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CROATIAN FINANCIAL SERVICES
SUPERVISORY AGENCY



HANFA

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Introduction

In 2015, Croatian Financial Services Supervisory Agency (Hanfa) continued its intensive work on the harmonization of the regulatory framework with the *acquis communautaire*, which regulates non-bank financial sector as well as with the activities to ensure a smooth implementation of new regulations. Hanfa also continued improving its business processes with a focus on further development of the IT infrastructure which, for supervised entities accelerates and facilitates the delivery of data by way of updating and introducing additional digitized and automated reporting processes, and for Hanfa it provides a timely and comprehensive exchange of information with European supervisory bodies responsible for non-banking financial sector (EIOPA and ESMA). In this context, Hanfa started to compile a catalogue of information and to digitize data delivery in order to develop data warehouses (DWH). Hanfa also initiated a project which will improve the process of reporting on financial derivatives' exposure and trading as well as a project which integrates and improves risk-based control. All projects were approved by the European Commission and financially backed by the European Union.

A new regulatory framework of the European Union for insurance companies (Solvency 2) was implemented. In cooperation with the Ministry of Finance, the new Insurance Act was devised, Hanfa developed new ordinances, and jointly with insurance companies it carried out the preparatory stage to implement the new regulatory framework. Furthermore, in cooperation with the Ministry of Finance, Hanfa intensively worked on the preparation for the implementation of new EU regulations which regulate business operations of investment firms and other business entities providing investment services and conducting investment activities, and also regulate capital market infrastructure (MiFID Directive and MiFIR Regulation), and for the new EU regulations aiming to combat capital market abuse (MAR Regulation) and new legal framework for the investment funds field. Hanfa also participated in the preparation of regulatory and implementing technical standards and guidelines as part of the work within ESMA and EIOPA, which regulate operations of supervised entities in more detail as well as procedures of competent authorities of Member States. In 2015, Hanfa prepared and published a total of 46 ordinances and amendments to ordinances.

In line with its capacity, in 2015 Hanfa engaged in continued on-site supervision of all supervised entities, which includes the analysis of financial and supervisory reports of supervised entities as well as gathering of data and findings from other sources. A total of 56 on-site examinations resulted in reports determining irregularities on the basis of which Hanfa takes further measures to eliminate them. In accordance with its on-site examination plan, Hanfa carried out regular on-site examinations as well as targeted on-site examinations, if needed, conducting a total of 48 on-site examinations in 2015.

Although some macroeconomic indicators for the past year indicate favourable economic trends, the results in certain segments of the financial industry continue to vary. In the past year, the total turnover on the Zagreb Stock Exchange fell by 9.3%, but the other hand, in the same year two shares were admitted in the stock exchange via an initial public offering, which was the first time since 2008. Revenues of investment companies, credit institutions and companies managing open-ended investment funds with public offering from providing investment services and performing investment activities in 2015 increased by 23.4% and amounted to HRK 231.4m. In the same period, the net assets of open-end investment funds increased by 6.8% and at the end of the year amounted to HRK 13.9bn, while the net assets of alternative investment funds grew by 14.3% and at the end of the year amounted to HRK 3bn¹.

¹ For corrected data, see page 190.

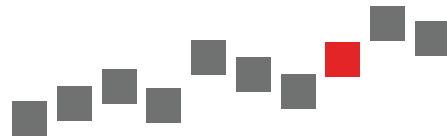
During the past year, pension funds continued to generate positive returns. Thus, in 2015 the average returns of mandatory pension funds were 9.1% for category A, 6.2% for category B and 6.8% for category C, while voluntary pension funds recorded returns between 2.1% and 8.1%. The net assets of mandatory and voluntary pension funds recorded a growth in the past year. Thus, the net assets of mandatory pension funds increased by 11.7% and amounted to HRK 74bn at the end of the period, while the net assets of open voluntary pension funds rose by 14.8% and amounted to HRK 3bn and assets of closed voluntary pension funds increased by 14.3% and amounted to HRK 681m.

In 2015, the premium of life insurance companies increased by 11.2% and amounted to HRK 2.9bn while gross written premium for non-life insurance amounted to 5.8bn which is 2.3% less than in the previous year. The assets of leasing companies in 2015 decreased by 1.3% and amounted to HRK 17.6bn while the assets of factoring companies amounted to HRK 6.6bn i.e. 15.8% less than in the previous year.

In cooperation with the Ministry of Finance and the Croatian National Bank last year, Hanfa conducted the first comprehensive national survey on financial literacy in line with the OECD methodology. In addition, Hanfa conducted a number of other activities related to increasing the level of financial literacy, including the launch of an educational campaign, work with secondary school students and students and cooperation with other state institutions in this area. Moreover, during the past year Hanfa held eight consultations with associations of supervised entities at the Croatian Chamber of Commerce with which we openly discussed various issues related to the adjustment to the novelties in the regulatory framework and other topics of interest to the supervised entities.

As in previous several years, adjustments to new regulations and membership in ESMA and EIOPA as well as work on improving the IT system and regular supervisory activities marked Hanfa's work. I believe that Hanfa successfully and fully complied with its legal obligations in 2015 and that it conducted its activities at a high professional and expert level. I would like to thank the employees of Hanfa who, together with members of the Board, scrupulously and responsibly performed their tasks and thereby contributed to the improvement of functioning of the financial system in the Republic of Croatia.

Petar-Pierre Matek
President of the Board



Summary



Summary

Capital Market

The total trading volume on the Zagreb Stock Exchange (hereinafter: ZSE) decreased by 9.3% compared to the previous year and amounted to HRK 3.5bn. Trading in shares (11.5%) and bonds (20.7%) within the order book decreased, as well as the block trades in bonds (39.5%) and structured securities (17.2%), while block trade in shares increased (45.5%). The main index stock CROBEX declined by 3.2%, and CROBEX10 declined by 1.8%, while CROBEXTURIST increased significantly by 23.7%. In the past year, there were two new stock listings through an initial public offering, being the first listings since 2008.

The ZSE was recapitalized with the European Bank for Reconstruction and Development (EBRD) entering its ownership structure. By acquisition of 100% of shares of the Ljubljana Stock Exchange, ZSE completed its takeover process and it strengthened its position in the regional capital market.

The total value of transactions settled within the clearing and settlement system managed by the Central Depository and Clearing Company (hereinafter: the CDCC) in 2015 amounted to HRK 326.7bn, rising by 13.3% relative to the previous year, while the total number of securities transactions declined by 13.9%.

During 2015, Hanfa took part in the preparation of amendments to the Capital Market Act² which were necessary in order to, among other things, align with the Prospectus Directive³, Transparency Directive⁴ and EMIR Regulation⁵. For the purpose of strengthening the capital market and cross-border flow of capital and financial services, Hanfa also took part in activities under the action plan for the establishment of the Capital markets union, which was initiated by the European Commission and which, among other things, includes the adoption of a new regulation on securitization and the new regulation amending the current Prospectus Directive.

In 2015, we continued with the process of licensing the CDCC CCP company for the provision of services as a central counterparty. The ZSE was authorised to conduct the activities related to the allocation and administration of LEIs (*Legal Entity Identifiers*), whereby the ZSE became the only organization in Croatia and the region to offer this service, important for financial stability, to market participants.

In 2015, Hanfa approved 15 applications for approval of prospectuses through which the capital market raised a little over HRK 1bn. Hanfa received 61 notifications from issuers related to the use of exemption from the obligation to publish prospectuses, and the use of these exceptions in the capital market raised approximately HRK 6bn.

In 2015, Hanfa carried out the examination of the entire operations of ZSE, with the focus on the financial position, management of conflicts of interest, surveillance of issuers, certificates' trading,

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

3 Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directives 2003/71/EC and 2009/138/EC and Regulations (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 294/13

4 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, 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 and Commission Directive 2007/14/EC laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC, OJ L 294/13

5 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

observation segment, trading control system, suspected manipulation etc. We continued with the surveillance of the CDCC's information system, as well as with the monitoring of the implementation of measures aimed to improve this system.

Investment firms

In 2015, there were eight investment firms and 15 credit institutions providing investment services and conducting investment activities, as well as seven UCITS management companies providing investment services. Compared to the year before, total revenues increased by 23.4% and amounted to HRK 231.4m. In 2015, Hanfa received 142 notifications on intention to directly provide investment services in the Republic of Croatia by investment firms based in EU Member States.

The past year saw a significant increase in the value of portfolio assets managed by investment firms, credit institutions and companies managing open-ended investment funds with public offering, which at the end of the year stood at HRK 5.2bn i.e. 289.9% more than in the previous year. This was mostly due to companies managing open-ended investment funds, as the value of portfolio assets they manage increased by 301.8%. Total assets under custody did not change significantly and reached HRK 62.4bn⁶, reported primarily by credit institutions.

Hanfa participated in the harmonization of national legislation with the BRRD⁷, which was the base for the amendment of CMA, and in line with those amendments, Hanfa also adopted an ordinance in order to complete the harmonization regarding investment firms.

In 2015, Hanfa initiated nine on-site examinations of investment firms, companies managing open-ended investment funds with public offering and credit institutions, which included the provision of investment services and activities, and compliance with EMIR provisions, while one examination included a surveillance of the information system. Three decisions were issued to suspend the examination process because the violations and irregularities found were rectified during the examination, and the remaining examinations are still under way. Furthermore, based on the examination started in 2014, Hanfa issued one decision ordering the elimination of irregularities due to the infringement of provisions of the CMA and the ordinances, and after the company complied with the decision, a decision to suspend the examination process was issued, due to the fact that the violations and irregularities found were rectified. Two more decisions were issued to suspend the examination process due to the fact that the violations and irregularities found were rectified during the examination, based on the examinations started in the previous years. Off-site supervision included the control of supervisory reports, control of the assessment of risks arising from holding the clients' assets with third parties, control of compliance with the provisions of EMIR, supervision of the assessment of appropriateness in the provision of services to clients trading in complex financial instruments and the control of implementation of international restrictive measures.⁸

Investment funds

At end-2015, there were 20 registered companies managing investment funds, three fewer than in the same period the year before, as a result of the consolidation processes in the investment funds market. In 2015, Hanfa received a total of 35 notifications from competent authorities of other Member States, and by the end of 2015 it received a total of 66 notifications relating to the intention to conduct cross-border marketing of units of investment funds or to carry out investment fund management activities. In 2015, Hanfa forwarded one notification by a company for manage-

6 For corrected data, see page 190.

7 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 (Text with EEA relevance), OJ L 173/190

8 Decision on the method of implementing international restrictive measures, Official Gazette, No 78/2011

ment of investment funds from the Republic of Croatia on its intention to conduct cross-border marketing of units of UCITS funds to the competent authority of another Member State.

Investment fund management companies realised an after-tax profit in the amount of HRK 53.1m, an increase of 18.2% compared to 2014⁹. Net assets of open-end investment funds with a public offering (hereinafter: UCITS) increased by 6.8% compared to 2014 and at the end of 2015 amounted to HRK 13.9bn. The share of domestic assets in UCITS total net assets at the end of 2015 further increased compared to the previous year and amounted to 89.2%.

The number of registered alternative investment funds (hereinafter: AIF) in the Republic of Croatia at the end of 2015 remained unchanged compared to the previous year and amounted to 28. Net assets of AIFs increased by 14.3% compared to 2014 and amounted to HRK 3bn¹⁰.

Hanfa worked on the implementation of the UCITS V Directive¹¹ and on preparation of a new draft Act on open-ended investment funds with public offering, in which the Directive was implemented. The UCITS V Directive further increases the protection of investors in UCITS in a way that it introduces rules on the liability of depositaries and requirements on the remuneration of employees of management companies. During 2015, Hanfa participated in the working group in charge of drafting a new Act on Amendments to the Act on the Fund of Croatian Homeland War Veterans and Members of their Families.

Hanfa continued with six on-site examinations of UCITS management companies and alternative investment funds management companies (hereinafter: AIFMs) which started in 2014, whose aim was to check their adjustment to the provisions of the Act on Open-Ended Investment Funds with Public Offering¹² and the Alternative Investment Funds Act¹³ regarding organizational requirements. Hanfa issued seven decisions ordering UCITS management companies and AIFMs to eliminate illegalities and irregularities identified during the procedures of on-site examinations, according to which the UCITS management companies and AIFMs removed those illegalities and irregularities and notified Hanfa thereof. In 2015, Hanfa initiated and completed examinations of one UCITS management company, two AIFMs and one company managing UCITS and AIFs, which related to organizational 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. A decision was issued to one UCITS management company ordering it to eliminate illegalities and irregularities, according to which it removed illegalities and irregularities and notified Hanfa thereof.

On-site supervision of AIFMs managing open-ended venture capital AIFs with private offering involved 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. Pursuant to the decisions issued during the examination processes, the companies eliminated the illegalities and irregularities and notified Hanfa thereof.

Hanfa also initiated one target on-site examination of one UCITS management company and one AIFM. The supervision was focused on the process of realisation of managing rights, realised by company on its own account and on the account the fund it manages, in the issuers where funds assets are invested, as well as making investment decisions and acting in line with corporate actions, as a part of providing portfolio management investment services in accordance with the

9 For corrected data, see page 190.

10 For corrected data, see page 190.

11 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

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

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

provisions of the Capital Market Act¹⁴. Supervised entities eliminated their irregularities and violations during the examination process, thus no supervisory measures to eliminate them were issued.

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, on the disclosure of information to investors on web sites of investment fund management companies and in regular reports of investment funds, and on the capital adequacy of investment fund management companies. Hanfa's supervisory activities 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, and the verification of the calculation of charges. Following illegalities and irregularities established, 12 reports were prepared, after which the illegalities and irregularities were eliminated in most cases, while in one case a supervised entity received a decision to eliminate the irregularities in investments of investment fund assets with investment restrictions.

Pillar 2 and Pillar 3 Pensions and Pension Payments

At end-2015, total net assets of mandatory and voluntary pension funds amounted to HRK 77.7bn, an increase of HRK 8.2bn compared to the end of the previous year. Out of HRK 8.2bn growth of net assets of mandatory pension funds and voluntary pension funds, HRK 3.8bn (46.7%) accounted for net payments, while HRK 4.4bn (53.3%) was a result of generated returns. These positive trends were primarily related to mandatory payments into pension pillar 2.

The number of members of mandatory pension funds continued to grow in 2015 at an average rate of 1.5% compared to the year before. At end-2015, total net assets of mandatory and voluntary pension funds amounted to HRK 77.7bn, an increase of HRK 8.2bn compared to the end of the previous year

As at December 31 2015, total net assets of mandatory pension funds amounted to HRK 74.0bn, recording an increase of HRK 7.7bn in comparison with the previous year, with an increase of HRK 3.5bn (45.5%) relating to net payments of members' contributions, while the increase in net assets of HRK 4.2bn (54.5%) resulted from returns achieved by mandatory pension funds. In 2015, the category A MIREX index stood at 9.1%, the category B MIREX index reached 6.2%, and the category C MIREX index totalled 6.8%.

There were four voluntary pension companies on the market, managing a total of six open-ended voluntary pension funds and 17 closed-ended voluntary pension funds. In 2015, the number of members of voluntary pension funds continued to grow. There was a significant increase in the number of members of voluntary pension funds (20.3%) in 2015 compared to the previous year, which was reflected in the growth of their net assets (14.3%). In accordance with the increase in the number of new members, gross contributions of closed-ended voluntary pension fund members also grew by 19.5%, while total gross contributions of open-ended voluntary pension fund members increased by 8.2% compared to 2014.

Mandatory and voluntary pension companies recorded an increased after-tax profit in the amount of HRK 199.2m, up by 21.0% relative to 2014.

Regulation amending the Mandatory Pension Funds Act¹⁵, adopted by the Government of the Republic of Croatia marked the end of the amendments to the Mandatory Pension Funds Act¹⁶. This Regulation governs memberships in mandatory pension funds and terminations of member-

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

15 Official Gazette, No 93/15

16 Official Gazette, No 19/14

ships in mandatory pension funds regarding insured persons whose pension entitlements are governed by a special regulation governing pension entitlements of active military personnel, police officers and authorised officials, or whose pension is defined by this regulation.

During this period there were a total of 31,687 cases of membership termination or account closing in mandatory pension funds, as a result of the Regulation mentioned above.

According to the statement on financial position, as at 31 December 2015 the value of total assets of the only pension insurance company reached HRK 438.3m, increasing by HRK 25.7m or 6.2% compared to the value of total assets as at 31 December 2014. As at 31 December 2015, the total number of pension contracts reached 15,039, of which 14,904 contracts were related to voluntary pension insurance (pension pillar 3 and direct lump-sum payments), and 135 contracts to mandatory pension insurance (pension pillar 2).

Hanfa initiated on-site examinations of four mandatory pension companies, which focused 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, while in one company the examination included a surveillance of the information system.

Hanfa also initiated on-site examination of REGOS, focusing on the entire process regarding the payments of contributions for pension insurance based on individual capitalised savings. The examination included the manner in which funds on transfer and interim accounts are handled, the manner in which they are forwarded, the method of fees calculation, the calculation of accounting units, arrangement of members and reporting. Moreover, the examination encompassed policies, measures and procedures for the supervision and protection of the information system and the system for electronic data processing.

Hanfa also conducted an on-site examination of the pension insurance company, focusing on the contracting process and payment of lifetime pensions on the basis of direct lump sum payments by employers for their employees at the time of their retirement.

In 2015, Hanfa conducted continuous off-site supervisions of pension companies, pension funds and the pension insurance company.

Insurance

As at 31 December 2015, there were 23 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 as an association of insurance companies, and the Croatian Nuclear Insurance and Reinsurance Pool (EIG). In 2015, insurance representation and insurance and reinsurance brokerage business was conducted by 280 insurance agencies, 44 insurance and reinsurance brokerage companies, 252 insurance representation crafts, 26 credit institutions and HP – Hrvatska pošta d.d. In 2015, Hanfa received a total of 341 notifications, 68 of which related to direct pursuit of insurance business by insurance companies, 269 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 2015, two branch offices of insurance companies from other Member States were established in the Republic of Croatia, in accordance with the right of establishment. At the same time, four domestic insurance companies and one insurance and reinsurance brokerage company submitted notifications to Hanfa about their intention to directly provide services in the European Union, which Hanfa forwarded to competent supervisory authorities. Since the accession of the Republic of Croatia to the European Union, Hanfa has received a total of 870 notifications, of which 243 related to direct pursuit of insurance business by insurance companies, 623 to direct pursuit of activities of insurance and reinsurance mediation and two to pursuit of insurance representation business through a branch, while two branches of insurance companies from a member state have been established in accordance with the right of establishment.

The total gross written premium of the insurance companies amounted to HRK 8.7bn, increasing by HRK 0.1bn or 1.9% compared to the 2014 premium. The gross written premium recorded on the reinsurance market amounted to HRK 42.0m, decreasing by HRK 293.7m or 87.5% relative to 2014.

As at 31 December 2015, total assets of insurance and reinsurance companies amounted to HRK 38.5bn, increasing by HRK 1.1bn or 2.9% compared to the previous year. This was largely due to an increase in life insurance assets in the amount of HRK 1.1bn or 5.34%¹⁷.

In 2015, insurance and reinsurance companies achieved a profit of HRK 520.31m as a result of their operations, unlike in 2014, when a loss of HRK 48.2m was recorded¹⁸. Net profit amounting to HRK 589.7m was reported by 17 insurance companies and one reinsurance company, while a HRK 69.4m loss was reported by six insurance companies. The profit in the non-life insurance field was HRK 315.2 m. Of this amount, HRK 384.6 m accounted for the profit of 15 insurance companies and one reinsurance company, while three insurance companies reported loss amounting to HRK 69.4 m. The life insurance group recorded a HRK 205.1m profit, of which a HRK 214.4m profit was generated by eleven insurance companies, while a HRK 9.3m loss was realised by three insurance companies.

As at 31 December 2015, the total assets of the Croatian Insurance Bureau amounted to HRK 10.4m, growing by 2.3% relative to 2014, while total assets of the Guarantee Fund amounted to HRK 22.6m, increasing by 24.8% compared to the previous year. As at 31 December 2015, total assets of the CN POOL reached HRK 95.9m, rising by 10.9% compared to 2014.

Concerning its regulatory activities, Hanfa continued with the preliminary phase for Solvency II, considering the entry into force of the new regulation on 1 January 2016. European Insurance and Occupational Pensions Authority (EIOPA) was sent a report on the implementation process and progress of the preparatory phase for Solvency II, the new Insurance Act¹⁹ was adopted, complying with the provisions of the Solvency II Directive²⁰, the second round of talks with insurance companies in connection with the FLAOR^{21/22} ORSA reports for 2014 was held, and all the activities planned for that process were taken. Hanfa also performed a series of activities prior to the implementation of the pilot project for sending and receiving reports, which included the implementation of a software solution, additional training of Hanfa's staff, creating internal instructions for validation and close cooperation with the EIOPA committees.

Regarding normative activities, it is important to point out that the new Insurance Act fulfils the preconditions for the implementation of the Delegated Regulation supplementing the Solvency II Directive²³. This regulations 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 the Article 301a of the Solvency II Directive. In 2015, Hanfa adopted five new ordinances.

Through six examination cycles, examination for insurance agents was taken for 1477 candidates, and examination for insurance and reinsurance brokers was taken by 32 candidates. A total of 1358 candidates passed the examination (1330 insurance agents and 28 insurance and reinsurance brokers), while 151 candidates failed.

17 For corrected data, see page 190.

18 The losses in 2014 were mainly the result of the insurance companies' restructuring process.

19 Official Gazette, No 30/15

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

21 *Forward Looking Assessment of Own Risks – FLAOR*

22 *Own Risk and Solvency Assessment – ORSA*. ORSA implies regular assessment of overall solvency needs taking into account the specific risk profile.

23 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) (Text with EEA relevance), OJ L 12

In the course of 2014, Hanfa conducted a total of 12 on-site examinations of entities operating on the insurance market, of which four were targeted, and 13 were full-scope examinations. Two examinations started in 2014 and ended in 2015. Nine examinations were started and completed in 2015, while one examination that began in 2015 continued in 2016. 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 calculating and recording operating costs, investment process, reporting process, the process of operational risk management, safety and adequacy of the information system, risk management system, business process related to insurance contracting and claims handling, the process of investing in shares, their evaluation and reporting in business books, realisation of management rights and implementation of the Act on the Prevention of Money Laundering and Terrorist Financing²⁴ and regulations adopted pursuant to this Act. All the above-mentioned violations and irregularities resulted from a failure to comply with the provisions of the Insurance Act, Act on Amendments to the Insurance Act, Accounting Act and International Financial Reporting Standards, Civil Obligations Act (Official Gazette 35/05, 41/08 and 125/11), Companies Act (Official Gazette 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12 and 68/13), Act on the Prevention of Money Laundering and Terrorist Financing and regulations adopted under these acts. Hanfa adopted a total of eight decisions ordering elimination of the violations and irregularities, relating to on-site examinations completed in 2014 and 2015. The supervised entities acted in accordance with the decisions and within the deadlines defined. In addition to these eight decisions about violations and irregularities, Hanfa issued five decisions on termination of the on-site examinations, for all supervised entities for which no violations or irregularities were found in their operations, or these were eliminated during the on-site examination.

Off-site supervision carried out by Hanfa involved on-going monitoring of insurance business conducted by insurance companies and of insurance companies' compliance with supervisory provisions. It was based on the analysis of reports submitted by insurance companies within prescribed deadlines, on documents, notifications and other data submitted to Hanfa at its request, on data and findings collected from other sources, on verification and assessment of business operations on the basis of submitted reports and gathered information and on interviews conducted with management board members, supervisory board members and other responsible persons. 2015 saw a total of 14 cases of off-site examinations which were the basis for issuing a total of 10 decisions.

Leasing

As at 31 December 2015, leasing operations were carried out by 21 leasing companies i.e. two companies less than in the previous year. Initial capital of leasing companies as at 31 December 2015 amounted to HRK 1.059m. Total assets of leasing companies as at 31 December 2015 amounted to HRK 17.6bn which was HRK 237.3m or 1.3% less compared to the same day the year before.

In 2015, the share of the ten largest leasing companies in the total assets of leasing companies reached 79.1%, slightly increasing compared with the previous year, when it stood at 77.5%. All the leasing companies from the top ten group are members of bank groups.

In 2015, leasing companies reported negative operating results, reflected in loss after profit, which totalled HRK 742.1m (in 2014, it reached HRK 1.3bn).

The value of newly concluded contracts in operating lease in 2015 decreased by HRK 363.8m, while the value of newly concluded contracts in financial lease increased by HRK 250m compared to the previous year. Accordingly, the share of operating lease in the structure of total value of newly concluded contracts amounted to 29.3%, while the share of financial lease accounted for 70.7%.

²⁴ Official Gazette, No 87/08 and 25/12

As at 31 December 2015, passenger cars recorded the highest value of active contracts by leased assets, reaching HRK 4.1bn or 29.6% of the total value of active contracts, whereas property recorded the value of active contracts amounting to HRK 3.4bn or 27.5% of the total value of active contracts.

Supervisory activities were focused on on-site examinations that checked compliance of lease contracts with the provisions of the Leasing Act²⁵ and the Ordinance on the content and form of lease agreements and on the methodology for the calculation of the effective interest rate²⁶, and based on these examinations, 13 decisions were issued ordering the elimination of violations and irregularities found. Companies are expected to comply with those decisions in 2016. Hanfa also carried out an examination of the entry of data in the Register of Leased Assets, and it issued four decisions ordering the elimination of violations and irregularities. The companies complied with those decisions.

Five off-site examinations focused on the recording of business events after the leasing contract. One company was found to be without irregularities, while other four companies eliminated their irregularities in 2016. Moreover, there was one off-site examination in the area of financial assets valuation, which ended in 2015 since the company in question eliminated its irregularities.

One report was made on the basis of an off-site supervision started in 2014. This examination focused on credit risk management, activities upon the termination of lease contracts and the implementation of the Act on the Prevention of Money Laundering and Terrorist Financing²⁷. A decision was issued ordering the elimination of the violations and irregularities found, and the company is expected to comply with the decision in 2016.

Factoring

As at 31 December 2015, the assets of factoring companies authorised by Hanfa for the provision of factoring services and of companies known to Hanfa to be providing factoring services (hereinafter: factoring companies) stood at HRK 6.6bn, a decrease of HRK 1.2bn (15.8%) compared to 31 December 2014. The asset decline was mostly caused by a decrease in receivables for discounting of bills of exchange in the amount of HRK 941.3m and by a rise in factoring receivables totalling HRK 249.6m. Current assets made up as much as 98.0% of total assets, same as the preceding year. The most significant item in the current assets was discounting of bills of exchange (58.7% of the assets).

Factoring companies' net profit reached HRK 212.5m, decreasing by 1.2% compared to 2014. Factoring companies' total income amounted to HRK 841.1m, increasing by HRK 51.8m in comparison with 2014, while expenses reached HRK 575.1m, increasing by HRK 55.5m relative to the previous reporting period. 11 out of 13 factoring companies reported after-tax profit amounting to HRK 212.7m. At the same time, two factoring companies reported after-tax losses amounting to HRK 0.2m.

The transaction volume reached HRK 17.8bn, decreasing by 5.9% in comparison with 2014. In the period from 1 January 2015 to 31 December 2015, factoring companies purchased invoices under factoring arrangements in the amount of HRK 3.8bn, at the same time purchasing bills of exchange in the amount of HRK 14.0bn.

Hanfa issued three authorisations to provide factoring services to three companies that had provided factoring services before the Factoring Act entered into force. The share of those three companies in the aggregate assets of factoring companies as at 31 December 2015 stood at 59.5%. Regulation of the Croatian Government extended the deadline for the harmonization of those legal entities which, on the date of entry into force of the Factoring Act performed factoring

25 Official Gazette, No 141/13

26 Official Gazette, No 66/14

27 Official Gazette, No 87/08 and 25/12

operations and were registered in the register of companies, so those legal entities, pursuant to the same Regulation, must comply with the Factoring Act²⁸ until 31 March 2016 instead of 8 August 2015, which was a legally prescribed deadline.

The focus of supervisory activities 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, leasing and factoring, investment funds and insurance, Hanfa established misdemeanours committed with respect to regulations resulting in 17 indictments brought before the misdemeanour courts and the Financial Inspectorate of the Republic of Croatia. Final judgement was pronounced in respect of two cases, while proceedings relating to the remaining cases have not finished yet. In the course of 2015, a total of 14 administrative disputes were initiated against Hanfa's decisions and resolutions following complaints filed with administrative courts of the Republic of Croatia, 12 of which related to administrative acts in the field of capital markets, and two in the field of investment funds. Twelve disputes are still in progress, one administrative dispute was dismissed, and one was discontinued. Hanfa filed a criminal charge against three physical persons after having established a reasonable suspicion of committing a criminal offense regarding inside information abuse. Throughout 2015, Hanfa's representatives participated in the working group of the Croatian Ministry of Justice regarding the amendments to the Misdemeanour Act, with respect to the process of harmonization with the *acquis communautaire*.

Participation in the Work of EU Institutions and Domestic and International Cooperation

In 2015, Hanfa's employees were involved in work and coordination with relevant national authorities and institutions of the European Union regarding the issues of harmonization with the regulations and practices of the European Union within the financial sector. Hanfa took part in seven meetings of Board of Supervisors of European Securities and Markets Authority (ESMA) and five meetings of Board of Supervisors of European Insurance and Occupational Pensions Authority. In 2015, committees of ESMA and EIOPA issued over a hundred decisions each 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, organization of the common market and, in this light, harmonization 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.

For the first time, Hanfa was subjected to on-site supervision by ESMA within the framework of ESMA's expert assessment of supervisory practices of national supervisory bodies. The focus

²⁸ Official Gazette, No 94/14 and 85/15

was on the compliance with the provisions of MiFID Directive²⁹ that regulate the application of appropriateness assessment i.e. controls of the ways in which national regulators supervise application of the appropriateness assessment with companies providing investment advice to retail investors. The conclusion was that Hanfa's employees possessed detailed knowledge about the consultancy market and about licensed companies providing such services in the territory of the Republic of Croatia. It was also noted that Hanfa's organizational structure for supervision of such entities was adequate, as well as the level of communication between relevant departments. It was also noted that, even though the level of on-site examinations was satisfactory, the supervision of the appropriateness assessment was carried out to a limited extent, but ultimately this was understandable taking into account the extremely limited range of the provision of investment advice to retail investors by supervised entities, which more often provide portfolio management services. Regarding the appropriateness assessment, it was noted that Hanfa organized examinations and granted licenses to investment advisors (natural persons who provide investment advice and portfolio management services), which is a regulatory practice that surpasses standards in the majority of Member States. During 2015, EIOPA also conducted comparative analyses related to the freedom to provide insurance services, the supervisory practices of occupational pension funds, functioning of the college of supervisory bodies and the assessment of depth, liquidity and transparency of the market in which Hanfa also participated.

Hanfa's employees continued to participate in the work of the European banking authority (EBA), the European Systemic Risk Board (ESRB), the Council and the European Commission. They prepared materials and provided information needed to make decisions and opinions related to the operations of investment firms for meetings of the EBA Board of Supervisors, they participated in EBA's analyses associated with the revision of prudential requirements for investment firms on the basis of relevant regulations, in collaboration with the Croatian National bank they started with the work on the adoption of EBA guidelines concerning both supervisory bodies and with work as a part of notifications within the EBA database. Hanfa participated in four meetings of the ESRB General Committee and four meetings of the ESRB Advisory Technical Committee. Taking part in the work of the Council and the European Commission included participation of Hanfa's employees at expert meetings organized by the European Commission and participation in the public discussion on modelling the Capital Markets Union, in the discussion about the revision of the Prospectus Directive and the entire EU regulatory framework for financial services, making opinions and proposals of amendments to the text of the Securitization Directive³⁰ in cooperation with the Croatian National Bank and the Ministry of Finance, in the workshops for transposition of MiFID II Directive³¹ and CSMAD Directive³², i.e. ensuring the application of MiFIR Regulation³³ and MAR Regulation³⁴, in discussions about possible approaches to create the proposal of the new Prospectus Directive, in the final phase of adopting the Directive on insurance distribution³⁵

29 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

30 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)

31 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 (Text with EEA relevance), OJ L 173 349

32 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

33 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 (Text with EEA relevance), OJ L 173/84

34 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 (Text with EEA relevance), OJ L 173/1

35 Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (recast) (Text with EEA relevance), OJ L 26/19

and taking part in drawing up the corrigendum to the Directive amending the Transparency Directive³⁶.

Cooperation with domestic institutions included the activities on informing SMEs about the possibilities of financing on the capital market, through workshops which tried to inform the interested parties about this topic, together with the Croatian Chamber of Economy and the ZSE, participation in the work of six new working groups at the request of the Ministry of Finance, participation in the analysis of the EBRD regarding the new regulatory framework for the covered bonds market in the Republic of Croatia in cooperation with the Ministry of Finance and the Croatian National Bank, as well as the continuation of participation in the work of the Financial Stability Council.

Hanfa continued its activities regarding the supervision of the implementation of the Act on the Prevention of Money Laundering and Terrorist Financing³⁷ with supervised entities and it conducted five on-site examinations, while on the basis of examinations from 2014 and 2015, Hanfa adopted a total of eight decisions ordering elimination of the violations and irregularities, and supervised entities acted in accordance with the decisions. Hanfa also monitored the implementation of international measures restricting asset disposal. Hanfa reported its examinations to the Anti-Money Laundering Office with the Ministry of Finance. Hanfa issued revised guidelines for the implementation of the Act on the Prevention of Money Laundering and Terrorist Financing for taxpayers within the competence of the Croatian Financial Services Supervisory Agency in the area of establishing political exposure of foreign natural persons and it participated in the project of National risk assessment conducted by the Republic of Croatia in line with the World Bank methodology.

Activities Related to Consumer Protection and Provision of Information to the Public

In 2015, Hanfa received 149 complaints, the majority of which related to the insurance market (49.0%), capital market (12.8%) and leasing market (8.0%). Hanfa continued to be active in the area of consumer protection, educational activities and public information and it developed five educational brochures, which it also published on its website, aimed at users and potential users of financial services, using simple and easily understandable language to explain terms related to capital markets, insurance, investment funds, pension funds and leasing. In order to strengthen the awareness of the need to be familiar with financial products and associated risks when deciding to invest in such products, Hanfa developed an innovative educational campaign, which was conducted through online ads that were linked to a specially designed Hanfa's informational website, where potential investors were warned to be cautious, and they were also informed about the importance of timely information about products and services before entering into a business relationship with financial services providers. Together with the Croatian National Bank and in cooperation with the Ministry of Finance, Hanfa conducted the survey "Measuring the financial literacy", based on the action plan to improve the financial literacy of consumers in 2015. The study was conducted in line with the methodology of the Organization for Economic Cooperation and Development (OECD), and the results will allow a comparison of national levels of literacy of Croatian citizens with the results of surveys in other countries and will be a useful basis for better planning of future educational projects and activities as well as for evaluating their success. In cooperation with universities, Hanfa held three student debates titled "Pension savings – optimal investment strategy" with students, who had prepared for the debate with employees of Hanfa and of pension companies, where they presented their opinions and attitudes in relation to Pillar 2 pension insurance in the Republic of Croatia, with special emphasis on pension fund investments and pension companies business operations. Other informative and educational activities

36 Corrigendum to 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, 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 and Commission Directive 2007/14/EC laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC (OJ L 294, 6.11.2013), OJ L 41/54

37 Official Gazette, No 87/08 and 25/12

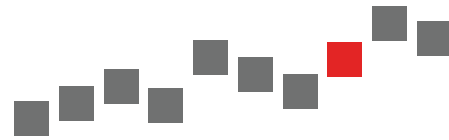
included the announcements on consultations with the interested public in connection with subordinate acts under Hanfa's competence and calls for comments on their content on the central government portal for public consultations with the interested public (e-consultations) and publication of laws and subordinate regulations and their consolidated versions on Hanfa's web site, public announcements about different risk types of investments and financial activities, warnings aiming to protect investors, warnings by ESMA and the International Organization of Securities Commissions (IOSCO) educational texts, frequently asked questions and answers, publications, manuals and information on the results of operations of supervised entities and other notices containing information and announcements from Hanfa's area of work. Hanfa continued to participate in the committees of ESMA and EIOPA dealing with consumer protection and holding various lectures at seminars and conferences of various educational, professional and government institutions, as well as organizing student visits to Hanfa. In 2015, Hanfa also participated in the analysis of the European Bank for Reconstruction and Development to create a legal framework for covered bonds and it cooperated with the World Bank which, in cooperation with the Ministry of Entrepreneurship and Crafts and the Croatian Agency for SMEs, Innovations and Investments, conducts a project with the aim to establish the first Croatian venture capital fund.

Hanfa's General Business Operations and Meetings of the Board and of the Council

Hanfa continued to improve its business processes and internal documents in order to function in accordance with the best practices. Hanfa decided to take part in the ESMA project Financial Instruments Reference Data System, whose aim is to make sure that complex transparency calculations are done in a centralized manner. Since it is the obligation of Hanfa, being the competent authority of a Member State, to merge with EIOPA's systems using a specific data format and model, it was necessary to select and implement a new system for reporting to EIOPA as the first phase of the preparation for reporting in line with the Solvency II Directive. A project funded by the EU IPA programme was initiated, which aims to improve the effectiveness of supervision in the area of non-banking financial services sector in the Republic of Croatia, in accordance with the purposes of the European System of Financial Supervision through the implementation of business intelligence systems. In order to enhance and improve business processes, the European Commission approved two projects in the framework of the Twinning light programme: Transitional instrument – capacity building instrument. For the future period, Hanfa plans to additionally upgrade its information system by implementing internationally recognized standards, by replacing the existing reporting system in order to enable the exchange of data with the Croatian National Bank and to gather reports necessary to establish a system that will enable better functionalities in relation to reporting and data exchange with EU institutions.

In 2015, Hanfa financed its activities from fees from assets and revenue of supervised entities and fees for services provided. Total income amounted to HRK 52.8m, of which 98.7% or HRK 52.2m related to income from fees from assets and revenue of supervised entities, fees for services within Hanfa's competence and other income under special regulations. Total expenditure amounted to HRK 45.1m, of which expenditure for employees reached HRK 31.0m, material expenditure totalled HRK 12.8m, while depreciation expenditure stood at HRK 1.1m. Expenditure for employees, 152 of them in 2015, remained at the same level as in 2014. The decrease in material expenses compared to 2014 was influenced by a reduction in the cost of office space rent, owing to arranging more favourable lease conditions and a reduction in the cost of mandatory membership fees of ESMA and EIOPA due to subsequent reduction of the total budgets of these institutions. The effects of implementing development projects also contributed to the reduction of material expenditure. The implementation of development IT projects, connected with the acquisition of long-term assets, caused an increase in depreciation costs by 7.2% compared to 2014. In 2015, Hanfa realized an excess of income over expenditure amounting to HRK 7.7m that was transferred into the State Budget of the Republic of Croatia at the end of the year.

Hanfa's Board held 85 meetings and adopted 1442 decisions, and the Council had four meetings where its members issued opinions and expert advice for improving the supervisory practice.



Capital Market



1 Capital Market

1.1 Market Overview

In 2015, capital market in the Republic of Croatia was marked by a decrease in investment activity and a continued decrease of market indicators. The total trading volume on the Zagreb Stock Exchange (hereinafter: ZSE) decreased by 9.3% compared to the previous year and amounted to 3.5bn HRK. Trading in shares within the order book³⁸ amounted to HRK 2.4bn, a decrease of 11.5%, while trading in bonds within the order book amounted to HRK 0.29bn, a decrease of 20.7% compared to 2014. Block trades³⁹ in shares amounted to HRK 0.56bn increasing by 45.5%, while block trades in bonds amounted to HRK 0.21bn representing a decrease of 39.5% compared to the year before. This negative trend mostly resulted from the decrease in trading in shares and bonds within the order book as well as the decrease in block trades in bonds. The total market capitalisation recorded an increase of 3.3%, primarily due to the increase in the market capitalisation of bonds. Trades in structured securities decreased by 17.2% whereas their market capitalisation rose by 179.6% compared to the year before. Market indicators showed different trends. The value of main stock indices fell, while bond indices grew slightly. The main stock index CROBEX declined by 3.2%, and CROBEX10 declined by 1.8%. Stock index CROBEX-TURIST increased significantly by 23.7%. CROBIS bond index grew slightly by 5.8%, while CROBIStr, which also includes interest accrued and interest paid, rose by 11.4%.

The year 2015 was marked by listing of shares of companies Tankerska Next Generation d.d. and Granolio d.d. to the official market. Those were the first new listings since 2008 for which funds were collected via an initial public offering. The most important business event was the sale of TDR d.o.o. and the companies belonging to Adris Grupa d.d. for the amount of EUR 505m, which significantly influenced the trading in shares ADRS-R-A and ADRS-P-A, as well as overall trading at the ZSE. A delisting trend was still noticed on the regulated market.

ZSE was recapitalized with the amount of HRK 14.9m, with the European Bank for Reconstruction and Development (EBRD) entering its ownership structure. By acquisition of 100% of shares of the Ljubljana Stock Exchange from the CEE Stock Exchange Group (CEESEG), ZSE completed its takeover process by the end of 2015. Because of the licensing process of the CDCC CCP Smart Clear d.d. company (hereinafter: CDCC CCP), the ZSE carried out activities aiming to introduce changes into the clearing and settlement system.

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. Participants on the regulated market traded in shares, bonds, commercial papers, and structured products financial products, while MTF trading involved shares and rights. The total market capitalisation of admitted financial instruments amounted to HRK 208.9bn at the end of 2015, which is an increase of 3.3% compared to 2014.

Rights are registered dematerialized securities held in name, replaceable only for certain stocks or business shares from the portfolio of the Croatian Government (formerly: Croatian Privatization Fund), after such stocks / business shares are offered for sale by public tenders.

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 multilateral trading facility (hereinafter: 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 ZSE.

Table 1.1 Number of financial instruments on the regulated market and MTF as at 31 December 2015

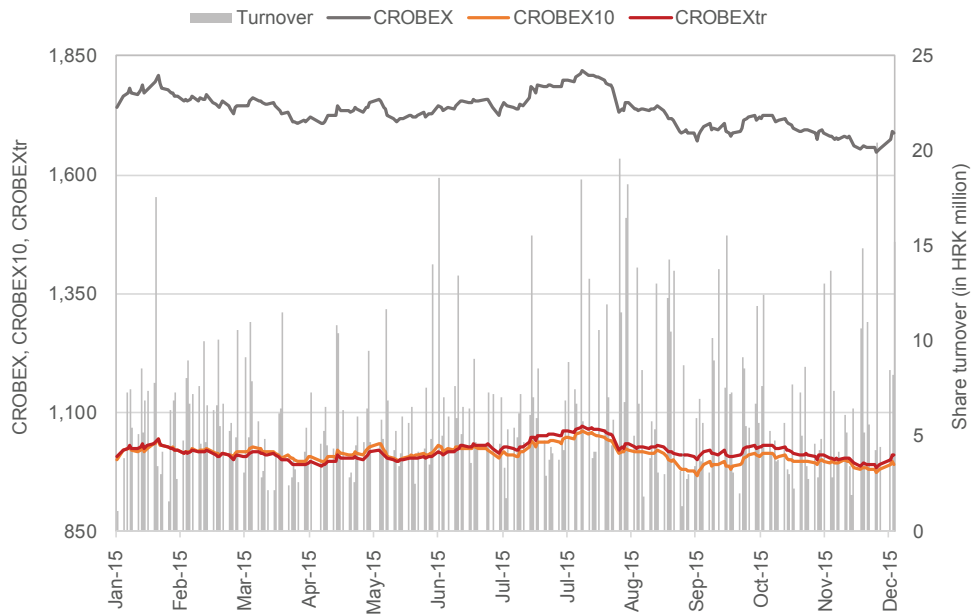
Market type	Number of financial instruments	31 Dec 2014	31 Dec 2015	Change relative to 2014 (in %)
Regular market	Shares	160	152	-5.0
	Official market	23	27	17.4
	Regular market	137	125	-8.8
	Bonds (government, corporate, municipal)	39	38	-2.6
	Official market	36	35	-2.8
	Regular market	3	3	0.0
	Commercial papers	3	0	-
	Službeno tržište	2	0	-
	Redovito tržište	1	0	-
	Structured securities	43	72	67.4
	Official market	0	0	
	Regular market	43	72	67.4
MTF	MTF-Fortis	46	46	0.0
	Shares	44	44	0.0
	Rights	2	2	0.0

Source: ZSE

128 new issues were admitted to the regulated market of the ZSE (two shares, six bonds, three commercial papers and 117 structured securities). A total of 99 financial instruments were delisted from the regulated market (ten shares, seven bonds, six commercial papers and 76 structured products). Bonds and commercial papers and five structured securities were delisted as they became due and the remaining structured securities were delisted because their underlying price hit the knock-out barrier. The shares were delisted because of a bankruptcy (two shares), liquidation (one share), company transformation (one share) and a decision of the General Assembly (six shares). MTF-Fortis recorded 17 new admissions to trading (shares), while the same number of shares was excluded from trading.

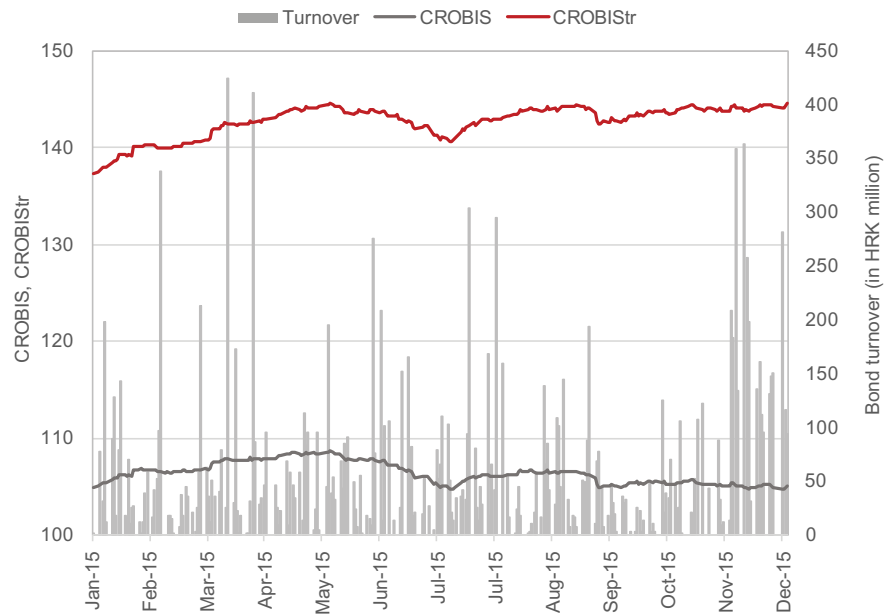
The following chart present changes in the value of stock indices CROBEX, CROBEX10 and CROBEXtr and bond indices CROBIS and CROBIStr.

