115.1
425	Expenses for services	6,280,887	5,767,955	91.8
4251	Telephone, postal and transport services	225,359	203,596	90.3
4252	Maintenance services	565,598	1,002,426	177.2
4253	Promotional and information services	300,062	95,787	31.9
4254	Public utility services	549,358	624,038	113.6
4255	Leases and rents	2,638,085	2,169,371	82.2
4256	Health care and veterinary services	69,090	49,200	71.2
4257	Intellectual and personal services	513,259	555,290	108.2
4258	IT services	558,103	162,790	29.2
4259	Other services	861,973	905,457	105.0
426	Expenses for material and energy	710,668	720,023	101.3
4261	Stationery and other material expenses	287,404	305,645	106.3
4263	Energy	402,858	397,593	98.7
4264	Small inventory and car tires	20,406	16,785	82.3
429	Other material expenses	4,046,782	5,261,732	130.0
4291	Insurance premiums	48,042	46,630	97.1
4292	Representation	77,392	87,800	113.4
4293	Membership fees	3,921,113	5,126,917	130.8
4295	Other material expenses	235	385	163.8
43	Depreciation expenses	1,137,615	1,308,548	115.0
44	Financial expenses	27,608	444,905	1,611.5
441	Interest on securities issued	0	0	-
442	Interest on loans received	0	0	-
443	Other financial expenses	27,608	444,905	1,611.5
4431	Banking and payment system services	19,348	26,989	139.5
4432	Negative exchange rate differences and currency clause	8,257	7,808	94.6
4433	Penalty interest	3	410,108	>>100
45	Donations	0	10,000	-
451	Current donations	0	10,000	-
4512	Scholarships	0	10,000	-
452	Capital donations	0	0	-
46	Other expenses	159,135	324,073	203.6
461	Fines, penalties and indemnities	0	209,735	-
4613	Indemnities for employees	0	209,735	-

Account from the chart of accounts	Item	Realised in the previous year	Realised in the reporting period	Index (4/3)
1	2	3	4	5
462	Other expenses not mentioned	159,135	114,338	71.8
4621	Net book value and other expenditure for retired and disposed long-term assets	11,607	1,546	13.3
4623	Expenses for other tax levies	2,336	3,506	150.1
4624	Other expenses	145,192	109,286	75.3
47	Expenses for funding of non-profit organizations	0	0	-
	<b>TOTAL EXPENDITURE</b>	<b>45,080,588</b>	<b>48,249,540</b>	<b>107.0</b>
	<b>EXCESS OF INCOME</b>	<b>7,770,753</b>	<b>4,840,387</b>	<b>62.3</b>
5221	Excess of income – transferred	17,396,682	17,396,682	100.0
	Excess of income available in the next period	25,167,435	22,237,069	88.4
<b>ADDITIONAL DATA</b>				
11	Cash balance at the beginning of the year	6,642,797	6,285,298	94.6
11-debt	Total inflows of cash at bank and in hand	101,613,276	71,291,410	70.2
11-receivable	Total outflows from cash at bank and in hand	101,970,775	69,248,562	67.9
11	Cash balance at the end of the year	6,285,298	8,328,146	132.5
	Income from the EU funds	0	0	-
	Average number of employees at the end of the reporting period (whole number)	152	154	101.3
	Number of volunteers' hours of work (whole number)	134	140	104.5
	Number of volunteers	0	0	-
	Number of volunteered hours	0	0	-
<b>Value of realised investments in long-term assets</b>		<b>Realised value</b>		<b>Index (4/3)</b>
		<b>in the same period last year</b>	<b>in the reporting period</b>	
1	2	3	4	5
051	Buildings in preparation	0	0	-
052	Plant and equipment in preparation	1,158,617	298,657	25.8
053	Vehicles in preparation	152,246	158,106	103.8
054	Permanent crops and livestock in preparation	0	0	-
055	Other intangible produced assets in preparation	120,375	2,295,864	1,907.3
056	Other non-financial assets in preparation	20,406	16,785	82.3
<b>Item</b>		<b>As at 1 January</b>	<b>At the end of the reporting period</b>	<b>Index (4/3)</b>
1	2	3	4	5
	Inventories	17,793	34,234	192.4

Source: Hanfa

## Appendix 4: Statistical overview

### 4.1 Pension funds

Table A1: Statement of financial position of pension companies (in HRK thousand)

Item	31 Dec 2015	Share (in %)	31 Dec 2016	Share (in %)
I. Financial assets	640,190	86.79	627,979	86.64
II. Receivables	39,486	5.35	41,811	5.77
III. Prepayments and accrued income	1,730	0.23	1,654	0.23
IV. Deferred tax assets	5,503	0.75	3,378	0.47
VI. Property, plant and equipment	6,674	0.90	6,577	0.91
VI. Investment in real estate	0	0.00	0	0.00
VII. Intangible assets	9,749	1.32	8,705	1.20
VIII. Other assets	34,315	4.65	33,144	4.57
<b>Total assets</b>	<b>737,646</b>	<b>100.00</b>	<b>724,800</b>	<b>100.00</b>
Capital and reserves	657,955	89.20	661,939	91.33
I. Subscribed capital	401,800	54.47	401,800	55.44
II. Capital reserves	4,490	0.61	4,490	0.62
III. Reserves	9,972	1.35	9,972	1.38
IV. Revaluation reserves	2,197	0.30	6,652	0.92
V. Retained earnings or accumulated loss	40,272	5.46	50,781	7.01
VI. Profit or loss of the current year	199,224	27.01	188,244	25.97
Liabilities	45,264	6.14	19,126	2.64
Reserves	7,673	1.04	12,797	1.77
Accruals and deferred income	26,132	3.54	29,460	4.06
Deferred tax liabilities	622	0.08	1,477	0.20
<b>Total liabilities</b>	<b>737,646</b>	<b>100.00</b>	<b>724,800</b>	<b>100.00</b>

Source: Hanfa

Table A2: Statement of comprehensive income of pension companies (in HRK thousand)