Chart 1.1 Changes in the values of the CROBEX, CROBEX10 and CROBEXtr indices and in the CROBEX share turnover on the ZSE in 2015



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 2015



Source: ZSE

At end-2015, ZSE had 19 members i.e. one member less than in 2014. Three new contracts with specialists were concluded, and two were terminated, thus at end-2015 there were 15 contracts with specialists. Four members were specialists for ten stocks, of which six stocks had two specialists. One member was responsible for structured securities market.

Members of the Stock Exchange are investment firms and credit institutions that concluded membership contracts with the ZSE.

The Central Depository and Clearing Company (hereinafter: hereinafter: CDCC) was the only entity in the Republic of Croatia in 2015 authorised to manage the central depository of dematerialised securities and operate the clearing and settlement system for transactions in securities concluded on the regulated market and MTF or outside these markets.

Specialist contract is a contract concluded between the Zagreb Stock Exchange and its member and which defines the obligations associated with maintaining the liquidity of certain shares.

Table 1.2 Number of deposited securities

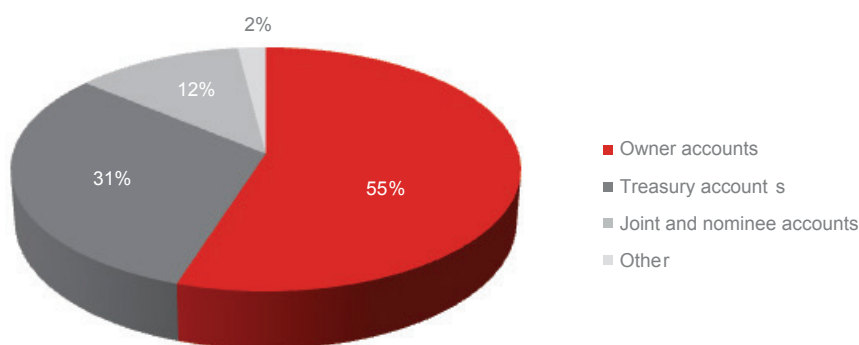
	31 Dec 2014	31 Dec 2015	Change relative to 2014 (in %)
Total	1,052	1,053	0.1
Shares	904	886	-2.0
Bonds	60	66	10.0
Other	88	101	14.8

Source: CDCC

In 2015, there was a significant increase in the total value of transactions settled within the clearing and settlement system managed by CDCC relative to 2014. The total value of transactions amounted to HRK 326.7bn, rising by 13.3% compared to 2014 when this value stood at HRK 288.3bn. Broken down by type of securities, bond transactions were dominant with a 59.5% share (similar to 2014, when this share amounted to 58.1%). They were followed by transactions in treasury bills and commercial papers with 34.2% (35.8% in 2014) and transactions in shares with 6.2% (7.7% in 2014).

On the other hand, share transactions made up 85.7% of the total number of transactions (87.7% in 2014), whereas bond transactions accounted for only 6.0% of the total number of transactions (56% in 2014), despite their large share in the total transaction value. The total number of securities transactions dropped by 13.9% (227.7 thousand compared to 264.6 thousand in 2014), in spite of the increase in their value.

Chart 1.3 Securities accounts structure in the CDCC depository as at 31 December 2015



Source: CDCC

CDCC carried out a total of 1712 corporate actions, which is a 5.6% decrease compared to 1814 corporate actions in 2014. Most of the corporate actions were related to general assemblies (760), followed by removal of securities (181), maturity of the principal (164), cash dividend (96) and increase in the initial capital (94).

In 2015, Hanfa continued with the process of licensing the CDCC-CCP company for the provision of services as a central counterparty in line with EMIR⁴⁰. Along with regular communication with other members of the college of supervisory bodies (Croatian National Bank, ESMA⁴¹), the first official meeting was held in August 2015. In September 2015, following the conclusions of the college of supervisory bodies, Hanfa extended the time period for CDCC CCP to submit the complete documentation, for another six months. The CDCC CCP licencing procedure will continue in 2016.

Hanfa continuously communicated with the CDCC regarding its harmonization with the provisions of the CSDR Regulation⁴², which implies monitoring the procedures related to adoption of regulatory and technical standards of the CSDR, as well as Hanfa's active participation in ESMA's committees within the procedure of their adoption. Within the framework of a working group, Hanfa took part in the preparation of the Act Implementing the CSDR Regulation, falling within the area of competence of the Ministry of Finance, which will come into effect in 2016. CSDR contains measures aimed at improving the safety and efficiency of settlement. It prescribes the unique requirements for the settlement of financial instruments in the European Union, as well as the rules of organization and operation of all central securities depositories in the European Union. For the purpose of continuing to provide the central securities depository services, the CDCC will have to align its operations with the provisions of CSDR. Since all regulatory technical standards of the CSDR Regulation have not yet entered into force, and the CDCC is obliged to submit an application to Hanfa for a work authorization within six months of their entry into force, under the CSDR Regulation, the beginning of CDCC's harmonization with the provisions of the CSDR Regulation is envisaged for 2016. In the harmonization procedure, Hanfa will be the competent authority issuing the work authorisation. During the harmonization procedure, the provisions of national legislation will continue to apply to the CDCC.

In order to improve the market infrastructure, in 2015, a working group was formed with the Ministry of Finance with the aim to achieve interoperability of clearing and settlement system managed by the CDCC⁴³ and the Croatian Large Value Payment System managed by the Croatian National Bank. The working group considered several solutions, as well as the applicable models used at the EU level (e.g. *Target2-Securities* – T2S system). Representatives of the CNB, the CDCC and Hanfa participated in the work of this group. During 2015, several meetings were held, and at the last one, held in November 2015, the working group was expanded with the representatives of the Croatian Banking Association and the leading banks in the Republic of

Interoperability in this context means an adjustment of settlement finality time of orders in terms of the Act on settlement finality in payment and financial instruments settlement systems³⁹ that define these two systems, as well as operating procedures that allow the implementation of orders that are defined by both systems as accepted, final and irrevocable.

T2S is a European platform for securities settlement in central bank money, consisting of 24 European central depositories, which settles the monetary part of a transaction via TARGET2 payment system.

40 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

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

42 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

43 If the request for the provision of services as a central counterparty is approved, the clearing system, within the meaning of the EMIR Regulation, will be managed by the CDCC-CCP and a decision to be proposed by the working group will include the system managed by the CDCC-CCP.

44 Official Gazette, No 59/12

Croatia, which were requested to prepare cost-benefit analysis regarding the introduction of settlement banks service and settlement accounts kept for clients by such banks. Activities aimed at achieving interoperability of those systems will continue in 2016.

1.1.2 Issuers

In 2015, two new issuers listed their shares to the official market of the ZSE – Tankerska Next Generation d.d. and Granolio d.d., after the public offering of shares and increase of the initial capital. Hanfa instructed those issuers on their obligations and manner of publication of regulated information, and gave them initial support in regard to the application of certain provisions of the Capital Market Act⁴⁵ (hereinafter: CMA).

By moving from the regular to the official market, companies Luka Rijeka d.d., Ilirija d.d. and Hrvatska poštanska banka d.d., changed the market segment in which they are admitted. At the same time, newly issued shares of each issuer were admitted to the official market. By changing the market segment, those issuers decided to accept stricter rules concerning the transparent provision of information to the investor community.

Table 1.3 Number of issuers whose securities were admitted to trading on the ZSE regulated market as at 31 December 2015

Number of issuers	Dec 31 2014	Dec 31 2015	Change relative to 2014 (in %)
Regulated market			
Shares	152	144	-5.3
Official market	22	26	18.2
Regular market	130	118	-9.2
Bonds (government, corporate, municipal)	18	19	5.6
Official market	15	16	6.7
Regular market	3	3	0.0
Commercial papers	2	0	-
Official market	1	0	-
Regular market	1	0	-
Structured products	1	1	0.0

Source: ZSE

At the request of the ZSE, Hanfa appointed its representative in the ZSE working group on corporate governance improvement. The purpose of this working group is further intensification of efforts to develop a corporate culture of companies whose securities are listed in the regulated market.

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

1.2 Hanfa's Regulatory Activities

1.2.1 Normative Activities

Amendments to the Capital Market Act

Via Amendments to the Capital Market Act⁴⁶ from 2015, Croatian legislation was, among other things, harmonized with the Prospectus Directive⁴⁷,⁴⁸ Transparency Directive and EMIR Regulation.

The goal of the Prospectus Directive at EU level is to enable the improvement of the internal market functioning by ensuring a high, effective and harmonized level of prudential regulation and supervision, protection of the integrity and efficiency of financial markets and their proper functioning, maintenance of the financial system stability, and strengthening of international supervisory cooperation. In order to align with the Prospectus Directive, there is an introduction of an obligation of the competent authority of the home Member State to submit final details of the offer, which they receive by the issuer, to the competent authority of the host Member State and ESMA, unlike the current legal arrangement, according to which the issuer must submit final details of the offer to the competent authority of the host Member State.

Changes to the CMA, which are connected with the implementation of certain provisions of EMIR are related to regulating the legal basis of central counterparty's business operations in the Republic of Croatia, the consequences of insolvency proceedings against a participant in the clearing and/or settlement system, as well as the mechanism of risk management which enables monitoring and managing exposures to the stock exchange, investment firms and central counterparties and their members.

Amendments to the CMA regarding transparency primarily further regulate the area of financial reporting of issuers whose securities are admitted to trading on a regulated market and the area of administrative measures and sanctions. Regarding the issuers whose shares are admitted on the regulated market and having their registered office in the Republic of Croatia, they still have an obligation to draw up and publish annual, semi-annual and quarterly financial reports. Deadlines for drawing up and publishing semi-annual reports and reports for the fourth quarter are additionally arranged/extender, as well as deadlines of availability of published annual, semi-annual and quarterly reports. Keeping the obligation to draw up and publish those quarterly reports allows to maintain the achieved level of transparency of business operations of the issuers of securities, which is in line with the interests of investors and protection of integrity of the Croatian capital market as a whole. On the other hand, the extension of deadlines for drawing up certain periodic reports reduces the short-term pressure on issuers of securities and encourages investors to come up with a long-term investment vision. Extension of the time period for having the published financial reports available to the public from five to ten years, also means taking into account specificities and requirements of capital market participants.

The transparency regarding the disclosure of corporate ownership is also improved, because notifying about changes in voting rights includes all (new) types of financial instruments which have a similar economic impact as the ownership of shares and the right to acquire shares. An-

46 Official Gazette, No 18/15 and 110/15

47 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

48 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

other issue that is additionally regulated is the possibility to suspend voting rights in case of failure to notify about overriding the prescribed voting rights thresholds, which would be used exceptionally, in cases of serious violations of provisions on notifying about voting rights (for example, in case of deliberate concealment of ownership etc.), making sure that the issuer does not suffer unfavourable treatment owing to a possibility to dispute the decisions of the main assembly where voting rights are (not) realised.

Amendments to the provisions concerning administrative sanctions and measures, including administrative provisions, strengthen the sanctioning powers by prescribing adequate administrative measures and sanctions (violations, sanctioning powers, exercise of sanctioning powers and publication of decisions on sanctions and measures) and set up appropriate levels of administrative fines whose amount is determined with the aim to deter from offences. The administrative measures and sanctions adopted must be published on Hanfa's website. They also enable a more precise definition of the home Member State of the issuers of securities for the purposes of fulfilling the obligation to publish information, and a more precise definition of the home Member State of the issuers from a third country, for the purposes of the prospectus approval. They additionally regulate the Officially Appointed Mechanism for the central storage of regulated information (European access point and harmonized electronic reporting format) governed by Hanfa for the purpose of including into network officially appointed mechanisms of storage and publication of regulated information with the development of technical criteria for the access to regulated information.

Direction of development of the legislative framework of the capital market

Because of the obligation of the Republic of Croatia to implement the MiFID II Directive⁴⁹ into its national regulations, and to enforce the MiFIR Regulation⁵⁰, CSDR Regulation and MAR Regulation⁵¹, in the second half of 2015, Hanfa participated in the preparatory activities intended to enable a successful implementation of changes to the existing legislative framework of the capital market in the future, so that Croatian financial services market could continue to be in step with the European market.

MiFID II Directive, which must be implemented by 3 July 2016, introduces an organized trading facility as a new marketplace where only debt securities can be admitted. For fast-growing small and medium-sized issuers, the MiFID II Directive regulates specially adapted markets within already known multilateral trading facility, while the application area of this regulation was expanded by the introduction of new financial instruments, such as emission allowances. Requirements for the management body of a market operator are defined in more detail, and regarding the regulated market system, there are additional requirements concerning the systems resilience, circuit breakers, electronic trading, tick sizes and synchronisation of business clocks.

Emission allowance means an allowance to emit one tonne of carbon dioxide equivalent during a specified period.

The MiFIR Regulation, which will apply from 3 January 2017, regulates obligations and the manner of information disclosure pre-trade and post-trade, as well as the enforcement of associated measures considering the market conditions, which relate to the market operator an investment firms operating a trading venue.

The CSDR Regulation introduces changes to the work authorisation issuance and the manner of CSD operations as well as the new settlement discipline regime for all market participants, it im-

49 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 (Text with EEA relevance), OJ L 173/349

50 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 (Text with EEA relevance), OJ L 173/84

51 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 (Text with EEA relevance), OJ L 173/1

proves the openness of the Croatian market towards central depositories from other EU member states and it regulates new obligations for settlement internalisers.

Settlement internaliser executes transfer orders on behalf of clients or on its own account other than through a securities settlement system.

During the procedure of amending the existing national legislative framework relating to trading venues, securities settlement and central depository, Hanfa also works on the amendments that are not directly attributable to these regulations, adopted by the European Parliament and the Council of the European Union, but instead they are the result of the need for improving the capital market and removing the irregularities in its functioning and development.

MAR Regulation will start to directly apply in the Republic of Croatia from 3 July 2016. Compared to the former legal framework, this area will be harmonised with new practices, instruments and technologies on the market.

Capital Markets Union

At end-2014, the European Parliament adopted the Investment Plan for Europe by Jean-Claude Juncker, the President of the European Commission, which provides for measures to restart the economic growth after a years-long stagnation and high unemployment rate in the EU Member States. As a part of this plan, a project to establish the Capital Markets Union was presented with the aim to improve the capital market in the European Union.

As the first step in the realisation of this project, at the beginning of 2015, the European Commission initiated several public consultations, about the creation of CMU, measures to encourage investments, the Prospectus Directive, securitization, venture capital funds, covered bonds and the cumulative effect of financial regulations.

At a high-level conference on 8 June 2015, the European Commission announced that the feedback within the consultation showed that a single capital market would help to have more cross-border risk spreading, the creation of more developed and more liquid markets and diversification of financing sources in the economy. In order to achieve those goals, in September 2015, the European Commission launched an action plan which presented priority steps in the realization of the CMA, and, in principle, they related to the launch of high-quality securitization and promotion of long-term investment in infrastructure, and it was also announced that by the end of 2015, a proposal for amendments to the Prospectus Directive will be published so that SMEs could raise capital in a simpler and cheaper manner.

After the European Commission published the official Proposal for the Prospectus Regulation⁵² in late 2015, the European Parliament and the Council started a discussion about the proposal of the new regulation governing the prospectus regime. Due to the high volume of comments received in connection with the differences in the application, the European Commission decided on the proposal for a regulation as the most powerful legislative instrument with direct application. Taking into account publicly announced plans of the Council of the European Union regarding the Prospectus Regulation and the announced period of their realization, it is expected that discussions in the European Parliament and the Council on the Proposal for Prospectus Regulation will last until the end of the first half of 2016, when a common approach of the European Parliament and EU member states in the Council should be reached, with regard to the proposal of this regulation.

Within the framework of the policy for the establishment of the CMU, and following the public debate on securitization conducted by the European Commission in the first half of 2015, Hanfa, in cooperation with the CNB and the Ministry of Finance followed the meetings of the working group of the Council of the EU for financial services regarding the Proposal for the Regulation on

⁵² 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)

securitisation⁵³. The first Proposal for the Regulation on securitisation was adopted in September 2015. The main goal of the work on the Regulation on securitisation was to develop a strong and a reliable securitisation framework in the European Union to promote the integration of EU financial markets. In this sense, apart from the introduction of specific requirements for all types of securitization, there is also a wish to create a framework for a simple, transparent and standardized securitization, the so-called STS securitization (*simple, transparent, standardized*), and in order to ensure the rules under which simple, transparent and standardized products will be better differentiated from complex, non-transparent and risky instruments. The Regulation on securitization is adopted together with amendments to the CRR Regulation⁵⁴, which already contains provisions on securitization relating to capital requirements.

Securitization is a process where a bank or some other institution allocates a certain amount of the loan or other financial asset with predictable cash flows from its balance sheet and converts them into a specific type of security, which is then sold on the capital market.

Given that the adoption of the Regulation on securitization was not completed in 2015, Hanfa will continue to monitor the process and participate in it during 2016.

1.2.2 Licensing

1.2.2.1 Licencing Capital Market Infrastructure Institutions

In 2015, we continued with the process of licensing the CDCC-CCP company for the provision of services as a central counterparty in line with EMIR, which we started in 2014. Hanfa kept continuous communication with CDCC-CCP and with CDCC as the parent body of CDCC-CCP. During February, May and September 2015, CDCC-CCP was given formal conclusions in which Hanfa requested for amendments to the submitted documents, as well as new documents needed to harmonize the company with the provisions of the EMIR Regulation. On 24 April 2015, Hanfa issued three temporary decisions concerning the CDCC-CCP, which will be replaced by three final Hanfa's decisions, after the adoption of the final decision on the CDCC-CCP's request for authorisation to provide services of the central counterparty, pursuant to the EMIR Regulation. Those temporary decisions were related to the authorisation given to the CDCC to perform administrative, accounting, IT and related activities for its affiliated company CDCC CCP, regarding services that CDCC CCP plans to allocate to the CDCC, regarding approval in relation to the appointment of the President of the CDCC CCP's Board and approval to appoint a member of the CDCC CCP's Management Board.

ZSE was authorized to conduct the activities related to the allocation and administration of LEIs (*Legal Entity Identifier – LEI*). The approval for the performance of these activities is granted by the Regulatory Oversight Committee (ROC) headquartered in Basel. Hanfa became a member of the ROC in 2015, and it supported the project of the ZSE with respect to performing this activity.

Hanfa granted prior approval to the ZSE for the acquisition of a holding exceeding 25% of voting rights or holdings in the initial capital of the Ljubljana Stock Exchange.

LEI identification serves to identify entities that engage in financial transactions in the world market of financial instruments. An essential feature of a LEI is its uniqueness, which guarantees an unmistakable identification for different purposes – regulatory (detection of illegal activities), cross-border supervision, financial stability analysis, systemic risk monitoring etc.

53 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)

54 Regulation (EU) 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 (Text with EEA relevance), OJ L 176/1

1.2.2.2 Prospectuses and Takeover Bids

In 2015, Hanfa approved 15 applications for the approval of prospectuses. Twelve applications related to the approval of prospectuses relating to the admission of securities on the regulated market (of which eight related to the approval of prospectuses relating to the admission of shares, and four in connection with the admission of bonds on the regulated market). Three approved issue prospectuses were also used for the purposes of admitting securities on the regulated market. In 2014, seven prospectuses were approved (two issue prospectuses and five listing prospectuses).

Hanfa received a total of 61 notifications 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 2014 it received 40 notifications of this kind. In 58 cases, these notifications related to the exemptions to publish a prospectus when securities are issued. The exemptions were as follows: offering of securities to fewer than 150 natural or legal persons who were not qualified investors (34), offering of securities to investors who are to pay at least EUR 100,000 in HRK equivalent per investor for each single offer (13) and offering of securities exclusively to qualified investors (10). The remaining notifications referred mostly to exemptions related to offering of securities exclusively to qualified investors who participate in pre-bankruptcy proceedings according to the financial and operating restructuring plan.

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

It should be mentioned that, according to Hanfa's data, the offers of securities with the use of exemption from the obligation to publish a prospectus in the capital market raised approximately HRK 6bn, while the public offers of securities with published prospectuses raised a little over HRK 1bn.

Hanfa received a total of 12 notifications of prospectuses, as well as 25 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 (about 67% of all received notified prospectuses). The highest number of notifications were received from regulators in Austria (19) and Luxembourg (10), while fewer notifications were received by the regulators in Ireland (4) and England (2) and the regulator from the Principality of Liechtenstein (2). From the date of Croatian accession to the European Union until 31 December 2015, a total of 27 notifications of prospectuses were received, as well as 81 notifications of supplements to prospectuses.

Notification enables cross-border offers and listing of securities on the regulated market in more Member States, with minimal additional costs for issuers.

Two takeover bids were approved in 2015⁵⁵. Although this may seem as a drastic fall in the number of takeovers, compared to 2014 when six takeover bids were approved, it should be noted that in 2015 nine exemptions from the obligation to publish a takeover bid were registered, while in 2014, six of them were registered. Out of nine reported exemptions from the obligation to publish a takeover bid, the largest number referred to the case where the acquisition of shares leads to an obligation to publish an offer, but 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 (a total of three) and the case where the transfer of shares of the target company did not lead to a change of the person who controls the target company (a total of three). Other exceptions were associated with the pre-bankruptcy proceedings, with a situation when there is a shareholder with a larger number of shares in the

⁵⁵ In accordance with Article 9(1) of the Act on the Takeover of Joint-Stock Companies (Official Gazette, No 109/07, 36/09, 108/12, 90/13, 99/13 and 148/13) 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 shall supervises them in accordance with the provisions of Article 47 of the Act on the Takeover of Joint-Stock Companies.

company, and the acquisition of shares from the person with whom the acquirer previously worked together.

Based on offers in 2015, a total of HRK 71m was paid for the deposited shares, which is significantly less than in 2014, when the amount of HRK 301m was paid for the deposited shares in approved offers. The difference is the result of a fewer takeover bids. Regardless of the fact that in 2015, there were few procedures related to the approval of takeover bids, Hanfa directed most of its activities towards supervisory procedures connected with the determination of obligation to publish takeover bids. Those were complex procedures, with a large quantity of documents that needed to be collected and analysed, and in some cases, numerous witnesses had to be questioned. Some of the supervisory procedures from 2015 will be continued in 2016, due to their complexity. One of those procedures led to a decision determining an obligation to publish a takeover bid. It should be noted that in this type of decision, pursuant to Article 50(3) of the Act on the Takeover of Joint-Stock Companies, the legal effects are postponed until they become legally binding.

During 2015, Hanfa issued four statements clarifying some of the provisions of the Act on the Takeover of Joint-Stock Companies and the Capital Market Act.

Shares that appear in legal transactions in the form of electronic records at the Central Depository Agency are deposited by transfer from the account of shareholders to a special account opened for the purpose of depositing shares in order to accept the takeover offer, from which they are returned to the account of shareholders in the event of withdrawing the shares from the deposit.

1.2.3 Supervision

1.2.3.1 Capital Market Infrastructure Supervision

Supervision of the Zagreb Stock Exchange and trading

On-site supervision of ZSE in 2015 focussed on entire operations in order to establish the risks to which ZSE is or might be exposed in its operations. Supervision included the following areas: financial position of ZSE, management of conflicts of interest, surveillance of issuers, certificates' trading, observation segment, trading control system – ANCOA, suspected manipulation, revision of indices, internal audit and business planning and projects.

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. The following was verified: 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 specialists and 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 2014 accompanied by relevant external auditor's report. Hanfa monitored and analysed the process of the Ljubljana Stock Exchange takeover by the ZSE and adopted the decisions necessary to approve the takeover of the Ljubljana Stock Exchange.

Hanfa carried out on-site supervision of trading in financial instruments on the regulated market and MTF through monitoring stations in real time. 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 abuse⁵⁶, in 2015 the ZSE and investment firms submitted to Hanfa four reports relating

⁵⁶ Official Gazette, No 05/09

to suspicions of market manipulation and five reports relating to insider dealing. Based on the reports received, Hanfa 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 for further action.

Supervision of the Central Depository and Clearing Company

Supervision of the CDCC's business operations was carried out 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, CDCC submitted to Hanfa monthly reports on its operation, notifications of changes in the Management and Supervisory Board, information on holders of qualifying holdings in the CDCC, annual financial statements, annual report, audit report, report on the acquisition or disposal of financial instruments by members of the Management or Supervisory Board or employees of the CDCC, notifications of changes in the membership, cessation of membership and an updated membership list and notifications of any failure on the part of participating members to fulfil the obligations with respect to clearing and/or settlement of transactions on the regulated market and/or MTF, and of any serious breaches of the rules of the CDCC on the part of participating members. In addition, CDCC submitted to Hanfa for approval amendments to the Rules, Instructions and Price List.

Hanfa continued with the supervision of the CDCC's information system, as well as with the monitoring of the implementation of measures to improve this system and risk monitoring, ordered by Hanfa in 2014. On-going supervision of the development of CDCC CCP's information system (a project led by CDCC CCP), which was started in 2014 was continued in 2015. Within the framework of the harmonization process with the provisions of the EMIR Regulation, another on-site supervision of the CDCC CCP's information system was completed in August 2015. A new on-site supervision of the CDCC CCP's information system is planned for 2016, and it will be carried out in the final stages of the licensing process.

Reporting to ESMA and competent authorities of other Member States

Pursuant to Article 41 of the MiFID Directive⁵⁷, 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 2015, Hanfa utilized this portal to submit 67 notifications on suspension removal from trading regarding structured securities, eight notifications on suspension and continuation of trading in shares, one notification on suspension and continuation of trading in bonds and ten notifications on removal from trading concerning shares.

In accordance with Article 11(1) of the Regulation on short selling⁵⁸, based on the notifications received from received from entities obliged to submit data and information received from the Croatian National Bank, Hanfa submitted to ESMA, on a quarterly basis, 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 accordance with Article 7(2) of the Short Selling Regulation and provisions of the Commission Delegated Regulation (EU) No 918/2012⁵⁹, and on the basis of data published on the website of

57 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

58 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 (Text with EEA relevance), OJ L 86/1

59 Commission Delegated Regulation (EU) 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 (Text with EEA relevance), OJ L 274/1

the Ministry of Finance (overview of domestic and foreign bonds and statistics of treasury bill auctions), Hanfa fulfilled its obligation towards ESMA and submitted information on duration-adjusted amount of sovereign debt issued by the Republic of Croatia. In comparison to 2014, in 2015 Hanfa received three times less notifications on significant net short positions in 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 obligations⁶⁰ prescribe the obligations of competent authorities related to calculations, estimates and publication of data for share 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 2015, Hanfa performed an annual update of the MiFID data base, submitted estimates for new listings three times, and updated the database after the publication of the removal from trading.

1.2.3.2 Supervision of Issuers⁶¹

In 2015, Hanfa carried out supervisory, educational and other activities related to regulated information of issuers whose financial instruments were admitted to trading on the regulated market. In the framework of its supervisory activities, Hanfa continuously supervised the publication of regulated information as well as deadlines, locations and content of their publication (if the content is prescribed). In cases where it found a flaw in the preparation and publication of regulated information, Hanfa indicated it to issuers, called for correcting irregularities and gave guidance as to future conduct. Throughout 2015, the Officially Appointed Mechanism for the central storage of regulated information (OAM)⁶², led by Hanfa, received a total of 5,696 pieces of regulated and other information (categories Annual Reports and Quarterly Reports do not include reports with submitted corrections). Reducing the quantity of regulated and other information submitted to OAM compared to 2014 was primarily a result of the reduction in the number of issuers whose securities were admitted on a regulated market during 2015.

Table 1.4 Regulated and other information submitted to OAM

Type of information	Number of reports 2014	Number of reports 2015	Change
Annual reports	334	308	-26
total audited	250	234	-16
consolidated audited	89	85	-4
unconsolidated audited	161	149	-12
total unaudited	84	74	-10
consolidated unaudited	31	26	-5
unconsolidated unaudited	53	48	-5

60 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 (Text with EEA relevance), OJ L 241/1

61 This chapter relates to the supervision of issuers on the regulated market as regards their obligation to disclose information after the admission to trading pursuant to the relevant provisions of the Capital Market Act. These obligations do not relate to issuers whose financial instruments are admitted to trading on the MTF.

62 Submission of regulated information to the OAM in the form of electronic documents signed with advanced electronic signature, in the form and manner laid down in the Decision on the form and manner of submitting regulated information to the Croatian Financial Services Supervisory Agency of 22 December 2011, constitutes the fulfilment of the obligation to submit information to Hanfa.

Type of information	Number of reports 2014	Number of reports 2015	Change
Quarterly reports	918	806	-112
consolidated	301	275	-26
unconsolidated	617	531	-86
Information on changes in the percentage of voting rights	54	64	10
Acquisition and/or disposal of own shares	161	204	43
Information submitted by persons discharging managerial responsibilities in issuers	200	205	5
Inside information	473	370	-103
Inside information – change in disclosed inside information	8	2	-6
Information on changes in number of shares and/or voting rights	6	24	18
Information on number of changes in rights arising from issued securities	3	2	-1
Information on new issues of debt securities	6	8	2
General assembly – information on convocation, counterproposals and decisions	498	394	-104
Annual document containing disclosed information	68	40	-28
Other regulated information	624	465	-159
Other information (non-regulated)	285	271	-14
List of insiders	57	49	-8
Proof of announcements to the media	2756	2445	-311
Proposal of amendments to the statute	6	4	-2
Statements submitted to Hanfa	4	1	-3
Other documents submitted to Hanfa	53	34	-19

Source: Hanfa

In 2015, Hanfa conducted 162 off-site examinations of issuers related to transparency i.e. publication of regulated information, 21 off-site examinations related to acquisition and disposal of issuers' shares by managing persons and 44 off-site examinations related to acquisition and disposal of shares and other financial instruments. Irregularities regarding management of regulated information and maintenance of insider lists were established with three issuers. Hence, they were ordered by Hanfa to improve their internal system of regulated and inside information management. In 2015, Hanfa issued a non-public warning to the president of the board of one issuer, regarding improper handling of inside information, and it also issued a decision with a non-public warning to one issuer due to inadequate handling of regulated information or a delay in their publication.

Within the framework of educational activities aimed at issuers, in 2015 Hanfa, in cooperation with the ZSE and the CDCC, organized the sixth day-long educational assembly, where discussions were led about quarterly reporting and its influence to the transparency of issuers whose securities were admitted to a regulated market.

1.2.3.3 Other Examinations

Within other examinations, the activities were undertaken regarding access to data from trade repositories in a way that Hanfa concluded an agreement and gained access to data in two trade repositories, namely REGIS-TR from Luxembourg and DTCC Derivatives Repository Ltd from London. This is going to be an efficient tool for supervision of non-financial counterparties with their registered office in the Republic of Croatia and their fulfilment of obligations under EMIR. The data in other trade repositories will be made available in 2016.



Investment firms



2 Investment firms

2.1 Market Overview

Number of legal entities that provide investment services and perform investment activities in 2015 did not change compared to the previous year, which suggests that the market⁶³ consolidated after several years of reducing the number of market participants. In the course of the year, no suspension of activities was recorded by any of the legal persons authorized to provide investment services and perform investment activities, while one open-ended investment funds with a public offering management company (hereinafter: UCITS management company) began to provide investment services in the course of the year. In 2015, Hanfa received 142 notices of intention to directly provide investment services on the Croatian territory, while at end-2015, there were 395 investment firms with their registered offices in Member States, authorized to directly provide certain investment services on the Croatian territory.

Table 2.1 Number of active investment firms, credit institutions providing investment services and performing investment activities and UCITS management companies with their registered office in the Republic of Croatia^{64,65}

Date	Investment firms	Credit institutions	UCITS management companies
31 Dec 2013	9	16	6
31 Dec 2014	8	15	7
31 Dec 2015	8	15	7

Source: Hanfa

Income from provision of investment services and performance of investment activities

Total income of investment firms, credit institutions and UCITS management companies authorised to provide investment services and perform investment activities in accordance with the Capital Market Act⁶⁶ increased in 2015 by 23.4% compared to the preceding year. The largest part of the income (99.2%) was generated by credit institutions, whereas income generated by investment firms and UCITS management companies was significantly lower (0.5% and 0.3% respectively) which indicates that credit institutions are the most important participant of this financial market segment.

The increase in credit institutions' income (23.4%) accounted for the largest share in the increase of total income, while income of investment firms increased by 19.7% compared to the previous year. Income generated by UCITS management companies increased by 45.9%, due to the increase in the value of assets relating to the portfolio management and associated fees.

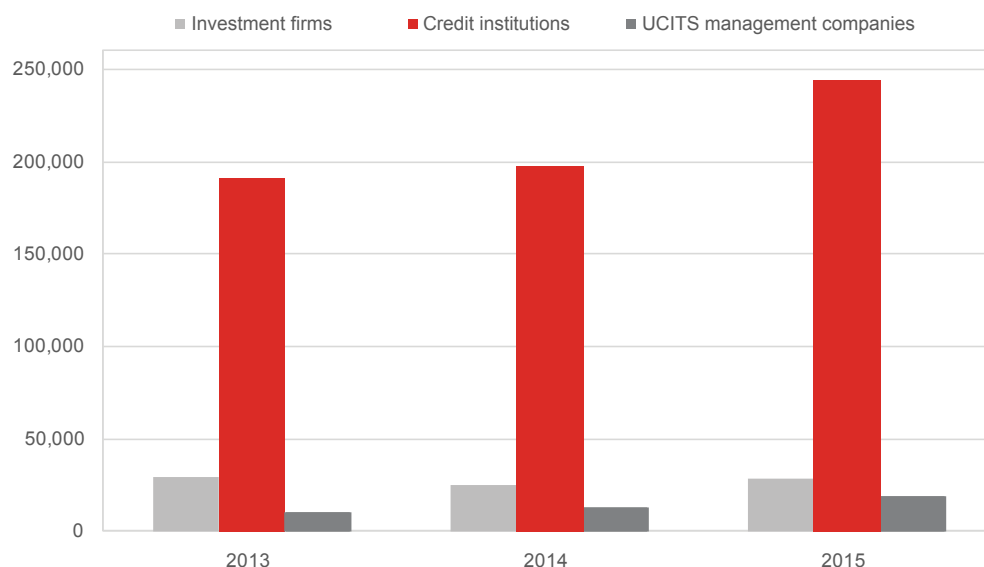
63 The data for earlier periods presented in Hanfa's Annual Report 2015 may differ from the data in reports 2013 and 2014 due to the application of the provisions of the Accounting Act (Official Gazette 109/07, 109/07, 54/13 and 121/14), Leasing Act (135/06 and 141/13), International Financial Reporting Standards, changes in reporting methodology, as well as due to actions taken by leasing companies in accordance with Hanfa's instructions. "

64 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 of their intention to provide investment services and perform investment activities in the Republic of Croatia under the freedom-of-services provisions are not included in this report.

65 The list of Hanfa's supervised entities is available at www.hanfa.hr

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

Chart 2.1 Total income of legal persons authorised to provide investment services and perform investment activities from 2013 to 2015 (in HRK thousand)⁶⁷



Source: Hanfa

The major part of income generated by credit institutions was accounted for by income from placing of financial instruments without a firm commitment basis (32.4% of total income⁶⁸) and custodianship (12.3% of total income). Income from the reception and transmission of orders and execution of orders on behalf of clients was a relatively minor part of income reported by credit institutions (5.4%). Income from the execution of orders on behalf of clients was the most significant part of income generated by investment firms (5% of total income), as well as the income from financial instruments underwriting (1.7%). Market segment relating to the UCITS management companies' portfolio management services recorded a significant growth in income in relation to the previous year (46.8%), accounting for 6.4% of total income.

Table 2.2 Total income from provision of investment services and performance of investment activities in 2014 and 2015 (in HRK thousand)

	2014				2015			
	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	19,977	15,498	0	35,475	18,885	15,804	0	34,689
Income from portfolio management	542	434	12,693	13,670	561	444	18,631	19,636
Income from investment advice	554	7	145	707	0	10	118	128
Income from underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis	0	41,164	0	41,164	0	1,525	0	1,525

67 Total income from the provision of investment services and performance of investment activities is shown exclusive of income from dealing on own account.

68 Proportions are depicted in relation to total income of legal entities authorised to provide investment services and perform investment activities without income from dealing on own account.

	2014				2015			
	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 without a commitment basis	681	42,215	0	42,896	5,104	94,625	0	99,730
Income from safekeeping and administration of financial instruments for the account of clients, including custodianship	889	34,013	0	34,901	972	35,907	0	36,879
Income from granting credits or loans to an investor to allow them to carry out a transaction	17	2,296	0	2,314	77	3,452	0	3,529
Income from advice to undertakings on capital structure, industrial strategy and related matters	1,623	8,359	0	9,983	2,331	32,942	0	35,272
Total income	24,284	143,987	12,839	181,109	27,930	184,709	18,749	231,388

Source: Hanfa

Assets under management and custody of financial instruments

The total value of assets under management increased by 289.9% at the annual level, and the most significant contribution to this growth was provided by UCITS management companies with a share of 98.6% in total assets, an increase of 301.8% annually. The reason lies in the fact that one UCITS management company, which manages assets of one insurance company started to provide investment services in 2015, and on 31 December 2015 had a share of 72.5% of total assets under management. Total assets under custody of financial instruments decreased by 0.3%, with the highest share of 99.3% taken by credit institutions, a decrease of 0.5%.

Table 2.3 Portfolio and custody assets as at 31 December 2014 and 31 December 2015 (in HRK thousand)

	Portfolio management		Change in %	Custody of financial instruments		Change in %
	31 Dec 2013	31 Dec 2015		31 Dec 2014	31 Dec 2015	
Investment firms	21,274	32,236	51.5	280,908	412,357	46.8
Credit institutions	36,851	40,808	10.7	62,029,268	61,717,258	-0.5
UCITS management companies	1,294,849	5,202,635	301.8	0	0	0.0
Total	1,352,974	5,275,679	289.9	62,310,176	62,129,614	-0.3

Source: Hanfa

Investment firms' annual financial statements

As at 31 December 2015, the most significant share of the investment firms' total assets structure was made up from financial assets (70.9%), with a decrease of 8.5% and cash and receivables (20.5%) with a decrease of 20.1% at the annual level. Total assets of all investment firms decreased by 10.8% at the annual level. Total liabilities of investment firms are made up from capital and reserves, with 37% share and 1.8% decrease, and commitments with 63% share and 16.8% decrease at the annual level.

Table 2.4 Statement of financial position of investment firms as at 31 December 2014 and 31 December 2015 (in HRK thousand)

Assets		31 Dec 2014	31 Dec 2015	Change (in %)
1.	Tangible and intangible assets and long-term investments	8,939	8,585	-4.0
2.	Cash and receivables	25,813	20,613	-20.1
3.	Financial assets	77,746	71,155	-8.5
	Total assets	112,499	100,353	-10.8
Liabilities				
1.	Capital and reserves	36,493	37,146	1.8
2.	Payables	76,005	63,207	-16.8
	Total liabilities	112,499	100,353	-10.8

Source: Hanfa

In 2015, investment firms made an after-tax profit of HRK 3m, which represents an 11.7% 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 (79.9%) with a 15% increase, interest income (13.1%) with 86.6% increase and realised income on financial assets measured at fair value through profit and loss account (3.3%) with a 16.7% increase. In the expense structure, general operating costs accounted for the share of 62.3% with a 25.5% increase, while expenses on fees and commissions for investment services provided accounted for the share of 26.1% with a 7.9% decrease.

Table 2.5 Statement of comprehensive income of investment firms for 2014 and 2015 (in HRK thousand)

	2014	2015	Change (in %)
Income from fees and commissions for investment services provided	24,987	28,732	15.0
Expenses from fees and commissions for investment services provided	9,297	8,564	-7.9
Realised income on financial assets	1,009	1,178	16.7
Realised expenses on financial assets	680	2,271	234.1
Unrealised income on financial assets	420	117	-72.2
Unrelised expenses on financial assets	181	174	-3.6
Interest income	2,527	4,714	86.6
Interest expenses	316	847	167.9
Positive exchange rate differences	772	205	-73.4
Negative exchange rate differences	191	246	29.2
Total other income	745	1,014	36.0
Total income	31,355	35,960	14.7
Total expenses	27,337	32,748	19.8
Pre-tax profit or loss	4,018	3,212	-20.1
Profit tax	732	140	-80.9
Profit or loss	3,286	3,072	-6.5
Total comprehensive income	3,290	2,904	-11.7

Source: Hanfa

Aggregated financial indicators of investment firms

Considering a years-long market consolidation accompanied by a decrease in the number of legal persons providing investment services and performing investment activities, a decrease in investment firms' total assets, disinvesting of certain firms and a decrease in market liquidity, aggregated financial indicators of investment firms did not change significantly compared to the previous year, thus indicating a partial market stabilization. Lack of significant changes in rate of return indicators and indicators of meeting regulatory requirements on the annual basis leads to the conclusion that a significant growth of liquidity on the regulated market was not achieved, nor the increased activity of investors.

Table 2.6 Aggregated financial indicators

	2014	2015
Ratios (in %)		
Debt ratio	70	62
Return on assets	3	3
Return on equity	10.4	8.2
Capital adequacy ratio	33.10	34.3
Amounts (in HRK thousand)		
Total risk exposure	72,886	70,613
Total regulatory capital	24,182	24,249
Aggregated profit/loss	3,286	3,072
Aggregated assets	112,499	100,353

Source: Hanfa

2.2 Hanfa's Regulatory Activities

2.2.1 Normative Activities

Amendments to the Capital Market Act

The BRRD Directive⁶⁹, which lays down rules and procedures relating to the recovery and resolution of the financial institutions that are established in the Union, financial holding companies, parent financial holding of investment firms and credit institution, was transposed into the Croatian legal system via the Act on Recovery and Resolution of Credit Institutions and Investment Firms⁷⁰, Act on Amendments to the Capital Market Act⁷¹ and the Act on Amendments to the Credit Institutions Act⁷².

Significant number of Hanfa's activities regarding the BRRD Directive were related to participation of Hanfa's employees in the preparation of the draft proposal of the Act on Recovery and Resolution of Credit Institutions and Investment Firms and the draft proposal of the Act amending the

69 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 (Text with EEA relevance), OJ L 173/190

70 Official Gazette, No 19/15

71 Official Gazette, No 18/15

72 Official Gazette, No 19/15

Capital Market Act, falling within the area of competence of the Ministry of Finance, as well as the adoption of the Ordinance on investment firms' recovery plans⁷³.

The Act on Amendments to the Capital Market Act came into force in early 2015. Changes were connected with the implementation of certain provisions of the EMIR Regulation⁷⁴ regarding the regulation of the legal basis for the central counterparty's business operations in the Republic of Croatia, the consequences of insolvency proceedings against a participant in the clearing and/or settlement system, as well as the mechanism of risk management which enables monitoring and managing exposures to the stock exchange, investment firms and central counterparties and their members. The amendments introduced in the new institute, recovery plan investment companies.

Regulations adopted under the amendments to the Capital Market Act

In the first quarter of 2015, Hanfa adopted the Ordinance on investment firms' recovery plans⁷⁵, 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 and the criteria to determine a recovery plan on a smaller scale and the frequency of its update. A recovery plan must include a summary of key recovery elements, information on governing, a strategic analysis, communication and public disclosure plan and the analysis of preparatory measures.

Recovery plan shall be developed and implemented by an investment firm which is obliged to have the initial capital in the amount of HRK 6,000,000m minimum, and which is not subject to consolidated supervision under Articles 265 and 267 of the CMA, the one that is the parent investment company in the European Union with registered offices in the Republic of Croatia, for its group and the company which is ordered so by Hanfa in a separate decision, if it finds the occurrence of circumstances for the imposition of additional supervisory measures to manage the risks under the CMA.

Participation in the activities of EU institutions

Pursuant to the provisions of the CRD IV Directive⁷⁶ and the CRR Regulation⁷⁷ which lay down that by 31 December 2015, the European Commission shall report to the European Parliament and the Council on an appropriate regime for the prudential supervision of investment firms, Hanfa's employees, in cooperation with the representatives of the Croatian National Bank (hereinafter: CNB) participated in the EBA's boards⁷⁸ and the analysis in question conducted by the EBA. Based on the analysis, three recommendations were presented to the European Commission i.e.:

- new categorisation of investment firms distinguishing between systemic and non-systemic investment firms, and development of a prudential framework for non-systemic investment firms
- development of a specific prudential framework for non-systemic investment firms so that special rules could be developed with regard to risks arising from the provision of investment services
- extension of the exemption from the application of certain provisions of the CRR Regulation for companies trading in commodity derivatives by 31 December 2020.

73 Official Gazette, No 26/15

74 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, (Text with EEA relevance), OJ L 201/1

75 The list of ordinances adopted by Hanfa in 2015 is provided in the Appendix.

76 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

77 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 L 176

78 European Banking Authority – EBA is an association of European banks with more than 600 members, and its purpose is cooperation in a number of banking operations, standardization of banking techniques and notifying Member States. More details about EBA are provided in Chapter 9.1.1. Participation in the work of EBA.

In terms of those recommendations, concrete decisions of the European Commission regarding the appropriate regime for the prudential supervision of investment firms are expected in the coming period, i.e. the revision of the CRD IV Directive.

Amendments to the Regulation (EU) No 1093/2010⁷⁹ define the competence of EBA regarding certain EU directives (e.g. CRD IV package, BRRD etc.), which also made EBA a supranational supervisory body for all supervisory bodies responsible for the implementation of those directives. In this sense, as the supervisory authority for investment firms regarding the above mentioned directives, Hanfa has to submit reports to EBA about business operations of investment firms, as well as about their compliance with regulatory and implementing standards and other regulations adopted by EBA, which relate to business operations of investment firms.

2.2.2 Licensing

Hanfa issued 13 authorisations to brokers and 10 to investment advisors. These authorizations were entered in the Register of brokers i.e. Register of investment advisors, maintained by HANFA. Nine terminations of operating licence validity for brokers and four terminations of operating licence validity for investment advisors were also entered into those registers, with regard to termination of work contracts in investment firms / credit institutions / UCITS management companies to manage UCITS funds in which they were employed.

Three authorisations were granted to tied agents. One authorisation was granted to a natural person, while two were granted to legal persons. Tied agents, on behalf of an investment firm, provide promotional services, offer services, receive and transmit orders of clients, place financial instruments and provide advice to clients in respect of financial instruments and services offered by the investment firm. The investment firm is fully responsible for their work. Termination of operations was determined for one tied agent (legal entity) considering that they ceased to perform the activities of a tied agent.

One UCITS management company requested an authorization to extend its activities of providing investment services to the provision of investment advice and portfolio management, in accordance with the provisions of the CMA. During the licensing process, the applicant withdrew the request for the authorization to provide investment services. Pursuant to provisions of the General Administrative Procedure Act⁸⁰, Hanfa suspended this procedure, as well as the procedure of issuing licenses for investment advisors associated with this request of the UCITS management company to provide investment services in accordance with the provisions of the CMA.

Table 2.7 Authorisations and approvals

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

Source: Hanfa

79 Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC, OJ L 331/12

80 Official Gazette, No 47/09

Table 2.8 Terminations of operating licences

Terminations of operating licences	2014	2015
Brokers	15	9
Investment advisors	11	4
Tied agents	1	1

Source: Hanfa

Hanfa issued one decision granting exemption to one investment firm from the application of Article 5(5) of the Ordinance on the organisational requirements for provision of investment services and performance of investment activities and ancillary services, on remuneration policies and on criteria for significant investment firms⁸¹ in a way that the investment firm is enabled to have the relevant person carrying out the task of monitoring compliance with the relevant regulations, to be included in the provision of services or activities they supervise. In this particular case, the investment firm proved that it will continue with its operations duly and independently.

There were no requests for the approval of the acquisition or increase of qualifying holdings in investment firms of natural and legal persons from 20%, 30% or 50%, however Hanfa's activity was focused on changes of holders of qualifying holdings and the amount in investment firms at the level not subject to approval under the provisions of the CMA.

Two investment firms were given authorizations to perform additional and other activities, pursuant to provisions of the Ordinance on additional activities of investment firms⁸². The authorizations related to the education of capital market participants and consumers, insurance representation, marketing of units in investment funds and offering of pension schemes. Other activities included publishing, IT and similar activities, commodities buying and selling and marketing.

Hanfa issued one opinion on the establishment of a branch of a foreign investment firm in the Republic of Croatia and on the obligations of such branch. The applicant was given a detailed explanation of the sequence of activities needed to establish a branch and they were informed about the obligations of the branch regarding Hanfa, as well as its obligations during business operations in the Republic of Croatia.

In 2015, Hanfa received 142 notices of intention to directly provide investment services on Croatian territory. At-end 2015, there were 395 investment firms with their registered offices in Member States which are authorized to directly provide certain investment services on Croatian territory. Of the total number of received notifications in 2015 that related to direct provision of investment services in Croatia, 62% (88 investment firms) of notifications were connected to firms with registered offices in the United Kingdom. This was followed by Cyprus with 32 investment firms, five investment firms had registered offices in Malta, three firms in Germany, two in Gibraltar and one investment firm in Austria, Ireland, France, Finland, Greece, Luxembourg, Poland and Hungary respectively.

Freedom of capital movement within the EU enables investment firms from EU member states to provide investment services on the Croatian territory without prior approval by Hanfa. Under the provisions of the CMA, an investment firm from a third country (outside the European Union) may provide investment services on the Croatian territory only with prior approval by Hanfa.

81 Official Gazette, No 31/14

82 Official Gazette, No 98/14

2.2.3 Supervision

2.2.3.1 On-Site Supervision

In 2015, Hanfa initiated nine on-site examinations in investment firms, UCITS management companies and credit institutions. Two regular on-site examinations of investment firms were initiated, relating to provision of investment and ancillary services, one of which included a control information system, as well as an associate direct control. Three regular on-site examinations of UCITS were initiated regarding the provision of investment services of portfolio management and investment advice, as well as implementation of provisions of the EMIR Regulation in connection with derivatives trading. Three regular on-site examinations of credit institution were initiated regarding the provision of investment and ancillary services.

In 2015, Hanfa issued one decision concerning the supervision launched in 2014, which contains measures to improve operations, and measures to eliminate violations and irregularities. Measures were issued due to breaches of the provisions of the Capital Market Act and ordinances founded on this Act, and were related to:

- failure to report personal transactions of relevant persons
- failure to report procedures when trading in securities
- failure to notify Hanfa on transactions with financial instruments admitted on the regulated market
- failure to notify the ZSE on transactions with financial instruments admitted on the regulated market concluded outside the regulated market or MTF

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.

Violations and irregularities found in other on-site examinations were eliminated by the supervised entities before any decisions on appropriate supervisory measures, or the examination process is still under way.

Regarding the violations and irregularities found during the examination process, Hanfa issues a decision with measures to improve business operations of a supervised entity, unless the supervised entity removes all violations and irregularities during the supervision process on its own, and submits evidence thereof. After the elimination of violations and irregularities, Hanfa issues a decision establishing that all violations and irregularities were removed and the examination process is suspended. In 2015, five decision were issued regarding the suspension of the supervision process considering the fact that violations and irregularities were eliminated during the examination process. Three of those decisions related to examinations from 2015, and two to examinations initiated in earlier years.

2.2.3.2 On-Site Supervision

Within the framework of on-site supervision, Hanfa 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. Apart from the control of supervisory reports, Hanfa also analysed quarterly financial reports and reports on investment firms' capital adequacy.

On a weekly basis, Hanfa examined and analysed data related to the protection of clients' assets i.e. data on the clients' funds disposal, which were submitted via mandatory forms (general data on transaction accounts, report on clients' funds, report on transactions in business purpose accounts, report on realised volume and calculated income from the provision of investment services) and periodically sought and checked the documentation that served as a basis for the information provided. The results of such data analysis are serve as an indicator to initiate or en-

hance on-site and off-site supervisions. Furthermore, data on the number of clients with more than HRK 150,000 in investment firms were analysed as well as maximum possible activation amount of the Investor Protection Scheme per investment firm.

In early 2015, Hanfa conducted an analysis of the manner in which investment firms conduct a continued assessment of risks arising from holding the clients' assets with third parties (primarily domestic and foreign credit institutions) as well as the analysis of written assessments of third party adequacy made by investment firms. Since the results of the analysis showed significant differences in assessing the stability of a third party by investment firms, in June 2015 Hanfa adopted the Guidelines for conducting assessment of the adequacy of the third party for holding the assets of clients, which are intended for legal entities which, in accordance with the provisions of the CMA, have an authorization to provide investment services and perform investment activities and ancillary services, and are also authorized to hold money and/or financial instruments of clients. These guidelines regulate the manner of conducting the assessment of the adequacy of the third party storage for holding the assets of clients, as well as minimum criteria to be taken into account in doing so.

Hanfa issued one decision with measures whereby one investment firm was ordered to make an appropriate assessment of the adequacy of third parties for holding the assets of clients.

Pursuant to the Ordinance on investment firms' recovery plans (which, for certain investment firms, prescribes the manner of designing recovery plans to be applied in order to improve the financial position of the company in the event of its significant deterioration), investment firms submitted the first recovery plans to Hanfa within the prescribed timeframe, until 1 September 2015, and Hanfa analysed them afterwards.

In order to control the activities of investment firms under the EMIR Regulation, Hanfa supervised trading in derivatives and their reporting to trade repositories.

In relation to supervised entities whose clients trade in complex financial instruments, Hanfa supervised the application of service suitability assessment. Selected credit institutions and investment firms were asked to provide data on clients who traded in complex financial instruments, questionnaires to assess the suitability and internal regulations which prescribe how firms should deal with suitability assessments.

In accordance with the Decision on implementation of international restrictive measures⁸³, Hanfa is responsible for supervising the implementation of the Act on International Restrictive Measures⁸⁴, so in relation to investment firms it supervised measures that those firms established for the implementation of the provisions of the said Act, as well as records of foreign customers who hold assets (funds, financial instruments) in accounts open by the firms and/or who traded via such firms.

The purpose of the Investor Protection Fund is to protect the Fund members' claims when a Fund member is not able to pay and/or return to the Client if a bankruptcy proceeding has been initiated against that Fund member or if the Hanfa determines that the Fund member cannot meet its obligations to clients.

Clients' claims are ensured up to the value of HRK 150,000 per Fund member's client, and Fund members are, in short, all investment companies and credit institutions providing investment services, companies for managing investment funds and some foreign investment companies' branches.

Complex financial instruments are instruments whose value is tied to the value of another instrument or asset. They often contain a leverage, and the understanding of their functioning and risks associated with this kind of investment requires a higher level of knowledge and experience than regarding simple financial instruments (stocks, bonds, etc.). For example, complex financial instruments are certificates, options, futures, contracts for difference (CFDs) etc.

83 Official Gazette, No 78/2011

84 Official Gazette, No 139/08 and 41/14

In 2015, ESMA⁸⁵ controlled the supervisory practices which supervisory bodies use in relation to the application of the Guidelines on certain aspects of MiFID requirements regarding the appropriateness. Within the framework of this control, ESMA's representatives visited Hanfa in October and conducted an on-site examination. According to the conclusions of ESMA's team, Hanfa's employees possessed detailed knowledge about the consultancy market and about licensed companies providing such services in the territory of the Republic of Croatia. It was also noted that Hanfa's organizational structure for supervision of such entities was adequate, as well as the level of communication between relevant departments. Furthermore, the team of ESMA noted that, even though the level of on-site examinations was satisfactory, the supervision of the appropriateness assessment was carried out to a limited extent, but ultimately this was understandable taking into account the extremely limited range of the provision of investment advice to retail investors by supervised entities, which more often provide portfolio management services. Regarding the appropriateness assessment, it was noted that Hanfa organized examinations and granted licenses to investment advisors (natural persons who provide investment advice and portfolio management services), which is a regulatory practice that surpasses standards in the majority of Member States. This is an example of a regulatory practice that surpasses standards in the majority of Member States.

In 2015, Hanfa monitored whether and how the investment firms with registered offices in another EU member state provided services to investors in Croatia. It was determined that one notified firm offered investment services on the territory of the Republic of Croatia contrary to the CMA, in a way that it offered investment services on the Croatian territory via a third country firm, which is not in line with the provisions of the CMA or the provisions of the MiFID Directive⁸⁶.

In connection with this case, and with a view to protect the investors, Hanfa issued a warning for the public regarding the risks of entering a business relation and activities of the third country firm. After informing the notified firm in question and the competent regulator about the problematic activities, Hanfa issued a decision whereby the notified firm was prohibited from the direct provision of services on the Croatian territory. After the notified firm provided evidence about starting to provide the investment services on the Croatian territory in line with the provisions of the CMA and the provisions of the MiFID Directive which regulate cross-border provision of investment services, Hanfa suspended the prohibition to provide investment services on the Croatian territory, regarding the firm in question.

If Hanfa establishes that a particular company or individual from another EU Member State or from a third country offers investment services to Croatian investors contrary to the provisions of the CMA, it notifies the public by publishing a warning on its website and taking other actions at its disposal, in accordance with the provisions of the CMA.

2.2.4 Examinations Taken by Candidates for Brokers and Investment Advisors

Hanfa organised an examination cycle for brokers and an examination cycle for investment advisors. Both examination cycles consisted of two examination terms, and according to the Ordinance on the requirements for professional training and examination of professional knowledge required to obtain authorisation to carry out insurance representation or insurance/reinsurance brokerage business⁸⁷ valid at the time, the right to take the exam in the second examination term

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

86 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

87 Official Gazette, No 80/10 and 26/15. The ordinance ceased to apply with the day of entry into force of the Ordinance on the educational programme and examination for certified managers of pension funds, certified managers of pension insurance companies, brokers and investment advisors (Official Gazette, No 133/15). According to the new Ordinance, candidates may apply to take the exam in the first or second exam term, and in the second exam term, the candidates who did not pass it in the first term can also take the exam.

was awarded only to those candidates that had taken the exam in the first examination term but had failed it.

The examination of professional knowledge required to obtain a broker's licence was taken by 161 candidates, and passed by 71 of them. The examination of professional knowledge required to obtain investment advisor's licence was taken by 83 candidates, and passed by 70 of them.

The educational programme for acquisition of professional knowledge required to obtain broker's and investment advisor's licence did not take place due to an insufficient number of candidates who had applied for the programme.





Investment funds



3 Investment funds

3.1 Market Overview

The investment funds market⁸⁸ was marked by a stagnation in 2015 despite a noticeable growth in the value of total assets of investment funds in the first half of the year and by the recovery of the real economic activity. The number of open-end investment funds with public offering (hereinafter: UCITS fund) increased by three compared to the same period last year, and two umbrella funds⁸⁹ were established. In addition, four funds of the same company with defined maturity began their activities; they are classified as other funds. The number of alternative investment funds (hereinafter: AIF) remained unchanged compared to the previous year.

3.1.1 Management Companies

At end-2015, there were 20 registered companies managing investment funds^{90,91} three fewer than in the same period the year before. Eight companies managed UCITS and AIFs, seven companies managed only UCITS and five companies managed only AIFs. In 2015, Hanfa received a total of 35 notifications from competent authorities of other Member States, and by the end of 2015 it received a total of 66 notifications relating to the intention to conduct cross-border marketing of units of investment funds or to carry out investment fund management activities.

As at 31 December 2015, 11 investment fund management companies were directly owned by residents, seven companies were indirectly owned by non-residents and two companies were directly owned by non-residents. Management companies making a part of a banking group managed 89.5% of UCITS assets, while three management companies making a part of a banking group managed 12.5% of AIF assets at the end of 2015⁹⁴.

88 Historical data in Hanfa's Annual Report 2015 may differ from the data earlier reports due to the application of the provisions of the Accounting Act (Official Gazette 109/07, 54/13 and 121/14), International Financial Reporting Standards, changes in reporting methodology, as well as due to actions taken by supervised entities in accordance with Hanfa's instructions.

89 An umbrella fund is a UCITS fund that consists of two or more sub-funds and as such does not have a legal personality.

90 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.

91 The list of Hanfa's supervised entities is available at www.hanfa.hr.

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

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

94 For corrected data, see page 190.

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 that manages the fund 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 Offering⁸⁸, 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 safe-keeping 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 Act⁸⁹. Duties of depositories in the Republic of Croatia are carried out by credit institutions.

Investment fund management companies realised an after-tax profit in the amount of HRK 53.1m, an increase of 18.2% compared to 2014. There was a decrease in overheads and administrative operating expenses in the amount of HRK 6.8m, with a more pronounced increase in net results from fees from investment funds management, compared to the previous year. At end 2015, the largest share in total assets was accounted for by financial assets (74.7%), while the largest share in total liabilities was made up of capital and reserves (79.5%).^{95,96}

3.1.2 Open-Ended Investment Funds with Public Offering

In 2015, the declining trend regarding the number of UCITS was halted, and the total number of funds increased by three compared to the previous year. The rise in the number of UCITS was largely the result of the increase in the number of other funds by five, which can be attributed to the establishment of four new funds with a defined time frame. As at 31 December 2015, three funds were in the process of liquidation.

In 2015, two UCITS were removed from Hanfa's register, eight new UCITS were established and there was one merger.

Table 3.1 Comparison of the number of UCITS as at 31 December 2014 with that as at 31 December 2015

UCITS	31 Dec 2014	31 Dec 2015
Cash	21	20
Bond	10	11
Balanced	10	9
Equity	28	27
Other	13	18
Total	82	85

Source: Hanfa

Table 3.2 Net assets of UCITS as at 31 December 2014 and 31 December 2015 (in HRK thousand)

	31 Dec 2014	Share (%)	31 Dec 2015	Share (%)	Change (in %)	Payments in 2015	Payouts in 2015
UCITS	12,978,397		13,857,695		6.8	23,685,383	22,963,666
Cash	9,180,308	70.7	9,256,527	66.8	0.8	19,232,892	19,218,255
Bond	934,891	7.2	1,457,602	10.5	55.9	1,073,199	580,745
Balanced	749,768	5.8	809,312	5.8	7.9	620,668	604,091
Equity	1,696,259	13.1	1,630,344	11.8	-3.9	2,348,202	2,425,513
Other	417,172	3.2	703,910	5.1	68.7	410,422	135,063

Source: Hanfa

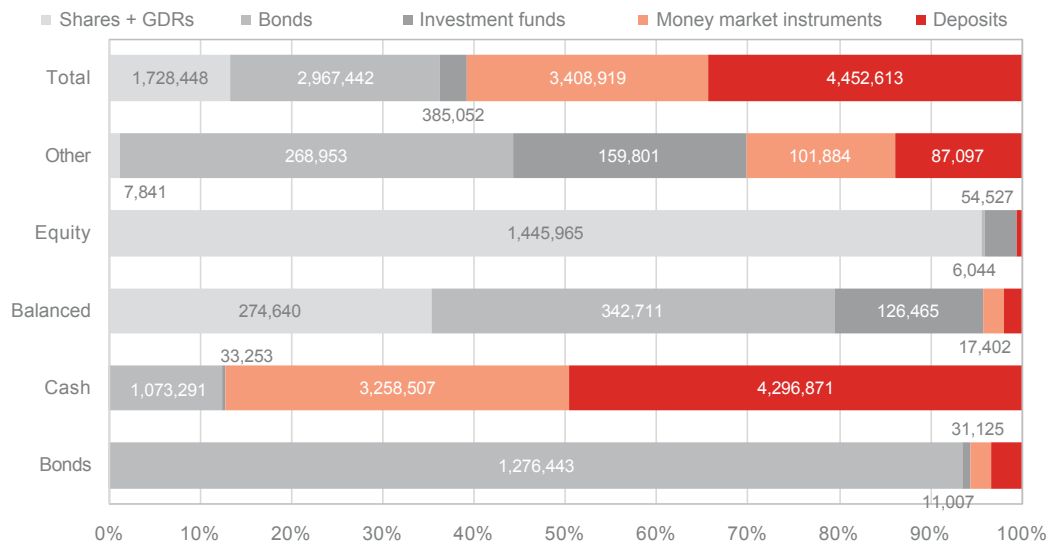
⁹⁵ The Statement of financial position and the Statement of comprehensive income of investment fund management companies are provided in the Appendix. These financial statements are not complete for the reporting period because some firms report less frequently in line with the statutory provisions.

⁹⁶ For corrected data, see page 190.

UCITS' net assets increased compared to 2014, totalling HRK 13.9bn at the end of 2015. Increase in net assets of UCITS funds was mostly due to the increase in net assets of bond funds. The category of other funds recorded an increase in the total value of net assets in the amount of HRK 0.3bn due to the already mentioned establishment of new funds with a defined time frame. On the other hand, the net asset value decreased only for equity funds, which can be connected with net pay-outs, which were highest in July.

The performance of UCITS observed in the currency of their unit value UCITS shows that, at end-2015, equity funds recorded returns ranging from -13.2% to 21.9%, compared to the same period in the previous year. 11 funds recorded negative returns. Positive returns of a large number of equity funds were mostly the result of the faster recovery of global stock markets, while the domestic stock market stagnated during the period in question. Balanced investment funds recorded returns ranging between -2.5% and 9.3%. Cash and bond funds recorded positive returns. However, due to additional easing of monetary policy in the Eurozone, the returns of cash funds were significantly lower than in the year before and ranged from 0.2% to 1.5%, while the returns of bond funds ranged from 2.1 % to 7.5%. Returns of UCITS which can be categorized as "other funds" ranged between -13.7% and 3.0%.

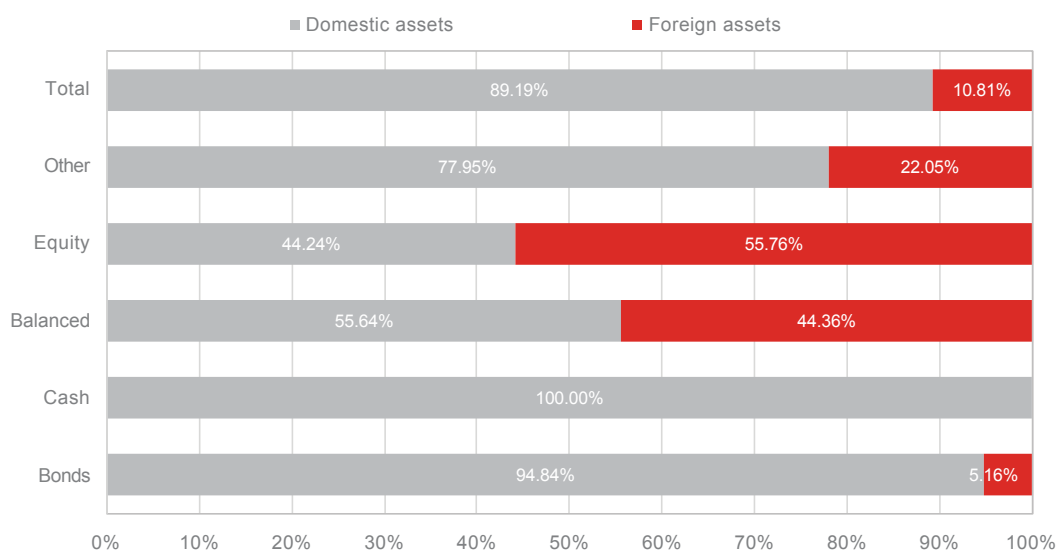
Chart 3.1 Investment structure of UCITS as at 31 December 2015 (in HRK thousand)



Source: Hanfa

At end-2015, the UCITS investment structure was dominated by investments in short-term securities, primarily deposits (32.1%) and money market instruments (24.6%), due to a dominant share of cash funds in the total assets of UCITS. Bond funds were the largest investors in bonds (84.7%), while cash funds invested in bonds to a lesser extent (11.4%). Largest investors in shares were equity funds with a share of 88.0% in total assets, followed by balanced funds (33.3%). Largest investors in investment funds were "other funds" and balanced funds.

Chart 3.2 Share of domestic and foreign assets in UCITS net assets as at 31 December 2015



Source: Hanfa

The share of domestic assets in UCITS total net assets at the end of 2015 further increased compared to the previous year and amounted to 89.2%. 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 equity funds. In terms of countries, the most significant investments in shares were from issuers from Slovenia, the United States, Serbia, Great Britain and France. Significant investors in foreign assets were balanced funds (44.4%), mainly in stocks and shares in investment funds. The most significant investments were those in shares of issuers from the USA, Slovenia, Serbia and Austria. Unlike equity and balanced funds, cash funds, bond funds and UCITS classified as "other funds" invested mostly in domestic assets. Cash funds invested exclusively in domestic assets, mainly in the deposits of Croatian credit institutions and money market instruments, while investments of bond funds and other funds mostly related to government bonds.

3.1.3 Alternative investment funds

The number of registered AIFs in the Republic of Croatia at the end of 2015 remained unchanged compared to the previous year and amounted to 28. Five AIFs were re-categorized from basic AIFs with private offering to special AIFs with private offering. As of 7 October 2015, one fund is categorized as AIF with a private offering, and not as AIF with a public offering. Number of alternative venture capital investment funds (special types and economic cooperation funds) remained unchanged. In the category of funds with public offering, the number of open-ended funds increased by one, and the fund is managed by the same company.

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.

Table 3.3 Comparison of the number of AIFs as at 31 December 2014 with that as at 31 December 2015⁹⁷

AIF	31 Dec 2014	31 Dec 2015
Private offering	23	23
basic	14	10
hedge (special types)	2	5
venture capital (special types)	2	2
venture capital – economic cooperation funds (special types)	5	5
closed-ended	-	1
Public offering	5	5
open-ended	1	2
closed-ended real estate	1	1
closed-ended	3	2
Total	28	28

Source: Hanfa

Table 3.4 Net assets of AIFs as at 31 December 2014 and 31 December 2015 (in HRK thousand)⁹⁸

AIF	31 Dec 2014	Share (%)	31 Dec 2015	Share (%)	Absolute change	Change (in %)
Private offering	1,125,069	43.0	2,610,917	87.3	1,485,848	132.1
basic	236,761	9.1	381,020	12.7	144,259	60.9
hedge (special types)	8,400	0.3	57,047	1.9	48,647	579.1
venture capital (special types)	97,217	3.7	71,892	2.4	-25,325	-26.0
venture capital - economic cooperation (special types)	782,691	29.9	951,589	31.8	168,898	21.6
closed-ended	-	-	1,149,368	38.4	1,149,368	-
Public offering	1,490,679	57.0	378,477	12.7	-1,112,202	-74.6
open-ended	28,480	1.1	50,183	1.7	21,703	76.2
closed-ended	1,343,368	51.4	251,859	8.4	-1,091,509	-81.3
closed-ended real estate	118,831	4.5	76,435	2.6	-42,396	-35.7
Total	2,615,748	100.0	2,989,394	100.0	373,646	14.3

Note: information for AIFs with private offering is not complete.

Source: Hanfa

The increase in net assets of AIFs in 2015 was primarily a result of the increase in net assets of venture capital AIFs with private offering – economic cooperation funds^{99,100}. Apart from the increase in net assets of those AIFs, net assets of hedge funds (special types) also grew. Net assets of venture capital AIFs with private offering – economic cooperation funds rose by HRK 168.9m compared to 2014, whereas net assets of hedge funds (special types) increased by HRK 48.6m¹⁰¹.

97 As from 7 October 2015, one closed-ended fund is recorded as a fund with private offering.

98 For corrected data, see page 190.

99 This data relates to the latest available data on net assets of venture capital AIFs with private offering – economic cooperation funds.

100 For corrected data, see page 190.

101 For corrected data, see page 190.

3.1.4 Funds Established under Special Acts

Net assets of the Fund for Croatian Homeland War Veterans and Members of their Families and of the Retired Persons' Fund continued to decrease in 2015. Thus the net asset value of the first one decreased by HRK 61.6m, and the second one by HRK 16.1m in the observed period. Such decrease in the net asset value of the Fund for Croatian Homeland War Veterans and Members of their Families is the result of the market influence (HRK 35.2m) and partly of net payments from the fund (HRK 26.3m).

Decision of the Croatian Government on a lump sum payment from assets belonging to the Republic of Croatia as a member of the Pensioners' Fund, stipulates that the Croatian Pension Insurance Institute is responsible for the payment of funds to settle the debt to pensioners. The funds that were intended to settle the debt to pensioners were paid in late December 2015 into the state budget account, in the amount of HRK 180m in order to pay a lump sum to beneficiaries of pensions earned within the mandatory pension insurance scheme based on intergenerational solidarity.

Table 3.5 Investment funds established under special acts as at 31 December 2014 and 31 December 2015 (net assets in HRK thousand)

Investment fund	Net assets 31 Dec 2014	Net assets 31 Dec 2015
Fund for Croatian Homeland War Veterans and Members of their Families	749,507	687,952
Retired Persons' Fund	190,673	174,549

Source: Hanfa

3.2 Hanfa's Regulatory Activities

3.2.1 Normative Activities

Changes to the existing legal framework regarding open-ended investment funds with public offering

In 2015, Hanfa worked on the implementation of the UCITS V Directive¹⁰² and on preparation of a new draft Act on open-ended investment funds with public offering, in which the Directive was implemented. The existing Act on open-ended investment funds with public offering was improved on the basis of experience and practice in the application of this Act. Parliament is expected to act on the US request this month.

The UCITS V Directive was published in the Official Journal of the European Union on 28 August 2014, and Member States are obliged to transpose the provisions of this Directive into their national legal systems by 18 March 2016. UCITS V Directive further increases the protection of investors in UCITS funds in a way that it introduces rules on the liability of depositaries and requirements on the remuneration of employees of management companies. At the same time, there is a tendency to ensure that EU regulators responsible for the supervision of management companies and UCITS funds have a uniform minimum of powers to conduct supervision and to sanction entities that act contrary to the UCITS V Directive.

Changes brought by UCITS V Directive refer to:

- a) obligations of a depositary, i.e.
 - harmonization of rules regarding duties and obligations of depositaries, which include holding the funds assets, monitoring cash flows and monitoring and controlling the operations of management companies

¹⁰² 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

- request for Member States to ensure that 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
 - 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
- b) additionally prescribed requirements of remuneration policies
- c) harmonization of administrative sanctions that must be available to regulators in case when the provisions of the UCITS Directive are violated.

Consequently, the provisions of the UCITS Directive were transposed into the new Act on Open-Ended Investment Funds with Public Offering in a way that, in comparison to the Act on Open-Ended Investment Funds with Public Offering, the articles in relation to the depositary, and new articles in connection with the remuneration policies.

The provisions of the UCITS Directive relating to administrative sanctions were transposed to the misdemeanour provisions, where regarding serious violations different amounts of fines were foreseen (from 1% to 10% of total revenue in the year when the offense was committed, as established by the official financial statements for that year), and some new offenses were added.

Other provisions of the Act on Open-Ended Investment Funds with Public Offering were also amended, especially those in relation to which experience and practice showed that there was a need for them to be regulated in more detail. Provisions relating to licensing procedures were amended partially, with current procedures being simplified, still leaving a possibility of simultaneous decision-making by Hanfa and procedure merging, and, to the extent it was possible, certain administrative barriers and obstacles were eliminated, with a view of a more cost-effective and purposeful treatment and less burden for supervised entities.

This implies the simplification of procedures to establish management companies (meaning that authorisations for companies, board members and holders of qualifying holdings will be decided upon within the same procedure) and procedures to establish UCITS funds (implying simultaneous fund establishment, approval for the choice of the depositary and approvals for a fund's rules and prospectus).

The section prescribing Hanfa's obligation in relation to the assessment of financial stability and suitability of all management company members was removed, as well as the part prescribing requirements for all management company members, with Hanfa assessing the suitability and financial stability only in relation to qualified management company members, from now on.

Aiming to unburden the supervised entities, the provisions concerning the obligation to approve the delegation of management company's activities which the management company is obliged to perform were amended thus changing the range of activities whose delegation to third persons need to be approved by Hanfa in a way that basic activities and functions are made concrete.

The provisions on the delegation of UCITS management functions were amended in a way that previous practical experience was taken into account, which simplified procedures and adjusted deadlines and required documentation.

Master and feeder UCITS are prescribed in more detail, while the provisions that had previously been contained in subordinate regulation (they were transposed from the implementing Directive 2010/44/ EU¹⁰³) are now listed in the new Act on Open-Ended Investment Funds with Public Offering and represent a consolidated unit.

¹⁰³ 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 (Text with EEA relevance), OJ L 176/28

The provisions regarding cross-border activities and marketing of units of UCITS were also amended. Responsibilities and competences of Hanfa and of foreign regulators were marked off more clearly in cases in which the UCITS and the management company come from different EU member states.

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

In 2015, Hanfa adopted several ordinances¹⁰⁴ and amended existing ordinances in order to harmonize them with the Act amending the Act on Open-Ended Investment Funds with Public Offering¹⁰⁵ and the Act amending the Alternative Investment Funds Act¹⁰⁶. The two acts were adopted on 25 November 2014 and they stipulate the harmonization of existing ordinances within three months from the entry into force of those acts.

On the basis of AOEIF, Hanfa adopted two new ordinances that regulate:

- determination of the net asset value of UCITS 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 of UCITS and the price of UCITS units
- permitted investments and investment restrictions of UCITS assets, financial instruments and activities in the capital market where UCITS assets can be invested, institutions that are considered to be a counterparty in transactions with OTC derivatives, categories of other issuers of money-market instruments that are not traded on regulated markets, markets that are considered to be regulated and the requirements and restrictions associated with techniques and instruments for the efficient management of UCITS assets.

In the previous year, Hanfa also adopted a series of amendments to existing ordinances regulating the following:

- conditions for offering units in UCITS, everything a management company needs to verify regarding a legal entity with which it intends to enter into a cooperation agreement and regarding the employees of that legal entity, conditions to be met by employees and legal entities engaged in the activities of offering units in UCITS, time frame for delivering to Hanfa the list of legal persons with which the management company concluded agreements for offering units in UCITS, as well as what the list should contain
- organizational requirements of the management company, responsibility of senior management, the content of operational reports and reports on the control functions, supervision of compliance with relevant regulations and the manner in which the management company must ensure the compliance function with relevant regulations, obligations of persons carrying out delegated activities for the management company and persons authorized to offer units in UCITS, the obligation of the management company regarding liquidity of financial instruments and liquidity of UCITS portfolio
- content and form of reports on the structure of the management company's financial assets and liabilities. as well as the time frame for preparing and submitting those reports to Hanfa
- advertising and other information for investors in UCITS, monthly report on UCITS operations; provisions on Hanfa's approval of advertising material were deleted

Pursuant to the AIFA, Hanfa adopted two new ordinances that regulate:

- determination of the net asset value and unit price of alternative investment funds, criteria associated with the procedures for appropriate valuation of AIF's assets and liabilities and calculation of AIF's unit price, frequency of calculation of net asset value and unit price of AIFs and the manner and timeframe for reporting on calculation of net asset value and unit price of AIFs

¹⁰⁴ The list of ordinances adopted by Hanfa in 2015 is provided in the Appendix.

¹⁰⁵ Official Gazette, No 143/14

¹⁰⁶ Official Gazette, No 143/14

- contents of the application for the issuance of authorisation of AIFMs and small AIFMs and the documentation enclosed with such application and with the application for the approval of the acquisition of a qualifying holding in the AIFM and the increase of a qualifying holding in the AIFM

In the previous year, Hanfa also adopted a series of amendments to existing ordinances regulating the following:

- conditions for offering units in AIFs with a private offering, everything an AIFM needs to verify regarding a legal entity with which it intends to enter into a cooperation agreement and regarding the employees of that legal entity, conditions to be met by employees and legal entities, time frame for delivering to Hanfa the list of legal persons with which the AIFM concluded agreements for offering units in AIFs, as well as what the list should contain
- content and form of reports on the AIFM's financial assets and liabilities, as well as the time period for which it is drafted
- investment restrictions of AIFs, the umbrella AIF and subordinate AIFs
- delegation of AIF management functions
- contents and method of keeping the register of AIFMs and AIFs, entry of the date of authorisation to a small AIFM into the register indicating that it is a small AIFM, and delivery of forms in electronic format for data entry into the register of AIFMs and AIFs.

The Act on the Fund of Croatian Homeland War Veterans and Members of their Families

In 2015, Hanfa participated in the working group in charge of drafting a new Act on the Fund of Croatian Homeland War Veterans and Members of their Families.

Participation in the activities of EU institutions

Hanfa participated in the activities of ESMA's Investment Management Standing Committee¹⁰⁷ by working on the advice to the European Commission, on technical standards and on guidelines and recommendations relating to the UCITS IV Directive¹⁰⁸ and the AIFMD Directive¹⁰⁹ and aiming to encourage supervisory convergence among national authorities in the field of investment management. Hanfa also participated in the preparation of ESMA's technical advice to the European Commission on delegated acts referred to in the UCITS V Directive.

3.2.2 Licensing

Under the Act on Open-Ended Investment Funds with Public Offering, Hanfa issued approvals for the establishment and operation of investment funds, for the selection of UCITS funds depositaries, for the rules and approval of the prospectus of UCITS funds, for the establishment of two umbrella UCITS funds, for the inclusion of UCITS funds into the umbrella fund, for major changes of UCITS fund prospectuses, approvals to change the UCITS funds depositaries and approvals for mergers of UCITS funds.

With the entry into force of the Act on the Amendments to the Act on Open-Ended Investment Funds with Public Offering, licensing also relates 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.

¹⁰⁷ The European Securities and Markets Authority (ESMA) is described in more detail in Chapter 9.1.1. Participation in the Work of ESMA.

¹⁰⁸ 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

¹⁰⁹ 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

Delegation of UCITS management tasks was approved, regarding UTCS established in the Republic of Croatia, managed by the management company from Croatia, to the UCITS management company from another EU Member State.

Approvals were issued for the merger of one management company with another, for the acquisition of a qualifying holding in the management company, for the delegation of management company's tasks to a third party, as well as an authorization for exemption from the provisions of Article 7. Ordinance on organizational requirements for UCITS management companies¹¹⁰.

Entry of the AIFA into force was followed by extensive work regarding the harmonization of the AIFMs business operations with the new legislation. Consequently, in 2015, Hanfa issued work authorisations for AIFMs, approvals for the acquisition of a qualifying holding in the AIFM, authorisation of AIFs, approval for the selection of the AIF's depository and approval for the AIF's rules.

It also issued authorisations for the establishment and operation of two AIFs, approvals for rules and changes to rules of AIFs, approval for the selection and change of AIF's depository and approval for the voluntary transfer of AIF's management tasks to another AIFM from the Republic of Croatia.

Licensing operations under the Act on Open-Ended Investment Funds with Public Offering and the Alternative Investment Funds Act also included approvals regarding management board members of UCITS management companies and AIFMs. Furthermore, in relation to two management companies, Hanfa established the end of operating licence validity for performing the activities of establishing and managing UCITS and AIFs, and in relation to one company, it established the end of operating licence validity to perform the activities of establishing and managing AIFs, at the management companies' own request.

In 2015, Hanfa received a total of 35 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. 31 notifications concerned the AIFs and four concerned the UCITS. 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. Since the accession of the Republic of Croatia to the European Union, Hanfa has received a total of 66 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 62 notifications related to AIFs and four related to UCITS.

Hanfa acted upon the notification of the management company relating to its intention to conduct cross-border marketing of UCITS funds established in the Republic of Croatia, which would be marketed in another EU Member State (Republic of Slovenia), and it forwarded the above-mentioned notification and necessary documents to the competent authority of the Republic of Slovenia and informed the management company thereof.

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 keeps a list of UCITS management companies from other member states i.e. 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 (if they are established), as well as 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.

¹¹⁰ Official Gazette, No 85/13, 31/14 and 26/15

Table 3.6 Comparison of the number of cases relating to licensing procedures with respect to the operation of investment fund management companies in 2014 with that in 2015

Licensing procedure	2014	2015
Authorisation for operation of AIFM (compliance with the provisions of AIFA)	12	1
The extension of the operating license for performing the activities of establishing and managing alternative investment funds	1	0
Authorisations withdrawn from management companies	1	0
End of validity of operating licences	0	3
Authorisation for establishment and operation of the fund	15	10
Authorisation for establishment and operation of AIF (compliance with the provisions of AIFA)	11	14
Approval for selection of a depositary bank	27	24
Approval for change of the depositary bank	4	6
Approval of Agreement with the depositary bank	19	8
Liquidation of funds	5	4
Deletion of funds that have not started to work from the register of funds	7	0
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	0	33
Approval to carry out the functions of a management member	43	13
Approval of the prospectus and prospectus amendments	27	9
Approval of the rules of the fund and of their amendments	55	19
Advertising content	9	0
Approval for delegating tasks to a third party	15	7
Approval for the acquisition of a qualifying holding in the management company	15	7
Approval for the company's status change (merger)	2	2
Granting exemptions from the application of the provisions of Article 7 of the Ordinance on the organizational requirements for UCITS management companies	6	3
Approval for the retail offering of shares/units of AIFs	1	0
Approval for the transfer of operations of fund management	1	8

Source: Hanfa

3.2.3 Supervision

3.2.3.1 On-Site Supervision

In 2015, Hanfa continued with six on-site supervisions of UCITS management companies and AIFMs which started in 2014, whose aim was to check companies' adjustment to the provisions of the AOEIF and the AIFA regarding organizational requirements. In 2015, Hanfa initiated and completed examinations of one UCITS management company, two AIFMs and one company managing UCITS and AIFMs, which related to organizational 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 organizational 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 organization 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 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 management company was given a decision ordering the elimination of violations and irregularities found, referring to the assurance of effectiveness of the compliance function with relevant regulations, assurance of the effectiveness of the internal audit function, elimination of violations in connection with the non-compliance of framework repurchase agreements with the applicable regulations, and the removal of identified violations in connection with discrepancies of policies regarding handling of conflicts of interest and personal transactions with the provisions on conflict of interest specified in the regulations of the UCITS. Pursuant to the decision, the company eliminated the violations and irregularities and notified Hanfa thereof.

Seven decisions were issued to UCITS and AIFM management companies ordering the elimination of determined violations and irregularities from the on-site supervision procedures initiated in 2014, which were related to the adjustment and improvement of internal documents, the establishment of decision-making procedures and organizational structures, reporting and provision of information at all relevant levels of the company, organization of business operations in order to reduce conflicts of interest to a minimum, establishment of a comprehensive and effective risk management system, obligation to prescribe the influence of recognized risks for each individual fund, obligation to prescribe, apply and regularly update internal limits of currency risk, the obligation to update supervised entities' web sites regarding the presentation of risks, establishment of an appropriate control system regarding a possible violation of investment restrictions before the transaction (i.e. pre-trade control), prescribing appropriate policies to achieve the best possible result when executing orders, as well as policies that determine other persons who are allowed to assign orders to trade upon the execution, and the establishment of permanent, effective and independent compliance function with relevant regulations. The companies complied with the issued decisions and eliminated the irregularities, and notified Hanfa thereof.

In parallel with the initiated on-site examinations of UCITS and AIFM management companies, targeted on-site examinations of one UCITS management company and one AIFM were also started. The supervision was focused on the process of realisation of managing rights, realised by company on its own account and on the account the fund it manages, in the issuers where funds assets are invested, as well as making investment decisions and acting in line with corporate actions, as a part of providing portfolio management investment services in accordance with the provisions of the Capital Market Act¹¹¹.

Within those targeted on-site examinations, Hanfa established violations and irregularities in relation to internal documents not including the issues of handling all the conflicts of interest arising from the exercise of voting rights, failures associated with the establishment of an appropriate and effective procedure i.e. strategy for exercising voting rights and other rights from instruments belonging to the assets of the AIF managed by the company and the lack of measures and procedures to prevent or handle conflicts of interest arising from the exercise of voting rights, which was not in accordance with the provisions of the Delegated Regulation No¹¹² 231/2013 and the Ordinance on organizational requirements for UCITS management companies¹¹³. Supervised entities eliminated their irregularities and violations during the examination process, thus no supervisory measures to eliminate them were issued.

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

112 Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision (Text with EEA relevance), OJ L 083/1

113 Official Gazette, No 85/13, 31/14 and 26/15

Hanfa's supervisory activities in 2015 were marked by the launch of on-site examinations of AIFMs managing open-ended venture capital AIFs, which, apart from these funds, includes 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 funds¹¹⁴ 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. Pursuant to the decisions issued during the examination processes, the companies eliminated the illegalities and irregularities and notified Hanfa thereof.

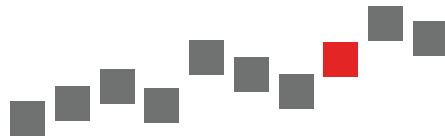
3.2.3.2 On-Site Supervision

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 2015, 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, on the disclosure of information to investors on web sites of investment fund management companies and in regular reports of investment funds, and on the capital adequacy of investment fund management companies. 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.

Following illegalities and irregularities established, 12 off-site supervisory reports were prepared, after which the illegalities and irregularities were eliminated in most cases, while in one case a supervised entity received a decision to eliminate the irregularities in investments of investment fund assets with investment restrictions.

114 Official Gazette, No 40/13



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 market¹¹⁵ has been rising since the beginning of the pension reform and as at 31 December 2015, total net assets of mandatory and voluntary pension funds amounted to HRK 77.7bn, which is a HRK 8.2bn increase compared to the end of 2014. These positive trends were primarily related to the increase in mandatory payments into pension pillar 2.

4.1.1 Mandatory pension funds

At end-2015, 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^{116, 117}. Each company managed one mandatory pension fund belonging to each of the categories A, B and C.

Table 4.1 Mandatory pension fund (OMF) membership and activities in 2015

Categories of OMFs	A	B	C	Total
Balance as at 31 Dec 2014	4,827	1,685,594	15,299	1,705,720
First registrations	281	1,055	111	1,447
Subsequently completed registrations	0	125	0	125
Allocation by REGOS	0	55,416	0	55,416
Total number of new members	281	56,596	111	56,988
Transfers to another OMF of the same category	21	5939	4	5,964
Transfers from other OMF of the same category	63	21	5880	5,964

115 Historical data in Hanfa's Annual Report 2015 may differ from the data in earlier reports due to the application of the provisions of the Accounting Act (Official Gazette 109/07, 54/13 and 121/14), International Financial Reporting Standards, changes in reporting methodology, as well as due to actions taken by supervised entities in accordance with Hanfa's instructions.

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

117 The list of Hanfa's supervised entities is available at www.hanfa.hr

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

119 Official Gazette, No 19/14

120 Official Gazette, No 49/99, 63/00, 103/03, 177/04, 140/05, 71/07, 124/10, 114/11 and 51/13

The Croatian pension insurance system based on individual capitalized 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 Act¹⁰⁹ and Voluntary Pension Funds Act¹¹⁰, which entered into force in February 2014, repealing the Mandatory and Voluntary Pension Funds Act¹¹¹.

Mandatory pension fund is a fund established, on the basis of Hanfa's authorization, 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 regarding the risks taken, with the lowest risks pertaining to funds belonging to category C and the highest risks to funds belonging to category A.