Item	2015	2016
Income from fund management	433,244	447,893
Fee from paid contributions	49,882	394,489
Fee from total assets of the pension fund	383,317	53,383
Exit fee	45	21
Bonus payment	0	0
Expenses on fund management	108,533	116,217
Transaction costs	210	233
Marketing costs	5,853	6,514
Sales agent costs	30,181	34,869
Other pension fund management costs	72,290	74,601
Profit from fund management	324,710	331,676

Item	2015	2016
Operating expenses	97,113	109,557
Material costs	1,517	1,584
Staff costs	48,262	58,251
Depreciation and adjustment of value of other assets	5,833	5,756
Provisions	0	0
Other operating expenses	41,502	43,965
Profit from regular business activities	227,598	222,120
Net financial result	17,514	12,758
Other income and expenses	4,276	1,473
Pre-tax profit	249,387	236,350
Profit tax	50,163	48,106
Profit	199,224	188,244
Other comprehensive income	-1,149	4,455
Total comprehensive income	198,075	192,699

Corrected data are available on p. 196.

Source: Hanfa

Table A3: Statement of financial position of the pension insurance company as at 31/12/2015 and 31/12/2016 (in HRK)

Item label	Item	31 Dec 2015	31 Dec 2016	Change (in %)
<b>Assets</b>				
A	Intangible assets	435,380	289,944	-33.4
B	Tangible assets	127,739	91,432	-28.4
C	Investments	426,700,679	443,638,193	4.0
D	Deferred and current tax assets	53,272	536,610	907.3
E	Receivables	13,868	23,392	68.7
F	Other assets	10,966,332	19,403,683	76.9
G	Prepayments and accrued income	42,361	90,030	112.5
H	Total assets	438,339,630	464,073,284	5.9
<b>Liabilities</b>				
A	Capital and reserves	43,868,072	39,267,142	-10.5
B	Subordinate liabilities			
C	Minority interest			
D	Technical provisions	371,009,414	394,850,045	6.4
E	Reservations	7,279,011	8,620,138	18.4
F	Financial liabilities		27,866	
G	Deferred and current tax liabilities	952,338		-100.0
H	Other liabilities	334,967	458,055	36.7
I	Accruals and deferred income	14,895,828	20,850,038	40.0
J	Total liabilities	438,339,630	464,073,284	5.9

Source: Hanfa

Table A4: Statement of comprehensive income of the pension insurance company for 2015 and 2016 (in HRK)

Item label	Item	2015	2016	Change (in %)
I	Income from payments of pension companies, lump sum payments and payments of other persons	147,393,416	121,571,387	-17.5
II	Income from investments	107,778,793	95,623,563	-11.3
III	Income from fees and commissions			
IV	Other income	138,542	1,774	-98.7
V	Expenses arising from pension contracts	-152,738,259	-143,820,986	-5.8
VI	Operating expenses	-6,295,183	-6,447,572	2.4
VII	Investment expenses	-87,878,541	-62,970,653	-28.3
VIII	Other expenses	-457,556		-
IX	Pre-tax profit or loss of the accounting period	7,941,212	3,957,513	-50.2
X	Profit tax	-1,583,836	-785,685	-50.4
XI	Profit or loss of the accounting period	6,357,376	3,171,828	-50.1

Source: Hanfa

## 4.2 Investment funds

Table B1: Statement of financial position of investment fund management companies (in HRK thousand)

Item	31 Dec 2015	Share (%)	31 Dec 2016	Share (%)
Property, plant and equipment	1,938	0.65	2,224	0.71
Investment in real estate	0	0.00	0	0.00
Intangible assets	3,005	1.00	5,709	1.81
Financial assets	229,754	76.56	242,130	76.80
Receivables	61,508	20.50	60,950	19.33
Prepayments and accrued income	1,919	0.64	1,760	0.56
Deferred tax assets	406	0.14	551	0.17
Other assets	1,559	0.52	1,967	0.62
<b>Total assets</b>	<b>300,088</b>	<b>100.00</b>	<b>315,290</b>	<b>100.00</b>
Capital and reserves	238,483	79.47	249,696	79.20
Liabilities	50,767	16.92	52,832	16.76
Provisions	2,001	0.67	2,087	0.66
Accruals and deferred income	8,201	2.73	10,074	3.20
Deferred tax liabilities	637	0.21	602	0.19
<b>Total assets</b>	<b>300,088</b>	<b>100.00</b>	<b>315,290</b>	<b>100.00</b>

Source: Hanfa

Table B2: Statement of comprehensive income of investment fund management companies  
(in HRK thousand)

Item	31 Dec 2015	31 Dec 2016
I. Income from investment fund management fees	225,372	245,838
II. Investment fund management expenses	76,838	84,765
Net result from investment fund management fees	148,534	161,073
III. Net income from portfolio management	10,399	11,432
IV. Income from provision of investment advice	125	125
V. Financial income and expenses	11,708	4,916
VI. General and administrative operational expenses	103,361	103,456
VII. Depreciation and value adjustment of other assets	3,812	2,432
VIII. Provisions	98	823
IX. Other income and operational expenses	3,456	3,152
X. Pre-tax profit or loss	66,952	73,986
XI. Profit tax	13,869	14,983
XII. Profit or loss	53,083	59,005
XIII. Other comprehensive income	-5,268	2,401
XIV. Total comprehensive income	47,814	61,404

Source: Hanfa

### 4.3 Insurance

Table C1: Abbreviated statement of financial position (balance sheet) of insurance companies and reinsurance companies (in HRK thousand)