Voluntary pension fund is a fund established, based on Hanfa's authorisation, by the 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 OMFs	A	B	C	Total
Net change	42	-5918	5876	0
Prelasci u drugi OMF	8	302	5	315
Transfers from other OMFs	8	302	5	315
Total termination of membership	56	29,315	2316	31,687
Balance as at 31 Dec 2015	5,094	1,707,104	18,983	1,731,181
Annual change (in %)	5.5	1.3	24.1	1.5

Source: REGOS

The number of members of mandatory pension funds continued to grow in 2015 at an average rate of 1.5% compared to the year before. Data from the Central Registry of Insured Persons (REGOS) indicate a further increase of the number of new members, but they also reveal that mandatory pension fund members are still quite reluctant to participate in the selection of their mandatory pension fund. Out of 56,988 new mandatory pension fund members recorded in 2015, only 1,572 selected their mandatory pension funds themselves, which represents a share of 2.8% out of entire number of new members and a decrease compared to the previous year. During this period, there were 31,687 cases of membership termination or account closing in mandatory pension funds. The largest number of terminations reflected the effects of the Regulation amending the Mandatory Pension Funds Act¹²¹, which entered into force on 1 September 2015 and whereby the insured persons employed in the army, police and other authorized persons with an accelerated pension scheme had the opportunity to choose to have the total capitalised assets from their personal pension fund accounts transferred to the state budget, and the Croatian Pension Insurance Institute will calculate their annuities as if they had been insured within the mandatory pension insurance scheme based on intergenerational solidarity system only.

Table 4.2 Net assets of mandatory pension funds as at 31 December 2014 and 31 December 2015 (in HRK thousand)

	31 Dec 2014	31 Dec 2015	Change (in %)
OMF – Category A	353,517	416,563	17.8
OMF – Category B	64,351,054	71,351,783	10.9
OMF – Category C	1,576,982	2,236,322	41.8
Total	66,281,554	74,004,667	11.7

Source: Hanfa

As at December 31 2015, total net assets of mandatory pension funds amounted to HRK 74.0bn, recording an increase of HRK 7.7bn in comparison with the previous year, with an increase of HRK 3.5bn (45.5%) relating to net payments of members' contributions, while the increase in net assets of HRK 4.2bn (54.5%) resulted from returns achieved by mandatory pension funds.

Table 4.3 Payment of contributions to mandatory pension funds in 2015 (in HRK thousand)

OMF categories	A	B	C	Total
Net contributions	31,789	5,024,156	104,295	5,160,239
Payments from other OMFs	5,601	13,756	651,220	670,577
Disbursements to other OMFs	2,280	667,197	1,279	670,757
Disbursements of funds upon adjustments	239	26,792	566	27,597
Disbursements of funds upon the closure of personal accounts	5,140	1,394,278	216,025	1,615,443

Source: REGOS

121 Official Gazette, No 93/15

A total of HRK 5.2bn was paid into personal accounts of mandatory pension fund members in 2015, while HRK 1.6bn 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 2014	31 Dec 2015	2015	Annualised rates of return since the beginning of operation
MIREX Category A	104.6	114.1	9.1	10.2
MIREX Category B	205.7	218.4	6.2	5.9
MIREX Category C	102.9	109.9	6.8	7.2

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

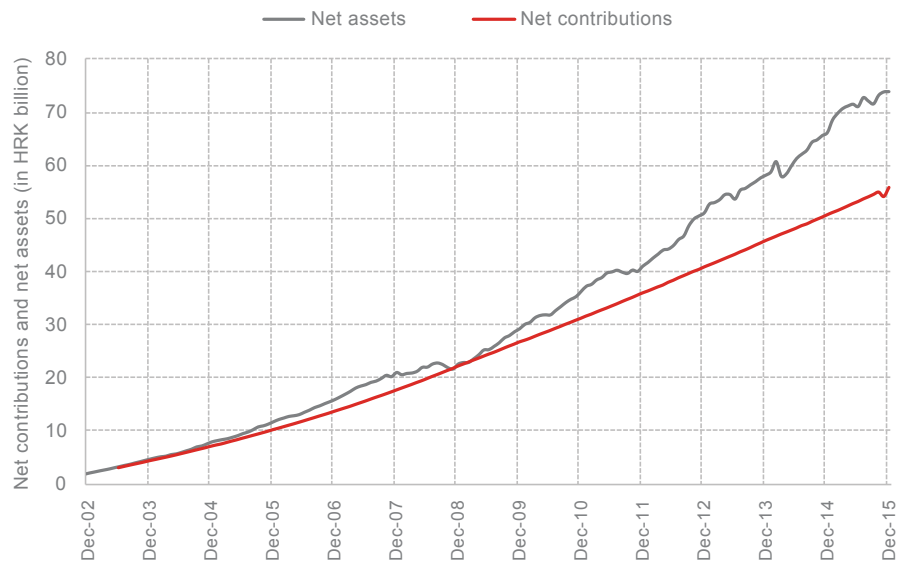
In 2015, the category B MIREX index stood at 6.2%, with rates of return of category B mandatory pension funds ranging between 5.6% to 7.0%. The category A MIREX index reached 9.1%, and the category C MIREX index totalled 6.8%. Category A mandatory pension funds recorded rates of return ranging from 7.2% to 9.7%, while category C mandatory pension funds recorded rates of return ranging between 5.4% and 8.7%.

Chart 4.1 Growth rates of indices MIREX A, MIREX B and MIREX C during 2015



Source: Hanfa

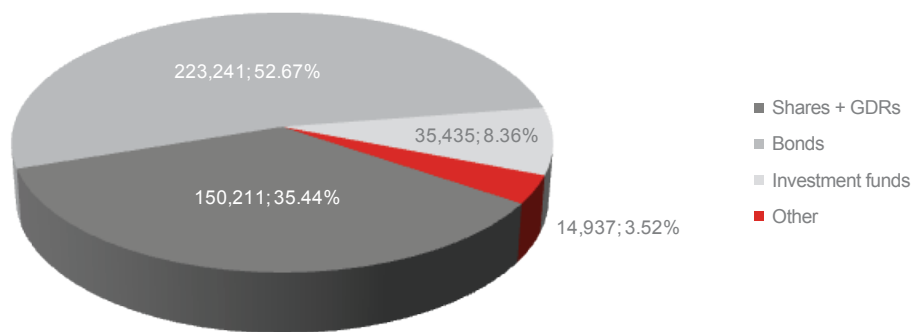
Chart 4.2 Net contributions to mandatory pension funds and net assets of mandatory pension funds



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.

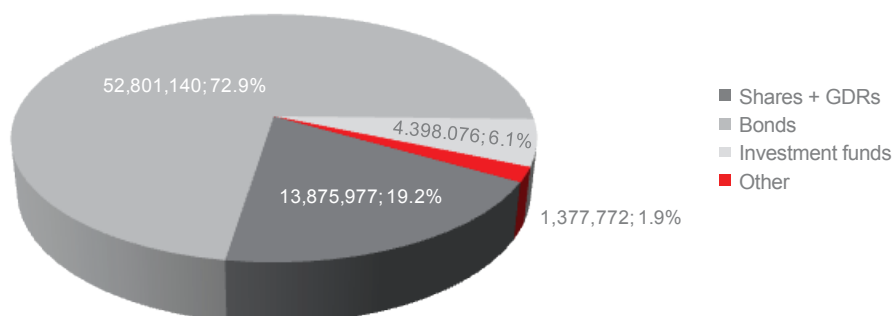
Chart 4.3 Investment structure of category A mandatory pension funds in 2015 (in HRK thousand and in %)



Source: Hanfa

As at 31 December 2015, the largest share in the investment structure of category A mandatory pension funds accounted for long-term debt securities, which primarily related to investments in domestic government bonds (92.3%). 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 (64.9%). Regarding the shares of foreign issuers, most of them related to issuers from the United States of America (14.4%) and Slovenia (10.6%). Apart from bonds and shares, assets of category A mandatory pension funds were also invested in investment funds, primarily in foreign equity investment funds (93.8%), and minor share in domestic funds (6.2%).

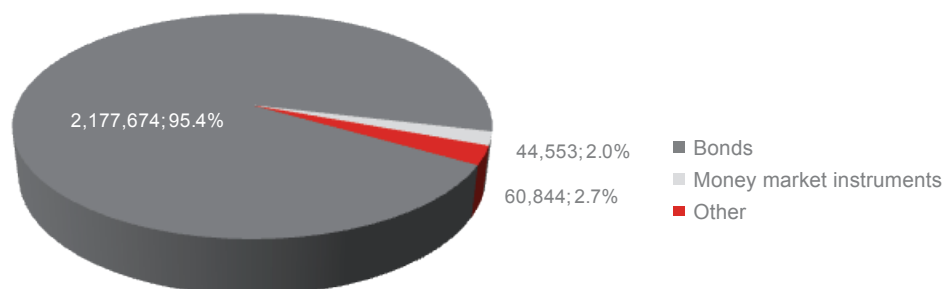
Chart 4.4 Investment structure of category B mandatory pension funds in 2015 (in HRK thousand and in %)



Source: Hanfa

Category B mandatory pension fund investments in 2015 were mainly accounted for by bond investments, primarily by domestic government bond investments (97.6%). Similarly to the category A funds, a significant amount of investments in total investments related to shares, with the share of domestic issuers in these investments accounting for 55.1%, while the remainder related mostly to the issuers in Slovenia (16.3%) and the United States (12.4%). Apart from these investments, assets of category B mandatory pension funds were also invested in investment funds, primarily in foreign equity investment funds (78.3%), domestic UCITS (17.4%) and domestic and foreign AIFs (4.3%). The category Other is dominated by investments in deposits at domestic credit institutions (0.9%).

Chart 4.5 Investment structure of category C mandatory pension funds in 2015 (in HRK thousand and in %)



Source: Hanfa

Category C mandatory pension fund investments were mainly accounted for by bond investments, first of all by domestic government bond investments (96.2%). Investments in domestic corporate bonds accounted for a smaller share in total investments in bonds (3.5%). Category C mandatory pension funds also invested their assets in treasury bills, deposits of credit institutions and domestic cash UCITS.

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 17 closed-ended voluntary pension funds. Two of them were directly owned by non-residents, one was indirectly owned by non-residents, while one company was in direct resident ownership.¹²²

¹²² All voluntary pension companies are registered and have their registered offices in the Republic of Croatia.

Similarly to mandatory pension funds, the number of members of open-ended voluntary pension funds continued to rise in 2015. Their gross contributions grew by 8.2% compared to 2014. 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 (14.8%) compared to the previous year. Open-ended voluntary pension funds recorded positive returns, ranging between 2.1% and 6.9%.

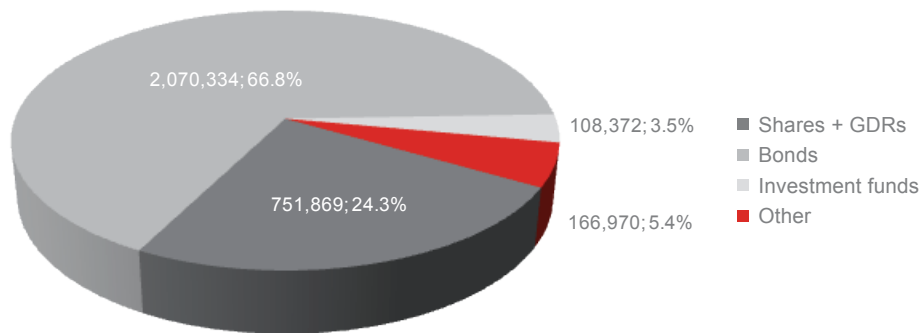
Voluntary pension fund members are given government incentives for their investments, amounting to 15% of the amount paid over one calendar year, up to a maximum of HRK 750 per fund member, irrespective of whether the person is a member of one or more voluntary pension funds.

Table 4.5 Key indicators for open-ended voluntary pension funds

Podaci	31 Dec 2014	31 Dec 2015	Change (in %)
Total membership of ODMFs	220,527	236,948	7.4
Total contributions to ODMFs (in HRK thousand)	357,339	386,781	8.2
Total assets of ODMFs (in HRK thousand)	2,651,987	3,044,842	14.8

Source: Hanfa

Chart 4.6 Investment structure of ODMFs in 2015 (in HRK thousand and in %)



Source: Hanfa

At the end of 2015, total investments of open-ended voluntary pension funds mainly consisted of investments in bonds, primarily of investments in domestic government bonds (93.9%). Apart from investing in bonds, open-ended voluntary pension funds also invested in shares, mainly shares of domestic issuers (62.4%). Foreign investments recorded investments in equity securities from Slovenia (10.7%), United States of America (8.0%) and Germany (7.9%). Domestic investments were related to investments in deposits of credit institutions. Table 4.6 Key indicators for closed-ended voluntary pension funds (ZDMFs) Data Total membership of ZDMFs Total contributions to ZDMFs (in HRK thousand) Total assets of ZDMFs (in HRK thousand) Source: Hanfa

Table 4.6 Key indicators for closed-ended voluntary pension funds

Podaci	31 Dec 2014	31 Dec 2015	Change (in %)
Total membership of ZDMFs	23,927	28,776	20.3
Total contributions to ZDMFs (in HRK thousand)	86,400	103,227	19.5
Total assets of ZDMFs (in HRK thousand)	596,188	681,211	14.3

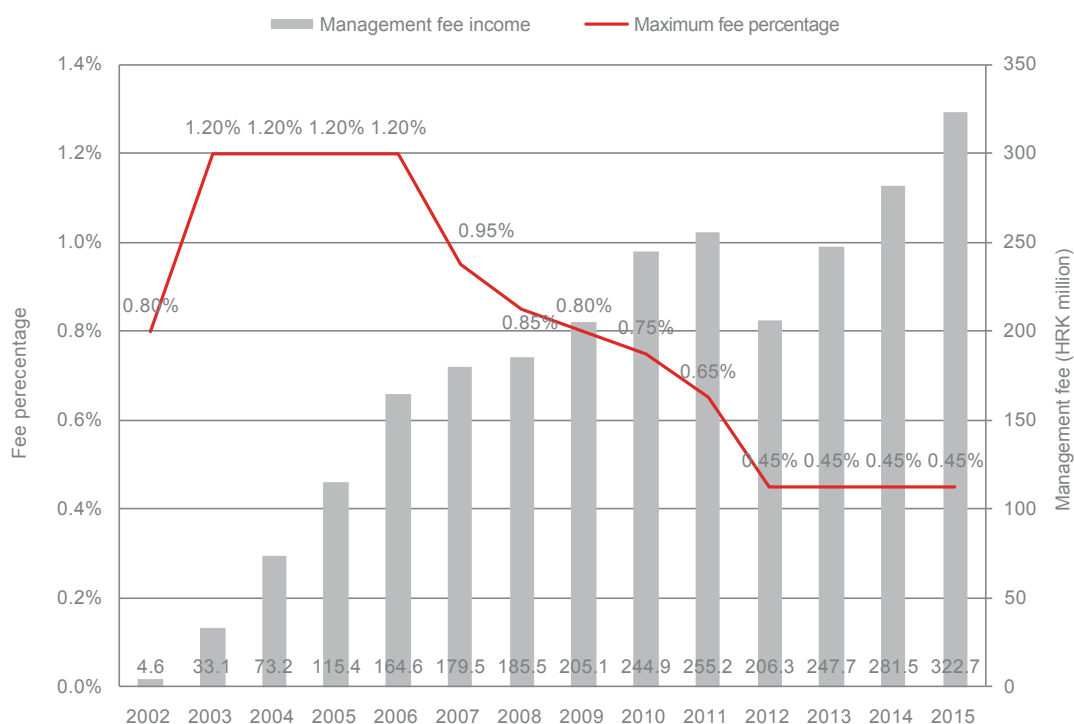
Source: Hanfa

There was a significant increase in the number of members of voluntary pension funds (20.3%) in 2015 compared to the previous year, which was reflected in the growth of their net assets (14.3%). In accordance with such increase in the number of new members, gross contributions of closed-ended voluntary pension fund members also grew by 19.5%. Returns of closed-ended voluntary pension funds ranged from 3.3% to 8.1% in 2015.

4.1.3 Mandatory and Voluntary Pension Companies

Mandatory and voluntary pension companies recorded an increased after-tax profit in the amount of HRK 199.2m, up by 21.0% relative to 2013. Income from mandatory and voluntary pension fund management in 2015 grew by 20.1% at annual level. Total assets of mandatory and voluntary pension companies increased by 8.8% compared to 2014. 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 (89.2%).¹²³

Chart 4.7 Mandatory pension fund management fee



Source: Hanfa

4.1.4 Pension insurance companies

There is only one pension insurance company operating in the Republic of Croatia. MOD). In 2014, the Act on Pension Insurance Companies¹²⁴ was adopted, and the pension insurance company aligned its business operations with its provisions.

¹²³ The Statement of financial position and the Statement of comprehensive income of mandatory and voluntary pension companies are provided in the Appendix.

¹²⁴ Official Gazette, No 22/14

According to the Statement of financial position¹²⁵, as at 31 December 2015 the value of total assets of the pension insurance company reached HRK 438.3m, increasing by HRK 25.7m or 6.2% compared to 31 December 2014. This was primarily a result of increased investments, which accounted for 97.3% of total assets and grew by HRK 28.0m in comparison with 31 December 2014.

As at 31 December 2015, technical provisions amounted to HRK 371.0m and accounted for 84.6% of the pension insurance company's liabilities. Capital and reserves reached HRK 43.9m, increasing compared to 2014 due to an increase in retained profit and profit of the current period.

Technical provisions are formed separately for mandatory and voluntary pension insurance. Technical provisions of voluntary pension insurance totalled HRK 293.8m, while assets covering technical provisions of voluntary pension insurance amounted to HRK 340.8m, with the excess of assets over the provisions reaching HRK 47.0m. Technical provisions of mandatory pension insurance stood at HRK 37.7m, while assets covering technical provisions of mandatory pension insurance amounted to HRK 41.6m, with the excess of assets over the provisions totalling HRK 3.9m.

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 2015 to 31 December 2015, the pension insurance company recorded an after-tax profit totalling HRK 6.4m. In the period from 1 January 2014 to 31 December 2014, the pension insurance company recorded an after-tax profit totalling HRK 3.0m. The increase in revenue is the result of an increase in investment income. The income structure was dominated by income from payments of pension companies and direct lump-sum payments from voluntary pension insurance (57.7%).

Total expenses amounted to HRK 247.4m, increasing by HRK 42.1m compared to 2014. The most significant part of the expenses (61.7%) was accounted for by expenses arising from pension insurance contracts, of which HRK 127.7m was made up of payments from pension insurance, and HRK 25.1m of changes in technical provisions. The increase in total expenditure in 2015 was mostly the result of the increase in investments expenditure.

As at 31 December 2015, the total number of pension contracts reached 15,039, of which 14,904 contracts were related to voluntary pension insurance (pension pillar 3 and direct lump-sum payments), and 135 contracts to mandatory pension insurance (pension pillar 2). The number of contracts fell by 389 relative to 2014. At end-2015, the total number of beneficiaries stood at 14,400, of which there were 14,285 voluntary pension insurance beneficiaries and 137 mandatory pension insurance beneficiaries.

4.2 Hanfa's Regulatory Activities

4.2.1 Normative Activities

Regulations adopted under the Mandatory Pension Funds Act and Voluntary Pension Funds Act

Under the Mandatory Pension Funds Act and Voluntary Pension Funds Act, a new ordinance¹²⁶ was adopted, prescribing contents and duration of the educational programme, requirements for taking the examination and contents of the examination for certified managers of pension insurance companies, brokers and investment advisors.

¹²⁵ Financial statements of the pension insurance company are provided in Appendices (Tables A3 and A4).

¹²⁶ The list of ordinances adopted by Hanfa in 2015 is provided in the Appendix.

In the past year, under the Mandatory Pension Funds Act, Hanfa amended three existing ordinances. This included amendments to the ordinance regulating permitted investments and additional investment restrictions for mandatory pension funds and stipulating what is considered a money market instrument. In addition, some terminological adjustments were made.

Amendments to the ordinance regulating advertising and other information for members of mandatory pension funds stipulate that the information on the returns of a pension fund should be shown for the previous 12 months from the date on which the returns of the pension fund are published, and that the investment structure of the pension fund should be made available on the website of the pension company, at least once a month. It is also stipulated that a pension company must, within 30 days of the expiry of a half-year, in a prominent place on its website publish an overview of investments of the pension fund investments, as at the last day of the half-year (30 June and 31 December). Overview must include a complete list of pension fund investments, with an indication of quantity, prices and percentage of each item in the fund's net assets. In addition, apart from every pension fund investment, it is necessary to state the category of the investment according to the International Accounting Standard 39 – Financial Instruments: Recognition and Measurement, as well as the valuation method.

Amendments to ordinances governing the operations of REGOS and of pension companies in relation to members of mandatory pension funds regulate the operations of REGOS in case of irregular personal account closing.

In 2015, in accordance with the Mandatory Pension Funds Act, Hanfa adopted the Decision on the maximum percentage of the fee paid to the depository¹²⁷, Decision on the guaranteed returns of mandatory pension funds¹²⁸ and the Decision on the harmonization of the guarantee deposit¹²⁹.

Amendments to the Mandatory Pension Funds Act

In 2015, the Mandatory Pension Funds Act was amended through the Regulation amending the Mandatory Pension Funds Act¹³⁰, adopted by the Government of the Republic of Croatia, which regulates memberships in mandatory pension funds (hereinafter: pension funds) and terminations of memberships in pension funds regarding insured persons whose pension entitlements are governed by a special regulation governing pension entitlements of active military personnel, police officers and authorised officials, or whose pension is defined by this regulation.

It is also stipulated that, in case of a pension fund member's partial loss of working capacity with the right to a disability pension or the right to a temporary disability pension under the Pension Insurance Act¹³¹, the member of the pension fund may be entitled to a pension only within the mandatory pension insurance scheme based on intergenerational solidarity, as he were insured only with this type of insurance scheme.

Transitional and final provisions of this Regulation stipulate that insured persons whose pension entitlements are governed by a special regulation governing pension entitlements of active military personnel, police officers and authorised officials, or whose pension is defined by this regulation, and who were members of the pension fund until entry into effect of this regulation, cease to be members of the pension fund, and their funds are transferred into state budget through REGOS by 30 November 2015, unless they stated that they wish to remain members of the pension fund before 31 October 2015.

It is also stipulated that a member of a pension fund who is a beneficiary of a disability pension due to occupational incapacity and whose pension entitlements are regulated by a special regu-

127 Official Gazette, No 137/15

128 Official Gazette, No 13/15

129 Official Gazette, No 13/15

130 Official Gazette, No 93/15

131 Official Gazette, No 157/13, 151/14, 33/15 and 93/15

lation governing pension entitlements of active military personnel, police officers and authorised officials, or whose pension is defined by this regulation, and who exercised this right before the entry into force of this Regulation, shall cease to be a member of the pension fund on 1 September 2015. In addition, a member of the pension fund who is a beneficiary of a disability pension due to occupational incapacity according to the Pension Insurance Act which was in force until 31 December 2013, or a disability pension due to a partial loss of working capacity according to the Pension Insurance Act, who exercised this right before the entry into force of this Regulation, shall cease to be a member of the pension fund on 1 September 2015. The funds of those members were transferred into state budget via Regos before 30 November 2015, and the Croatian Pension Insurance Institute will calculate their annuities as if they had been insured within the mandatory pension insurance scheme based on intergenerational solidarity system only.

Participation in the activities of EU institutions

Hanfa actively participated in the work EIOPA Board of Supervisors (EIOPA BoS), taking part in drafting Technical standards in regard to risk-mitigation techniques for OTC derivatives, and elaborating advice for the European Commission regarding the single market for personal pension products by filling out the Questionnaire on personal pensions and the Questionnaire on personal pension products, as well as the Questionnaire on self-assessment/supervisory practices in connection with the Statement on investment principles for Institutions for Occupational Retirement Provision (hereinafter: IORP).

Hanfa participated in the work of the *Occupational Pensions Committee* (OPC) by filling out the Questionnaire on market development and the Questionnaire on informing IORP members and users on pension programmes.

4.2.2 Licensing

As part of licensing operations, Hanfa issued two authorizations for the establishment and management of pension funds i.e. two closed-ended voluntary pension funds. Approvals were also issued for the pension company management board members and supervisory board members, approvals for the selection of depositaries for pension funds, approvals for statutes and prospectuses of voluntary pension funds and the approval for the delegation of tasks of the pension company managing voluntary pension funds. One approval was issued for the merger of one closed-ended voluntary pension fund with another closed-ended voluntary pension fund.

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

Case type	2014	2015
Approval of the appointment of a management board member of a mandatory/voluntary pension company	2	5
Approval of the appointment of a supervisory board member of a mandatory pension company	4	8
Approval of the appointment of a supervisory board member of a voluntary pension company	1	0
Approval of the establishment and operation of a mandatory pension fund Category A	4	0
Approval of the establishment and operation of a mandatory pension fund Category A	4	0
Approval of the choice and change of depositary	8	8
Approval of an agreement with a depositary	0	8
Approval of the statute/amendments to the statute of a mandatory pension fund Category A, B and C	12	0

Case type	2014	2015
Approval of the statute/amendments to the statute of a voluntary pension fund	6	18
Approval of the informative prospectus and amendments to the informative prospectus of a voluntary pension fund	0	2
Approval for the establishment and management of a voluntary pension fund	0	2
Odobrenje za pripajanje dobrovoljnih mirovinskih fondova	0	1
Marketing of pension funds	4	0
Approval of the delegation of tasks to a third party	0	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	0	1
Issuance/renewal of the licence to pension fund managers	1	0
Approval of the qualified share acquisition of a voluntary pension company	1	0
Approval of the pension company initial capital increase	2	0
The extension of the operating licence of a pension company	2	0
Approval of the status change of the pension company (acquisition)	4	0

Source: Hanfa

4.2.3 Supervision

4.2.3.1 On-Site Supervision

Hanfa initiated on-site examinations of four mandatory pension companies, which 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. They were initiated with a view to check the compliance of mandatory and voluntary pension companies with the new legal provisions adopted in 2014, which placed business operations of mandatory and voluntary pension funds in separate legal frameworks. In one of the mandatory pension companies, the supervision focused on the entire IT system of the company.

Hanfa also initiated on-site examination of REGOS. The examination focused on the entire process regarding the payments of contributions for pension insurance based on individual capitalised savings. It included the manner in which funds on transfer and interim accounts are handled and the manner in which they are forwarded, including the maintenance of personal accounts of mandatory pension fund members, linkage of data on calculated contributions, calculation of fees and their forwarding to the pension company, conversion of contributions into accounting units, interim account maintenance, arrangement of members and reporting. Moreover, this examination included policies, measures and procedures for the supervision and protection of the information system and electronic data processing system, as well as associated resources and systems.

Based on the findings from the on-site supervision, a decision was issued to REGOS ordering the elimination of violations and irregularities found, which referred to the obligation to adopt and implement appropriate measures and procedures for the supervision and protection of the information system (regarding the part where the activities of electronic data processing are delegated to the Financial Agency), the obligation to create a plan to improve the control of the information system and to establish the control of the information system provided for in this plan, improvement of the risk management system (in a way that it allows for timely identification of potential risks, the correct assessment of their magnitude and influence, definition of procedures in case of

events that pose a risk, continuous monitoring and management of the identified risks i.e. taking preventive measures before the events that pose a risk actually happen, and the implementation of periodic retroactive tests and stress tests) and the obligation to create a business continuity plan for critical business processes and in case of an unforeseen interruption of services from key external suppliers related to the information system.

In 2015, Hanfa also conducted an on-site examination of the pension insurance company, focusing on the contracting process and payment of lifetime pensions based on direct lump sum payments by employers for their employees at the time of their retirement.

4.2.3.2 On-Site Supervision

In 2015, Hanfa conducted continuous off-site supervisions of pension companies and pension funds. Those off-site examinations focused on the control of funds' assets investment restrictions, asset value determination, website content and the control of publication and content of key data for members of pension funds, prospectuses and financial statements of firms and funds. Supervised entities were given three decisions regarding the rejection of pension companies' requests to extend the period for pension funds' investments into certain securities, and one decision was given to one pension company regarding the approval to extend the period needed to adjust the pension fund investments.

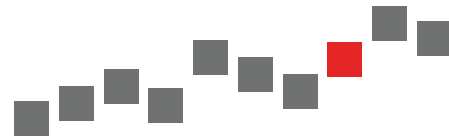
4.2.4 Examinations Taken by Candidates for Certified Pension Fund Managers and Certified Managers of Pension Insurance Companies

The first examination term of the examination cycle for certified pension fund managers and certified managers of pension insurance companies in 2014 was followed by the second examination term in 2015, which was attended only by candidates who had taken the examination in the first term and failed it, in accordance with then valid Ordinance on the content and duration of the educational programme, requirements for taking the examination and contents of the examination taken by candidates for certified pension fund managers¹³² and Ordinance on the contents and duration of the educational programme, requirements for taking the examination and contents of the examination taken by candidates for certified managers of pension insurance companies^{133, 134}. The examination for certified pension fund managers was taken by six candidates, two of whom passed the exam. The examination for certified managers of pension insurance companies was taken by one candidate who successfully passed the exam.

132 Official Gazette, No 101/14

133 Official Gazette, No 101/14

134 The ordinances ceased to apply with the day of entry into force of the Ordinance on the educational programme and examination for certified managers of pension funds, certified managers of pension insurance companies, brokers and investment advisors (Official Gazette, No 133/15). According to this Ordinance, candidates may apply to take the exam in the first or second exam term, and in the second exam term, the candidates who did not pass it in the first term can also take the exam.



Insurance



5 Insurance

5.1 Market Overview

In 2015, the insurance market¹³⁵ in the Republic of Croatia was marked by a trend of a decrease of the gross written premium in the non-life group, as a result of the liberalisation¹³⁶ of price lists of the compulsory insurance of owners or users of motor vehicles against liability for damage to third parties (hereinafter: motor vehicle liability insurance). At the same time, life insurance premium recorded a growth (fourth year in a row) resulting from insurance contracts involving lump-sum premium payments, same as the year before.

As at 31 December 2015, there were 23 insurance companies and one reinsurance company with their registered offices and operating in the Republic of Croatia.¹³⁷ Insurance market participants also included the Croatian Insurance Bureau, as an association of insurance companies with their registered offices in the Republic of Croatia, and the Croatian Nuclear Insurance and Reinsurance Pool (EIG). Insurance representation and insurance and reinsurance brokerage business¹³⁹ was conducted by 280 insurance agencies, 44 insurance and reinsurance brokerage companies, 252 insurance representation crafts, 26 credit institutions and HP – Hrvatska pošta d.d.

In 2015, Hanfa received a total of 341 notifications from other Member States, 68 of which related to direct pursuit of insurance business by insurance companies, 269 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 2015, two branch offices of insurance companies from other Member States were established in the Republic of Croatia, in accordance with the right of establishment. Since the accession of the Republic of Croatia to the European Union, Hanfa has received a total of 870 notifications, of which 243 related to direct pursuit of insurance business by insurance companies, 623 to direct pursuit of activities of insurance and reinsurance mediation and two to pursuit of insurance representation business through

135 The 2015 insurance market overview was presented on the basis of the analysis of financial, statistical and supervisory reports submitted to Hanfa and following examinations of business operations of insurance companies and reinsurance companies, the Croatian Nuclear Insurance and Reinsurance 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 the previous years shown in Hanfa's 2015 Annual Report might differ from the data in Annual Reports 2013 and 2014 due to the application of the provisions of the Accounting Act (Official Gazette, No 109/07, 54/13 and 121/14), Insurance Act (Official Gazette, No 151/05, 87/08, 82/09 and 94/14), International Financial Reporting Standards adopted by the European Union, as well as due to actions taken by insurance and reinsurance companies following Hanfa's instructions.

136 The liberalisation process on the insurance market was set off by the abolishment of the mandatory application of the common terms and conditions and the Basic Premium System for Compulsory Motor Vehicle Liability Insurance, resulting in the possibility offered to insurance companies conducting compulsory motor vehicle liability insurance business to apply their own terms and conditions and premium price lists for compulsory motor vehicle liability insurance as of 1 January 2008. However, terms and conditions applied by insurance companies after that date did not differ (except in terms of nomotechnics) from the terms and conditions and premium price lists applied until end-2007. The actual liberalisation process began upon the creation of other prerequisites to liberalisation, such as adequate statistics, experience, etc. This occurred at the very moment of Croatia's EU accession, when the companies were not obliged any more to submit technical bases for premium systems, but only insurance terms and conditions 60 days prior to the beginning of their application.

137 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).

138 The list of Hanfa's supervised entities is available at www.hanfa.hr

139 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 2015. 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.

a branch, while two branches of insurance companies from a member state have been established in accordance with the right of establishment.

5.1.1 Insurance Companies and Reinsurance Companies

Out of 23 insurance companies, six companies conducted life insurance business only, nine insurance companies conducted non-life insurance business only, while life and non-life insurance business was conducted by eight insurance companies. Compared to 31 December 2014, the number of insurance firms decreased by two due to the merger of one insurance firm with another within the territory of the Republic of Croatia, and one cross-border merger. Reinsurance activities were pursued by one reinsurance company.

As at 31 December 2015, eight insurance companies were directly majority-owned by residents, while 15 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

The total gross written premium of the insurance companies¹⁴⁰ in 2015 amounted to HRK 8.7bn, increasing by HRK 0.1bn or 1.9% compared to the 2014 premium. In terms of insurance groups, life insurance gross written premium increased by HRK 2.9bn, an increase of HRK 0.3bn or 11.2% compared to 2014. Life insurance premium involving lump-sum premium payments accounted for HRK 1.1bn, rising by HRK 0.4bn compared to 2014, when it totalled HRK 738.8m. This points to the fact that the growth of the life insurance market resulted from insurance contracts involving lump-sum premium payments. Life insurance premium paid in instalments recorded a decrease. The largest share of gross written premium in life insurance related to the insurance class 19 – life insurance, which increased by HRK 155.3m compared to the previous year. A significant premium increase in the life insurance group of HRK 105.0m was recorded in the insurance class 23 – Life or annuity insurance where the investment risk is borne by the policyholder.

The gross written premium in the non-life insurance group amounted to HRK 5.8bn, decreasing by HRK 0.1bn or 2.3% compared to 2014. The most significant decrease could be seen in class 10 – motor vehicle liability insurance, amounting to HRK 332.6m or 13.7%. Other than in class 10, a decrease in premium in the amount of HRK 45.8 m was recorded with another five classes of non-life insurance. Other 12 classes of non-life insurance recorded an increase in premium of HRK 244.8m, with the largest share relating to the increase in premium in class 13 – Other liability insurance lines (increase of HRK 75.5m) and in class 03 – Motor vehicle insurance (increase of HRK 68.8m).

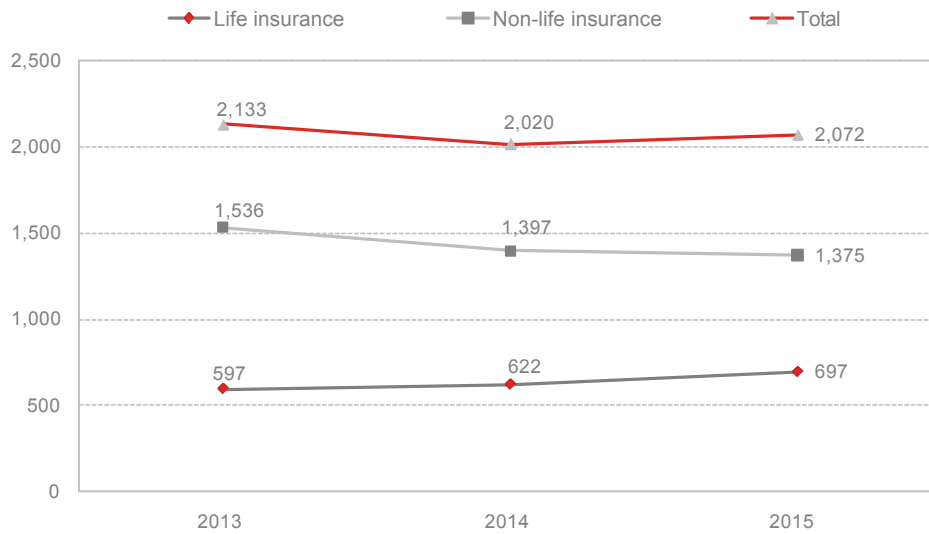
The gross written premium recorded on the reinsurance market amounted to HRK 42.0m, decreasing by HRK 293.7m or 87.5% relative to 2014.

Insurance density¹⁴¹ in 2015 amounted to HRK 2,072, recording a slight growth relative to the previous year. In terms of insurance groups, insurance density in the non-life group continued to decrease, while in the life group it was in the increase.

¹⁴⁰ The amount of gross written premium includes premium by an insurance company that was merged with an insurance company with registered offices in another Member State in 2015, while other data in this report do not include information on that company.

¹⁴¹ 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 (data for 2013 and 2014 were taken from the Communication No 7.1.4. of September 11 2015 and relate to the population assessment mid-year, while the first results published in the document *Natural population trends* of 10 March 2016 were used for 2015).

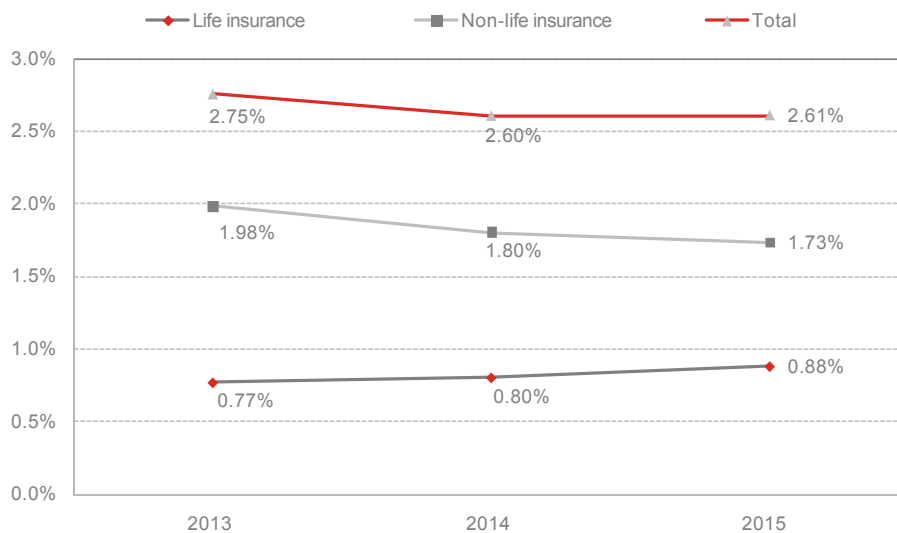
Chart 5.1 Insurance density in the 2013-2015 period (in HRK)



Source: Hanfa, Croatian Bureau of Statistics

As at 31 December 2015, the share of gross written premium in GDP¹⁴² amounted to 2.61%, recording a slight increase compared to the previous year when it amounted to 2.60%. However, the changes are noticeable in relation to insurance groups, so the share of life insurance gross written premium in GDP went from 0.80% in 2014 to 0.88% in 2015, reflecting an increase of gross written premium in this insurance group. The decrease in the non-life insurance premium resulted in the decrease of its share in BDP from 1.80% in 2014 to 1.73% in 2015.

Chart 5.2 Shares of the gross written premiums in GDP in the 2013-2015 period

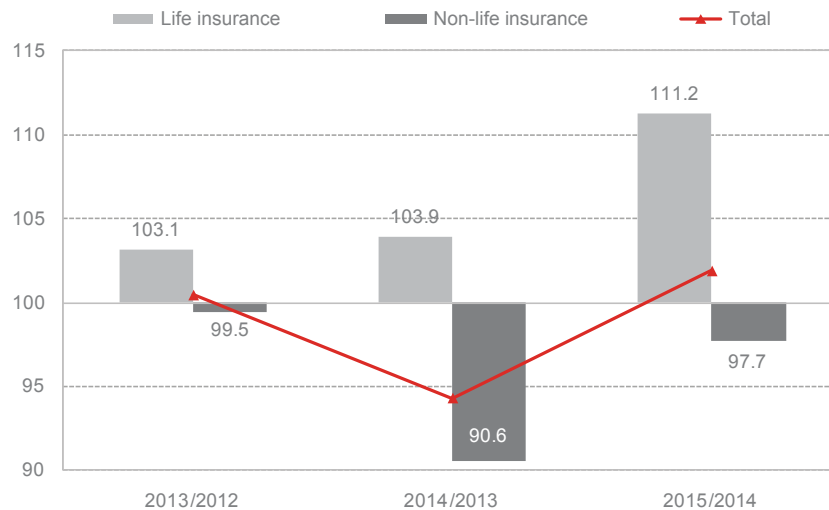


Source: Hanfa, Croatian Bureau of Statistics

¹⁴² The data on GDP published in the Communication from the Croatian Bureau of Statistics, No 12.1.1/4 of 4 March 2016; data for 2015 is provisional and obtained based on preliminary quarterly calculation.

The gross written premium concentration in the five largest insurance companies declined from 65.2% in 2014 to 3.4% in 2015. The non-life insurance group recorded a higher concentration than the life insurance group, with five insurance companies accounting for 71.0% of the total nonlife insurance premium, while the life insurance group recorded 65.4% of the premium concentrated in five insurance companies.

Chart 5.3 Gross written premium indices in the insurance industry in the 2013-2015 period

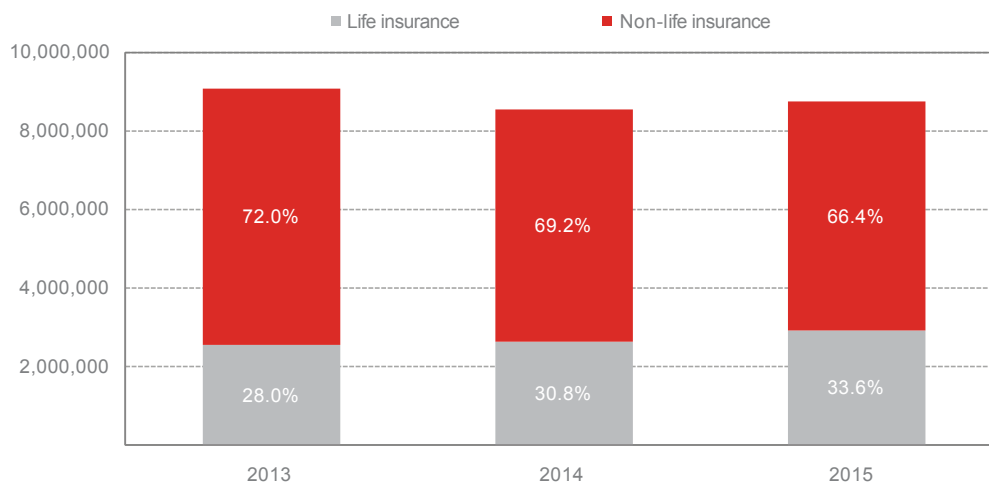


Source: Hanfa

In terms of premium in relation to insurance groups, no changes were recorded in 2015. The non-life insurance group continued with a decrease of gross written premium, while life insurance group recorded a decrease in premium for the fourth year in a row.

Although the structure of gross written premium was dominated by non-life insurance, accounting for 66.4%, same as in previous years, their share is continuously decreasing, mainly as a result of a significant decrease in compulsory motor vehicle liability insurance premiums, but also to an increase in life insurance premiums.

Chart 5.4 Shares of life and non-life insurance in the total gross written premium in the 2013-2015 period (in HRK thousand)



Source: Hanfa

In accordance with the above mentioned trends, 2015 saw a change in the share of certain types of insurance in the total gross written premium. For the first time, 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, which previously held the largest share, now took the second place regarding the share in the total gross written premium. These two classes of insurance, as in previous years, accounted for more than half of the total gross written premium, but their share is continuously decreasing (down from 55.6% in 2014 to 52.5% in 2015).

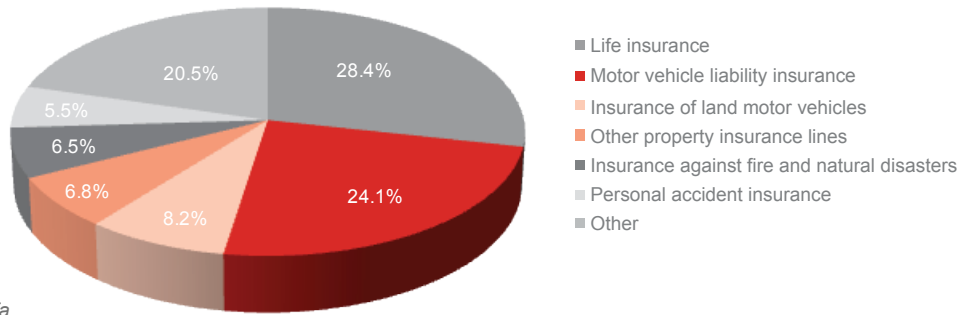
Table 5.1 Gross written premium by insurance classes in 2014 and 2015 (in HRK thousand)

Code	Insurance class	2014	Share (%)	2015	Share (%)	Change (in %)
01	Personal accident insurance	472,817	5.5	477,047	5.5	0.89
02	Health insurance	278,338	3.3	329,278	3.8	18.30
03	Insurance of land motor vehicles	645,487	7.5	714,287	8.2	10.66
04	Insurance of railway rolling stocks	7,097	0.1	7,100	0.1	0.04
05	Insurance of aircraft	8,322	0.1	11,105	0.1	33.44
06	Insurance of vessels	164,128	1.9	160,977	1.8	-1.92
07	Insurance of goods in transit	45,165	0.5	39,169	0.4	-13.28
08	Insurance against fire and natural disasters	554,784	6.5	565,801	6.5	1.99
09	Other property insurance lines	587,744	6.9	597,660	6.9	1.69
10	Motor vehicle liability insurance	2,434,236	28.4	2,101,683	24.1	-13.66
11	Aircraft liability insurance	5,743	0.1	7,449	0.1	29.70
12	Insurance against liability arising out of the use of vessels	41,671	0.5	44,862	0.5	7.66
13	Other liability insurance lines	301,444	3.5	376,925	4.3	25.04
14	Credit insurance	194,521	2.3	159,649	1.8	-17.93
15	Suretyship insurance	6,171	0.1	4,536	0.1	-26.50
16	Insurance against miscellaneous financial losses	115,968	1.4	118,848	1.4	2.48
17	Legal expenses insurance	2,735	0.0	2,588	0.0	-5.37
18	Travel insurance	55,525	0.6	69,330	0.8	24.86
19	Life insurance	2,322,980	27.1	2,478,271	28.4	6.69
20	Annuity insurance	20,083	0.2	60,901	0.7	203.25
21	Supplementary insurance linked with life insurance	151,663	1.8	147,679	1.7	-2.63
22	Marriage and birth insurance	6,796	0.1	6,304	0.1	-7.24
23	Life or annuity insurance in which the investment risk is held by the policyholder	136,263	1.6	241,266	2.8	77.06
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)		5,921,894	69.2	5,788,294	66.4	-2.26
Total life insurance (classes 19 – 25)		2,637,784	30.8	2,934,421	33.6	11.25
Total (classes 01 – 25)		8,559,679	100.0	8,722,715	100.0	1.90

Source: Hanfa

A further reduction was recorded in the share of motor vehicle insurance, which includes motor vehicle liability insurance (class 10) and motor vehicle insurance (class 03), which in 2015 accounted for 32.3% of the total gross written premiums, while in the previous year the same two classes of insurance accounted for 35.9% of the total gross written premium. This was due to a HRK 332.5m (13.7%) fall in the premium reported by class 10, which has been the largest premium decrease reported by an insurance class in absolute terms.

Chart 5.5 Premium structure by insurance classes in 2015



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 – motor vehicle liability insurance. Motor vehicle liability insurance premium totalled HRK 2.0bn and accounted for 23.0% of the total gross written premium recorded in 2015, decreasing by HRK 347.8m (14.8%) relative to 2014, as a result of the liberalisation of motor vehicle liability insurance price lists and a decrease in the average premium. In fact, the average premium dropped from HRK 1,196.5 in 2014 to HRK 993.0 in 2015.

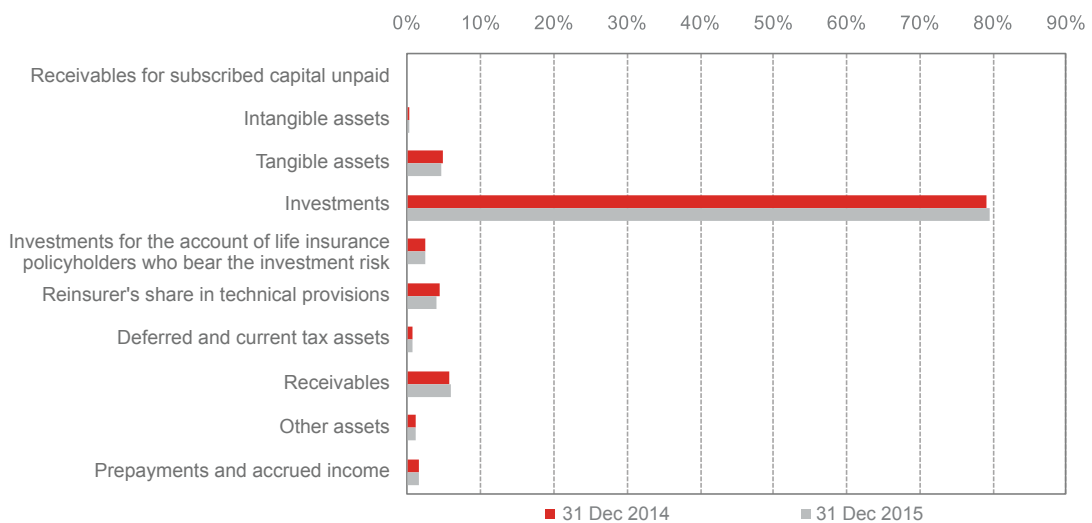
The main feature of the liberalisation is that insurance companies which conduct motor vehicle liability insurance business do not use a common premium system but provide their services based on their own conditions and premium price lists.

Decrease in motor vehicle liability insurance premiums was recorded by 11 out of 13 insurance companies. Risk 10.01 recorded an after-tax profit in the amount of HRK 292.1m.

5.1.1.2 Asset Structure

As at 31 December 2015, total assets of insurance and reinsurance companies amounted to HRK 38.5bn, increasing by HRK 1.1bn or 2.9% compared to the previous year. This increase was mostly due to a rise in life insurance assets totalling HRK 1.1bn or 5.5%. As at 31 December 2015, life insurance assets accounted for 54.2% of total assets of insurance and reinsurance companies. Non-life insurance assets rose by HRK 7.8m or 0.04%. Assets of reinsurance companies accounted for 3.9% of total non-life insurance assets.

Chart 5.6 Asset structure of insurance and reinsurance companies in 2014 and 2015 (in %)



Source: Hanfa

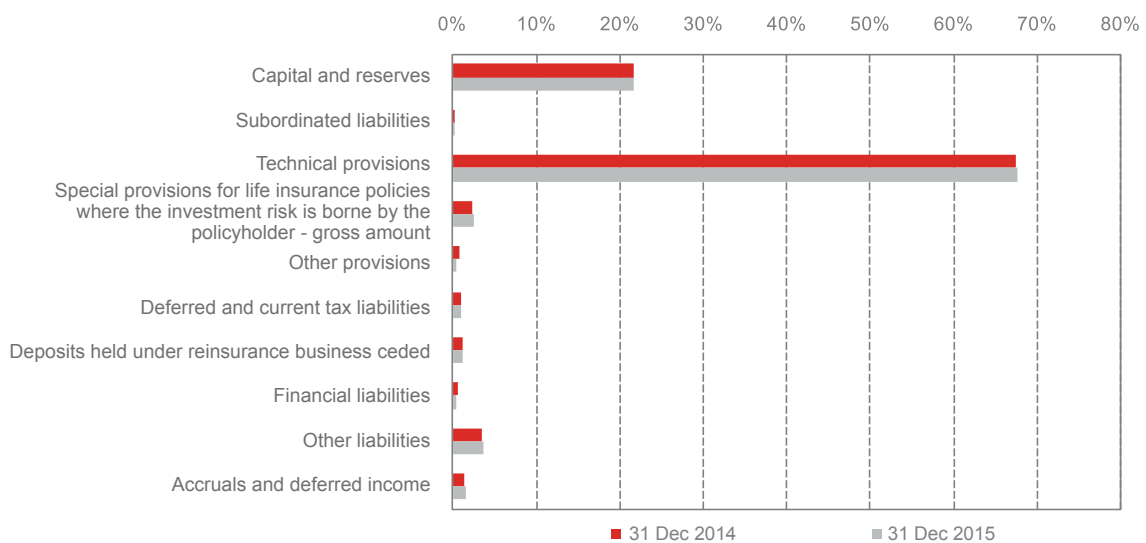
The most significant share (89.1%) in life insurance assets was accounted for by investments, while investments for the account of life insurance policyholders who bear the investment risk accounted for 4.5% of the assets. The major share in investments was accounted for by investments in debt securities and other securities with fixed income classified in the portfolio of investments available for sale (40.5% of life insurance assets) and investments in debt securities and other securities with fixed income classified in the portfolio of investments held-to-maturity (27.3% of life insurance assets). In the life insurance group, the top five companies (as regards the amount of assets) accounted for 67.3% of total life insurance assets.

The most significant share (67.8%) 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 securities and other securities with fixed income classified in the portfolio of investments available for sale (19.4% of non-life insurance assets). In addition to investments, a significant asset share was related to receivables (12.1%) and the reinsurers' share of technical provisions (6.3%). In the non-life insurance group, the top five insurance companies (as regards the amount of assets) accounted for 77.3% of total non-life insurance assets.

5.1.1.3 Liability structure

As at 31 December 2015, the largest share (67.6%) in total liabilities recorded by insurance and reinsurance companies was accounted for by technical provisions, while capital and reserves made up 21.7% of their liabilities.

Chart 5.7 Liability structure of insurance and reinsurance companies in 2014 and 2015 (in %)



Source: Hanfa

The life insurance liability structure was dominated by technical provisions (78.8%), with mathematical provisions reaching HRK 16.2bn (77.6% of life insurance liabilities) and accounting for the largest part. A significant share was also related to capital and reserves, which accounted for 12.6% 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 4.4% of life insurance liabilities.

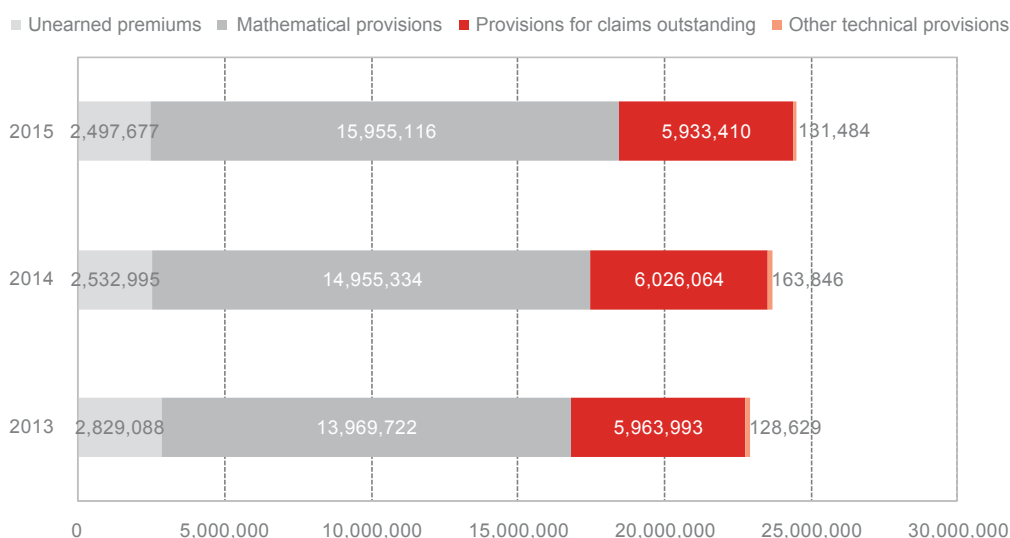
Technical provisions dominated the non-life insurance liability structure (reinsurance excluded) as well (a 54.5% share), and were mostly related to provisions for claims outstanding, which amounted to HRK 6.3bn (36.9% of total liabilities). Capital and reserves accounted for 32.1%, while the remaining liability items made up a 6.6% share in total liabilities.

5.1.1.4 Technical Provisions

As at 31 December 2015, net technical provisions of insurance and reinsurance companies, as presented in the statement of financial position, amounted to HRK 24.5bn, rising by HRK 839.4m or 3.5% compared to 2014. This increase was mainly due to a HRK 999.8m or 6.7% increase in mathematical provisions. Provisions for claims outstanding recorded a decrease in the amount of HRK 92.7m or 1.5%, while provisions for unearned premiums fell by HRK 35.3m or 1.4% compared to the previous year, as a result of the decline in non-life insurance premiums.

Insurance companies need to establish technical provisions with respect to all insurance services they provide. The provisions are intended for covering future underwriting liabilities and any losses due to risks arising from the business written.

Chart 5.8 Net technical provisions in the 2013-2015 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 61.0% in 2013 to 65.1% in 2015. The above trend is the result of the growth in life insurance premiums. 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 25.1% in 2013 to 24.2% in 2015. The share of provisions for unearned premiums also continued its decrease, ranging from 12.4% in 2013 to 10.2% in 2015.

5.1.1.5 Investments of Assets Covering Technical Provisions

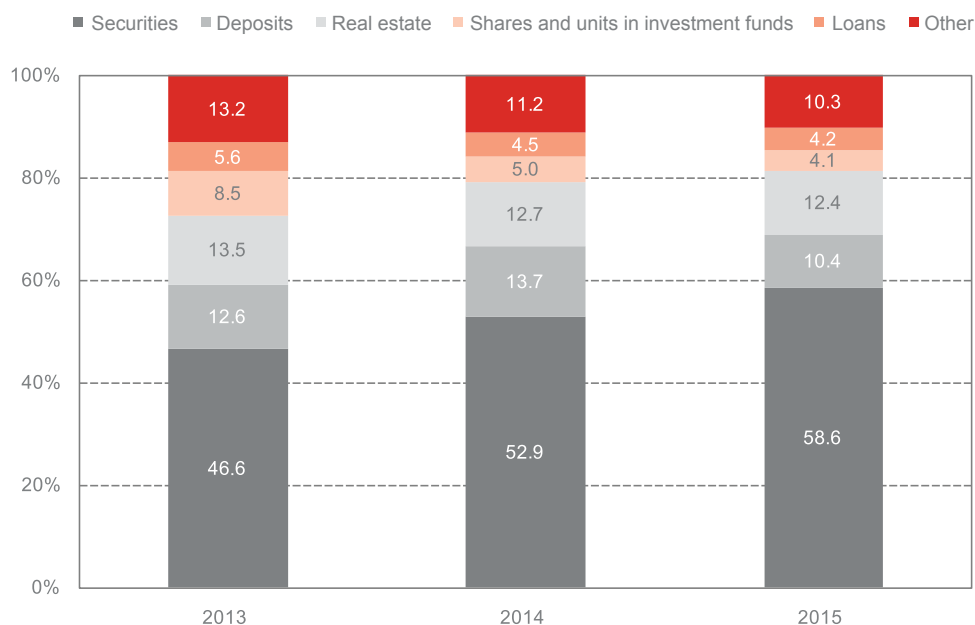
Insurance and reinsurance companies were obliged to invest assets covering technical provisions in accordance with relevant provisions of the Insurance Act¹⁴³, laying down the types of and limitations on permitted investments of assets covering technical provisions and in accordance with the Ordinance 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 reporting¹⁴⁴ hereinafter: Ordinance on investments). As at 31 December 2015, the re-

143 Official Gazette, No 151/05, 87/08, 82/09, 54/13 and 94/14

144 Official Gazette, No 119/09, 155/09, 01/12, 39/12, 79/13 and 105/13

quired coverage of technical provisions, other than mathematical provisions¹⁴⁵, amounted to HRK 8.4bn. Insurance and reinsurance companies invested a total of HRK 9.3bn in assets covering technical provisions, which was HRK 0.9bn or 10.7% more than the required coverage.

Chart 5.9 Technical provision investment structure in the 2013-2015 period (in %)



Source: Hanfa

The investment structure relating to assets covering technical provisions was dominated by investments in securities¹⁴⁶, which accounted for 58.6% of total investments, an increase compared to 2014, when their share totalled 52.9%. The investments primarily consisted of investments in securities issued by the Republic of Croatia, whose share in total investments amounted to 48.5%. All other types of investments recorded a decrease in the share of total investments compared to 2014.

5.1.1.6 Investments of Assets Covering Mathematical Provisions

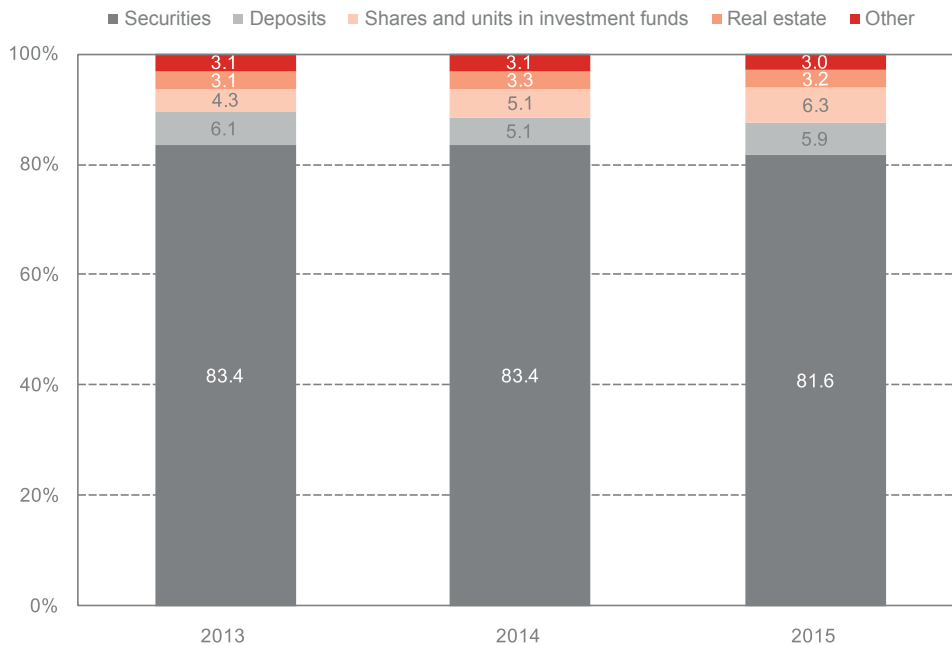
Insurance companies were obliged, by end-2015, to invest assets covering mathematical provisions in accordance with relevant provisions of the Insurance Act, laying down the types of and limitations on permitted investments of assets covering mathematical provisions and in accordance with the Ordinance on investments, taking into account the type of insurance activities carried out and guaranteeing the safety, profitability and adequate diversity of investments. Furthermore, in line with the provisions of the Insurance Act, the value of assets covering mathematical provisions should at any moment be at least equal to the required coverage covering mathematical provisions.

¹⁴⁵ 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 outstanding, equalisation provisions and other technical provisions.

¹⁴⁶ These investments are laid down in Article 115 points 1 to 8 of the Insurance Act.

As at 31 December 2015, insurance companies invested HRK 16.7bn in assets covering mathematical provisions, i.e. HRK 0.6bn or 3.9% more than the required coverage of mathematical provisions¹⁴⁷, which amounted to HRK 16.1bn.

Chart 5.10. Mathematical provision investment structure in the 2013-2015 period (in %)



Source: Hanfa

The largest share of assets covering mathematical provisions was invested in securities¹⁴⁸ (81.6%), with the largest part relating to securities issued by the Republic of Croatia, which accounted for 66% in the assets covering mathematical provisions, while 9.3% of total assets covering mathematical provisions related to securities issued by another Member State.

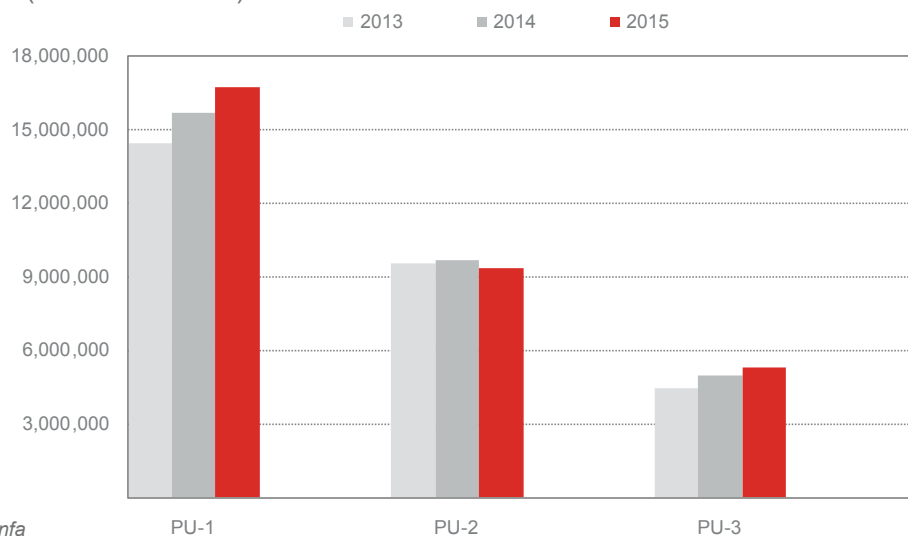
5.1.1.7 Investments of Assets from Capital and other Funds (other than Assets Covering Mathematical and Technical Provisions)

As at 31 December 2015, insurance and reinsurance companies reported investments of assets from capital and other funds, other than assets covering mathematical provisions and assets covering technical provisions (hereinafter: investments of assets from capital) in the amount of HRK 5.3bn, of which HRK 1.4bn or 27.2% related to life insurance and HRK 3.9bn or 72.8% to non-life insurance. The majority share of total investments of assets from capital was accounted for by deposits, loans and receivables in the amount of HRK 2.0bn (38.3%) and investments available for sale in the amount of HRK 1.7bn (31.8%). Total investments of assets from capital increased by HRK 363.2m or 7.3% relative to the previous year.

¹⁴⁷ The requested coverage of mathematical provisions is comprised of mathematical provisions, provisions for unearned premiums in risk types for which mathematical provisions must be formed, provisions for claims outstanding in risk types for which mathematical provisions must be formed, and provisions for bonuses and rebates in risk types for which mathematical provisions must be formed.

¹⁴⁸ These investments are laid down in Article 122(1) points 1 to 6 of the Insurance Act.

Chart 5.11. Investments of mathematical provisions¹⁴⁹, investments of technical provisions other than mathematical provisions¹⁵⁰ and investments of capital¹⁵¹ in the 2013-2015 period (in HRK thousand)

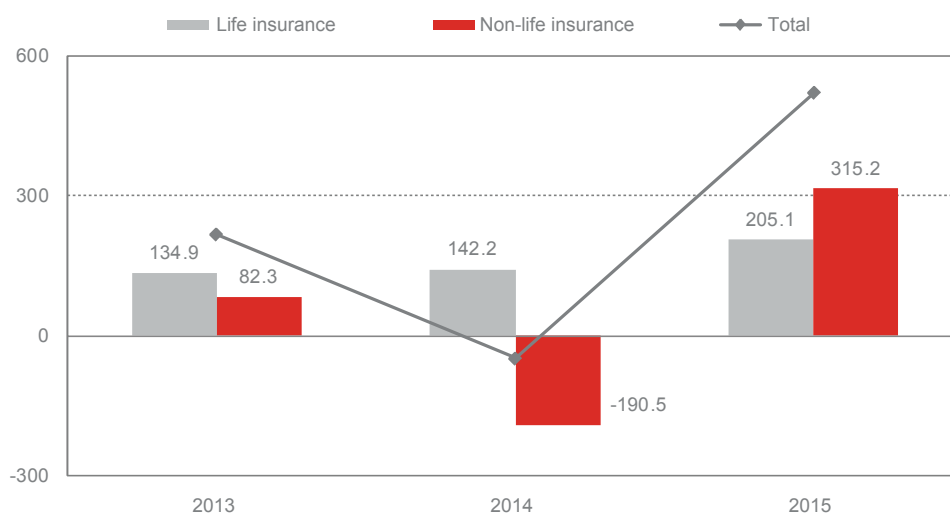


Source: Hanfa

5.1.1.8 Financial Operating Results

In 2015, insurance and reinsurance companies achieved a profit of HRK 520.3m as a result of their operations, unlike in 2014, when a loss of HRK 48.2m was recorded¹⁵². Net profit amounting to HRK 589.7m was reported by 17 insurance companies and one reinsurance company, while a HRK 69.4m loss was reported by six insurance companies.

Chart 5.12 Operating results of insurance and reinsurance companies from 2013 to 2015 (in HRK million)



Source: Hanfa

149 Data on investments of assets covering mathematical provisions have been taken from the form Overview of investments of assets covering mathematical provisions (form PU-1).

150 Data on investments of assets covering technical provisions other than mathematical provisions have been taken from the form Overview of investments of assets covering technical provisions other than mathematical provisions (form PU-2).

151 Data on investments of capital have been taken from the form Overview of investments of assets from capital and other funds (Form PU-3).

152 The losses in 2015 were mainly the result of the restructuring process of insurance companies i.e. reinsurance companies.

The profit in the non-life insurance group was HRK 315.2 m. Of this amount, HRK 384.6 m accounted for the profit of 15 insurance companies and one reinsurance company, while three insurance companies reported loss amounting to HRK 69.4 m. The life insurance group recorded a HRK 205.1m profit, of which a HRK 214.4m profit was generated by 11 insurance companies, while a HRK 9.3m loss was realised by three insurance companies.

5.1.1.9 Capital Adequacy

Insurance and reinsurance companies are obliged to maintain a capital level corresponding to the volume and types of insurance activities carried out and taking account of the risks they are exposed to. In order to meet the prescribed capital adequacy requirements, insurance and reinsurance companies must satisfy three conditions laid down in the Insurance Act. The capital level of the company must be at least equal to the solvency margin, the guarantee fund of the company must be at least equal to one third of the solvency margin and the guarantee fund of the company must be at least equal to the minimum initial capital.

As at 31 December 2015, all insurance and reinsurance companies were meeting the prescribed capital adequacy requirements.

In the life insurance group, the ratio of capital to the solvency margin of insurance companies ranged from 1.5 to 29.4, the ratio of guarantee fund to one third of the solvency margin ranged between 4.4 and 88.6, while the ratio of guarantee fund to minimum initial capital was between 1.1 and 10.0. In the non-life insurance group, the ratio of capital to the solvency margin of insurance and reinsurance companies ranged from 1.4 to 32.0, the ratio of guarantee fund to one third of the solvency margin ranged from 4.3 to 97.3, while the ratio of guarantee fund to minimum initial capital ranged between 1.1 and 53.3.

5.1.1.10. Insurance Industry Performance Indicators

The key performance indicators¹⁵³ for insurance and reinsurance companies are loss ratio, expense ratio and combined ratio.

In 2015, the loss ratio reached 64.0% and was somewhat more favourable compared to 2014, when it stood at 64.1%. The loss ratio of the life insurance business amounted to 93.1%, falling slightly compared to 2014, when it stood at 96.6%. The loss ratio of the non-life insurance business was 49.2%, decreasing in comparison with 2014, when it reached 51.0%.

The expense ratio amounted to 39.8%, a decrease compared to 2014, when it stood at 43.5%. The expense ratio of the life insurance business totalled 26.8%, a more favourable amount in comparison to 2014, when it reached 31.3%. This indicator amounted to 46.4% in the nonlife insurance business, decreasing compared to 2014, when it reached 48.4%.

The combined ratio totalled 103.8%, somewhat more favourable than in 2014, when it stood at 103.8%. The combined ratio of the life insurance business reached 119.9%, declining relative to 2014, when its value was 127.8%. In the non-life insurance busi-

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, co-insurance premium, value adjustment and charged adjustment of insurance/co-insurance premium value and changes in gross provisions for unearned premiums.

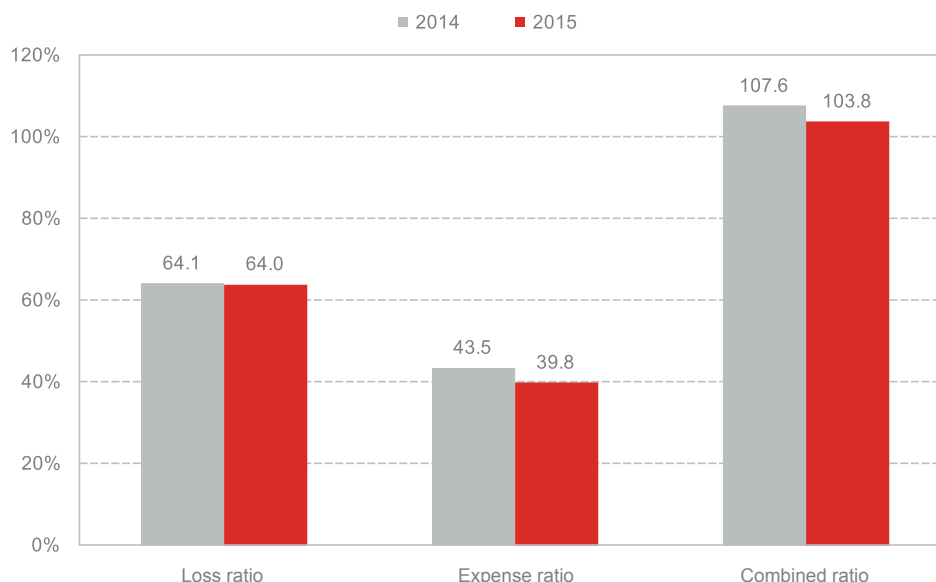
Expense ratio is the ratio of the sum of operating expenses (acquisition expenses and administrative expenses) and other technical expenses to the sum of gross written premium, co-insurance premium, value adjustment and charged adjustment of insurance/co-insurance premium value and changes of gross provisions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

¹⁵³ Data on 2014 and 2015 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 a company merged with another insurance company with its registered office in another Member State.

ness, this ratio amounted to 95.6%, an improvement compared to 2014, when it reached 99.4%. A combined ratio lower than 100.0% 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.

Chart 5.13. Insurance industry performance indicators for 2014 and 2015 (in %)



Source: Hanfa

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

In 2015, the return on investment totalled 4.0%, while in 2014 it stood at 3.2%. In the life insurance industry, return on investment amounted to 4.5%, falling compared to 2014, when it totalled 4.9%. In the non-life insurance industry, this ratio reached 3.2%, rising in comparison with 2014, when it amounted to 0.6%.

Return on assets in the insurance sector stood at 1.3% in 2015, while in 2014 it was negative standing at -0.1%. In the life insurance industry, this indicator stood at 1.0%, an improvement relative to 2014 when it stood at 0.7%. In the non-life insurance group, this indicator stood at 1.8%, unlike in 2014 when it was negative and amounted to -1.1%. A high indicator implies a high return on assets.

In 2015, the total return on equity amounted to 6.6%, a significant improvement in comparison with 2014, when it was negative at -0.6%. In the life insurance business, return on equity totalled 8.5%, increasing compared to 2014, when it reached 5.7%. In the non-life insurance group, this indicator stood at 5.8%, unlike in 2014 when it amounted to -3.4%.

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.

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

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

5.1.2 Croatian Insurance Bureau¹⁵⁴

5.1.2.1 Regular Business Operations

According to the balance sheet of the regular business operations of the Bureau¹⁵⁵, as at 31 December 2014 the total assets of the Bureau amounted to HRK 10.4m, growing by 2.3% relative to 2014. The total liabilities of the Bureau at end-2015 stood at HRK 3.7m, declining by 3.8% in comparison with the preceding year. Sources of financing amounted to HRK 6.7m, 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 December 2014 and 31 December 2015 (in HRK thousand)

No	Item	2014	2015	Change (in %)
Assets				
Total assets		10,161	10,391	2.3
1	Non-financial assets	6,366	6,139	-3.6
2	Financial assets	3,795	4,252	12.0
Liabilities				
Total liabilities and own sources		10,161	10,391	2.3
1	Liabilities	3,801	3,654	-3.8
2	Sources of financing	6,360	6,737	5.9

Source: Hanfa

In the period from 1 January 2015 to 31 December 2015, income from regular business operations of the Bureau (excluding taxable activity) amounted to HRK 8.9m, with the largest part being accounted for by income from members, while expenses from the Regular Business Operations totalled HRK 8.2m 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 1.0m, 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 1.2m and comprised expenses relating to the organisation of expert consulting, expenses relating to the organisation of CEDOH seminars and other expenses.

154 The Croatian Insurance Bureau conducts the following activities for its members: the National Green Card Bureau activities and other activities envisaged under international agreements on insurance against third-party liability of motor vehicle owners, the representation of Croatian insurance companies in international organisations, the Guarantee Fund management activities, insurance market statistics, resolution of complaints from insured and injured persons, out-of-court settlement of disputes between insured persons or policyholders i.e. consumers and insurance companies or insurance service providers. The Bureau also performs other duties of general and common interest for the insurance industry.

155 Balance sheet of the regular business operations includes a non-profit business operations segment, which is financed by members, and a profitable segment (hereinafter: taxable activity), which refers to the organization of seminars and consultations, and other activities that are not financed by the members of the Bureau.

Table 5.3 Income and expenses from Regular Business Operations of the Bureau for 2014 and 2015 (in HRK thousand)

No	Description	2014	2015	Change (in %) 2015/2014
A	Income	11,024	9,940	-9.8
1.	Total income – Regular Business Operations	9,906	8,891	-10.2
2	Total income – Taxable Activity	1,118	1,048	-6.2
B	Expenses	9,115	9,370	2.8
1	Total expenses – Regular Business Operations	7,826	8,185	4.6
2	Total expenses – Taxable Activity	1,289	1,186	-8.0

Source: Hanfa

5.1.2.2 Guarantee fund

Pursuant to Article 45(1) of the Act on Compulsory Insurance within the Transport Sector¹⁵⁶, insurance companies conducting compulsory insurance business¹⁵⁷ 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 2015, total assets of the Guarantee Fund amounted to HRK 22.6m, increasing by 24.8% compared to the previous year.

Table 5.4 Abbreviated balance sheet of the Guarantee Fund for 2014 and 2015 (in HRK thousand)

No	Item	2014	2015	Change (in %)
Assets				
	Total assets	18,132	22,620	24.8
1	Non-financial assets	416	416	0.0
2	Financial assets	17,716	22,204	25.3
Liabilities				
	Total liabilities and own sources	18,132	22,620	24.8
1	Liabilities	1,307	1,257	-3.9
2	Sources of financing	16,825	21,363	27.0

Source: Hanfa

5.1.3 Croatian Nuclear Insurance and Reinsurance Pool, EIG

Pursuant to Article 270(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

¹⁵⁶ Official Gazette, No 151/05, 36/09, 75/09, 76/13 and 152/14

¹⁵⁷ 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.

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 2015 (four insurance companies and one reinsurance company). Members of the CN POOL jointly accept extraordinary risks with respect to insurance, co-insurance and reinsurance of nuclear plants, i.e. risks related to the exploitation of nuclear power for peacetime purposes.

5.1.3.1 Financial Statements

As at 31 December 2015, the total assets of the CN POOL reached HRK 95.9m, rising by 10.9% compared to 2014. The asset structure was dominated by investments (79.2% of the total assets) amounting to HRK 75.9m. The largest liability share (77.3%) was accounted for by technical provisions totalling HRK 74.1m.

In the period from 1 January 2015 to 31 December 2015, the CN POOL generated a profit totalling HRK 10.4 thousand and decreasing by 69.1% compared to the preceding year. The total income amounted to HRK 14.8m, decreasing by 39.4% compared with 2014, primarily due to a decrease in the income from investments. The largest income share was accounted for by gross written premiums, which amounted to HRK 26.3m in 2015, rising by 46.8% relative to 2014. Gross written premium consisted of reinsurance premium in the amount of HRK 14.4m and insurance premium in the amount of HRK 11.9m. Investment income, amounting to HRK 2.3m, decreased by 67.9% compared to the previous year.

Total expenses reached HRK 14.8m, falling by 39.4% relative to the year before. A decrease in expenditures was mostly influenced by the reduction in damages (which consist of expenses for insured cases and changes in provisions for claims outstanding and other provisions) by 76.6% to HRK 2.1m, as well a decrease in acquisition costs of 21.0% to HRK 10.3m.

Income intended for financing regular business operations of the CN POOL comprised a part of paid insurance and reinsurance premiums, and income from investments. In 2015, it amounted to HRK 5.0m, while material and non-material expenses amounted to HRK 3.0m.

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 form and content of financial and statistical reports compiled by insurance agencies and insurance and reinsurance brokerage companies¹⁵⁸. According to the data received, the total income from insurance representation services and insurance and reinsurance brokerage services provided in 2015 reached HRK 425.1m, rising by HRK 39.2m or 10.2% relative to the preceding year.

Insurance agencies generated income from insurance representation services totalling HRK 152.9m and accounting for a 36.0% 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 151.3m, which accounted for a 35.6% share in the total income structure. Income reported by insurance and reinsurance brokerage business totalled HRK 78.6m and made up a 18.5% share in the total income from insurance representation and insurance and reinsurance brokerage business. Income from insurance representation crafts in the amount of HRK 39.4m accounted for 9.3% of total income arising from these activities.

¹⁵⁸ Official Gazette, No 149/09, 42/10, 52/13 and 151/14

5.2 Hanfa's Regulatory Activities

5.2.1 Preparatory phase for Solvency II

Forward looking assessment of own risks based on the ORSA principles (FLAOR)

In 2015, Hanfa continued with the preliminary phase for Solvency II, considering the entry into force of this new regulation on 1 January 2016. In early 2015, Hanfa sent to EIOPA¹⁵⁹ a report on the implementation process and progress of the preparatory phase for Solvency II. In March 2015, the new Insurance Act¹⁶⁰ was adopted, which is in conformity with the provisions of the Solvency II Directive¹⁶¹ with full implementation from 1 January 2016. Given the fact that in December 2014, the first round of talks with insurance companies was held, in April 2015, Hanfa held a second round of talks with the companies in connection with the FLAOR¹⁶²/ ORSA¹⁶³ reports for 2014, and all the activities planned for that process in 2015 were undertaken. The talks were held with the companies making up 80% of the entire insurance market in the Republic of Croatia. In this manner, a continued compliance with regulatory capital requirements and the requirements in respect of technical provisions was assessed, as well as the significance of deviations in the risk profile from the assumptions underlying the standard formula. In addition, the views were exchanged with representatives of the insurance companies with the aim of improving the process of FLAOR/ORSA reporting and implementation of this process in 2015. In the last quarter of 2015, Hanfa intensified preparations for FLAOR/ORSA reports for 2015 in order to prepare for the analysis of FLAOR 2015 report.

Key determinants during communication with companies were as follows: making summaries/ conclusions of key assumptions and results of FLAOR/ORSA processes, risk profile i.e. materially significant risk representation, risks included in the calculation of solvency capital requirements¹⁶⁴, risks not defined in the calculation of solvency capital requirements, deviations, quantification and measures for risk management, equity capital requirements (economic capital), period included in projections, risk of assets and liabilities alignment¹⁶⁵, using curves for discounting of liabilities, treatment and influence of the concentration of investment in Croatian government bonds – transitional measures, motor vehicle insurance – scenarios, treatment of investment in affiliated companies, stress tests and various scenarios. After the analysis of submitted FLAOR/ORSA reports deficiencies were found that can generally be classified into the following categories: the role of management, analysis and explanations of key risks, identifying and pointing to the emerging risks, clarification of determining the total solvency needs, projections and capital requirements representations, explanation of stress tests and the impact of results risk on the future strategy. In addition to the identified deficiencies of FLAOR/ORSA reports submitted in the preparatory phase for Solvency II, recommendations were given in relation to the elimination of these deficiencies in the full implementation of Solvency II.

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 so they could make valid, effective and required decisions, and must be approved by the company's management board.

¹⁵⁹ The European Insurance and Occupational Pensions Authority (EIOPA) is described in more detail in Chapter 9.1.2. Participation in the Work of EIOPA.

¹⁶⁰ Official Gazette, No 30/15

¹⁶¹ 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

¹⁶² *Forward Looking Assessment of Own Risks – FLAOR*

¹⁶³ *Own Risk and Solvency Assessment – ORSA*. ORSA implies regular assessment of overall solvency needs taking into account the specific risk profile

¹⁶⁴ *Solvency Capital Requirement – SCR*

¹⁶⁵ *Asset-Liability Management*

Reporting and validation of reports

In accordance with the Guideline on Submission of Information to National Competent Authorities¹⁶⁶ (hereinafter: Guidelines), in 2015, Hanfa was involved in the process of reporting and validation of reports within the preparatory phase for Solvency II. Reporting and validation of reports in the preparatory phase had the following objectives: testing of systems and processes before the full implementation of Solvency II, correct preparation of reports by companies, testing the process of sending and receiving the reports and implementation of their validation, preparation of companies for Solvency II and the establishment of appropriate systems and structures that will allow an adequate exchange of information and the use of the preparatory phase for the improvement of reports submitted.

During the preparatory phase for Solvency II, Hanfa was involved in the activities of the Working Group HUU-HANFA-HAD¹⁶⁷ for Pillars 2 and 3, and it invited insurance companies to participate and to prepare for the new way of reporting. Hanfa also undertook a series of different activities prior to the implementation of the pilot project for sending and receiving reports, which included the implementation of a software solution consisting of a test part and a production part, additional training of Hanfa's staff, creating internal instructions for validation and close cooperation with the EIOPA committees.

Hanfa conducted this pilot project in the period from 1 March to May 28 2015 via an interface on its web site, and it encompassed sending of reports by the companies, technical verification of reports and compliance of reports with the controls defined by EIOPA.

The pilot project was followed by the submission and validation of annual quantitative information and descriptive reports (qualitative information) submitted in accordance with deadlines and in the manner as provided in the Guidelines (quantitative information were delivered according to the contents prescribed in the QRT forms¹⁶⁸, while descriptive reports were submitted in electronically readable formats). The validation included 23 companies, 11 of which were required to submit quantitative information and a descriptive report, while additional 12 companies responded to Hanfa's call to participate in and prepare for the new way of reporting. During the preparation for validation, in the course of it and after its completion, Hanfa openly communicated with companies, and eventually it sent the reports to EIOPA within the prescribed deadline.

The preparatory phase included the delivery of quantitative quarterly information to the extent and in the manner prescribed by the Guidelines, so that Hanfa received reports from 20 companies. The process of validation primarily included five companies that were required to submit the prescribed range of information, and after that, the reports of companies that were not obliged to submit quantitative information were validated. Reports of the five obliged companies were successfully delivered to EIOPA within the given deadline.

The first report that Hanfa receives within the full implementation of Solvency II, according to the provisions of Article 314 of the Delegated Regulation supplementing the Solvency II Directive¹⁶⁹, refers to both quantitative and qualitative information regarding the initial reporting in the full implementation of Solvency II, or "Day 1" reporting. The reference date of the initial report is the first day of the financial year of the insurance or reinsurance company, which begins on 1 January 2016. "Day 1" implies 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. In addition, for better understanding of the opening balance sheet, the delivery of qualitative explanations of the main differences between the initial

166 EIOPA-CP-13/010

167 Croatian Actuarial Association

168 *Quantitative Reporting Templates – QRT*

169 Commission Delegated Regulation (EU) 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) (Text with EEA relevance), OJ L 12/1

value of assets and liabilities and the value of assets and liabilities calculated in accordance with the previous solvency system is also prescribed, separately for each major category of assets and liabilities. The deadline for the submission of information is 20 weeks from the reference date of the initial financial report i.e. 20 May 2016. In accordance with the foregoing, all the insurance and reinsurance companies submitted the requested information within the prescribed period and in the prescribed manner, which formally marked the beginning of reporting within the full implementation of Solvency II.

5.2.2 Normative Activities

New Insurance Act

Hanfa was involved in the activities of drafting the new Insurance Act considering the fact that Member States were obliged to transpose the provisions of the Solvency II Directive into their national legislation by 31 March 2015.

The new Insurance Act was adopted on 6 March 2015, with the full effect from 1 January 2016. Certain provisions of the new Insurance Act entered into force in 2015, given that the Solvency II Directive stipulates a gradual introduction of these regulations. The provisions of the new Insurance Act which entered into force in April 2015 introduced significant changes in the part of decision-making regarding the approval of ancillary own funds, classification of own funds items, and the implementation of specific parameters, the application of transitional measures on technical provisions, determining the level and scope of group supervision, determining the body responsible for group supervision and the establishment of the college of supervisory bodies. Furthermore, provisions of the new Insurance Act which entered into force in July 2015 introduced significant changes in the part of determining the selection of the method for the calculation of group solvency and, where necessary, decision to implement transitional measures.

It is important to point out that the new Insurance Act fulfils 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 the Article 301a of the Solvency II Directive.

The new Insurance Act establishes a new regulatory framework for the insurance industry. Some of the more relevant novelties included a higher level of consumer protection, new calculation of capital adequacy taking into account company's risk profile, greater transparency of business operations and the manner and efficiency regarding risk management. The supervision process will be based on risks. A risk-based approach intensifies supervision of insurance companies and promotes the best supervisory practice. The purpose of such approach is to identify and manage insurance companies' risks, assess financial vulnerability to potentially negative experiences through stress tests, identify the existing and any future deficiencies in insurance companies' business operations, and finally promote and safeguard the stability of the financial system and supervise the lawfulness of business operations. The new Insurance Act also introduces a new manner of reporting and publication.

The new Insurance Act introduces a new system of operation and supervision of insurance and reinsurance companies in accord-

In risk assessment all the risks in the operation of insurance and reinsurance companies should be qualitatively and quantitatively identified and managed, and exposure and risk management of companies would determine the required level of capital – capital adequacy. Qualitative risk assessment is about assessing areas of activity and effectiveness of the management system based on assessment of authorised persons (management and holders of key functions, managers, leaders). Quantitative assessment involves calculating indicators (general indicators, solvency, liquidity, efficiency and profitability indicators...) based on data available to the supervisory authority as well as the implementation of stress tests.

ance with the Solvency II Directive and the Omnibus II Directive¹⁷⁰, the Regulation on credit rating agencies¹⁷¹ and regulations establishing the European Supervisory Authority (European Insurance and Occupational Pensions Authority)¹⁷² in terms of the powers of the European supervisory authority (European Insurance and Occupational Pensions Authority) and the European supervisory authority (European Securities and Markets Authority).

Solvency II is a long-term EU project, launched more than ten years ago with the aim of revising the current capital requirements i.e. replacing the existing system of capital adequacy and solvency margin based on the rules and measures governing the solvency margin that must be met by insurance and reinsurance companies. The old system functioned in a way that took into account only the insurance risk on the basis of the index of premiums and claims. Moreover, during the development of the new system, the experience of the recent financial crisis was taken into account.

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 reserves), 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.

The purpose of implementation of these directives in the Croatian legal system, i.e. the new Insurance Act, is a greater protection of the insured persons as well as 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. New rules will improve the risk management which will have a central role in company management and thereby contribute to better understanding, identifying and managing risks. This can ultimately have a positive impact on the overall exposure and security of business operations. The assumption is that the new rules of the Solvency II Directive will increase the level of required capital, which could result in further recapitalization or different understanding of business and investment policy in order to achieve substantial capital relief and reduce capital requirements for individual risks. Finally, this will ensure greater risk diversification, or the use of collateral and risk transfer.

Insurance companies must at all times have eligible basic own funds to cover the minimum capital requirement. The minimum capital requirement represents the lowest permissible level of capital, while solvency capital requirement represents the level of capital that enables an insurance company or reinsurance company to absorb almost all adverse events and solvent operations with respect to the risks assumed.

Furthermore, the 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. Detailed regular reporting and reporting at Hanfa's request is also prescribed.