	31 Dec 2015			31 Dec 2016		
	Life	Non-life	Total	Life	Non-life	Total
Intangible assets	26,231	74,888	101,119	26,078	80,711	106,789
Tangible assets	159,701	1,569,927	1,729,628	142,077	1,422,501	1,564,577
Investments	18,787,789	12,106,434	30,894,223	19,905,456	12,266,476	32,171,932
Investments for the account and risk of policyholders	930,158	0	930,158	1,320,699	0	1,320,699
Share of reinsurance in technical provisions	398,926	1,159,477	1,558,403	404,234	925,992	1,330,225
Deferred and current tax assets	22,331	215,844	238,176	13,116	153,371	166,487
Receivables	224,870	2,095,469	2,320,339	198,847	2,032,929	2,231,777
Other assets	202,136	191,301	393,437	349,363	276,489	625,852
Prepayments and accrued income	146,110	238,068	384,178	16,128	322,458	338,586
<b>Total assets</b>	<b>20,898,252</b>	<b>17,651,408</b>	<b>38,549,660</b>	<b>22,375,997</b>	<b>17,480,927</b>	<b>39,856,925</b>

	31 Dec 2015			31 Dec 2016		
	Life	Non-life	Total	Life	Non-life	Total
Capital and reserves	2,630,874	5,733,267	8,364,141	3,079,223	5,998,793	9,078,016
Subordinated liabilities	6,108	37,304	43,412		21,116	21,116
Minority interest						
Technical provisions	16,468,326	9,604,935	26,073,262	16,874,052	9,168,637	26,042,689
Special provisions for life insurance policies where the investment risk is borne by the policyholder, gross amount	928,563		928,563	1,317,131		1,317,131
Other provisions	41,446	141,348	182,794	40,306	154,319	194,625
Deferred and current tax liabilities	146,633	235,792	382,425	184,973	278,822	463,795
Deposits held under reinsurance business ceded	383,747	91,869	475,616	391,860	90,210	482,070
Financial liabilities	1,395	122,584	123,979	87,114	171,257	258,371
Other liabilities	244,835	1,150,035	1,394,870	346,764	1,064,959	1,411,723
Accruals and deferred income	46,325	534,273	580,598	54,574	532,815	587,388
<b>Total liabilities</b>	<b>20,898,252</b>	<b>17,651,408</b>	<b>38,549,660</b>	<b>22,375,997</b>	<b>17,480,927</b>	<b>39,856,925</b>

Source: Hanfa

Table C2: Abbreviated statement of comprehensive income (profit and loss account) of insurance companies and reinsurance companies (in HRK thousand)

	1 Jan 2015 - 31 Dec 2015			1 Jan 2016 - 31 Dec 2016		
	Life	Non-life	Total	Life	Non-life	Total
I. Earned premiums	2,845,988	4,851,771	7,697,759	2,835,960	4,797,917	7,633,878
II. Income from investments	1,030,143	599,381	1,629,524	1,052,165	644,443	1,696,608
III. Income from fees and commissions	19,395	187,453	206,849	10,399	189,253	199,652
IV. Other insurance/technical income, net amount from reinsurance	3,615	43,543	47,158	3,582	57,189	60,772
V. Other income	15,365	84,908	100,273	6,811	85,456	92,266
VI. Costs for insured events, net amount	-1,611,792	-2,461,466	-4,073,258	-1,792,552	-2,314,794	-4,107,346
VII. Changes in mathematical provisions and other technical provisions, net amount from reinsurance	-995,479	28,283	-967,196	-426,626	56,884	-369,742

	1 Jan 2015 - 31 Dec 2015			1 Jan 2016 - 31 Dec 2016		
	Life	Non-life	Total	Life	Non-life	Total
VIII. Changes in special provisions for insurance policies where the investment risk is borne by the policyholder, net amount from reinsurance (+/-)	0	-309	-309	0	-11,042	-11,042
IX. Costs for returns of premiums (bonuses and rebates), net amount from reinsurance	-776,116	-2,520,598	-3,296,713	-755,888	-2,504,545	-3,260,433
X. Operating expenses, net amount	-194,409	-210,496	-404,905	-282,989	-185,349	-468,338
XI. Investment expenses	-6,689	-145,166	-151,856	-7,407	-123,245	-130,652
XII. Other technical expenses, net amount from reinsurance	-13,551	-40,230	-53,780	-10,236	-132,438	-142,674
XIII. Other expenses, including value adjustments	257,449	417,075	674,524	247,641	559,729	807,370
XIV. Pre-tax profit or loss of the accounting period (+/-)	-52,301	-101,917	-154,218	-50,010	-149,402	-199,411
XV. Profit or loss	205,148	315,158	520,306	197,631	410,328	607,958
XVI. After-tax profit or loss of the accounting period (+/-)	3,913,877	5,742,030	9,655,908	3,910,652	5,733,176	9,643,828
<b>XVII. Total income</b>	<b>-3,708,729</b>	<b>-5,426,872</b>	<b>-9,135,601</b>	<b>-3,713,021</b>	<b>-5,322,849</b>	<b>-9,035,870</b>
<b>XVIII. Total expenses</b>	<b>-87,500</b>	<b>-35,016</b>	<b>-122,516</b>	<b>282,846</b>	<b>76,448</b>	<b>359,294</b>
XIX. Other comprehensive income	117,648	280,142	397,790	480,477	486,776	967,253
XX. Total comprehensive income	0	0	0	0	0	0
XXI. Reclassification adjustments	0	0	0	0	0	0

Source: Hanfa

## 4.4 Leasing

Table D1: Total assets of leasing companies (in HRK thousand)