Another novelty is that the insurance company will be able to perform insurance and reinsurance activities, i.e. reinsurance activities will be able to be carried out by a reinsurance company and

170 Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directives 2003/71/EC and 2009/138/EC and Regulations (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

171 Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (Text with EEA relevance), OJ L 302/1

172 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 (L 331/48) and Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC, OJ L 331/84

an insurance company with registered offices in the Republic of Croatia which possesses Hanfa's 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.

A novelty regarding the insurance representation is that at vehicle roadworthiness test garages, insurance agencies will be able to conduct insurance representation business regarding the following types of insurance:

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

Until now, insurance agencies were only allowed to offer personal accident insurance and motor vehicle liability insurance at vehicle roadworthiness test garages.

Furthermore, it is more clearly stipulated that persons engaged in insurance representation business on the basis of their employment in an insurance company cannot hire an insurance assistant.

The new Insurance Act enables insurance and reinsurance brokers with work experience of at least three years in the field of insurance, reinsurance, representation or brokerage, and at least 180 ECTS points¹⁷³ to also engage in insurance and reinsurance brokerage business, provided that they meet other conditions.

Regulations adopted under the new Insurance Act

In 2015, five new ordinances entered into force¹⁷⁴ and they regulate:

- the method of implementing own risk and solvency assessment by insurance companies and reinsurance companies, market volume and deadlines for reporting to Hanfa regarding the results of own risk and solvency assessment
- content of the application and documentation and data that must be submitted to Hanfa together with the request for the approval to the company that wants to acquire another company or another legal entity based in the Republic of Croatia or abroad, approval to the company that wants to merge with another company, approval to the companies that intend to merge, approval to carry out division to the company that plans to transfer all its assets to two or more new companies or companies that already exist, and approval to carry out division of the company that intends to transfer one or more parts of its assets to one or more new companies or one or more companies that already exist
- documentation that must be submitted with the Request for the application of deduction from transitional measures to technical provisions
- documentation that must be submitted with the Request for the application of transitional measures for the relevant risk-free interest rate term structure
- documentation that must be submitted with the Request for the application of volatility adjustment to the relevant risk-free interest rate term structure in the calculation of the best estimate.

173 The grading system defined by the European Commission, i.e. *European Credit Transfer and Accumulation System*

174 The list of ordinances adopted by Hanfa in 2015 is provided in the Appendix.

Participation in the activities of EU institutions

In 2015, during the preparatory phase for a new regulatory system as prescribed by the Solvency II Directive (hereinafter: Preliminary guidelines¹⁷⁵), Hanfa conducted a process of harmonization with the Guidelines on the System of Governance¹⁷⁶, Guidelines on forward looking assessment of own risks (based on the ORSA principles)¹⁷⁷ and Guidelines for submission of information to the national competent authorities¹⁷⁸. The companies had the possibility to directly communicate with Hanfa, for a more efficient way of preparing for the upcoming Solvency II regulations. The first reporting followed, during which, within a test phase, the companies were given detailed instructions for prompt and timely reporting.

Based on the first set of guidelines on Solvency II issued by the EIOPA, on 27 March 2015 Hanfa expressed its intention and complied with the guidelines in force since 1 April 2015, namely Guidelines on operational functioning of colleges¹⁷⁹ (except Guidelines No 17 and 18, in force since 1 January 2016), Guidelines on contract boundaries¹⁸⁰, Guidelines on the valuation of technical provisions¹⁸¹, Guidelines on ancillary own funds¹⁸², Guidelines on classification of own funds¹⁸³, Guidelines on ring-fenced funds¹⁸⁴, Guidelines on treatment of related undertakings, including participations¹⁸⁵, Guidelines on look-through approach¹⁸⁶, Guidelines on basis risk¹⁸⁷, Guidelines on the application of outwards reinsurance¹⁸⁸, Guidelines on the treatment of market and counterparty risk exposures in the standard formula¹⁸⁹, Guidelines on application of the life underwriting risk module¹⁹⁰, Guidelines on health catastrophe risk sub-module¹⁹¹, Guidelines on undertaking-specific parameters¹⁹², Guidelines on the use of internal models¹⁹³, Guidelines on group solvency¹⁹⁴ and Guidelines on the methodology for equivalence assessments by national supervisory authorities under Solvency II¹⁹⁵.

On the same date, Hanfa also expressed its intention to comply with the Guidelines on the loss-absorbing capacity of technical provisions and deferred taxes¹⁹⁶ and Guidelines on supervisory review process¹⁹⁷ from the first set, which apply from 1 January 2016. Intention to comply

175 The Preparatory Guidelines prescribe the procedure and manner in which local supervisory authorities should prepare for the upcoming Solvency II regulation.

176 (EIOPA-CP-13/08)

177 (EIOPA-CP-13/09)

178 (EIOPA-CP-13/10)

179 (EIOPA-BoS-14/146)

180 (EIOPA-BoS-14/165)

181 (EIOPA-BoS-14/166)

182 (EIOPA-BoS-14/167)

183 (EIOPA-BoS-14/168)

184 (EIOPA-BoS-14/169)

185 (EIOPA-BoS-14/170)

186 (EIOPA-BoS-14/171)

187 (EIOPA-BoS-14/172)

188 (EIOPA-BoS-14/173)

189 (EIOPA-BoS-14/174)

190 (EIOPA-BoS-14/175)

191 (EIOPA-BoS-14/176)

192 (EIOPA-BoS-14/178)

193 (EIOPA-BoS-14/180)

194 (EIOPA-BoS-14/181)

195 (EIOPA-BoS-14/182)

196 (EIOPA-BoS-14/177)

197 (EIOPA-BoS-14/179)

with the issued guidelines on Solvency II issued by the EIOPA was expressed by Hanfa on 13 November 2015 regarding the second set of guidelines, which apply from 1 January 2016, in relation to: Guidelines on the methods for determining the market shares for reporting¹⁹⁸, Guidelines on financial stability reporting¹⁹⁹, Guidelines on the extension of the recovery period in the exceptional adverse situations²⁰⁰, Guidelines on reporting and public disclosure²⁰¹, Guidelines on the implementation of the long-term guarantee measures²⁰², Guidelines on the exchange of information on a systematic basis within colleges²⁰³, Guidelines on recognition and valuation of assets and liabilities other than technical provisions²⁰⁴, Guidelines on system of governance²⁰⁵ and Guidelines on own risk and solvency assessment²⁰⁶.

Regarding other applicable guidelines, Hanfa continued to implement the provisions from guidelines with which it aligned in previous years, namely Joint guidelines on the convergence of supervisory practices relating to the consistency of the supervisory coordination arrangements for financial conglomerates²⁰⁷, the Guidelines on the use of the *Legal Entity Identifier – LEI*²⁰⁸, Guidelines on complaints handling by insurance intermediaries²⁰⁹ and Guidelines on complaints handling by insurance undertakings²¹⁰.

5.2.3 Licensing

Hanfa received and processed 11 requests for authorization to serve as management board members in insurance companies, one request for the approval of insurance portfolio transfer, two requests for the approval for the merger of the insurance company and five requests for the approval for the merger of insurance and reinsurance brokerage company.

Hanfa also received 13 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 nine insurance agencies and 103 insurance representation crafts. It also issued authorisations to conduct insurance and reinsurance brokerage business to two insurance and reinsurance brokerage companies. Following the reception of applications for authorisations to conduct insurance representation business at the vehicle roadworthiness test garage, Hanfa granted the authorisations to one insurance agency conducting insurance business at vehicle roadworthiness test garages. Based on the received notifications relating to termination of operations, Hanfa adopted decisions establishing the termination of authorisation to conduct insurance representation business granted to 6 insurance agencies, 22 insurance representation crafts, three insurance agencies and one insurance representation craft conducting insurance business at vehicle roadworthiness test garages

198 (EIOPA-BoS-15/106)

199 (EIOPA-BoS-15/107)

200 (EIOPA-BoS-15/108)

201 (EIOPA-BoS-15/109)

202 (EIOPA-BoS-15/111)

203 (EIOPA-BoS-15/112)

204 (EIOPA-BoS-15/113)

205 (EIOPA-BoS-15/253)

206 (EIOPA-BoS-15/259)

207 (JC/GL/2014/01)

208 (EIOPA-BoS-14/026)

209 (EIOPA-BoS-13/164)

210 (EIOPA-BoS-12/069)

and a financial agency. Based on the notice received regarding the termination of insurance representation business, a decision was issued to the credit institution, concerning the termination of the validity of the prior work approval.

There were six examination dates²¹¹, with 1509 candidates. Examination for insurance agents was taken for 1477 candidates, and examination for insurance and reinsurance brokers was taken by 32 candidates. A total of 1358 candidates passed the examination (1330 insurance agents and 28 insurance and reinsurance brokers), while 157 candidates failed.

In 2015, Hanfa received a total of 341 notifications from other Member States, 68 of which related to direct pursuit of insurance business by insurance companies, 269 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 2015, two branch offices of insurance companies from other Member States were established in the Republic of Croatia, in accordance with the right of establishment. At the same time, four domestic insurance companies and one insurance and reinsurance brokerage company submitted notifications to Hanfa about their intention to directly provide services in the European Union, which Hanfa forwarded to competent supervisory authorities.

Since the accession of the Republic of Croatia to the European Union, Hanfa has received a total of 870 notifications, of which 243 related to direct pursuit of insurance business by insurance companies, 623 to direct pursuit of activities of insurance and reinsurance mediation and two to pursuit of insurance representation business through a branch, while two branches of insurance companies from a member state have been established in accordance with the right of establishment.

5.2.4 Supervision

5.2.4.1 On-Site Supervision

In the course of 2014, Hanfa conducted a total of 12 on-site examinations of entities operating on the insurance market, of which four were targeted, and 13 were full-scope examinations. Two examinations started in 2014 and ended in 2015. Nine examinations were started and completed in 2015, while one examination that began in 2015 continued in 2016.

Out of the 12 on-site examinations, nine were carried out in insurance companies, one in an insurance agency and one in the Croatian Nuclear Insurance and Reinsurance Pool (EIG).

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 calculating and recording operating costs, investment process, reporting process, the process of operational risk management, safety and adequacy of the information system, risk management system, business process related to insurance contracting and claims handling, the process of investing in shares, their evaluation and reporting in business books, realisation of management rights and implementation of the Act on the Prevention of Money Laundering and Terrorist Financing²¹² and regulations adopted pursuant to this Act.

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
- inadequate processing and settlement of claims

²¹¹ Examinations for natural persons testing professional knowledge needed to obtain authorisation to conduct insurance representation business or insurance and reinsurance brokerage business

²¹² Official Gazette, No 87/08 and 25/12

- inadequate monitoring and exposure to risk of premium sufficiency according to the insurance class
- failure to implement measures for the prevention of money laundering and terrorist financing
- lack of, failure to respect and inadequacy of internal regulations and procedures
- inadequacy of the risk management system
- failure to comply with related insurance conditions by types of insurance covered by supervision
- enabling legal entities to conduct insurance representation business without a legally prescribed authorisation.

Supervision of insurance agencies' business operations covered the insurance representation business and financial operations of insurance agencies. During the examinations, violations and irregularities were established relating to activities carried out contrary to internal acts, incomplete accounting documents and failure to comply with the principle of good faith while conducting insurance representation business.

All the above-mentioned violations and irregularities resulted from a failure to comply with the provisions of the Insurance Act²¹³, Act on Compulsory Insurance within the Transport Sector, Accounting Act, Civil Obligations Act²¹⁴, Companies Act²¹⁵ and the Act on the Prevention of Money Laundering and Terrorist Financing as well as regulations adopted under these acts.

Hanfa adopted a total of eight decisions ordering elimination of the violations and irregularities, relating to on-site examinations completed in 2014 and 2015. The supervised entities acted in accordance with the decisions and within the deadlines defined. In addition to these eight decisions, Hanfa issued five decisions on termination of the on-site examinations, for all supervised entities for which no violations or irregularities were found in their operations, or these were eliminated during the on-site examination.

5.2.4.2 Off-Site Supervision

Off-site supervision carried out by Hanfa involved on-going monitoring of insurance business conducted by insurance companies and of insurance companies' compliance with supervisory provisions. It was based on the analysis of reports submitted by insurance companies within prescribed deadlines, on documents, notifications and other data submitted to Hanfa at its special request, on data and findings collected from other sources, on verification and assessment of business operations on the basis of submitted reports and gathered information and on interviews conducted with management board members, supervisory board members and other responsible persons.

The activities started in 2014 were continued, relating to off-site supervision based on the analyses of annual and quarterly financial, supervisory and statistical reports (trends in performance indicators, financial position, capital adequacy), the analysis of business models and measures taken by the companies following negative deviations by key indicators, the assessment of total risk profile of individual insurance companies as regards motor vehicle insurance (class 03 and 10) with respect to the market, the decline in premium sufficiency in risk type 10.01 and the decline in premium sufficiency in class 03. This resulted in 12 off-site examinations (nine administrative and three non-administrative proceedings), which were focused on the premium sufficiency in the insurance class 03 – Motor vehicle insurance and the risk 10.01 – Motor vehicle liability insurance, and the capital adequacy (reports were requested from all companies dealing in insurance class 03 and risk 1.10, reports were analysed, administrative proceedings were started and decisions were issued in relation to nine companies, while non-administrative procedures were

²¹³ Official Gazette, No 151/05, 87/08, 82/09 and 54/13

²¹⁴ Official Gazette, No 35/05, 41/08 and 125/11

²¹⁵ Official Gazette, No 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12 and 68/13

started in relation to three companies which oblige those companies to monthly reports on their actions).

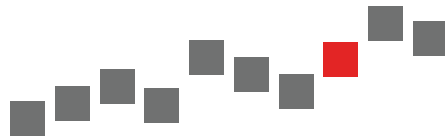
As a result of the analysis of audited financial reports, auditor's review, stress test 2014 with respect to valuation of financial assets for the purpose of calculating solvency needs, and the application of IFRS 13 Fair Value Measurement, the examinations carried out in four insurance companies were focused on financial asset valuation. Based on the analysis of supervisory reports and additionally collected information regarding the reinsurance cover, Hanfa carried out non-administrative on-site examinations of three companies and one off-site examination of one company. It also issued a decision regarding the provision of information to the policyholder prior to the conclusion of an insurance contract i.e. providing information to the policyholder during the term of the insurance contract.

In addition to the targeted off-site examinations aimed at stabilising the insurance market as regards insurance classes 03 and 10 and financial asset valuation, a significant part of supervisory activities were focused on the Solvency II Preparatory Phase and included the reception, analysis and review of the FLAOR (ORSA) reports for 2014 and 2015, reporting in accordance with the new regulatory requirements and on-going communication with the companies, including working meetings with their representatives.

Hanfa's employees participated in 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. Hanfa's employees participated in a total of nine meetings and two teleconferences within the colleges of supervisors.

During 2015, Hanfa further intensified its activities in the area of consumer protection, particularly regarding life insurance products where policyholders bear the investment risk, in order for policyholders and insured persons to be better acquainted with the characteristics of such insurance. The emphasis was on the risk bearer (the investment risk is borne by the policyholder and the insurance risk by the insurer), the amount of the insured sum and the premium that must be paid, the modes of premium payment, the types of investment regarding the savings portion of the premium (conservative or risky) and the existence of any guaranteed pay-outs and the holder of such a guarantee. In addition, Articles 380 to 382 of the new Insurance Act, entering into force on 1 January 2016, prescribe the information that insurers are required to provide to clients prior to the conclusion of the insurance contract and during the term of the insurance contract, as well as the content of the notification used to deliver such information.





Leasing

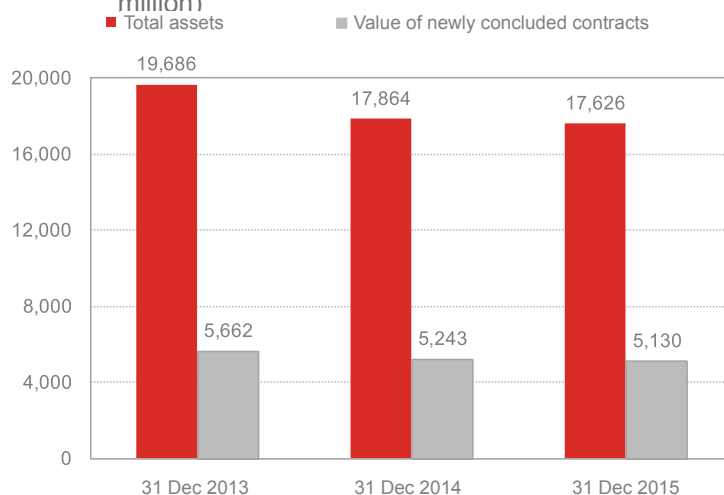


6 Leasing

6.1 Market Overview

As at 31 December 2015²¹⁶, leasing operations were carried out by 21 leasing companies²¹⁷, compared to 23 companies in 2014. During 2015, two companies initiated the winding-up proceedings. Majority of leasing companies in the Republic of Croatia belongs to groups of financial institutions. As at 31 December 2015, the initial capital of leasing companies amounted to HRK 1059m, with the non-resident share accounting for 84.9% or HRK 898.9m and 15.1% or HRK 160m 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 2013 to 2015 (in HRK million)



Source: Hanfa

6.1.1 Asset Structure

Total assets of leasing companies as at 31 December 2015 amounted to HRK 17.6bn which was HRK 237.3m or 1.3% less compared to the same day the year before. Decrease in assets compared to the previous year was mainly influenced by the winding-up of companies whose assets as at 31 December 2015 were not included in the report (in the amount of HRK 246.6 m) and by a decrease in assets of three inactive companies in the amount of HRK 218.5 m. Excluding these companies from considera-

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 a defined fee during a period of time, 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.

²¹⁶ The data for previous years shown in Hanfa's 2015 Annual Report might differ from the data in Annual Reports 2013 and 2014 due to the application of the provisions of the Accounting Act (Official Gazette, No 109/07, 54/13 and 121/14), 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.

²¹⁷ The list of Hanfa's supervised entities is available at www.hanfa.hr.

tion, the assets of 18 active leasing companies recorded a growth of HRK 227.9m or 1.5% compared to 31 December 2014.

This decrease in assets relative to the previous year is mainly the result of a reduction in inventories of HRK 294.8m, material assets under operating lease of HRK 167.3m, receivables under financial leasing of HRK 157.9m and loans given in the amount of HRK 120.8m. At the same time, the largest increase was recorded with other receivables (HRK 183.6m), investments in subsidiaries, associates and joint ventures (HRK 156.4 m) and cash at bank and in hand (HRK 77.7m).

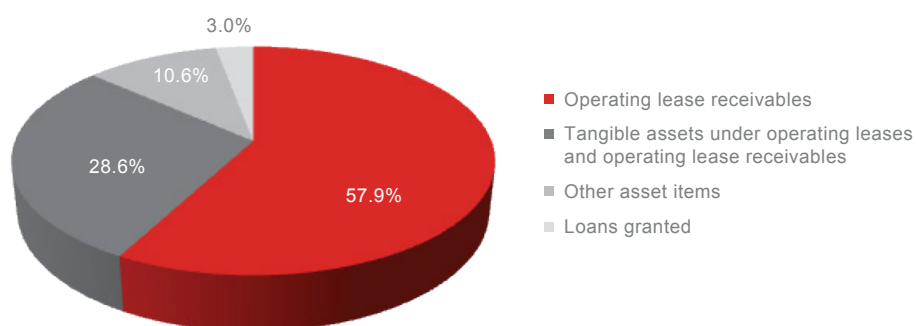
Table 6.1 Leasing companies' asset structure as at 31 December 2014 and 31 December 2015 (in HRK thousand)

Item	31 Dec 2014	31 Dec 2015	Change (in %)
Tangible assets under operating leases	5,032,341	4,865,000	-3.3
Operating lease receivables	176,992	174,127	-1.6
Finance lease receivables	10,359,497	10,201,614	-1.5
Loans granted	265,242	144,486	-45.5
Inventories	816,369	521,579	-36.1
Other assets	1,213,060	1,719,446	41.7
Total assets	17,863,501	17,626,251	-1.3

Source: Hanfa

The largest asset item was accounted for by finance lease receivables, making up 57.9% of the assets. Of this amount, short-term receivables accounted for HRK 2.9bn, and long-term receivables for HRK 7.3bn. Tangible assets under operating leases and operating lease receivables accounted for 28.6% of the total assets.

Chart 6.2 Leasing companies' asset structure as at 31 December 2015



Source: Hanfa

The share of the ten largest leasing companies in the total assets of leasing companies reached 79.1% in 2015, increasing slightly compared with the previous year, when it stood at 77.5%. All the leasing companies from the top ten group are members of bank groups.

6.1.2 Liability structure

2015 saw a change in the structure of leasing companies financing compared to the previous year, in a way that obligations towards banks and financial institutions decreased, while the equity (capital and reserves) increased. Leasing companies' assets were still primarily financed by loans from banks and financial institutions; as much as 79.1% of the total assets were accounted for by

liabilities for loans from domestic and foreign banks and financial institutions. As at 31 December 2015, total liabilities for loans from banks and financial institutions amounted to HRK 13.9bn, declining by HRK 1.9bn or 12.% compared to the previous year. This decrease was mainly influenced by the winding-up of two companies whose liabilities for loans (in the amount of HRK 232.8m) as at 31 December 2015 were not included in the report, and the decrease in liabilities for loans of three inactive companies in the amount of HRK 1bn. Liabilities for loans from foreign banks and financial institutions fell by HRK 1.85bn, while liabilities for loans from domestic banks and financial institutions fell by HRK 52.7m. At the same time, liabilities for deposits and guarantees relating to amounts guaranteed under operating lease contracts decreased by HRK 67.4m or 13.4%, in line with the reduction in the value of active contracts.

As at 31 December 2015, capital and reserves amounted to HRK 1.8bn or 10.3% of liabilities, and increase of HRK 1.5bn compared with the previous year. This was mostly due to payments into capital reserves of four leasing companies with a purpose to achieve capital adequacy of the companies in question. Initial capital of all leasing companies amounted to HRK 1.1bn, decreasing by HRK 132.6m in comparison with the previous year. This decrease was mostly the result of winding-up of two leasing companies during 2015 whose share capital (amounting to 139.4) was not included in this report.

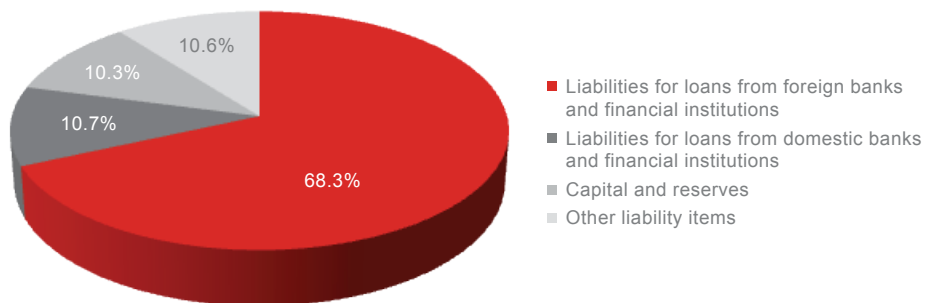
Table 6.2 Leasing companies' liability structure as at 31 December 2014 and 31 December 2015 (in HRK thousand)

Item	31 Dec 2014	31 Dec 2015	Change (in %)
Capital and reserves	351,991	1,815,507	415.8
Liabilities for loans from foreign banks and credit institutions	13,900,409	12,046,495	-13.3
Liabilities for loans from domestic banks and credit institutions	1,943,929	1,891,240	-2.7
Other liabilities	1,667,173	1,873,009	12.3
Total assets	17,863,501	17,626,251	-1.3

Source: Hanfa

Although 2014 saw a decrease in the level of borrowing, leasing companies' liability structure shows that their assets were still primarily financed by loans from foreign banks and financial institutions, making up as much as 68.3% of the total liabilities of leasing companies. Most leasing companies are majority-owned by foreign banks and their related financial institutions, which also finance their operations.

Chart 6.3 Leasing companies' liability structure as at 31 December 2015



Source: Hanfa

6.1.3 Financial Operating Results

In 2015, leasing companies reported negative operating results, reflected in loss after profit, which totalled HRK 742.1m (in 2014, it reached HRK 1.3bn). This loss was mainly influenced by the reported after-tax loss of one leasing company in the amount of HRK 1.1bn (largely caused by the reported costs of value adjustment for impairment losses). With the operating results of that company omitted from the report, the remaining leasing companies generated an after-tax profit of HRK 325.4m in 2015.

Table 6.3 Statement of comprehensive income of leasing companies in 2014 and 2015 (in HRK thousand)

Item	1 Jan – 31 Dec 2014	1 Jan – 31 Dec 2015	Change (in %)
Interest income	672,351	573,185	-14.7
Interest expenses	383,280	319,462	-16.7
Interest profit/loss	289,071	253,723	-12.2
Income from fees and commissions	40,177	48,917	21.8
Expenses on fees and commissions	28,230	22,604	-19.9
Profit/loss on fees and commissions	11,946	26,312	120.3
Other operating income	1,857,427	1,844,875	-0.7
Other operating expenses	2,316,092	1,848,226	-20.2
Profit/loss on other income and expenses	-458,665	-3,351	-99.3
Profit/loss before expenses on value adjustment for impairment losses	-157,648	276,684	-
Expenses on value adjustment for impairment losses	1,119,664	943,129	-15.8
Profit/loss before profit tax	-1,277,312	-666,445	-47.8
Profit tax	51,807	75,654	46.0
Profit/loss after profit tax	-1,329,119	-742,099	-44.2

Source: Hanfa

After-tax profit totalling HRK 372.6m was reported by 17 leasing companies, whereas four leasing companies recorded after-tax loss reaching HRK 1.1bn.

6.1.4 Leasing Companies' Portfolio Structure

The value of newly concluded contracts is the main indicator of the leasing market activity. In 2015, the total number of contracts in leasing companies' portfolio structure rose, while the value of newly concluded contracts fell slightly, in comparison with the previous year. The number of active contracts increased, while their total value decreased. Comparison of the share of newly concluded contracts in relation to active contracts shows that such share amounted to 37.3% in 2015 (in 2014 it was 36.7%), which indicates an increase of business activities in the leasing industry.

Table 6.4 Leasing Companies' Portfolio Structure as at 31 December 2014 and 31 December 2015

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 2014	34,809	5,243,429	151	110,651	14,298,426	129
31 Dec 2015	36,363	5,129,588	141	112,320	13,740,852	122

Source: Hanfa

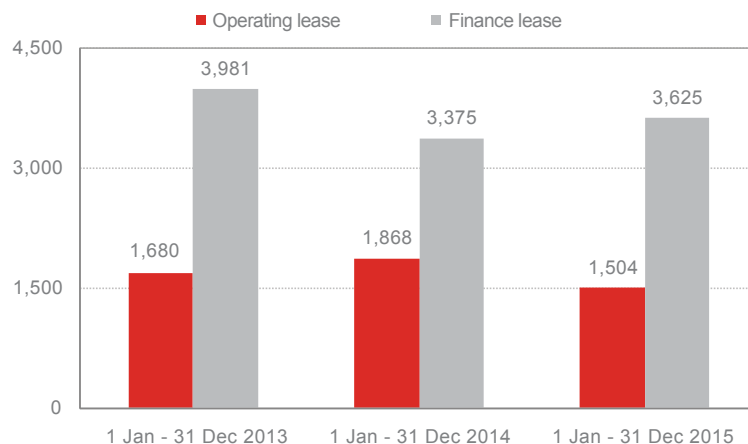
The value of newly concluded contracts in operating lease in 2015 decreased by HRK 363.8m, while the value of newly concluded contracts in financial lease increased by HRK 250m compared to the previous year. Accordingly, the share of operating lease in the structure of total value of newly concluded contracts amounted to 29.3%, while the share of financial lease accounted for 70.7%. Reduced share of operating lease in 2015 compared to the previous year resulted from the lack of high-volume car fleet renewal carried out by the government administration through public procurement procedures, which was in 2014 typically carried out through operating leases. The increase in the share of financial lease was mainly influenced by an increase in commercial vehicles financing.

Table 6.5 Number and value of newly concluded contracts of leasing companies in 2014 and 2015

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 2014	1 Jan – 31 Dec 2015	Change (in %)	1 Jan – 31 Dec 2014	1 Jan – 31 Dec 2015	Change (in %)
Operating lease	17,308	17,798	2.8	1,868,046	1,504,247	-19.5
Finance lease	17,501	18,565	6.1	3,375,383	3,625,340	7.4
Total	34,809	36,363	4.5	5,243,429	5,129,588	-2.2

Source: Hanfa

Chart 6.4 Leasing companies' portfolio structure – comparison of the values of newly concluded contracts in the period from 2013 to 2015 (in HRK million)



Source: Hanfa

Considering the fact that leasing companies are prohibited from concluding loan contracts, the share of loans has been decreasing constantly in the structure of the value of active contracts, since the loan contracts that had been active until the day of the legal regulation of leasing business (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 2014 and 2015

Investment type/ as at	Number of active contracts as at			Value of active contracts as at (in HRK thousand)		
	31 Dec 2014	31 Dec 2015	Change (in %)	31 Dec 2014	31 Dec 2015	Change (in %)
Operating lease	50,736	50,998	0.5	3,757,482	3,356,963	-10.7
Finance lease	58,126	60,112	3.4	10,419,586	10,308,096	-1.1
Loans	1,789	1,210	-32.4	121,359	75,793	-37.5
Total	110,651	112,320	1.5	14,298,426	13,740,852	-3.9

Source: Hanfa

The structure of newly concluded contracts of leasing companies since 2009 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. At the same time, the value of newly concluded contracts for property continued to decrease. The largest number and value of newly concluded contracts in 2015 was related to passenger cars, followed by commercial vehicles, which recorded the highest increase in value in the portfolio structure of newly concluded contracts. The most significant decrease in the value of newly concluded contracts was recorded in the categories of passenger vehicles as well as plants, machinery, transport machines and equipment.

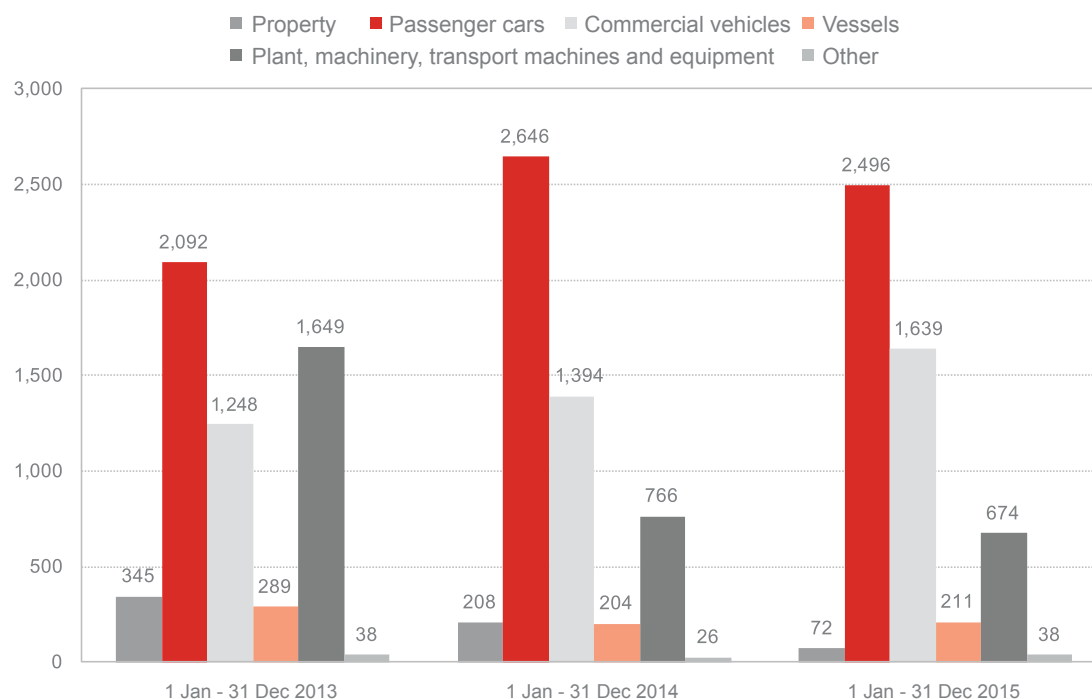
The structure of the value of newly concluded contracts by sectors in 2015 recorded a decrease in the share of government units (1.7%) compared to 2014, when it amounted to 3.6%. This decrease relative to the previous year resulted from the lack of high-volume car fleet renewal carried out by the government administration through public procurement procedures.

Table 6.7 Value of newly concluded contracts of leasing companies by leased assets in 2014 and 2015 (in HRK thousand)

Leased asset	Value of newly concluded contracts in the period				
	1 Jan – 31 Dec 2014	Share (in %)	1 Jan – 31 Dec 2015	Share (in %)	Change (in %)
Property	208,135	4.0	72,098	1.4	-65.4
Passenger cars	2,645,634	50.5	2,495,798	48.7	-5.7
Commercial vehicles	1,394,110	26.6	1,638,860	31.9	17.6
Vessels	203,605	3.9	211,465	4.1	3.9
Aircraft	0	0.0	854	0.0	0.00
Plant, machinery, transport machines and equipment	765,539	14.6	673,720	13.1	-12.0
Other	26,408	0.5	36,793	0.7	39.3
Total	5,243,429	100.0	5,129,588	100.0	-2.2

Source: Hanfa

Chart 6.5 Leasing companies' portfolio structure – value of newly concluded contracts by leased assets in the period from 2013 to 2015 (in HRK million)



Source: Hanfa

As at 31 December 2015, passenger cars recorded the highest value of active contracts by leased assets/loans, reaching HRK 4.1bn or 29.6% of the total value of active contracts, whereas property recorded the value of active contracts amounting to HRK 3.4bn or 27.5% of the total value of active contracts.

Until the end of 2010, passenger cars, followed by property, had accounted for the largest share in the total value of active contracts. In the period from 2011 to 2014, in spite of a sharp turnover fall in the property market over the last seven years, property has been the most significant 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 assets/loans as at 31 December 2014 and 31 December 2015 (in HRK thousand)

Leased/loaned asset	Value of active contracts as at				
	31 Dec 2014	Share (in %)	31 Dec 2015	Share (in %)	Change (in %)
Property	4,152,129	29.0	3,396,350	24.7	-18.2
Passenger cars	3,934,117	27.5	4,070,627	29.6	3.5
Commercial vehicles	2,739,685	19.2	3,065,636	22.3	11.9
Vessels	521,282	3.6	451,029	3.3	-13.5
Aircraft	482	0.0	804	0.0	66.9
Plant, machinery, transport machines and equipment	2,879,924	20.1	2,645,340	19.3	-8.1
Other	70,809	0.5	111,067	0.8	56.9
Total	14,298,426	100.0	13,740,852	100.0	-3.9

Source: Hanfa

6.1.4 Capital Adequacy

Leasing companies are obliged to maintain a level a capital level in the manner prescribed by the Leasing Act²¹⁸ and the Ordinance on the capital of leasing companies²¹⁹. 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 2015, one leasing company did not meet the prescribed requirements on capital adequacy. In addition, in 2015, three other companies did not meet capital adequacy requirements, but they solved the issue of negative capital by recapitalization (payments of owners into the initial capital, i.e. capital reserves). A total of HRK 2.3bn was paid into capital reserves of the four companies.

6.1.5 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 2015, this ratio totalled 0.897, meaning that 89.7% 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 2014, this ratio was higher and stood at 0.98.

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

Return on assets (ROA) is a ratio that measures net profit against total assets of the leasing industry. As at 31 December 2015, the aggregate return on assets for leasing companies amounted to -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. As at 31 December 2014, this ratio stood at -7.4%.

6.2 Hanfa's Regulatory Activities

6.2.1 Normative Activities

Hanfa issued the Ordinance on amendments to the Ordinance on the register of leased assets²²⁰, which cancelled provisions on fees for the maintenance of the Register of leased assets, which are now covered by the provisions regulating the payment of fees to Hanfa.

Hanfa issued 12 opinions on the application of the Leasing Act and appropriate ordinances, pertaining to the legality of the provisions of lease contracts and obligations of the lessee in the event of the lease termination, the issue of employment of leasing company management board members and the possibility of the cession of unpaid claims from inactive leasing contracts to another leasing company and the definition of the activities of leasing companies. In addition, Hanfa continuously responded to inquiries regarding the changes of these regulations.

6.2.2 Licensing

As at 31 December 2015, the register of leasing companies contained 23 leasing companies authorised to conduct lease operations. In 2015, two leasing companies decided to initiate the

218 Official Gazette, No 141/13

219 Official Gazette, No 60/14

220 Official Gazette, No 16/15

proceedings of voluntary liquidation. Due to legal provisions, leasing companies under winding up retain their authorizations to conduct lease operations. Winding-up of these leasing companies is the result of many problems and difficulties, among other things, in the operation of their members. In accordance with its authority and competence, Hanfa continuously supervises the liquidation proceedings of these leasing companies.

Hanfa issued 12 decisions approving the appointment of members of management boards of leasing companies, mostly due to end of their term. In certain cases, it was due to early terminations of terms (e.g. resignation). In one procedure, a decision was adopted concerning the termination of the procedure due to the party's withdrawal of the request.

Hanfa issued five decisions approving the acquisition of qualifying holdings in leasing companies, two of them in a joint procedure i.e. two decisions gave approvals to six requests. These cases related to intra-group rearrangements, in the EU countries where 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.

Regarding the acquisition of a qualifying holding in a leasing company by another company, one such approval was issued.

6.2.3 Supervision

Supervisory activities were focused on the verification of compliance with the provisions of the Leasing Act and the ordinances adopted in 2014, through full-scope on-site examinations. Off-site supervision of leasing companies involved verification and analysis of reports submitted to Hanfa by the companies within the prescribed deadlines. It also included monitoring, collection and verification of documentation, notification and data submitted, and monitoring, collection and verification of data and findings obtained from other sources.

Hanfa drew up a total of 27 supervisory reports, 11 amendments to reports and issued a total of 20 decisions ordering elimination of irregularities and 11 decisions establishing the elimination of irregularities and the end of supervision procedures.

Supervision activities were aimed at checking compliance of leasing contracts with the provisions of the Leasing Act and the Ordinance on the content and form of lease agreements and on the methodology for the calculation of the effective interest rate²²¹. On the basis of violations and irregularities found, this on-site supervision resulted in the opening of administrative proceedings against 15 leasing companies, as well as 15 supervisory reports and nine amendments to the supervisory reports. Irregularities were found in the part of the leasing contract governing the rights and obligations of the parties in case of an early termination and of regular expiration of the leasing contract, in connection with transparent and clear prescription of all calculation elements and terms of delivery of the final settlement of the leasing contract. Furthermore, irregularities were found regarding leasing contract compliance with the provisions of the Consumer Credit Act²²².

Based on the examinations conducted, Hanfa issued 13 decisions ordering the elimination of violations and irregularities found, while regarding two companies, in the amendments to reports it was established that such violations had been eliminated in the meantime. It is expected that in 2016 the leasing companies will act according to the decisions ordering the elimination of violations and irregularities found regarding the compliance of leasing contracts with the provisions of the Leasing Act and the Ordinance on the content and form of lease agreements and on the methodology for the calculation of the effective interest rate.

²²¹ Official Gazette, No 66/14

²²² Official Gazette, No 75/09, 112/12, 143/13, 147/13, 09/15 and 78/15

Throughout the year, Hanfa continued to monitor entry of leased assets into the Register of leased assets. Based on the irregularities found in the process of entering leased assets into the Register of leased assets, five reports were drawn which established irregularities in the process of entering leased assets into the Register of leased assets. Irregularities concerned the inadequacy of internal regulations, inaccuracy of data entered as well as delays in their entry. Four of these five reports resulted in Hanfa's decisions ordering the elimination of violations and irregularities found. The leasing companies acted accordingly, which led to the termination of those examinations in 2015. The amended report was made regarding one company that eliminated irregularities and violations, after which the supervision process was terminated.

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

Analysis of the received financial statements resulted in an administrative procedure in relation to one leasing company and making a supervisory report concerning the valuation of financial assets, which terminated the supervision process.

Hanfa conducted off-site examinations in five leasing companies in relation to the business events recording under the finance lease agreement. No irregularities were found in one company, while in the remaining four companies some irregularities were established pertaining to the business events recording under the finance lease agreements, contrary to the Decision on the chart of accounts for leasing companies²²³ and the Instruction for the application of the chart of accounts for leasing companies.

Hanfa's activities were also related to the supervision of internal control mechanisms of leasing companies in accordance with the provisions of the Leasing Act and the Ordinance on organizational requirements for leasing companies²²⁴, as well as the supervision of the reporting system i.e. reporting to Hanfa in accordance with the Leasing Act and ordinances regulating the reporting of leasing companies.

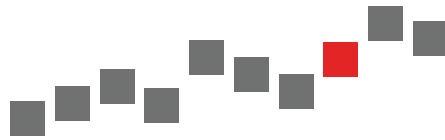
Hanfa continuously supervised the compliance of capital adequacy of leasing companies with the provisions of the Leasing Act and the Ordinance on the capital of leasing companies. As result of the capital inadequacy on a quarterly basis in three leasing companies, Hanfa acted in accordance with the provisions of the Leasing Act which resulted in a recapitalization of leasing companies ((payments of owners into the initial capital, i.e. capital reserves).

One report was made on the basis of an off-site supervision started in 2014. This examination focused on credit risk management, activities upon the termination of lease contracts and the implementation of the Act on the Prevention of Money Laundering and Terrorist Financing²²⁵. This report established violations and irregularities in relation to the management of credit risk, to the final settlement of leasing contracts, to the non-compliance of internal documents that prescribe how to create the final settlement of leasing contracts with the general conditions of leasing contracts, and the transfer of risks associated with ownership of the leased asset to the lessee. A decision was issued ordering the elimination of the violations and irregularities found.

223 Official Gazette, No 103/07

224 Official Gazette, No 68/14

225 Official Gazette, No 87/08 and 25/12



Factoring



7 Factoring

7.1 Market Overview

In 2015, Hanfa issued three authorisations to provide factoring services to three companies that had provided factoring services before the Factoring Act²²⁶ entered into force. Consequently, as at 31 December 2015, the factoring market consisted of three factoring companies and ten companies known to Hanfa to be providing factoring services (hereinafter: factoring companies)^{227, 228}, given the fact that the period of adjustment to the provisions of the Factoring Act was extended until 31 March 2016.

According to the data from statistical reports submitted by factoring companies, as at 31 December 2015, the Croatian factoring market was dominated by discounting of bills of exchange. It was also dominated by domestic factoring (88.1% of total factoring receivables), with accounts receivable purchased being invoices of buyers from the Republic of Croatia. For the first time since 2007, factoring operations were largely concluded without the right for recourse (64.4% of total factoring claims), wherein the overall risk of collection is borne by the provider of factoring services, while the supplier is not responsible for the collectability of factoring items. As at 31 December 2015, factoring companies' assets recorded a 15.8% decrease relative to 31 December 2014.

As at 31 December 2015, non-residents owned three out of 13 factoring companies. However, the share of these companies in the total assets of factoring companies amounted to 77.1%.

The assets of factoring companies grew in the period from 2007 to 2009. After a decrease in 2010, the assets of factoring companies increased in the period from 2011 to 2013, while in 2014 and 2015 it again decreased.

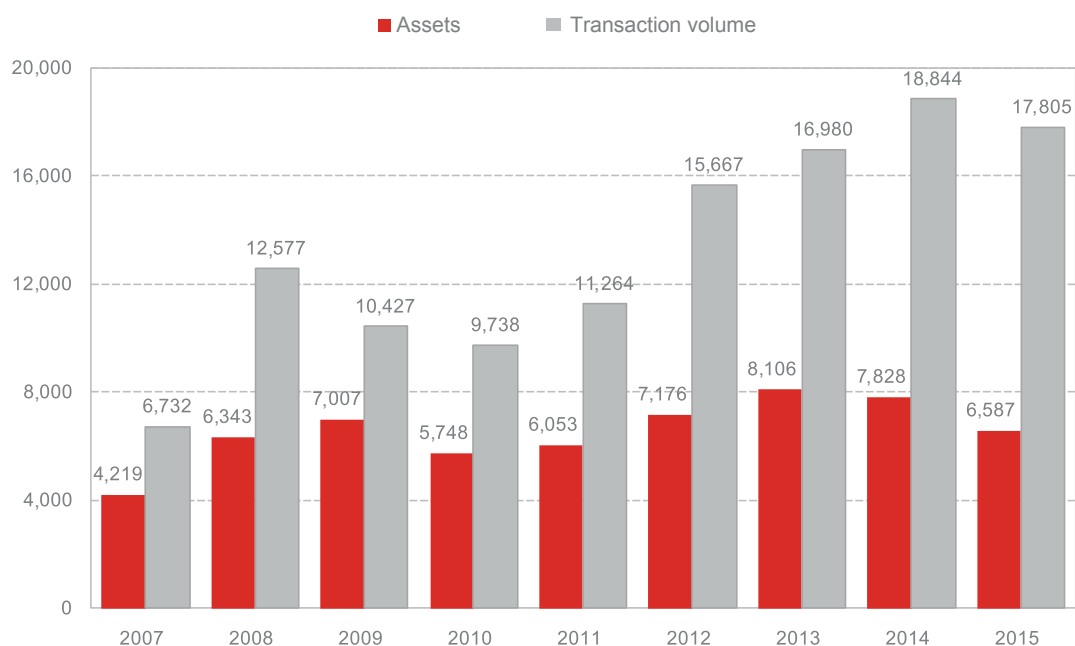
Under a factoring arrangement, the factor purchases accounts receivable under a factoring agreement, with or without recourse from a business. Factoring operations can be classified as domestic or as foreign, and as those with or without recourse. Domestic factoring implies factoring operations involving 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 at 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 a of delivery of goods and provision of services in the country or abroad.

226 Official Gazette, No 94/14 and 85/15

227 Data and indicators relating to factoring companies refer only to factoring companies authorised by Hanfa for the provision of factoring services, and for companies known to Hanfa to be providing factoring services, which submit to Hanfa Statistical Reports of Factoring Companies. The data presented in Hanfa's Annual Report 2015 may differ from the data in Hanfa's annual reports for the period 2007-2014 due to differences in the reporting methodology.