Item / date	31 Dec 2015	31 Dec 2016
Fixed assets	13,125,494	13,439,210
Intangible assets	10,604	13,094
Tangible assets	5,181,885	5,041,859
Tangible assets in preparation (investments in progress)	12,516	20,030
Tangible assets leased out under operating lease	4,865,000	4,785,435
Property	750,192	655,437
Passenger cars	2,959,085	3,022,606
Commercial vehicles	520,278	609,079
Vessels	312,170	270,245
Aircraft	6,158	0
Plant, machinery, transport machines and equipment	315,500	227,033
Other	1,618	1,034
Other tangible assets	64,871	45,997
Assets loaned and rented	239,497	190,396
Long-term financial assets	276,374	421,122
Investments in branches, associates and joint ventures	156,623	380,499
Investment in long-term securities	85,522	26,474
Long term loans	30,253	11,199
Long term deposits	3,024	654
Other long-term financial assets	952	2,296
Long-term receivables	7,522,593	7,837,336
Receivables under finance lease	7,311,599	7,536,948
Other long-term receivables	210,994	300,388
Deferred tax assets	134,037	125,799
Short-term assets	4,422,434	4,378,252
Inventories	521,579	308,427
Short-term receivables	3,267,778	3,517,638
Receivables under operating lease	174,127	166,397
Receivables under finance lease	2,890,015	3,144,446
State and other institutions receivables	47,022	69,717
Other short-term receivables	156,614	137,078
Short-term financial assets	318,920	201,077
Investments in branches, associates and joint ventures	0	0
Investments in securities	28	0
Loans granted	114,232	59,671
Deposits given	197,157	139,021
Other short-term financial assets	7,503	2,384
Cash at bank and in hand	314,158	351,110
Prepayments and accrued income	78,323	87,123
<b>Total assets</b>	<b>17,626,251</b>	<b>17,904,585</b>
Off-balance sheet items	10,005,047	8,967,633

Source: Hanfa

Table D2: Total liabilities of leasing companies (in HRK thousand)

Item / date	31 Dec 2015	31 Dec 2016
Capital and reserves	1,815,507	2,212,487
Initial capital	1,058,904	544,448
of which owned by non-residents	927,649	428,951
Other reserves	-19,435	-15,595
Capital reserves	5,304,863	5,272,259
Retained profit/loss brought forward	-3,786,727	-4,031,683
Profit/loss for the year	-742,099	443,058
Provisions	132,858	99,687
Long-term liabilities	10,143,793	11,524,247
Foreign banks and financial institutions long-term credits and loans	7,958,209	9,772,935
Domestic banks and financial institutions long-term credits and loans	1,104,979	1,463,334
Liabilities for advances in respect of lease	8,510	9,406
Liabilities for deposits and guarantees in respect of lease	318,486	262,952
Liabilities for issued securities	0	0
Other long-term liabilities	743,540	11,809
Deferred tax liability	10,069	3,812
Short-term liabilities	5,226,531	3,706,293
Foreign banks and financial institutions credits and loans	4,088,287	2,698,421
Domestic banks and financial institutions credits and loans	786,261	660,903
Liabilities for short-term securities	2,311	1,549
Liabilities for advances in respect of lease	38,323	45,317
Liabilities for deposits and guarantees in respect of lease	115,546	88,980
Other short-term liabilities	195,804	211,123
Accruals and deferred income	307,562	361,871
<b>Total liabilities</b>	<b>17,626,251</b>	<b>17,904,585</b>
Off-balance sheet items	10,005,047	8,967,633
Capital and reserves	373,982	417,530
Attributable to owners of the parent	373,982	417,530
Attributable to non-controlling interests	0	0

Source: Hanfa

Table D3: Statement of comprehensive income of leasing companies (in HRK thousand)

Item/date	1 Jan-31 Dec 2015	1 Jan-31 Dec 2016
Interest income	573,185	544,542
Interest income – finance lease	534,591	515,214
Interest income – loans granted	9,519	8,211
Other interest income	29,075	21,117
Interest expenses	319,462	268,769
Interest expenses on credits from domestic banks and financial institutions	79,468	62,259
Interest expenses on credits from foreign banks and financial institutions	225,822	186,172
Other interest expenses	14,171	20,339

Item/date	1 Jan-31 Dec 2015	1 Jan-31 Dec 2016
<b>Profit/loss on interest</b>	<b>253,723</b>	<b>275,773</b>
Profit from commissions and fees	48,917	32,288
Expenses on commissions and fees	22,604	23,004
<b>Profit/loss on commissions and fees</b>	<b>26,312</b>	<b>9,285</b>
<b>Other operating income</b>	<b>1,844,875</b>	<b>1,720,630</b>
Income from operating lease	1,446,667	1,333,782
Profit from sale of assets – operating lease	29,057	19,438
Profit from sale of assets – finance lease	16,017	23,470
Profit from reimbursable lease expenses	21,324	16,883
Profit from exchange rate differences	32,805	48,704
Other income	299,005	278,353
<b>Other operating expenses</b>	<b>1,848,226</b>	<b>1,774,517</b>
Loss on sale of assets – operating lease	24,865	12,114
Loss on sale of assets – finance lease	7,448	5,014
Loss on reimbursable lease expenses	5,396	6,280
Loss on exchange rate differences	25,915	62,134
Costs for depreciation of assets under operating lease	1,109,342	1,031,407
Costs for depreciation of other assets	22,050	17,336
Staff costs	210,260	201,818
Overheads and administrative operating costs	215,854	184,285
Other expenses	227,096	254,128
<b>Profit/loss on other income and expenses</b>	<b>-3,351</b>	<b>-53,887</b>
Profit/loss before expenses on value adjustment for impairment losses	276,684	231,170
Costs for value adjustment for impairment losses	943,129	-299,509
Profit/loss before profit tax	-666,445	530,679
Profit tax	75,654	87,621
<b>Profit/loss after profit tax</b>	<b>-742,099</b>	<b>443,058</b>
Attributable to owners of the parent	43,704	0
Attributable to non-controlling interests	0	0
Other comprehensive income	-16,757	3,840
Change in revaluation reserves (property, plant, equipment and intangible assets)	0	0
Unrealised gains/losses on financial assets available for sale	-21,889	2,948
Gains/losses on hedging instruments in a cash flow hedge	534	1,374
Actuarial gains/losses on defined benefit pension plans	326	412
Gains/losses arising from translation of financial statements relating to foreign operations	0	0
Profit tax on other comprehensive income	-4,271	894
Total comprehensive income	-758,856	446,898
Attributable to owners of the parent	43,704	43,548
Attributable to non-controlling interests	0	0
Reclassification adjustments	0	0

Source: Hanfa

Table D4: Structure of the portfolio of active lease contracts by type and by leased asset/loan

	As at	31 Dec 2015		31 Dec 2015	
	Item	Number of active contracts	Value of active contracts (outstanding contract value/ outstanding receivables) <sup>1</sup> (in HRK thousand)	Number of active contracts	Value of active contracts (outstanding contract value/ outstanding receivables) <sup>1</sup> (in HRK thousand)
Operating lease	<b>Total</b>	<b>50,998</b>	<b>3,356,963</b>	<b>46,979</b>	<b>3,201,019</b>
	Property	66	622,515	60	495,361
	Passenger cars	42,238	1,870,721	38,599	1,902,458
	Commercial vehicles	6,342	396,404	6,428	464,081
	Vessels	420	201,266	294	160,878
	Aircraft	1	0	0	0
	Plant, machinery, transport machines and equipment	1,615	264,827	1,329	177,740
	Other	316	1,230	269	501
	<b>Total</b>	<b>60,112</b>	<b>10,308,096</b>	<b>65,466</b>	<b>10,803,204</b>
Finance lease	Property	704	2,700,604	552	2,345,125
	Passenger cars	34,300	2,199,904	38,585	2,847,313
	Commercial vehicles	15,912	2,669,210	17,699	2,999,127
	Vessels	680	249,141	665	279,293
	Aircraft	2	804	2	643
	Plant, machinery, transport machines and equipment	7,453	2,378,596	7,053	2,269,459
	Other	1,061	109,836	910	62,243
	<b>Total</b>	<b>1,210</b>	<b>75,793</b>	<b>755</b>	<b>43,018</b>
Loans	Property	246	73,231	149	42,282
	Passenger cars	260	2	151	0
	Commercial vehicles	345	22	209	15
	Vessels	33	622	43	126
	Aircraft	0	0	0	0
	Plant, machinery, transport machines and equipment	326	1,917	203	595
	Other	0	0	0	0
<b>Total</b>	<b>112,320</b>	<b>13,740,852</b>	<b>113,200</b>	<b>14,047,241</b>	
Total	Property	1,016	3,396,350	761	2,882,769
	Passenger cars	76,798	4,070,627	77,335	4,749,771
	Commercial vehicles	22,599	3,065,636	24,336	3,463,223
	Vessels	1,133	451,029	1,002	440,298
	Aircraft	3	804	2	643
	Plant, machinery, transport machines and equipment	9,394	2,645,340	8,585	2,447,794
	Other	1,377	111,067	1,179	62,744

1) Accrued notional amount of the operating lease portfolio structure refers to the amount of outstanding rent (excluding VAT) on operating lease contracts; this amount does not include the residual value.

Accrued receivables refer to the outstanding amount of financing (outstanding principal) on finance lease contracts and loans, net of impairment losses.

Source: Hanfa

Table D5: Structure of newly concluded lease contracts by type and by leased asset

	Period from 1 Jan to	31 Dec 2015		31 Dec 2016	
	Item	Number of newly concluded contracts	Value of newly concluded contracts (contract/financed value) <sup>1</sup> (in HRK thousand)	Number of newly concluded contracts	Value of newly concluded contracts (contract/financed value) <sup>1</sup> (in HRK thousand)
Operating lease	<b>Total</b>	<b>17,798</b>	<b>1,504,247</b>	<b>19,428</b>	<b>1,744,661</b>
	Property	13	12,904	9	47,455
	Passenger cars	15,470	1,087,884	16,985	1,295,474
	Commercial vehicles	2,018	249,094	2,184	291,233
	Vessels	63	91,965	58	75,864
	Aircraft	0	0	0	0
	Plant, machinery, transport machines and equipment	208	62,160	191	34,374
	Other	26	241	1	261
Finance lease	<b>Total</b>	<b>18,565</b>	<b>3,625,340</b>	<b>25,256</b>	<b>4,763,030</b>
	Property	14	59,194	18	47,296
	Passenger cars	11,282	1,407,914	17,036	2,175,095
	Commercial vehicles	5,232	1,389,766	6,130	1,673,663
	Vessels	189	119,501	245	168,976
	Aircraft	1	854	0	0
	Plant, machinery, transport machines and equipment	1,585	611,559	1,717	678,633
	Other	262	36,552	110	19,367
Total	<b>Total</b>	<b>36,363</b>	<b>5,129,588</b>	<b>44,684</b>	<b>6,507,691</b>
	Property	27	72,098	27	94,750
	Passenger cars	26,752	2,495,798	34,021	3,470,569
	Commercial vehicles	7,250	1,638,860	8,314	1,964,896
	Vessels	252	211,465	303	244,840
	Aircraft	1	854	0	0
	Plant, machinery, transport machines and equipment	1,793	673,720	1,908	713,008
	Other	288	36,793	111	19,628

1) The contractual value of the operating lease portfolio structure refers to the total contractual amount equal to the total sum of the rent (excluding VAT) on contracts under operating lease; this amount does not include the residual value.

Value of contracts financed by the finance lease portfolio structure – refers to the amount of funding for financing lessee (principal amount) under contracts under finance lease concluded during the reporting period.