228 The list of Hanfa's supervised entities is available at www.hanfa.hr.

Chart 7.1 Aggregate assets and transaction volume of factoring companies in the 2007-2015 period (in HRK million)



Source: Hanfa

The market share of the three largest factoring companies did not fluctuate significantly in the period from 2013 to 2015, and as at 31 December 2015, it amounted to 78.5% of total assets, still indicating a high concentration level of the market. A factoring company with the largest share in total assets remained the same as in the last three calendar years. As at 31 December 2015, the market share of the remaining 10 factoring companies reached 21.5% of total assets.

7.1.1 Asset Structure

As at 31 December 2015, factoring companies' assets decreased by HRK 1.2bn in comparison with 31 December 2014. Current assets made up as much as 98.0% of total assets, same as in the preceding year. This is a common occurrence in the factoring industry. The most significant item in the current assets was discounting of bills of exchange (58.7% of the assets).

Table 7.1 Factoring companies' aggregate assets as at 31 December 2014 and 31 December 2015 (in HRK thousand)

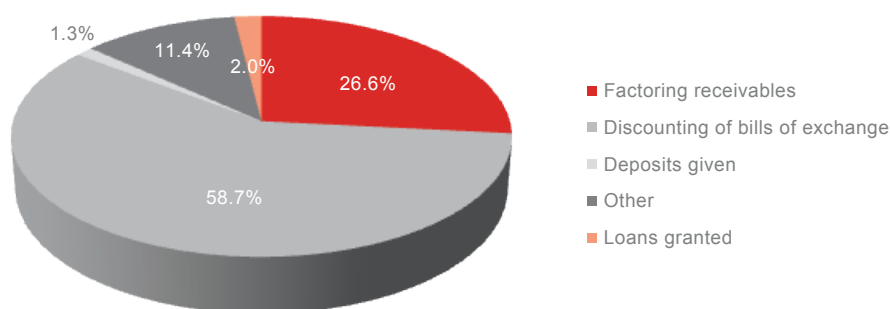
Assets	31 Dec 2014	31 Dec 2015	Change (in %)
Receivables for subscribed capital unpaid	0	0	0.0
Fixed assets	142,768	123,058	-13.8
Current assets	7,675,183	6,452,212	-15.9
Factoring receivables	1,503,175	1,752,740	16.6
Domestic factoring	1,318,766	1,544,585	17.1
Export factoring	56,300	33,554	-40.4
Import factoring	128,109	174,601	36.3
Discounting of bills of exchange	4,809,197	3,867,882	-19.6
Loans granted	256,565	130,426	-49.2

Assets	31 Dec 2014	31 Dec 2015	Change (in %)
Deposits given	457,543	84,627	-81.5
Cash at bank and in hand	516,016	484,298	-6.1
Other current assets	132,686	132,239	-0.3
Prepayments and accrued income	9,911	11,950	20.6
Total assets	7,827,862	6,587,220	-15.8

Source: Hanfa

The decline was mostly caused by a decrease in receivables for discounting of bills of exchange in comparison with 2014 totalling HRK 941.3m and by a rise in factoring receivables amounting to HRK 249.6m.

Chart 7.2 Factoring companies' asset structure as at 31 December 2015



Source: Hanfa

7.1.2 Liability structure

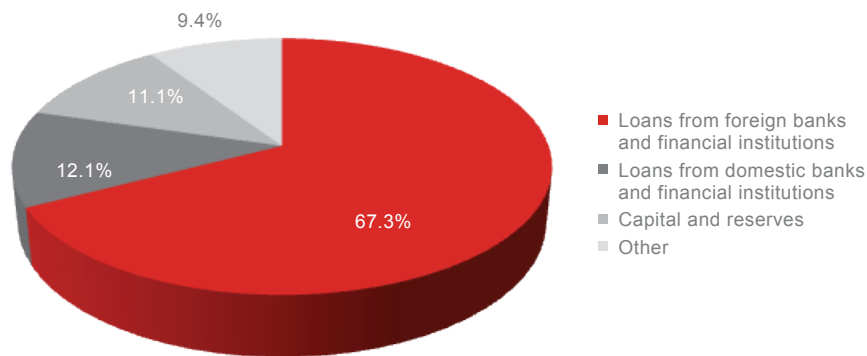
As at 31 December 2015, capital and reserves accounted for 11.1% of liabilities, increasing by 28.9% compared with the previous year, when they made up 7.2% of total liabilities. The increase was largely due to the profit registered by factoring companies in 2015.

Table 7.2 Factoring companies' aggregate liabilities as at 31 December 2014 and 31 December 2015 (in HRK thousand)

Item	31 Dec 2014	31 Dec 2015	Change (in %)
Capital and reserves	566,436	730,100	28.9
Long-term liabilities	754,087	307,306	-59.2
Loans from domestic banks and financial institutions	7,780	21,229	172.9
Loans from foreign banks and financial institutions	689,532	183,241	-73.4
Other long-term liabilities	56,775	102,836	81.1
Short-term liabilities	6,493,302	5,538,974	-14.7
Loans from domestic banks and financial institutions	1,555,775	772,986	-50.3
Loans from foreign banks and financial institutions	4,484,939	4,249,217	-5.3
Other short-term liabilities	452,588	516,771	14.2
Accruals and deferred income	14,036	10,840	-22.8
Total liabilities	7,827,862	6,587,220	-15.8

Source: Hanfa

Chart 7.3 Factoring companies' liability structure as at 31 December 2015



Source: Hanfa

Factoring companies were mostly financed by foreign banks and financial institutions, whose liability share reached 67.3% at end-2015, increasing by 1.2% relative to end-2014. The share of domestic banks and financial institutions accounted for 12.1% of liabilities, decreasing by 7.9% relative to 2014. Looking at liabilities by maturity, there was a change in their structure compared to end-2014, with long-term liabilities decreasing from 9.6% to 4.7%.

Chart 7.4 The largest liability items as at 31 December 2015 and their movements from 2013 to 2015 (in HRK thousand)



Source: Hanfa

7.1.3 Financial Operating Results

Factoring companies' net profit reached HRK 212.5m in 2015, decreasing by 1.2% compared to 2014.

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

Item	1 Jan – 31 Dec 2014	1 Jan – 31 Dec 2015	Change (in %)
Interest income	494,870	408,975	-17.4
Interest expense	250,074	187,067	-25.2
Interest profit/loss	244,797	221,909	-9.3
Income from fees and commissions	88,273	69,943	-20.8
Expenses on fees and commissions	33,812	25,037	-26.0
Profit/loss on fees and commissions	54,461	44,906	-17.5
Other operating income	206,124	362,194	75.7
Other operating expenses	235,722	362,979	54.0
Profit/loss from other income and expenses	-29,598	-784	-97.4
Profit/loss before profit tax	269,660	266,030	-1.3
Profit tax	54,529	53,568	-1.8
Profit/loss after profit tax	215,131	212,462	-1.2

Source: Hanfa

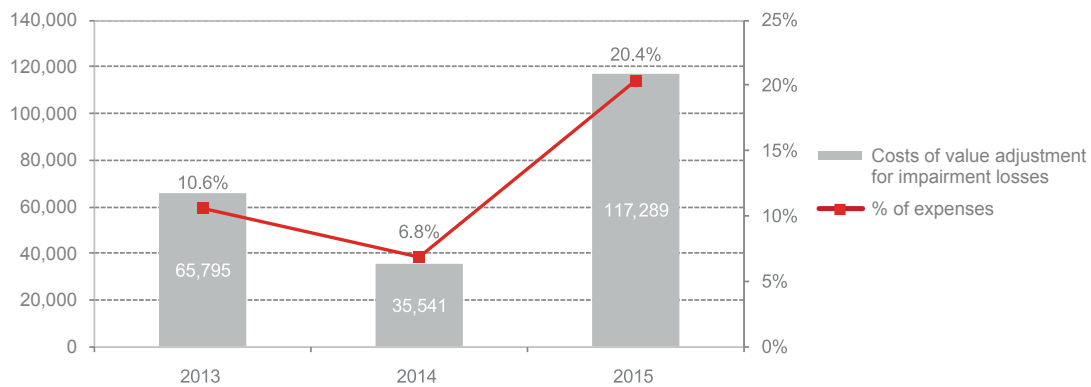
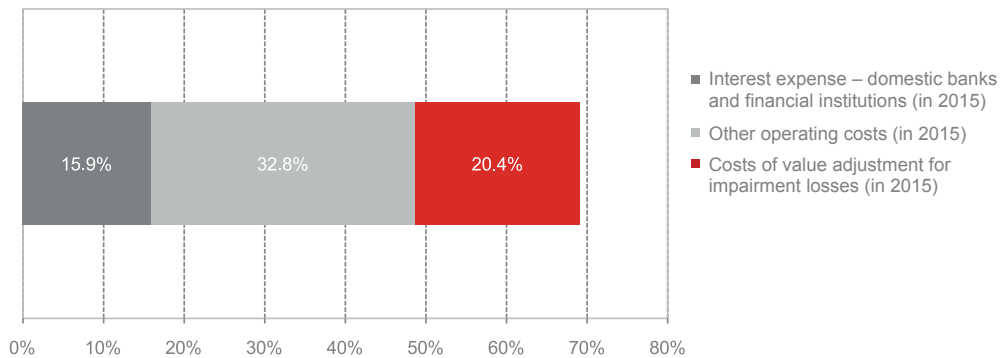
Factoring companies' total income in 2015 amounted to HRK 841.1m, increasing by HRK 51.8m in comparison with 2014, while expenses reached HRK 575.1m, increasing by HRK 55.5m relative to the previous reporting period.

Interest income accounted for the largest share in the income structure, reaching 48.6% of total income in 2015. In the same way as in the previous reporting period, the major part of this income was made up of income interest 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 expenditures amounting to 63.1%, with other operating costs being the most important item and making up 32.8% of total expenditures, primarily related to negative exchange rate differences. Interest expense accounted for 32.5% of total expenditures, with interest expense with domestic banks and financial institutions accounting for 15.9% of total expenditures, and interest expense with foreign banks and financial institutions accounting for 14.3% of total expenditures.

The analysis of these costs for the 2012-2014 period shows that they peaked in 2012, after which they continued to decline. These costs increased significantly relative to 2014, when they accounted for 6.8% of total expenditures.

Chart 7.5 The largest expense items in 2015 and costs of value adjustment for impairment losses from 2013 to 2015 (in HRK thousand)



Source: Hanfa

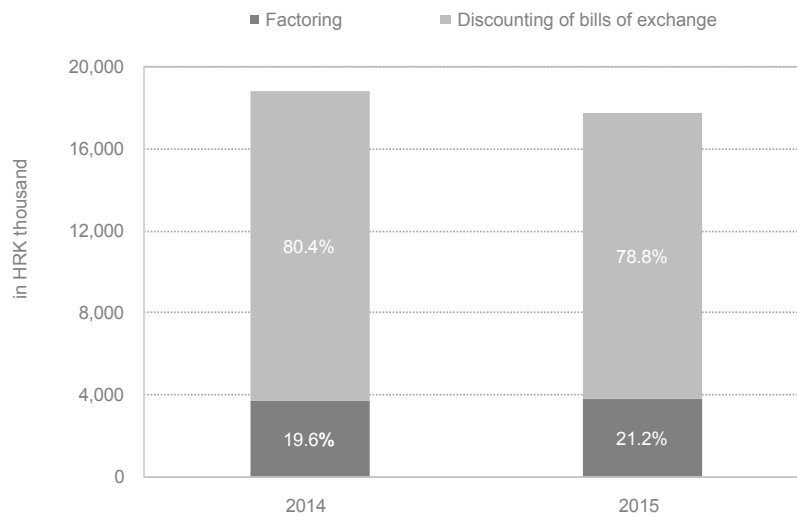
11 out of 13 factoring companies reported after-tax profit amounting to HRK 212.7m. At the same time, two factoring companies reported after-tax losses amounting to HRK 0.2m.

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 2015, the transaction volume reached HRK 17.8bn, decreasing by 5.9% in comparison with 2014.

In the period from 1 January 2015 to 31 December 2015, factoring companies purchased invoices under factoring arrangements in the amount of HRK 3.8bn, at the same time purchasing bills of exchange in the amount of HRK 14.0bn.

Chart 7.6 The structure of transaction volume by activity in 2014 and 2015



Source: Hanfa

7.1.5 Factoring Industry Performance Indicators

In 2015, the debt ratio for factoring companies amounted to 0.89, decreasing slightly in comparison with the previous year, when it stood at 0.93. This indicates that the assets of factoring companies are still largely financed by external funds, with the apparent declining trend in favour of own funds.

Aggregate return on total assets (ROA) for factoring companies totalled 2.7%, rising relative to 2013, when it reached 2.0%.

Aggregate return on equity (ROE) for factoring companies stood at 38.0%, declining compared with the previous year, when it amounted to 40.2%.

7.2 Hanfa's Regulatory Activities

7.2.1 Normative Activities

Given the fact that the Factoring Act entered into force on 8 August 2014 and that it provided for a period of 12 months for the harmonization of those legal entities that performed factoring operations and were registered in the register of companies on the day of its entry into force, this deadline also referred to the part of 2015. Regarding this period, on 30 July 2015 the Croatian Government adopted the Regulation amending the Factoring Act²²⁹, which extends the period of 12 months for the harmonization of companies pursuant to Article 117(2) of the Factoring Act that expired on 8 August 2015, until 31 March 2016.

Following normative activities related to the adoption of ordinances under the Factoring Act that started in 2014, when three ordinances were adopted, Hanfa adopted all required ordinances within the prescribed period of six months from the date of entry into force of the Factoring Act. In 2015, seven ordinances were adopted²³⁰, which further elaborate the provisions of the Factoring Act governing the winding-up proceedings of factoring companies, cross-border factoring activities i.e. provision of factoring activities by companies from Member States and third countries on

229 Official Gazette, No 85/15

230 The list of ordinances adopted by Hanfa in 2015 is provided in the Appendix.

the Croatian territory, conditions and manner the operations of factoring companies, the content of factoring contract, capital of factoring companies, internal audit of factoring companies, financial and additional statements and chart of accounts of factoring companies.

Due to amendments to the provision of the Factoring Act which extended the deadline for the harmonization of those legal entities which, on the date of its entry into force performed factoring operations and were registered in the register of companies until 31 March 2016, ordinances which prescribe financial and additional statements and chart of accounts of a factoring company were amended, which prolonged the original deadline for the beginning of the chart of accounts implementation until 2017.

In order to clarify the procedures and actions that factoring companies should undertake in the process of harmonization, in February 2015 Hanfa published on its website the Notice regarding the actions of companies which meet the legal requirements for obtaining approval through the procedure of their harmonization with the Factoring Act. In connection with the subject of compliance with the Factoring Act, in April 2015 consultations were held with the Association of Factoring Companies at the Croatian Chamber of Commerce.

In 2015, three opinions on the application of the provisions of the Factoring Act were issued. One opinion was given in relation to the application of the Factoring Act, namely regarding the so-called secondary factoring market and the question of a legal possibility to resale factoring claims. The second opinion concerned the application of the Factoring Act in relation to the discounting bills of exchange in relation to factoring operations, while the third opinion concerned the so-called silent factoring. In addition, Hanfa answered many inquiries mostly regarding the questions of status in the application of the Factoring Act, mainly concerning the harmonization with the provisions of the Factoring Act, establishment of factoring companies, removal of factoring activities, issuing approvals in accordance with the Factoring Act, winding-up procedures of factoring companies, cross-border activities, register of factoring companies, documentation needed for the procedures of issuing approvals/authorizations etc.

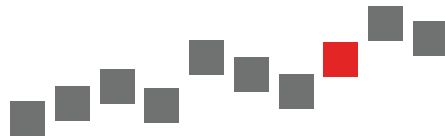
7.2.2 Licensing

In the first half of 2015, one application for issuing authorisation to provide factoring services was approved, concerning the company that had conducted factoring activities even before the entry into force of the Factoring Act, and which gained authorization to perform factoring operations through the process of harmonization with the Factoring Act. In the second half of 2015, two applications i.e. reports on the alignment of the companies providing factoring services were received and positively resolved. Within the framework of consolidated procedures to issue authorisations to conduct factoring operations, there were also procedures to issue approvals for management board members and acquirers of qualifying holdings.

In 2015, one decision was issued concerning the termination of the procedure to acquire of a qualifying holding in the company providing factoring services, due to the lack of legal basis and consequently the party's withdrawal of the request.

7.2.3 Supervision

Since the deadline for harmonization of factoring companies with the Factoring Act was prolonged until 31 March 2016, Hanfa did not conduct on-site examinations of factoring companies in 2015. Its supervisory activities primarily involved off-site supervision and the analysis of financial statements and additional reports received from factoring companies, same as in 2014. The focus of those activities was on research and 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 130 The list of ordinances adopted by Hanfa in 2014 is provided in the Appendix.



Judicial Proceedings



8 Judicial Proceedings

As an authorized prosecutor, if it establishes a misdemeanour, Hanfa files charges to the competent authorities (misdemeanour courts and the Financial Inspectorate of the Republic of Croatia). In the stage of misdemeanour proceedings when notifications on indictment are submitted, and after the proceedings are initiated, Hanfa's employees actively participate in the process (by providing notices on misdemeanour proceedings, visiting the hearings, making reports and taking all other actions for which Hanfa is competent as an authorised prosecutor).

In accordance with the provisions of the Act on the Croatian Financial Services Supervisory Agency²³¹ (hereinafter: the Hanfa Act), which regulates Hanfa's legal position as well as its objectives, principles, scope and competence, procedures conducted by Hanfa within its competence are subject to provisions of the General Administrative Procedure Act²³², unless otherwise provided by law. Administrative disputes may be initiated against Hanfa's acts since they are final pursuant to the Hanfa Act.

In accordance with the provisions of Article 204 of the Criminal Procedure Act²³³, Hanfa filed a criminal charge with the State Attorney Office after having established a reasonable suspicion of committing a criminal offense regarding inside information abuse.

Pursuant to Article 15(4) of the Act on Hanfa, in the performance of its public authorities Hanfa is authorised to encourage, organise and supervise measures for the effective functioning of the financial markets, while pursuant to Article 15(6) it is authorised to inform the public of the principles according to which the financial market operates. On its website, under the Court Decisions section and following the principles of anonymization, Hanfa publishes final court decisions relating to misdemeanour and administrative court proceedings that Hanfa is a party to. Publication of anonymized court decisions on Hanfa's web site allows the interested public to search through decisions of administrative and misdemeanour courts.

As a part of the continued process of harmonization with the *acquis communautaire*, Hanfa's representatives participated in the working group of the Croatian Ministry of Justice regarding the amendments to the Misdemeanour Act. The Act on Amendments to the Misdemeanour Act²³⁴ also provides for a possibility that special acts can prescribe fines for offences in the amounts required by directives and regulations of the European Union. Authorized prosecutors and legal persons with public authority having a special statutory status of an independent regulator are allowed to publish decisions on offences on their websites. The competent courts also have a possibility to impose protective measures for a period necessary for the harmonization with the *acquis communautaire*.

8.1 Misdemeanour Proceedings

During supervisory examinations in the area of capital markets, leasing, investment funds and insurance, Hanfa established offences committed under the Capital Market Act²³⁵, the Act on the Takeover of Joint-Stock Companies,²³⁶ the Act on Open-Ended Investment Funds with Public

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

232 Official Gazette, No 47/09

233 Official Gazette, No 152/08, 76/09, 80/11, 121/11, 91/12, 143/12, 56/13 and 145/13

234 Official Gazette, No 110/15

235 Official Gazette, No 88/08, 146/08, 74/09, 54/13 and 159/13

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

Offering²³⁷, the Insurance Act²³⁸, the Accounting Act²³⁹ and the Act on the Prevention of Money Laundering and Terrorist Financing²⁴⁰ and under its competence in 2015, it brought a total of 17 indictments before the competent misdemeanour courts and the Financial Inspectorate of the Republic of Croatia.

Table 8.1 Indictments brought in 2015

Area	Act	Number of indictments
Investment funds	Act on Open-Ended Investment Funds with Public Offering	1
	Total	1
Capital market	Capital Market Act	3
	Act on the Takeover of Joint-Stock Companies	1
	Total	4
Insurance market	Act on the Prevention of Money Laundering and Terrorist Financing	5
	Insurance Act	6
	Total	11
Leasing and factoring	Accounting Act	1
	Total	1
Total indictments brought in 2015	Total	17

Source: Hanfa

Since its establishment on 1 January 2006 until 31 December 2015, Hanfa brought a total of 437 indictments for initiating misdemeanour proceedings.

Table 8.2 Indictments brought in the 2006-2015 period

Year	Number of indictments	Final judgment	Discontinuance*	Expiration of statute of limitations	Ongoing
2006	75	33	15	27	0
2007	72	15	13	43	1
2008	65	13	6	45	1
2009	49	13	1	34	1
2010	52	14	2	30	6
2011	33	11	1	4	17
2012	27	3	1	5	18
2013	30	8	0	0	22
2014	17	4	0	0	13
2015	17	2	0	0	15
Total	437	116	39	188	94

* The cases without legal continuity between the indictment and a later amendment to the law, or where Hanfa withdrew the indictment or the court rejected the indictment

Source: Hanfa

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

238 Official Gazette, No 151/05, 87/08 and 82/09

239 Official Gazette, No 109/07 and 54/13

240 Official Gazette, No 87/08 and 25/12

8.1.1 Capital Market

Within the framework of supervision of the capital market, following established misdemeanours committed in this area, in 2015 Hanfa brought three indictments against misdemeanour perpetrators for indictments relating to violations of the provisions of the Capital Market Act and one relating to violations of the provisions of the Act on the Takeover of Joint-Stock Companies. One indictment was brought against a legal person and responsible persons in that legal person due to their failure to disclose to the public the annual report of the issuer and the audit report within the prescribed time frame or to ensure that the quarterly report is available to the public within the prescribed time frame; due to the failure of the legal person – the issuer and responsible persons in the issuer to publish the quarterly report of the issuer within the prescribed time frame and to make it publicly available; and due to the failure of the legal person – the issuer and responsible persons in the legal person to inform the public of inside information relating directly to the issuer in line with the prescribed manner and prescribed requirements, pursuant to the Capital Market Act. Furthermore, one indictment in relation to the violation of the provisions of the Capital Market Act was brought against a legal person – issuer and responsible persons in that issuer for failing to cooperate during the supervision process and not allowing access to documents i.e. not providing the information necessary for the purpose of the supervision. Another indictment was brought against a legal person and responsible persons in that legal person because, contrary to the provisions of Article 341(1) of the Capital Market Act²⁴¹, they failed to notify the stock exchange of a transaction with a financial instrument listed on a regulated market, carried out outside the regulated market or multilateral trading facility. Due to violations of the provisions of the Act on the Takeover of Joint-Stock Companies, indictment was brought against natural persons serving as board members because, contrary to the provisions of Article 41(1) of the Act on the Takeover of Joint-Stock Companies, they failed to publish a justified opinion on the takeover bid.

8.1.2 Investment funds

Within the framework of supervision of investment funds, following established misdemeanours committed in this area, in 2015 Hanfa brought one indictment against perpetrators relating to the violation of the provisions of the Act on Open-Ended Investment Funds with Public Offering. Indictment was brought against a legal entity and two responsible persons within that legal entity, because the management company's capital was not greater than or equal to the amount referred to in Article 21 of the Act on Open-Ended Investment Funds with Public Offering²⁴² and because the legal entity / management company engaged in activities referred to in Article 13 of the Act on Open-Ended Investment Funds with Public Offering for which it did not obtain Hanfa's approval.

8.1.3 Insurance Market

Out of 11 indictments from the area of insurance in 2015, six of them were filed due to violation of the provisions of the Insurance Act, against members of the insurance company management board, due to non-fulfilment of their obligations under this Act, i.e. because they failed to ensure that business operations of the insurance company are in line with the provisions of this Act. Five indictments were 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 to the one prescribed by the Act on the Prevention of Money Laundering and Terrorist Financing.

241 Official Gazette, No 88/08, 146/08, 74/09, 54/13 and 159/13

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

8.1.4 Leasing market

Concerning the leasing field, one indictment was brought against a leasing company and responsible persons in that company because, as a legal entity and responsible persons in that legal entity, they did not compile and present annual financial statements in accordance with International Financial Reporting Standards (IFRS 7, IFRS 13, IAS 39) which is contrary to the Accounting Act.

8.2 Administrative disputes

In the course of 2015, a total of 14 administrative disputes were initiated against Hanfa's decisions and resolutions following complaints filed with administrative courts of the Republic of Croatia. Pursuant to the Administrative Disputes Act²⁴³, Hanfa provided responses and submitted files requested based on the complaints filed. Hanfa's employees were present at court proceedings related to these files at administrative courts in Rijeka, Split and Zagreb. Out of 14 administrative disputes, 12 were related to administrative acts connected with the capital market, of which four disputes were initiated concerning the recognition of a party in a joint-stock company takeover procedure, one administrative dispute was initiated due to annulment of a resolution in a joint-stock company takeover procedure, one administrative dispute was initiated against a decision to suspend a joint-stock company takeover procedure, while two administrative disputes were initiated due to publication of a revocation of the decision in a joint-stock company takeover procedure. Furthermore, one administrative dispute was initiated due to a decision in a joint-stock company takeover procedure, as well as a dispute regarding the renewal of a joint-stock company takeover procedure. Two administrative disputes were launched against a decision on determining the obligations for the takeover of a joint-stock company. The remaining two administrative disputes concerned the area of investment funds, in connection with the elimination of violations and irregularities established by the supervision process of an investment funds management company's operations, and because of the rejection of the application to issue an approval for a management board member. Out of the 14 administrative disputes initiated, two were dismissed as disallowed, and one was discontinued. The remaining 12 cases are still pending.

8.3 Criminal charges

Within the framework of its regular business activities in 2015, Hanfa established that there were grounds for suspicion that a criminal offence had been committed and filed a criminal charge against three natural persons. The charge was filed against two natural persons for the criminal offence of inside information abuse described and punishable under Article 259(2) of the Criminal Code²⁴⁴, and against one person for criminal offence of inside information abuse described and punishable under Article 259(3) of the Criminal Code, in connection with the Article 259(1) point 1 of the Criminal Code.

243 Official Gazette, No 20/10, 143/12 and 152/14

244 Official Gazette, No 125/11 and 144/12



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 2015, Hanfa's employees were involved in work and coordination with relevant national authorities and institutions of the European Union regarding the issues of harmonization with the regulations and practices of the European Union within the financial sector. It should be noted that these tasks are placing growing demands on Hanfa's employees, which was reflected in their increased involvement in these matters, more than in previous years. This additional engagement is increasingly occupying Hanfa's resources, and it can be firmly stated that it will continue to increase in the coming years, as individual policies and procedures of the European Union will require additional involvement of Hanfa's employees and a great part of their time to work on these operations. With the existing resources, it is quite challenging to follow the new requirements and the workload is increasing day by day.

9.1.1 Participation in the Work of ESMA

In 2015, the President of the Board of Hanfa or his alternate attended seven meetings of ESMA's Board of Supervisors²⁴⁵.

ESMA's strategic goals in 2015 were consumer protection, financial stability and the functioning of the market, while its operating goals were harmonization, risk monitoring and analysis and the unique rule book and supervision.

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
- CRA Technical Committee
- Market Integrity Standing Committee
- Financial Innovation Standing Committee
- Investment Management Standing Committee
- Investor Protection & Intermediaries Standing Committee
- IT Governance
- Post Trading Standing Committee
- Secondary Market Standing Committee
- Takeover Bids Network
- Legal Network
- Market Data Reporting Working Group
- Translation Network

European Securities and Markets Authority (ESMA) was founded on 1 January 2011 by the ESMA Regulation, as a successor to the Committee of European Securities Regulators (CESR). As a supervisory authority, it is an independent EU body and it is a part of the European System of Financial Supervision (ESFS). The aim of ESMA is to contribute to the stability of the EU financial system by ensuring the integrity, transparency, efficiency and orderly operation of financial markets and by increasing investor protection.

ESMA and EIOPA have two main bodies, the Board of Supervisors and the Management Board. The Board of Supervisors is composed of the representatives of national supervisory authorities and is responsible for decisions on operational and technical issues of administration, while the Management Board, which is composed of the Chair and six members, is responsible for organizational issues such as the annual budget, personnel policies and annual work plan.

²⁴⁵ Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC, OJ L 331/84

Members of the committees discuss issues relevant to ESMA's activities and prepare documents to be adopted by the ESMA's Board of Supervisors. *European Enforcement Coordination Sessions*.

At-end 2015, for the first time Hanfa was subject to an on-site examination by ESMA's experts within Peer review on supervisory practices of national supervisory authorities (*On-site* peer review). The focus was on the compliance with the provisions of MiFID Directive²⁴⁶, which regulate the application of appropriateness assessment i.e. controls of the ways in which national regulators supervise application of the appropriateness assessment with companies providing investment advice to retail investors. Within this procedure, ESMA's team of experts conducts a comparative analysis of practices and operations of certain regulators, with a focus defined in advance. This can result in recommendations to regulators for the improvement of supervisory procedures or general recommendations on the basis of best practices.

9.1.2 Participation in the Work of EIOPA

In 2015, the President of the Board of Hanfa or his alternate attended five meetings of EIOPA's Board of Supervisors.²⁴⁷ Hanfa's representatives were involved in the work of nine committees, one working group and a network of language editors of EIOPA.

In 2015, EIOPA began to shift its focus from regulatory framework to supervisory framework. Strengthening the role of voluntary pension insurance was in the focus of action, and the same is envisaged for the following period.

The goal is to strengthen the role of voluntary pension insurance and to reinforce consumer confidence in this segment of insurance.

The main objectives of EIOPA in 2015 were the following:

- 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 organization, with effective management system, efficient processes and reputation.

All EIOPA's activities in 2015 were associated with those five goals.

European Insurance and Occupational Pensions Authority (– EIOPA) was founded on 1 January 2011 by the EIOPA Regulation, as a successor to the Committee of European Insurance and Occupational Supervisors (CEIOPS), and it is constituted as an independent EU body and a part of the European System of Financial Supervision (ESFS). EIOPA's task is to contribute to the stability of the EU financial system by ensuring the integrity, transparency, efficiency and orderly operation of financial markets and by increasing the protection of policyholders, pension scheme members and beneficiaries. While implementing its tasks it acts independently, objectively and in the interest of the European Union.

²⁴⁶ 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

²⁴⁷ 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

Hanfa participated in the work of EIOPA by maintaining the Register of IORPs²⁴⁸ (*Register of IORPs*) and the Register of IORPs prudential provisions (*Register of IORPs Prudential Provisions*), and it also participated in the test project, Test Database Pension Plans and Products.

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 – IGSRRRC
- 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.

In 2015, committees of ESMA and EIOPA issued over a hundred 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, organization of the common market and, in this light, harmonization 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.

In 2015, EIOPA also conducted peer reviews in the following areas:

- Freedom to Provide Services
- Supervisory practices for IORP in relation to the Statement of Investment Policy Principles
Operation of the colleges of supervisors
- Deep, liquid and transparent assessment.

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.

²⁴⁸ Pursuant to the Croatian legislation, closed-ended voluntary pension funds and pension insurance companies make up *Institutions for Occupational Retirement Provision* – IORP.

9.1.3 Participation in the work of EBA

Pursuant to Article 16 of the Act on Croatian Financial Services Supervisory Agency²⁴⁹, Hanfa's employees participate in the preparation of materials and the provision of information needed to make decisions and statements related to the operations of investment firms for meetings of the EBA's Board of Supervisors²⁵⁰.

HANFA also participates EBA's analyses associated with the revision of the prudential requirements for investment firms under the CRD IV Directive²⁵¹ and²⁵² the CRR Regulation and other types of reporting connected with the requirements of the BRRD Directive²⁵³.

In cooperation with the Croatian National Bank, the activities on the adoption of the EBA guidelines concerning both supervisory bodies were started, 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 2015, the President of the Board of Hanfa or his alternate attended four meetings of the General Committee, while a representative of Hanfa participated in four meetings of the Advisory Technical Committee of the ESRB²⁵⁴.

In 2015, debate about risks and vulnerabilities of the financial system was one of the main topics of the ESRB, with more attention paid to specific risks (low level of interest rates, mechanisms of indirect financial contagion, market liquidity, prudential issues associated with central counterparties, real estate, treatment of government issues, etc.).

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. ESRB participated in the design of a stress test at the EU level, carried out by three European supervisory bodies and the ESRB.

The European Systemic Risk Board is an independent supervisory authority of the European Union, established under the ESRB Regulation. It is responsible for macro-prudential supervision of the financial system within the European Union and contributes to the prevention or mitigation of systemic risks to financial stability in the Union, taking into account macroeconomic developments, so as to avoid periods of widespread financial distress. It contributes to the smooth functioning of the internal market and thereby ensures a sustainable contribution of the financial sector to economic growth.

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

250 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.

251 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 and 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 L 176

252 Regulation (EU) 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 (Text with EEA relevance), OJ L 176/1

253 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 (Text with EEA relevance), OJ L 173/190

254 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 L 331/162 and Regulation 1096/2010 conferring specific tasks upon the European Central Bank concerning the functioning of the European Systemic Risk Board, OJ L 331/162

9.1.5 Participation in the Work of the Council and the European Commission

In 2015, Hanfa took part in public debates and expert meetings that the European Commission initiated in the framework of its policy on the establishment of the Capital Markets Union²⁵⁵ (hereinafter: CMU). Hanfa participated in the public debate about the establishment of the CMU and the debate on the review of the Prospectus Directive²⁵⁶ and the overall EU regulatory framework for financial services.

Within the activities associated with the CMU, following a public consultation, in 2015 the European Commission published two proposals for new regulations, namely the Proposal for the Prospectus Regulation²⁵⁷, replacing the existing Prospectus Directive and the Proposal for the Regulation on Securitization²⁵⁸. Hanfa participated in the development of views and proposals for amendments to the text of the Draft Regulation on securitization, in cooperation with the Croatian National Bank and the Ministry of Finance as part of the Working Group for Financial Services of the Council.

Hanfa participated in the work of the Expert Group of the European Securities Committee at the European Commission (EGESC). Activities included workshops for the transposition of the MiFID II Directive and the CSMAD Directive²⁵⁹ i.e. assurance of the application of the MiFIR Regulation²⁶⁰ and²⁶¹ the MAR Regulation. Hanfa participated in EGESC meetings and workshops related to the activities connected with the CMU, on issues regarding the obstacles to the free movement of capital which may result from the application of EU legislation, national legislation or business practices in individual member states. Hanfa also took part in the EGESC meetings where possible approaches to drafting the new Prospectus Regulation were discussed.

In 2015, Hanfa took part in the final phase of the adoption of the Directive on insurance distribution²⁶², in resolving some issues related to the harmonization of financial services terminology in the Croatian language, as well as issues related to new terms that appear in this Directive. It participated in the drafting of the Corrigendum to Transparency Directive²⁶³, which corrected certain errors in the text of the Directive in the Croatian language.

255 Capital Markets Union is described in more detail in Chapter 1. Capital Market

256 Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directives 2003/71/EC and 2009/138/EC and Regulations (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

257 *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)

258 *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) 648/2012, 2015/0226 (COD)*

259 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

260 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 173/4

261 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 (Text with EEA relevance), OJ L 173/1

262 Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (recast) (Text with EEA relevance), OJ L 26/19

263 Corrigendum to 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, 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 and Commission Directive 2007/14/EC laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC (OJ L 294, 6.11.2013), OJ L 41/54

9.2 Cooperation with domestic and international institutions

In 2015, in cooperation with the Croatian Chamber of Commerce and the ZSE, Hanfa started to work on informing the SMEs about the financing possibilities in the capital market through workshops aiming to introduce such information to the interested parties. During the preparatory phase for the Solvency II Directive, it was involved in the activities of the working group HUO-HANFA-HAD regarding the Pillars 1 and 2.

At the request of the Ministry of Finance, in 2015, Hanfa was involved in the activities of six new working groups:

- Operating working group for the analysis of current situation and possible solutions regarding the treatment of government bonds with a foreign currency clause according to the delegated Regulation of the European Commission
- Working Group for drafting the Capital Market Act
- Working Group for drafting the bundle of acts for investment funds
- Working Group for the implementation of obligations under the Act on critical infrastructures²⁶⁴
- Working Group for monitoring the initiative of the European Commission on the Capital Markets Union
- Ad-hoc working subgroup MIRS for the Register of beneficial owners.

Together with the Ministry of Finance and the Croatian National Bank, Hanfa also analysed the initiative of the European Bank for Reconstruction and Development for the development of a new regulatory framework for the covered bonds market in the Republic of Croatia. It also cooperated 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. Hanfa's role concerned the application of relevant regulations to the establishment of such fund.

In 2015, Hanfa continued its participation in the activities of the Financial Stability Council, together with the Croatian National Bank, the Ministry of Finance and the State Agency for Deposit Insurance and Bank Rehabilitation. In the past year, the Council held two sessions.

In accordance with the signed Multilateral Memorandum of Understanding, as a member of the International Organization of Securities Commissions (IOSCO), Hanfa exchanged relevant information with other signatories of the memorandum, in its supervision procedures i.e. for the purposes of supervision of other signatories, based on the rights and obligations arising from this memorandum.

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

As a participant in the system for the prevention of money laundering and terrorist financing, through its Committee for the Prevention of Money Laundering and Terrorist Financing, Hanfa draws up relevant subordinate legislation, proposes opinions and responses to questions, organizes and participates in education of its employees and representatives of supervised entities and undertakes other activities related to the prevention of money laundering and terrorist financing.

In 2015, Hanfa continued its activities regarding the monitoring of application of the Act on the Prevention of Money Laundering and Terrorist Financing²⁶⁵ by the supervised entities. In five off-site supervisions related to money laundering and terrorist financing, supervisory activities in-

²⁶⁴ Official Gazette, No 56/13

²⁶⁵ Official Gazette, No 87/08 and 25/12

cluded supervision of implementation of measures needed to detect and prevent money laundering and terrorist financing. Based on the findings from these examinations, the following violations and irregularities were established:

- inadequate internal acts which prescribe procedures regarding money laundering and terrorist financing
- reception of cash payments higher than HRK 105,000
- inadequate client due diligence and risk profile assessment measures
- inadequate identity checks of clients (legal entities)
- failure to monitor business activities or to take all necessary measures for monitoring the business activities
- inadequate preparation of the annual programme of professional training and education in the field of prevention and detection of money laundering and terrorist financing
- failure to carry out internal audit in accordance with the provisions of the Act on the Prevention of Money Laundering and Terrorist Financing.

In 2015, based on examination conducted in 2014 and 2015, Hanfa issued eight decisions ordering measures necessary to eliminate the irregularities and violations regarding money laundering and terrorist financing, with which the supervised entities complied.

In addition to conducting the supervision of legality of the operations of its supervised entities, in accordance with the provisions of the Decision on the method of implementing international measures restricting asset disposal²⁶⁶, and in connection with the Act on International Restrictive Measures²⁶⁷, Hanfa also supervised the implementation of international measures restricting asset disposal.

In addition, one of the obligations of supervisory bodies is mutual exchange of data and information during the supervision process, so Hanfa continued to inform the Anti-Money Laundering Office with the Ministry of Finance on the about its supervision procedures.

In terms of subordinate regulations relating to the prevention of money laundering and terrorist financing, in early 2015 Hanfa issued revised guidelines for the implementation of the Act on the Prevention of Money Laundering and Terrorist Financing for taxpayers within the competence of the Croatian Financial Services Supervisory Agency in the area of establishing political exposure of foreign natural persons.

In order to prevent money laundering and terrorist financing, Hanfa continuously gave opinions to supervised entities in connection with the application of the provisions of the Act on the Prevention of Money Laundering and Terrorist Financing. In 2015, Hanfa held two training sessions for representatives of its supervised entities (Croatian Chamber of Commerce – National risk assessment and responses to the association inquiries, and the Zagreb Stock Exchange Academy – Risk management system of the prevention of money laundering and terrorist financing) and one training session for Hanfa's employees (methodology of supervision regarding money laundering and terrorist financing).

Hanfa actively participated in the work of Inter-Institutional Working Group on the Prevention of Money Laundering and Terrorist Financing (MIRS), presided by the Anti-Money Laundering Office. The main topics of the MIRS's meetings related to the completion of the project of the National risk assessment, preparation of Follow-up Reports for the evaluation of Croatia by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism – MONEYVAL, the implementation of the Action Plan for the implementation of measures to prevent money laundering and terrorist financing, adopted by the Croatian Government, and other issues related to the prevention of money laundering and terrorist financing.

²⁶⁶ Official Gazette, No 78/11

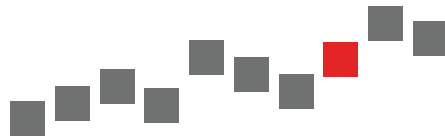
²⁶⁷ Official Gazette, No 139/08 and 41/14

Nationally, Hanfa participated in drawing up the project of National Risk Assessment, which Croatia conducted according to the World Bank methodology. The National Risk Assessment project was finalized during 2015, and its goal was to define the risk assessment of individual sectors and activities in order to, in accordance with the identified risks, draft the action plan with clearly defined measures to be taken in order to reduce the risk of money laundering and terrorist financing within the Croatian system.

For the purposes of reporting to MONEYVAL, under the regular procedures of reporting on the progress of Croatian compliance with international standards on the prevention of money laundering and terrorist financing, Hanfa prepared a report on the measures taken in the areas of its competence, and Hanfa's representative took part in the 48th plenary session of MONEYVAL, which was held in Strasbourg in September 2015.

In the context of inter-institutional cooperation, Hanfa would submit 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 2015, Hanfa received 149 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. Natural persons submitted the majority of complaints. 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 demands documentation and statements from supervised entities referred to in the complaint.

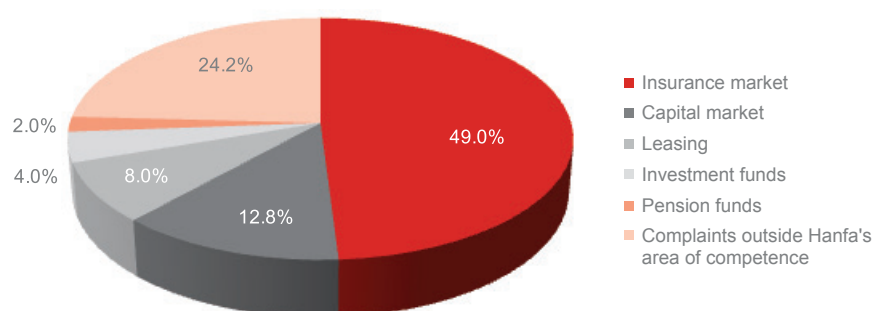
Table 10.1 Number of complaints received in 2014 and 2015 by submitters

Type of complaint	Number of complaints in 2014	Number of complaints in 2015
Natural persons	107	122
Legal persons	29	24
Anonymous	11	3
Total	147	149

Source: Hanfa

The majority of complaints received related to the insurance market, capital market and leasing market, while 24.2% of the complaints fell outside Hanfa's area of competence, as presented in the chart below. Hanfa did not receive any complaints related to factoring services or investment companies.

Chart 10.1 Structure of complaints by Hanfa's area of competence



Source: Hanfa

73 complaints concerned the insurance market: 39.7% 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 23.3% of the complaints referred to conclusion of insurance agreements, i.e. too high insurance premiums, discounts and incorrect application of the bonus/malus system. 16.4% of the complaints referred to insurance agreement disputes, i.e. failures to fulfil obligations under the insurance agreement and terms and conditions and 15.1% of the complaints referred to the activities of a supervised entity, i.e. its financial or general activ-

ities carried out contrary to the legal framework. The remaining 5.5% of the complaints referred to surrender values of the insurance policy. Hanfa initiated off-site supervision of two insurance companies on the basis of received complaints pertaining to insurance representation by a company without an authorization to perform these operations, and to investment in stocks, their evaluation and entry into business books, as well as the exercise of management rights.

19 complaints concerned the area of capital market, of which 31.6% referred to takeovers of joint-stock companies, 26.3% to market manipulation, 10.5% to non-compliance with the obligations of transparency and 10.5% to transferring of shares. Other complaints were related to bankruptcy proceedings, actions of shareholders' associations, illegal actions of supervised entities and to financial reporting. Hanfa promotes the importance of complaints as an effective means of protecting the rights of citizens, so complaints were taken into account within Hanfa's continuous supervision of supervised entities.

Out of the 12 complaints received pertaining to the leasing market, 33.3% referred to the calculation and payment of debts and related costs for the early termination of leasing contracts, while 33.3% referred to the return and sale of the leased assets after early terminations of the leasing contracts. Other complaints were filed due to changes in the insurance conditions of leased assets, prepayment of contracts, calculation of variable interest rate and disputes arising from due receivables purchase contract. After analysing the complaints about the actions of leasing companies received in previous years, Hanfa initiated an off-site examination of leasing contract provisions. The purpose of this examination is to protect the interests of consumers and other lessees, and to have uniform and transparent contractual provisions of leasing contracts.

Of the six complaints received in relation to investment funds, 50.0% referred to actions of supervised entities regarding the legality of their operations and fund management, 33.3% referred to dissatisfaction with the purchase and redemption of units in the fund, and 16.7% of the complaints referred to actions of supervised entities in connection with the publication of information.

Three complaints in relation to pension funds referred to the closure of personal accounts in mandatory pension funds and inheritance of funds from mandatory pension funds, actions of supervised entities in connection with the violation of confidentiality of data on the account balance of voluntary pension fund members, and the actions of supervised entities regarding the manner of managing mandatory pension funds.