Source: Hanfa

## 4.5 Factoring

Table E1: Aggregate balance sheet of factoring companies (in HRK thousand)

Item	31 Dec 2015	31 Dec 2016
<b>Assets</b>		
Receivables for subscribed capital unpaid	0	0
<b>Fixed assets</b>	123,058	100,391
<b>Current assets</b>	6,452,212	5,786,673
Accounts receivable	1,752,740	1,471,948
Domestic factoring	1,544,585	1,244,377
Export factoring	33,554	65,837
Import factoring	174,601	161,734
Discounting of bills of exchange	3,867,882	3,773,592
Loans granted	130,426	144,391
Deposits given	84,627	20,614
Cash at bank and in hand	484,298	176,945
Other current assets	132,239	199,182
Prepayments and accrued income i nedospjela naplata prihoda	11,950	12,994
<b>Total assets</b>	<b>6,587,220</b>	<b>5,900,059</b>
<b>Liabilities</b>		
Capital and reserves	730,100	870,808
<b>Long-term liabilities</b>	307,306	402,769
Loans from domestic banks and financial institutions	21,229	17,101
Loans from foreign banks and financial institutions	183,241	276,525
Other long-term liabilities	102,836	109,143
<b>Short-term liabilities</b>	5,538,974	4,617,182
Loans from domestic banks and financial institutions	772,986	815,256
Loans from foreign banks and financial institutions	4,249,217	3,207,227
Other short-term liabilities	516,771	594,699
Accruals and deferred income	10,840	9,299
<b>Total liabilities</b>	<b>6,587,220</b>	<b>5,900,059</b>

Source: Hanfa

Table E2: Aggregate profit and loss account of factoring companies (in HRK thousand)

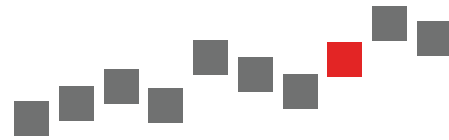
Item	1 Jan - 31 Dec 2015	1 Jan - 31 Dec 2016
Interest income	408,975	336,889
Interest income - factoring	91,480	85,429
Domestic factoring	80,571	71,979
Export factoring	2,120	2,241
Import factoring	8,788	11,209
Interest income – discounting of bills of exchange	294,573	236,138
Interest income – loans granted	9,639	9,484
Interest income – deposits given	6,776	1,846
Other interest income	6,507	3,991
Interest expenses	187,067	146,562
Interest expenses – domestic banks and financial institutions	91,160	77,820
Interest expenses – foreign banks and financial institutions	81,975	57,324
Other interest expenses	13,932	11,418
<b>Interest profit/loss</b>	<b>221,909</b>	<b>190,327</b>
Income from fees and commissions	69,943	55,058
Expenses on fees and commissions	25,037	24,844
<b>Profit/loss on fees and commissions</b>	<b>44,906</b>	<b>30,214</b>
Other operating income	362,194	380,301
Other operating expenses	362,979	377,268
Service costs	20,234	22,181
Staff costs	36,967	41,732
Costs for value adjustment for impairment losses	117,289	115,668
Other operating costs	188,488	197,687
<b>Profit/loss on other income and expenses</b>	<b>-784</b>	<b>3,033</b>
Profit/loss before profit tax	266,030	223,574
Profit tax	53,568	55,024
<b>Profit/loss after profit tax</b>	<b>212,462</b>	<b>168,550</b>

Source: Hanfa

Table E3: Transaction volume of factoring companies (in HRK thousand)

Item	1 Jan - 31 Dec 2015	1 Jan - 31 Dec 2016
Factoring	3,768,098	3,727,541
Domestic factoring	3,153,036	2,872,926
Export factoring	182,332	331,925
Import factoring	432,730	522,690
Discounting of bills of exchange	13,967,577	15,467,355
Loans granted	68,848	68,272
<b>Total</b>	<b>17,804,523</b>	<b>19,263,168</b>

Source: Hanfa



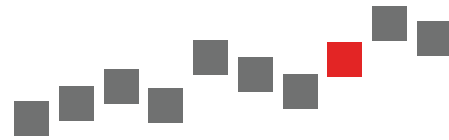
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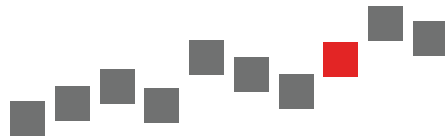
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# Abbreviations and symbols



## 15 Abbreviations and symbols

AIF	Alternative investment fund
CEDOH	Insurance Education Centre
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
Delegated Regulation supplementing the Solvency II Directive	Commission Delegated Regulation No 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), OJ L 12
AIFMD	Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010, OJ L 174
BRRD	Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No (648/2012, of the European Parliament and of the Council, OJ L 173/190
CRD IV	Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, OJ L 176
CSMAD	Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse (market abuse directive), OJ L 173/179
MiFID	Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC, OJ L 145/1
MiFID II	Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, OJ L 173/349
Directive on insurance distribution	Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (recast), OJ L 26/19
Prospectus Directive	Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2003/71/EC and 2009/138/EC and Regulation (EC) No 1060/2009, (EU) No 1094/2010 and (EU) No 1095/2010 in respect of the powers of the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority), OJ L 153/1
Omnibus II Directive	Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2003/71/EC and 2009/138/EC and Regulation (EC) No 1060/2009, (EU) No 1094/2010 and (EU) No 1095/2010 in respect of the powers of the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority), OJ L 153/1

Transparency Directive	Directive 2013/50/EU of the European Parliament and of the Council of 22 October 2013 amending Directive 2004/109/EC of the European Parliament and of the Council on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (Transparency Directive), Directive 2003/71/EC of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading (Prospectus Directive) and Commission Directive 2007/14/EC laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC (Directive on implementation of certain provisions of Transparency Directive), OJ L 294/13
Solvency II Directive	Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance, OJ L 335/1
UCITS IV Directive	Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), OJ L 176
UCITS V Directive	Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions, OJ L 257/186
Directive 2010/44/EU	Commission Directive 2010/42/EU of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards certain provisions concerning fund mergers, master-feeder structures and notification procedure, OJ L 176/28
UCITS management company	Undertakings for Collective Investment in Transferable Securities management company
DWH	Data Warehouse
EBA	European Banking Authority
ECTS	European Credit Transfer and Accumulation System
EGESC	Expert Group of the European Securities Committee
EIOPA	European Insurance and Occupational Pensions Authority
ESAs	European Supervisory Authorities
ESFS	European System of Financial Supervision
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
Factoring companies	Factoring companies and companies known to Hanfa to be providing factoring services
FLAOR	Forward looking assessment of own risks
HAD	Croatian Actuarial Association
Hanfa	Croatian Financial Services Supervisory Agency
HNB	Croatian National Bank
Bureau	Croatian Insurance Bureau
IORP	Institutions for Occupational Retirement Provision
IOSCO	International Organisation of Securities Commissions
LEI	Legal Entity Identifier
MONEYVAL	Committee of Experts of the Council of Europe on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism

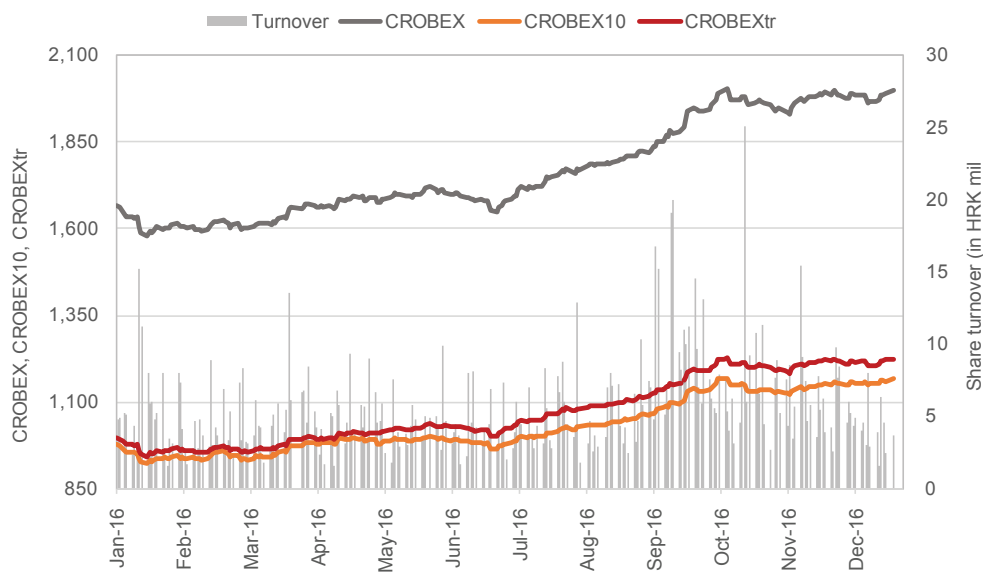
MPF	Mandatory pension fund
OVPF	Open-ended voluntary pension fund
CVPF	Closed-ended voluntary pension fund
MTF	Multilateral trading facility
New Insurance Act	New Insurance Act (Official Gazette, No 30/15)
OECD	Organisation for Economic Cooperation and Development
ORSA	Own Risk and Solvency Assessment
Proposal for a Regulation on Securitisation	Proposal for a Regulation of the European Parliament and of the Council laying down common rules on securitisation and creating a European framework for simple, transparent and standardised securitisation and amending Directives 2009/65/EC, 2009/138/EC, 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012, 2015/0226 (COD)
Ordinance on investments	Ordinance on types and characteristics of assets covering technical provisions, rules on diversification and limitations on investments covering technical provisions, their valuation and compliance with the law, rules on the use of derivative financial instruments, and the manner of and time limits for reporting
REGOS	Central Registry of Affiliates
ROA	Return on assets
ROC	Regulatory Oversight Committee
ROE	Return on equity
RLA	Register of Leased Assets
SCR	Solvency capital requirement
CDCC	Central Depository and Clearing Company
CDCC-CCP	CDCC-Smart Clear
OAM	Officially Appointed Mechanism for the central storage of regulated information
T2S	Target 2 Securities System
AIFM	Alternative investment funds management company
UCITS	Open-ended investment funds with public offering
CRR	Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, OJ EU L 176
CSDR	Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012, OJ L 257
EMIR	Regulation (EU) No of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories, OJ L 201/1
MAR	Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, OJ L 173/1
MiFIR	Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012, OJ L 173/84
Credit Rating Agencies Regulation	Regulation (EU) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, OJ L 302/1

ESMA Regulation	Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC, OJ L 331/84
Short Selling Regulation	Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps, OJ L 86/1
EIOPA Regulation	Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC, OJ L 331/12
Regulation on record-keeping obligations	Commission Regulation (EC) No. 1287/2006 of 10 August 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards record-keeping obligations for investment firms, transaction reporting, market transparency, admission of financial instruments to trading, and defined terms for the purposes of that Directive, OJ L 241/1
CMU	Capital Markets Union
AIFA	Alternative Investment Funds Act (Official Gazette, No 16/13 and 143/14)
Act Amending the Capital Market Act	Act on Amendments to the Capital Market Act (Official Gazette, No 18/15)
AOEIF	Act on open-end investment funds with a public offering (Official Gazette, No 16/13 and 143/14)
ZOL	Leasing Act (Official Gazette, No 141/13)
ZOOP	Act on Compulsory Insurance within the Transport Sector (Official Gazette, No 151/05, 36/09, 75/09, 76/13 and 152/14)
ZOS	Insurance Act (Official Gazette, No 151/05, 87/08, 82/09 and 94/14)
APML	Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette, No 87/08 and 25/12)
CMA	Capital Market Act (Official Gazette, No 88/08, 146/08, 74/09, 54/13, 159/13, 18/15 and 110/15)
QRT forms	Quantitative Reporting Template forms

**Corrigendum to data from the Annual Report:**

- On page 7, the sentence: “Net assets of alternative investment funds rose as well, by 10.6%, standing at HRK 3.3bn at end-2016.” is amended to read as follows: “Net assets of alternative investment funds rose as well, by 11.9%, standing at HRK 3.2bn at end-2016.”
- On page 12, the sentence: “Eight companies managed UCITS and AIFs, seven companies managed only UCITS and six companies managed only AIFs.” is amended to read: “Eight companies managed UCITS and AIFs, six companies managed only UCITS and seven companies managed only AIFs.”
- On page 29, Chart 1.1 Changes in the values of the CROBEX, CROBEX10 and CROBEXtr indices and in the CROBEX share turnover on the ZSE in 2016 is amended as follows:

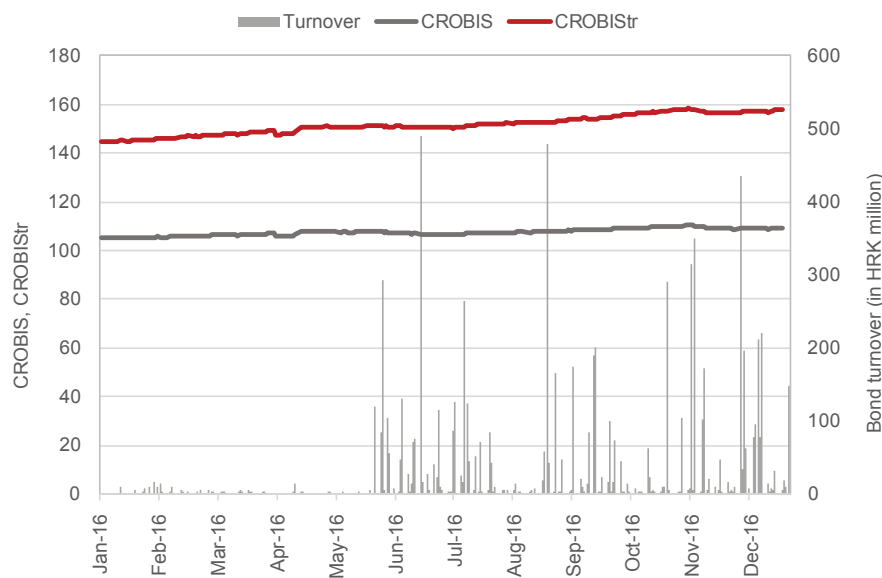
Chart 1.1 Changes in the values of the CROBEX, CROBEX10 and CROBEXtr indices and in the CROBEX share turnover on the ZSE in 2016



Source: Hanfa

- On page 29, Chart 1.2 Changes in the values of the CROBIS and CROBIStr indices and in the CROBIS bond turnover on the ZSE in 2016 is amended as follows:

Chart 1.2 Changes in the values of the CROBIS and CROBIStr indices and in the CROBIS bond turnover on the ZSE in 2016



Source: Hanfa

- On page 57, Table 3.2 Net assets of UCITS as at 31/12/2015 and 31/12/2016 (in HRK thousand) is amended as follows:

Table 3.2 Net assets of UCITS as at 31/12/2015 and 31/12/2016 (in HRK thousand)

	31 Dec 2015	31 Dec 2016	Share (in %)	Change (in %)	Payments in 2016	Payouts in 2016
UCITS	13.857.695	18.440.776		33,1	22.141.555	17.930.591
Cash	9.256.527	11.111.297	60,3	20	17.724.263	15.906.986
Bond	1.457.602	4.048.794	22	177,8	3.381.617	896.729
Balanced	809.312	866.564	4,6	7,1	209.726	211.813
Equity	1.630.344	1.790.136	9,7	9,8	653.330	641.519
Other	703.910	623.985	3,4	-11,4	172.618	273.543

Source: Hanfa

- On page 60, the sentence: “Net assets of venture capital AIFs with private offering – economic cooperation funds rose by HRK 90.5m compared to 2015, whereas net assets of hedge funds (special types) increased by HRK 67.7m.” is amended to read: “Net assets of venture capital AIFs with private offering – economic cooperation funds rose by HRK 169.5m compared to 2015, whereas net assets of hedge funds (special types) increased by HRK 74.3 m.”

- On page 60, Table 3.4 Net assets of AIFs as at 31/12/2015 and 31/12/2016 (in HRK thousand) is amended as follows:

Table 3.4 Net assets of AIFs as at 31/12/2015 and 31/12/2016 (in HRK thousand)

AIF	31 Dec 2015	Share (%)	31 Dec 2016	Share (%)	Absolute change	Change (in %)
Private offering	2,512,598	86.9	2,894,991	89.5	382,393	15.2
basic	381,020	13.2	417,036	12.9	36,016	9.5
hedge (special types)	57,037	2.0	131,386	4.1	74,349	130.4
venture capital (special types)	70,550	2.4	76,101	2.4	5,550	7.9
venture capital – economic cooperation (special types)	872,689	30.2	1,042,165	32.2	169,477	19.4
closed-ended	1,131,301	39.1	1,228,303	38.0	97,002	8.6
Public offering	378,477	13.1	340,922	10.5	-37,555	-9.9
open-ended	50,183	1.7	50,934	1.6	751	1.5
closed-ended	251,859	8.7	219,293	6.8	-32,565	-12.9
closed-ended real estate	76,435	2.6	70,694	2.2	-5,740	-7.5
Total	2,891,074	100.0	3,235,912	100.0	344,838	11.9

Note: The data for AIFs with private offering are not complete.

Source: Hanfa

- On page 170, Table A.2 Statement of comprehensive income of pension companies (in HRK thousand) is amended as follows:

Table A2: Statement of comprehensive income of pension companies (in HRK thousand)

Item	2015	2016
Income from fund management	433,244	447,893
Fee from paid contributions	49,882	53,383
Fee from total assets of the pension fund	383,317	394,489
Exit fee	45	21
Bonus payment	0	0
Expenses on fund management	108,533	116,217
Transaction costs	210	233
Marketing costs	5,853	6,514
Sales agent costs	30,181	34,869
Other pension fund management costs	72,290	74,601
Profit from fund management	324,710	331,676
Operating expenses	97,113	109,557
Material costs	1,517	1,584
Staff costs	48,262	58,251
Depreciation and adjustment of value of other assets	5,833	5,756
Provisions	0	0
Other operating expenses	41,502	43,965

Item	2015	2016
Profit from regular business activities	227,598	222,120
Net financial result	17,514	12,758
Other income and expenses	4,276	1,473
Pre-tax profit	249,387	236,350
Profit tax	50,163	48,106
Profit	199,224	188,244
Other comprehensive income	-1,149	4,455
Total comprehensive income	198,075	192,699

Source: Hanfa