Hanfa provided prompt replies to all the complaints falling within its area of competence within 30 days after the reception of the complaints at the latest. Depending on specificities of each case, the replies included information on the course of action taken or on the result of such action. 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, informing the public of the importance and the manner of functioning of the financial system and undertaking various activities aimed at providing timely information to financial services users. Those activities focused on the prevention through on-site and off-site supervision, and 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. Hanfa conducted those activities via publications or consultations with the interested public in connection with subordinate acts 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, it published laws and subordinate regulations and their consolidated versions, public announcements about different risk types of investments and financial activities, warnings aiming to protect investors, warnings by ESMA²⁶⁸ and IOSCO, educational texts, frequently asked questions and answers, publications, manuals and information on the results of operations of supervised entities and other notices containing information and announcements from Hanfa's area of work.

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

In the area of consumer protection, Hanfa was active within the ESMA *Financial Innovation Standing Committee* and the EIOPA²⁶⁹ *Committee on Consumer Protection and Financial Innovation*. It reviewed submitted documents, submitted the requested data and reports on complaints, and exchanged experience with other Member States in relation to consumer protection issues.

Along with carrying out activities in the area of consumer protection, Hanfa initiated or participated in various educational activities. For the second year in a row, Hanfa was involved in marking the World Money Week, and for the first time in marking the Money Week, from 9 to 17 March 2015. On that occasion, in cooperation with the Ministry of Finance, the Ministry of Economy, the Ministry of Science, Education and Sports, the Croatian Banking Association, the Croatian National Bank, the Croatian Insurance Bureau and the Croatian Employers' Association, Hanfa organized a round table entitled "With financial literacy to more satisfied citizens." During this event, through presentations and open panel discussions, current and previous activities were presented and future activities of state institutions and non-governmental sector were announced in relation to the topic of financial education, with special emphasis on the need to include financial education in formal education. During that week, Hanfa took part in a panel discussion within the presentation of results of a preliminary study of financial literacy at the Institute of Economics.

Hanfa continued its educational activities in educational institutions on the Croatian territory via student debates titled "Pension savings – optimal investment strategy". Three student debates were held in cooperation with three university faculties, where students presented their opinions and attitudes in relation to Pillar 2 pension insurance in the Republic of Croatia, with special emphasis on pension fund investments and pension companies business operations. Students prepared for the debate with employees of Hanfa and of pension companies, and the purpose was to spread awareness of the need for fund members, as future pension beneficiaries, to be active in monitoring the operations of pension funds and pension companies, and information about the importance of knowing how the pension system functions, which includes an independent fund selection. Hanfa is preparing to hold student debates in 2016, and new topics will relate to insurance and to leasing and factoring.

In order to familiarise the wider public with topics related to financial services and the functioning of financial markets, Hanfa prepared and published on its website five educational brochures aimed at existing and potential users of financial services. Using simple and easily understandable language, the brochures explain some concepts related to capital markets, insurance, investment funds, pension funds and leasing. In order to present the brochures to the public, Hanfa held a conference entitled "Financial services – what to know and what to look after? Goals and trends in education and consumer protection". Representatives of Hanfa, the Ministry of Finance, Ministry of Economy and ESMA were speakers at the conference. Hanfa's representative emphasized the importance of informing the users of services in time, in order to familiarize them with the risks associated with a certain financial service or product prior to entering into a business relationship, and each of the presenters, from the perspective of their institution, spoke about the importance of education and consumer protection and development of financial literacy in the Republic of Croatia.

In order to strengthen the awareness of the need for knowledge on financial products and associated risks when deciding to invest in such products, Hanfa developed an innovative educational campaign that was carried out through attractive web advertisements (display banners) and ads that appeared while searching the Internet for certain words, in which fictional persons, presented as the wealthiest Croats, invited users to trade in fictitious financial products called KPNs (complicated products for dummies). The following mouse click would lead to a specially designed Hanfa's informative website, where potential investors were urged to be cautious, and they were warned about the importance of gathering information about products and services before entering into a business relationship with providers of financial services. The educational campaign was carried out with the help of modern technology used by providers of those services and products who were the focus this campaign. This approach was used in order to reach the target

269 The European Insurance and Occupational Pensions Authority (EIOPA) is described in more detail in Chapter 9.1.2 Participation in the Work of EIOPA

audience that is normally attracted by such ads. During the two months that the educational campaign lasted, there were 36000 clicks to those adverts. For the purpose of educating the general public, during the campaign Hanfa published articles on Internet sites and in the press in which it also emphasized the need for education in the field of finance, and it gave information regarding its educational activities and materials and data from the financial sector which are available to the public on Hanfa's website (educational brochures, registers of authorized service providers, warnings regarding the companies whose operations, for some reason, need to be the focus of attention, statistics, quantitative data, data which Hanfa provided in the form of educational texts and answers to frequently asked questions).

Together with the Croatian National Bank and in cooperation with the Ministry of Finance, Hanfa conducted the survey "Measuring the financial literacy", based on the action plan to improve the financial literacy of consumers in 2015. The study was conducted in line with the methodology of the Organization for Economic Cooperation and Development (OECD), which defines financial literacy as a combination of information, knowledge, skills, attitudes and behaviours needed to make the right financial decisions to achieve individual gain. Therefore, it was envisaged that the study would measure three basic categories: financial knowledge, financial behaviour and attitude towards spending money. Measurement of financial literacy in the Republic of Croatia was conducted as part of the second international cycle of national testing coordinated by the OECD. The questionnaire that was used as a measuring 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 used it for the purpose of collecting data on the financial literacy of its citizens. Given that Croatia joined the new cycle of the implementation of this research on the international level, the results of this study will allow the comparison of the national level of literacy of Croatian citizens with the results of surveys conducted in other countries. Such measuring of financial literacy will be a useful foundation for better planning of future educational projects and activities and assessment of their success. Presentation of the results of financial literacy measurement is foreseen for 2016.

Educational activities were also carried out through the organization of educational visits of secondary school students and university students to Hanfa. On those occasions, the students were given information about the scope and competence of Hanfa, with the emphasis on the legal framework, activities of ESMA and EIOPA and the concepts related to Hanfa's membership in those institutions, procedures of on-site and off-site supervision and licensing, as well as examinations within Hanfa's competence. Hanfa's representatives gave various lectures at seminars and conferences of different educational, professional and state institutions. Topics of their lectures concerned, among other things, Hanfa's scope and competence, operation of investment funds, insurers and pension funds as institutional investors in the financial market in the Republic of Croatia, Solvency II, preparation for own risk and solvency assessment, the concept of insurance agent assistants and cross-border provision of services, consumer protection in insurance, accounting for insurance and pension insurance, securities market supervision, MiFID II, factoring regulatory framework, prevention of money laundering and terrorist financing, leasing market and lease agreements, crowdfunding, revision of supervised entities' information systems by audit company, etc.

10.2 Transparency

The most important change of 2015 connected with the Act on Right of Access to Information²⁷⁰ was related to its amendments²⁷¹, which introduced new obligations for public authorities. This year saw the introduction of the consultation with the interested public via the central government portal for public consultations, e-Consulting. It is obligatory for government administration, and

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

271 Official Gazette, No 85/15

recommended for other public authorities. Obligated to follow the Act on the Right to Access Information, immediately after the entry into force of the Act on the Amendments to Act on the Right to Access Information, Hanfa introduced consultations related to subordinate regulations via the central government portal. Owing to the introduction of this consultation process, Hanfa ceased to conduct consultations through its website, where it published only information on the opening and closing of consultations regarding subordinate regulations on the central government portal.

Hanfa conducted a total of 45 consultations with the interested public in connection with the ordinances related to Hanfa's competence and scope, specifically in the field of investment and pension funds, investment firms and the capital market, insurance, factoring, as well as Hanfa's general operations. When drafting proposals of subordinate regulations, and after an expert discussion, Hanfa would take into account comments and suggestions from the public concerned that was deemed relevant for the adoption of these acts. After each consultation, which would typically be carried out in a period of 30 days, a report on the consultation was published in the period required for their publication.

In order for those consultations to be carried out in a precise and organized manner, Hanfa's employees repeatedly participated in educational workshops at the invitation of the Government Office for Cooperation with NGOs. At its premises, Hanfa also organized a workshop for all their employees involved in the implementation of the consultation procedures, where officials of the Office for Cooperation with NGOs provided assistance in terms of acquiring knowledge about the implementation of the consultation process through the e-Consulting portal. Hanfa's employees also participated in the round table entitled "Re-use of information and open data of public administration – support for social development and innovative economy" organized by the Commissioner for Information / Ministry of Public Administration.

Pursuing the Act on the Right to Access Information, Hanfa published all relevant information from its scope of action, in a transparent and timely manner so that the public could be fully and timely informed. Hanfa's website contains, among other things, all the regulations from the scope of its operation, decisions from the Board meetings, information on the internal structure, all the information on the right to access information, answers to frequently asked questions, registers and databases, and information about tenders, as well as the results of tenders.

The website also contains the Annual plan of consultations with the public for 2016, with an overview of the planned subordinate regulations, deadlines for their adoption, planned duration of consultations and means of their implementation.

Eight requests for access to information were received and they were all addressed within the legal deadline. The largest number of requests sought information related to pension funds, capital market, insurance and factoring. One request was rejected due to requested information being confidential and restricted according to the Act on the Right to Access Information. Hanfa rejected this request for access to information, in essence, given the obligation of employees on keeping confidential documents and data they found in the performance of their duties and tasks, stipulated by the Act on the Croatian Financial Services Supervisory Agency²⁷².

Amendments to the Act on the Right to Access Information determine and define the reuse of information in more detail. Hanfa registered 13 requests for the reuse of information, which were delivered via website imamopravoznati.org. Only one of those request was not solved, and the reason was technical in nature, but the applicant was notified that the request would be solved as soon as conditions are met for its fulfilment are met. One request was resolved outside the time limit of 15 days.

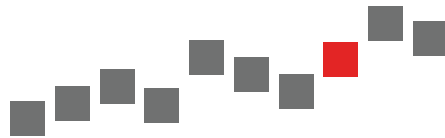
Submission of documents to the Croatian central catalogue of the official documents continued during 2015, so the website of the Digital Information and Documentation Office of the Croatian Government contains updated information relating to Hanfa.

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

In accordance with the provisions of the Act on the Right to Access Information, in 2015 Hanfa fulfilled its obligation towards the Commissioner for information by submitting a report on the implementation of this Act, as well as towards the Office for Cooperation with NGOs by providing data on the conducted consultations with the interested public.

Hanfa made its activities known to the public via media. Hanfa also provided access to information on its activities to the public through the media, whose representatives sent their inquiries via e-mail address 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 full information. Hanfa received and provided answers to 37 media inquiries. Hanfa received and answered 57 inquiries from journalists, at the same time communicating 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

Apart from the Act on the Croatian Financial Services Supervisory Agency²⁷³ (hereinafter: the Hanfa Act) and the Statute of the Croatian Financial Services Supervisory Agency, Hanfa is regulated by a series of internal documents. Their purpose is transparency, openness and efficiency of processes. In addition, for the purpose of transparency, as well as the control and the improvement of procedures, internal revision was established back in 2006. Business processes and all internal documents are continuously being improved so that Hanfa can function in accordance with the best practices. In the period from 2012, Hanfa significantly improved the systems of business processes and operations in order to become a modern European institution. New systems were introduced, such as electronic document management system and electronic filing and records office, as well as numerous IT solutions needed to receive data from supervised entities and submitting data to EIOPA²⁷⁴ and ESMA²⁷⁵.

Reporting to EIOPA and ESMA

The obligation of Hanfa, as a competent authority of a Member State, regarding the ESMA's systems include the introduction of systems for merging and exchanging data, and active participation in the exchange of data with ESMA's systems.

The process of improving the IT infrastructure was initiated through the creation of a catalogue of information and digitalization of data delivery by supervised entities, for the purpose of creating a data warehouse (DWH), which would facilitate the implementation of supervision processes. When the MiFID II Directive²⁷⁶ and MiFIR Regulation²⁷⁷ enter into force, the quantity of data and calculations that Hanfa, as a supervisory authority, will have to send to ESMA will be enlarged, Hanfa decided to participate in ESMA's project *Financial Instruments Reference Data System(-FIRDS)*, which will ensure that complex transparency calculations, which will encompass all financial instruments, and not only stocks, are calculated centrally. Furthermore, new requirements of the MiFIR Regulation and the MAR Regulation²⁷⁸ oblige trading venues and systematic internalisers to submit reference data for relevant financial instruments to competent authorities, which must submit those documents to ESMA for subsequent publication on Internet sites. In parallel with those upgrades, ESMA is implementing an IT system which would enable a centralised approach to transactional data in order to allow the reception of inquiries from competent bodies and forwarding of inquiries to trade repositories.

Hanfa's obligation, being a member state supervisory body, is to connect with EIOPA systems using XBRL data format and DPM data model. Therefore, it was necessary to implement a new

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

274 The European Insurance and Occupational Pensions Authority (EIOPA) is described in more detail in Chapter 9.1.2. Participation in the Work of EIOPA.

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

276 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

277 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

278 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 (Text with EEA relevance), OJ L 173/1

system for receiving, validating and sending reports to EIOPA, as the first phase of preparation for reporting in accordance with the Solvency II Directive²⁷⁹.

IPA project

The goal of the IPA project is to improve the effectiveness of supervision in the area of non-banking financial services sector in the Republic of Croatia, in accordance with the purposes of the European System of Financial Supervision through the implementation of business intelligence systems. Funds in the amount of EUR 150,400 were allocated from the EU IPA programme.

By improving its IT infrastructure through the implementation of business intelligence systems, Hanfa will be able to meet the reporting requirements of European supervisory authorities more efficiently, and will improve the capacity of its supervisory activities carried out according to the principles of risk-based supervision, as well as continuous monitoring and management of systemic risk of the entire non-banking sector.

Twinning light projects

In order to enhance and improve business processes, Hanfa proposed two projects in the framework of the Twinning light programme *Transition Facility – Institution Building Envelope*.

The projected value of the project “Improvement of the process of reporting on exposure to derivatives and trading derivatives in the Croatian Financial Services Supervisory Agency” is EUR 100 thousand, and the project “Integration and improvement of supervision on the basis of risk in the Croatian Financial Services Supervisory Agency” is EUR 190 thousand. Both projects were approved by the European Commission and the tendering is ongoing.

Information system upgrade

The establishment of advanced IT solutions and automation of business activities through IT means more business value and dependence on IT. In parallel with the growth of the IT participation in business operations, it is necessary to raise the level of IT maturity through the introduction of internationally recognized standards ISO 20000 and 27001 in order to reduce operational risk. With this in mind, Hanfa started extensive preparations to comply with the requirements of these standards in the future.

The aim of the infrastructure upgrade and renewal is to establish reliable operation of the information system in a way to ensure its adequate response time, reduce the probability of failure to an acceptable level and allow for a quick recovery.

For more efficient implementation of the Guidelines of the European Central Bank (ECB) (ECB/2014/15) in the segment of Register of institutions and assets database (RIAD) reporting and improving the existing model of data exchange regarding the population of financial institutions regulated and supervised by HANFA, it is necessary to replace the current system of reporting in a way which would enable the exchange of data from Hanfa’s Registry of financial institutions with the Croatian National bank and collection of necessary reports.

For the purposes of reporting to EU institutions, it is necessary to urgently establish a system that, in addition to the existing functionality of receiving electronically signed reports, allows the reception and validation of data in new formats (XBRL, the new XML), definition of schemes and controls of reports based on externally given specifications (EIOPA and ESMA), storage of data in predefined structures and versioning and sending data in predefined structures to EU institutions.

²⁷⁹ 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

Human Resources

Pursuant to the Act on the promotion of employment²⁸⁰, in 2015 Hanfa hired four law school graduates as a part of vocational training without employment.

In order to facilitate recruitment of best students before they start to actively seek employment, and in order to ensure the necessary number of quality staff in time, Hanfa announced a scholarship competition for the academic year 2015/2016 aimed at final year university students in the Republic of Croatia, who wish to start their career in Hanfa.

Same as in previous years, Hanfa continued to work on the on-going professional development of its employees through seminars and professional training, mostly organized by EIOPA, the Joint Vienna Institute and the ATTF, and through internal workshops. The aim of professional training was continuous improvement of skills and competencies of employees so that they could efficiently, professionally and timely achieve their goals and perform their tasks. Given the significant changes in the EU regulatory framework, it was necessary to adopt new knowledge applied in the development of new and in the modification of existing regulations.

11.2 Hanfa's Financial Operations

From 1 January 2015, in relation to its accounting and financial operations, Hanfa applies the provisions of the new Act on Financial Operations and Accounting of Non-Profit Organizations²⁸¹ and the provisions of subordinate regulations adopted under this Act.

In accordance with the provisions of the Act on Financial Operations and Accounting of Non-Profit Organizations, an external audit of Hanfa's 2015 financial statements was carried out, and the Independent Auditor's Report was published on Hanfa's website.

In accordance with the provisions of the Fiscal Responsibility Act²⁸², in 2015 Hanfa conducted a self-assessment of financial management and control systems, and consequently the 2014 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 2015, Hanfa's total assets amounted to HRK 33.4m, with 83.2% being accounted for by financial assets, and 16.8% by non-financial assets. Total payables reached HRK 5.7m, making up 17% of total liabilities, while own sources accounted for 83% of total liabilities.

Table 11.1 Hanfa's Abbreviated Balance Sheet as at 31 December 2015 (in HRK thousand)²⁸³

Assets	33,359
Non-financial assets	5,603
Financial assets	27,756
Liabilities	33,359
Payables	5,679
Own sources	27,680

Source: Hanfa

280 Official Gazette, No 57/12 and 120/12

281 Official Gazette, No 121/14

282 Official Gazette, No 139/10 and 19/14

283 A detailed balance sheet of Hanfa is provided in Table 3.2 in the Appendix.

In 2015, Hanfa was financed from fees from assets and revenue of supervised entities and fees charged for the provision of services, in accordance with the Article 20 of the Hanfa Act.

The calculation and amount of fees and the manner of charging fees from assets and revenue of supervised entities charged by Hanfa in 2015 are defined by the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency in 2015²⁸⁴, while type and amount of fees and administrative charges for the provision of services falling within Hanfa's competence in 2015 are defined by the Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency²⁸⁵.

Total income in 2015 amounted to HRK 52.8m, while the total expenses amounted to HRK 45.1m.

Table 11.2 Hanfa's aggregate income and expenditure account for 2015 (in HRK thousand)²⁸⁶

Income	52,851
Income received under special regulations from other sources	52,166
Income received under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2015	46,291
Income received under the Ordinance on the type and amount of fees and administrative charges paid to Hanfa	5,834
Other income received under special regulations	41
Income from assets	194
Other income	491
Expenditure	45,081
Expenditure on employees	30,957
Material expenditure	12,799
Costs for employees	1,749
Costs for external staff	12
Expenditure on services	6,281
Expenditure on materials and energy	711
Other material expenditure	4,047
Depreciation expenditure	1,138
Financial expenditure	28
Other expenditure	159

Source: Hanfa

11.2.1 Income

Hanfa's total income in 2015 amounted to HRK 52.8m, of which 98.7% or HRK 52.2m 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% share was accounted for by income from assets and other income.

The largest part of income received under special regulations from other sources (87.6%) consisted of income received under the Ordinance on the calculation, amount and charging of fees

²⁸⁴ Official Gazette, No 151/14 and 69/15

²⁸⁵ Official Gazette, No 151/14

²⁸⁶ Detailed statement on Hanfa's income and expenditure is shown in Table 3.2 in the chapter Appendices.

paid to Hanfa in 2015, while 11% 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 2015 decreased by 1.1% compared to 2014.

On 28 August 2015, pursuant to the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency for 2015, Hanfa issued a Decision on the exemption from portion of the fees, which exempts supervised entities from paying part of the fees for certain periods in 2015. This decision was adopted with a view to financially disburden supervised entities in 2015.

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 2015.

Table 11.3 Income from fees from assets and income of supervised entities in 2015 (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 2015	Amount in HRK thousand	Share in total income (in %)
Income from pension companies	24,281	45.9
Income from insurance and re-insurance companies	5,018	9.5
Income from credit institutions	4,861	9.2
Income from investment fund management companies	4,768	9.0
Income from leasing companies	3,453	6.5
Income from factoring companies	1,442	2.7
Income from the Central Depository and Clearing Company	1,346	2.5
Income from the Zagreb Stock Exchange	378	0.7
Income from insurance brokers and agents	317	0.6
Income from companies managing funds established under special regulations	290	0.5
Income from pension insurance companies	111	0.2
Income from investment firms	26	0.0
Total	46,291	87.6

Source: Hanfa

Pursuant to the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency in 2015, Hanfa realised income from supervision, calculated from total assets and income of supervised entities in the amount of HRK 46.3m.

The total fees collected pursuant to this Ordinance accounted for 87.6% of total revenues in 2015, with the largest share in total revenues (45.9%) 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 authorizations prescribed by the Hanfa Act, the Capital Market Act²⁸⁷, Act on the Takeover of Joint-Stock Companies²⁸⁸, the Act on Open-Ended Investment Funds with Public Offering²⁸⁹, the Alternative Investment Funds Act²⁹⁰, the Insurance

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

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

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

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

Act²⁹¹, the Mandatory Pension Funds Act²⁹², the Voluntary Pension Funds Act²⁹³, the Act on Pension Insurance Companies²⁹⁴, the Act on Lifelong Severance Payment or Supplementary Pension Purchase²⁹⁵, the Leasing Act²⁹⁶, the Factoring Act²⁹⁷ and the Act on implementation of the Regulation (EU) no. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories²⁹⁸.

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 2015 under the above-mentioned Ordinance amounted to HRK 5.8m.

The following table provides a detailed overview of income realised from services provided within Hanfa's area of competence under special acts, amounting to 11% of total income in 2015.

Table 11.4 Income from services provided by Hanfa under special acts in 2015 (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	3,013	5.7
Income generated under the Capital Market Act	1,101	2.1
Income generated under the Act on the Takeover of Joint-Stock Companies	298	0.6
Income generated under the Act on Open-Ended Investment Funds with Public Offering	496	0.9
Income generated under the Mandatory Pension Funds Act, Voluntary Pension Funds Act and Act on Pension Insurance Companies	249	0.5
Income generated under the Alternative Investment Funds Act	148	0.3
Income generated under the Leasing Act	175	0.3
Prihodi ostvareni temeljem Zakona o Hanfi (izdavanje mišljenja i preslika)	101	0.2
Income generated under the Factoring Act	160	0.3
Income generated from the Register of Leased Assets	94	0.2
Total	5,834	11.0

Source: Hanfa

291 Official Gazette, No 30/15

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

293 Official Gazette, No 19/14

294 Official Gazette, No 22/14

295 Official Gazette, No 153/13

296 Official Gazette, No 141/13

297 Official Gazette, No 94/14 and 85/15

298 Official Gazette, No 54/13

The table shows that in 2015 Hanfa charged the highest amount of fees for services provided within its scope of competence under the Insurance Act (5.7% of Hanfa's total income), 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 2015 amounted to HRK 45.1m, 1% less in relation to total expenditure in 2014.

The largest share in expenditure was accounted for by the expenditure for employees (68.7%). Expenses for employees in 2015 amounted to HRK 31m and stayed at the 2014 level, despite the increased average number of employees at the end of the reporting period, increasing from 145 in 2014 to 152 in 2015.

Material expenditure made up the next most significant item in Hanfa's total expenditure, amounting to HRK 12.8m i.e. 28.4% of total expenses. In 2015, Hanfa recorded 4.5% less material expenditure in relation to 2014, amounting to HRK 609 thousand.

The effect of the implementation of development projects in Hanfa, apart from the optimization of business processes, is evident in terms of the reduction of certain categories of costs. Thus, for example, the introduction of digitalisation resulted in a reduction of costs for photocopy paper and toner cartridges by 60%.

In 2015, Hanfa reduced the cost of office space rent, owing to arranging more favourable lease conditions. The cost of office space rent decreased by 18% i.e. HRK 570 thousand at the annual level.

Costs of membership fees paid to ESMA and EIOPA amounted to HRK 3.8m, which is 8.2% less than in 2014, when they amounted to HRK 4.1m. In 2015, the costs of membership fees in those institutions decreased by HRK 335.9 thousand, because the institutions reduced their budget, which led to decreased Hanfa's expenditures in relation to the plan and in relation to 2014.

These costs, excluding other expenses related to the participation of Hanfa in the work of European supervisory authorities, made up 29.5% of material expenditure and 8.4% of total expenditure in 2015.

The implementation of development IT projects, connected with the acquisition of long-term assets, caused an increase in depreciation costs by 7.2% compared to 2014. Depreciation costs amounted to HRK 1.1m, increasing by HRK 76 thousand relative to 2014.

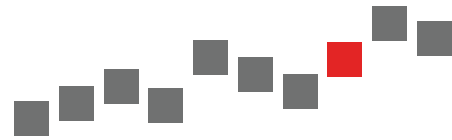
In 2015, Hanfa recorded surplus income over expenditure in the amount of HRK 7.7m, which was paid into the state budget of the Republic of Croatia, in accordance with the provisions of the Act on the Croatian Financial Services Supervisory Agency.

11.2.3 Meetings of the Board and of the Council

In 2015, the Council issued 14442 decisions on a total of 85 meetings, 50 of them being regular and 35 being emergency meetings.

The Council is Hanfa's advisory body, established pursuant to Article 11 of the Hanfa Act. 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 2015, the Council held four meetings: on 3 March, 9 June, 15 September 15 and 8 December, where the Council, in accordance with its competence under Article 12 of the Hanfa Act, provided opinions and expert advice, for the purpose of improving the supervisory practice.



Appendices



12 Appendices

Appendix 1: Hanfa's Board, Council and internal organisation

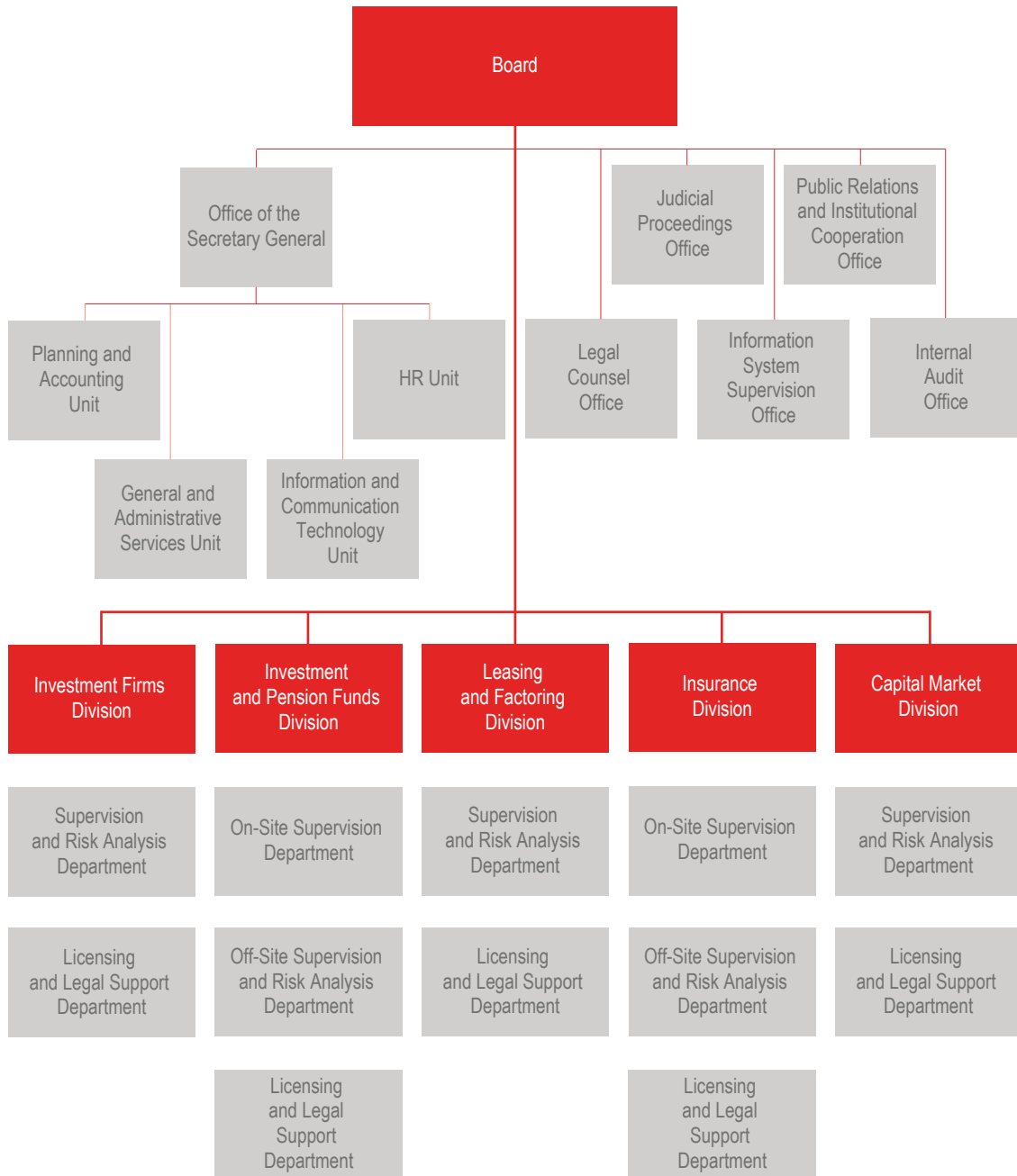
Members of Hanfa's Board as at 31 December 2015:

Petar-Pierre Matek (President)
Gordana Letica (Deputy President)
Branka Bjedov Kostelac
Silvana Božić
Mario Radaković

Members of Hanfa's Council as at 31 December 2015:

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
Nikolina Ptiček, appointed by the Croatian Government
Ivana Ravlić Ivanović, appointed by the Croatian Government
Ivana Matovina, appointed by the Croatian Government
Eugen Paić-Karega, representative of the Association of Leasing Companies at the Croatian Chamber of Commerce
Ivan Tadin, representative of the Association for 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.

Internal structure:



Appendix 2: List of ordinances adopted in 2015

Capital Market

1. Ordinance on the educational programme and examination for certified managers of pension funds, certified managers of pension insurance companies, brokers and investment advisors (Official Gazette, No 133/15)

Investment firms

1. Ordinance on investment firms' recovery plans (Official Gazette, No 26/15)
2. Ordinance on amending the Ordinance on the implementation of the Implementing Regulation (EU) no. 680/2014 (Official Gazette, No 52/15)
3. Ordinance on the educational programme and examination for certified managers of pension funds, certified managers of pension insurance companies, brokers and investment advisors (Official Gazette, No 133/15)
4. Ordinance amending the Ordinance on supervisory reports for legal persons authorised to provide investment services and perform investment activities (Official Gazette, No 140/15)

Open-Ended Investment Funds with Public Offering

1. Ordinance amending the Ordinance on the conditions for offering units in UCITS (Official Gazette, No 26/15)
2. Ordinance amending the Ordinance on organizational requirements for UCITS management companies (Official Gazette No 26/15)
3. Ordinance on permitted investments and investment limitations relating to UCITS (Official Gazette, No 26/15)
4. Ordinance amending the Ordinance on the structure and contents of financial reports and other reports of UCITS management companies (Official Gazette, No 28/15)
5. Ordinance amending the Ordinance on permitted investments and investment limitations relating to UCITS (Official Gazette, No 37/15)
6. Ordinance amending the Ordinance on marketing and other information for investors in UCITS (Official Gazette, No 78/15)
7. Ordinance on determining the net asset value of UCITS and the price of UCITS units (Official Gazette, No 101/15)

Alternative investment funds

1. Ordinance on issuing authorisation for operation of AIFMs and small AIFMs and on acquisition of a qualifying holding in AIFMs (Official Gazette, No 26/15)
2. Ordinance amending the Ordinance on the conditions for offering units in AIFs with a private offering (Official Gazette, No 26/15)
3. Ordinance amending the Ordinance on the structure and contents of annual and semi-annual reports and other reports of AIF management companies (Official Gazette, No 28/15)
4. Ordinance amending the Ordinance on types of alternative investment funds (Official Gazette, No 28/15)
5. Ordinance amending the Ordinance on the delegation of AIF management functions (Official Gazette, No 81/15)
6. Ordinance amending the Ordinance on contents and method of keeping the register of AIFMs and AIFs (Official Gazette, No 81/15)
7. Ordinance on determination of the net asset value and unit price of alternative investment funds (Official Gazette, No 101/15)

Mandatory pension funds

1. Ordinance amending the Ordinance on permitted investments and additional investment limitations relating to mandatory pension funds (Official Gazette, No 67/15)
2. Ordinance amending the Ordinance on marketing and other information for members of mandatory pension funds (Official Gazette, No 128/15)
3. Ordinance amending the Ordinance on the treatment of mandatory pension funds' members by the Central Register of Insured Persons and pension companies (Official Gazette, No 135/15)
4. Ordinance on the educational programme and examination for certified managers of pension funds, certified managers of pension insurance companies, brokers and investment advisors (Official Gazette, No 133/15)

Voluntary pension funds

1. Ordinance on the educational programme and examination for certified managers of pension funds, certified managers of pension insurance companies, brokers and investment advisors (Official Gazette, No 133/15)

Pension insurance companies

1. Ordinance on the educational programme and examination for certified managers of pension funds, certified managers of pension insurance companies, brokers and investment advisors (Official Gazette, No 133/15)

Supplementary pension purchase companies

1. Ordinance amending the Ordinance on the chart of accounts of pension insurance companies (Official Gazette, No 125/15)

Insurance

1. Ordinance on the 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 (Official Gazette, No 1/15)
2. Ordinance on the own risk and solvency assessment (Official Gazette, No 1/15)
3. Ordinance on the content of documents for the approval of volatility adjustment to the relevant risk-free interest rate term structure in the calculation of the best estimate (Official Gazette, No 133/15)
4. Ordinance on the content of documents for the approval of transitional measures for the relevant risk-free interest rate term structure (Official Gazette, No 133/15)
5. Ordinance on the content of documents for the approval of the application of deduction from transitional measures to technical provisions (Official Gazette, No 133/15)

Leasing

1. Ordinance on amendments to the Ordinance on the register of leased assets (Official Gazette, No 16/15)

Factoring

1. Ordinance on factoring companies capital (Official Gazette, No 12/15)
2. Ordinance on the execution of internal audit of factoring companies (Official Gazette, No 12/15)
3. Ordinance on financial and additional reports and the chart of accounts of factoring companies (Official Gazette, No 16/15)
4. Ordinance on the content of factoring agreements (Official Gazette, No 16/15)

5. Ordinance on the conditions and manner of business operations of factoring companies (Official Gazette, No 16/15)
6. Ordinance on the application of the provisions of the Factoring Act and other regulations to factoring companies under winding up (Official Gazette, No 52/15)
7. Ordinance on leasing activities carried out in the territory of the Republic of Croatia by leasing companies from Member States or third countries (Official Gazette, No 58/15)
8. Ordinance amending the Ordinance on financial and additional reports and the chart of accounts of factoring companies (Official Gazette, No 135/15)

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 2015 (Official Gazette, No 69/15)
2. Ordinance on the calculation, level and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2016 (Official Gazette, No 136/15)

Appendix 3: Hanfa's financial reports

Table 3.1.: Hanfa's balance sheet as at 31 December 2015 (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
Assets				
	Assets	32,402,129	33,359,374	103.0
0	Non-financial assets	5,255,387	5,603,159	106.6
01	Non-produced fixed assets	2,922,029	193,128	6.6
011	Tangible assets – natural resources	0	0	-
012	Intangible assets	3,069,631	1,653,812	53.9
0123	Licences	2,851,874	1,438,504	50.4
0124	Other rights	159,691	157,241	98.5
0128	Other intangible assets	58,066	58,067	100.0
019	Value adjustment for non-produced fixed assets	147,602	1,460,684	989.6
02	Produced fixed assets	2,333,358	4,817,633	206.5
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	6,808,182	6,649,742	97.7
0221	Office equipment and furniture	5,601,067	5,448,307	97.3
0222	Telecommunications equipment	425,156	398,318	93.7
0223	Maintenance and security equipment	669,146	675,308	100.9
0225	Instruments and machines	0	23,137	-
0227	Machines and equipment for other purposes	112,813	104,672	92.8
023	Means of transportation	1,028,264	1,043,102	101.4
0231	Means of transportation in road traffick	1,028,264	1,043,102	101.4
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
026	Intangible produced assets	602,508	717,780	119.1
0261	Software investments	602,508	717,780	119.1
029	Value adjustment for produced fixed assets	9,837,450	7,324,845	74.5
03	Precious metals and other valuables	0	0	-
031	Precious metals and other valuables	0	0	-
04	Small inventory	0	0	-
042	Small inventory in use	122,883	289,259	235.4
049	Value adjustment for small inventory	122,883	289,259	235.4
05	Non-financial assets under construction	0	574,605	-
052	Plant and equipment under construction	0	574,605	-
06	Produced current assets	0	17,793	-
061	Inventories for the pursuit of activities	0	17,793	-
0612	Inventories of materials for regular needs	0	17,793	-

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
1	Financial assets	27,146,742	27,756,215	102.2
11	Cash at bank and in hand	6,642,797	6,285,298	94.6
111	Cash at bank	6,636,044	6,279,520	94.6
1111	Cash in the account with domestic commercial banks	6,636,044	6,279,520	94.6
113	Cash in hand	6,753	5,778	85.6
12	Deposits, guarantee deposits and receivables from employees, for prepayments made regarding taxes and others (AOP 084+087+088+089+095)	20,084,522	21,082,053	105.0
121	Deposits with banks and other financial institutions	20,000,000	21,000,000	105.0
1211	Deposits with domestic banks and other financial institutions	20,000,000	21,000,000	105.0
123	Receivables from employees	345	2,773	803.8
124	Receivables for prepayments made regarding taxes and contributions	5,075	1,195	23.5
1241	Receivables for prepayments made regarding taxes	5,075	1,195	23.5
129	Other receivables	79,102	78,085	98.7
1291	Receivables for remuneration refunded	23,922	6,956	29.1
1293	Receivables for advance payments	12,857	13,806	107.4
1294	Other receivables	42,323	57,323	135.4
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	419,423	388,864	92.7
191	Prepayments	221,667	268,825	121.3
192	Accrued income	197,756	120,039	60.7
	Liabilities and own sources			
	Liabilities and own sources	32,402,129	33,359,374	103.0
2	Liabilities	4,548,514	5,679,059	124.9
24	Liabilities for expenses	4,176,832	5,291,308	126.7
241	Liabilities for employees	3,573,220	3,666,545	102.6
2411	Liabilities for salaries – net	1,206,317	1,223,695	101.4
2412	Liabilities for salary compensation – net	111,865	135,676	121.3
2414	Liabilities for tax and surtax regarding salaries	287,388	303,279	105.5
2415	Liabilities for contributions from salaries	399,382	414,715	103.8
2416	Liabilities for contributions on salaries	345,124	342,490	99.2
2417	Other liabilities for employees	1,223,144	1,246,690	101.9
242	Liabilities for material expenses	557,680	1,551,893	278.3
2421	Remuneration of employees' costs	54,447	54,672	100.4
2424	Remuneration to other non-employed persons	0	2,224	-

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
2425	Liabilities towards domestic suppliers	501,194	1,488,518	297.0
2426	Liabilities towards foreign suppliers	0	6,479	-
2429	Other liabilities for financing operating expenses	2,039	0	0.0
249	Other liabilities	45,932	72,870	158.6
2493	Liabilities for prepayments, deposits, caution money received and other liabilities	45,932	72,870	158.6
25	Liabilities for securities	0	0	-
29	Accrued expenses and deferred income	371,682	387,751	104.3
291	Accrued expenses	61,684	227,552	368.9
292	Deferred income	309,998	160,199	51.7
2921	Accrued income	267,675	88,758	33.2
2922	Deferred income	42,323	71,441	168.8
5	Own sources	27,853,615	27,680,315	99.4
51	Own sources	2,566,520	2,512,880	97.9
511	Own sources	2,566,520	2,512,880	97.9
5221	Surplus income	25,287,095	25,167,435	99.5
5222	Deficit of income	0	0	-
Off-balance sheet items				
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 January to 31 December 2015 (in HRK)

Account from the Chart of Accounts	Item	Realised in 2014	Realised in the reporting period	Index (4/3)
1	2	3	4	5
Income				
3	Income	53,447,166	52,851,341	98.9
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	52,722,288	52,166,110	98.9
3312	Income under special regulations from other sources	52,722,288	52,166,110	98.9
34	Income from assets	558,237	194,478	34.8
341	Income from financial assets	558,237	194,478	34.8
3413	Interest on time deposits and demand deposits	557,116	188,190	33.8
3415	Income from positive exchange rate differences	1,121	6,288	560.9

Account from the Chart of Accounts	Item	Realised in 2014	Realised in the reporting period	Index (4/3)
1	2	3	4	5
35	Income from donations	0	0	-
36	Other income	166,641	490,753	294.5
361	Income from damages and refunds	114,114	404,701	354.6
3611	Income from damages	0	33	-
3612	Income from refunds	114,114	404,668	354.6
362	Income from the sale of long-term assets	18,000	18,000	100.0
363	Other income	34,527	68,052	197.1
3633	Other non-mentioned income	34,527	68,052	197.1
Expenses				
4	Expenses	45,556,754	45,080,588	99.0
41	Expenses for employees	31,015,718	30,956,855	99.8
411	Salaries	24,430,635	24,459,592	100.1
4111	Salaries for regular work	24,315,159	24,344,450	100.1
4112	Salaries in kind	115,476	115,142	99.7
412	Other expenses for employees	2,262,053	2,182,726	96.5
413	Contributions on salaries	4,323,030	4,314,537	99.8
4131	Contributions for health insurance	3,864,023	3,888,469	100.6
4132	Employment contributions	408,006	426,068	104.4
42	Material expenses	13,408,747	12,799,375	95.5
421	Remuneration of employees' costs	2,108,046	1,748,555	82.9
4211	Business trips	852,229	573,351	67.3
4212	Remuneration of transport costs, field work and separate lives	675,515	684,001	101.3
4213	Employees' professional training	580,302	491,203	84.6
422	Reimbursement of costs to members in representative and executive bodies, committees, and similar	0	0	-
424	Compensations for external associates	0	12,483	-
4243	Compensations for other costs	0	12,483	-
425	Expenses for services	6,101,873	6,280,887	102.9
4251	Telephone, postal and transport services	270,843	225,359	83.2
4252	Maintenance services	116,776	565,598	484.3
4253	Promotional and information services	45,316	300,062	662.2
4254	Public utility services	646,310	549,358	85.0
4255	Leases and rents	3,326,663	2,638,085	79.3
4256	Health care and veterinary services	71,270	69,090	96.9
4257	Intellectual and personal services	603,527	513,259	85.0
4258	IT services	247,000	558,103	226.0
4259	Other services	774,168	861,973	111.3
426	Expenses for material and energy	790,366	710,668	89.9
4261	Stationery and other material expenses	332,991	287,404	86.3

Account from the Chart of Accounts	Item	Realised in 2014	Realised in the reporting period	Index (4/3)
1	2	3	4	5
4263	Energy	419,513	402,858	96.0
4264	Small inventory and car tires	37,862	20,406	53.9
429	Other material expenses	4,408,462	4,046,782	91.8
4291	Insurance premiums	52,592	48,042	91.3
4292	Representation	101,671	77,392	76.1
4293	Membership fees	4,253,934	3,921,113	92.2
4295	Other material expenses	265	235	88.7
43	Depreciation expenses	1,061,605	1,137,615	107.2
44	Financial expenses	55,134	27,608	50.1
443	Other financial expenses	55,134	27,608	50.1
4431	Banking and payment system services	24,505	19,348	79.0
4432	Negative exchange rate differences and currency clause	29,992	8,257	27.5
4434	Other financial expenses	637	0	0.0
45	Donations	0	0	-
46	Other expenses	15,550	159,135	1,023.4
462	Other expenses	15,550	159,135	1,023.4
4621	Not written-off value and other expenditure for confiscated and disposed off long-term assets	0	11,607	-
4622	Written-off claims	0	0	-
4623	Expenses for other tax levies	2,450	2,336	95.3
4624	Other expenses	13,100	145,192	1,108.3
47	Expenses for funding of non-profit organizations	0	0	-
	TOTAL EXPENDITURE	45,556,754	45,080,588	99.0
	EXCESS OF INCOME	7,890,412	7,770,753	98.5
5221	Excess of income – transferred	17,396,682	17,396,682	100.0
	Excess of income available in the next period	25,287,094	25,167,435	99.5
Additional Data				
11	Cash balance at the beginning of the year	5,707,642	6,642,797	116.4
11 - debt	Total inflows of cash at bank and in hand	62,967,565	101,613,276	161.4
11 - receivable	Total outflows from cash at bank and in hand	62,032,410	101,970,775	164.4
11	Cash balance at the end of the year	6,642,797	6,285,298	94.6
	Income from the EU funds			-
	Average number of employees at the end of the reporting period (whole number)	145	152	104.8
	Number of volunteers' hours of work (whole number)	132	134	101.5
	Number of volunteers			-
	Number of volunteered hours			-

VALUE OF REALISED INVESTMENTS IN LONG-TERM ASSETS		Realised value		Index (4/3)
		in the same period last year	in the reporting period	
051	Buildings in preparations	0	0	-
052	Plant and equipment in preparation	499,263	1,158,617	232.1
053	Vehicle in preparation	157,158	152,246	96.9
054	Growing crops and live stock in preparation	0	0	-
055	Other non-material produced assets in preparation	509,659	120,375	23.6
056	Other non-financial assets in preparation	37,862	20,406	53.9
Item		As at 1 January	At the end of the reporting period	Index (4/3)
	Inventory status	0	17,793	-

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 2014	Share (in %)	31 Dec 2015	Share (in %)
I. Financial assets	583,944	86.11	640,190	86.79
II. Receivables	34,692	5.12	39,486	5.35
III. Prepayments and accrued income	1,338	0.20	1,730	0.23
IV. Deferred tax assets	4,962	0.73	5,503	0.75
VI. Property, plant and equipment	6,729	0.99	6,674	0.90
VI. Investment in real estate	0	0.00	0	0.00
VII. Intangible assets	10,834	1.60	9,749	1.32
VIII. Other assets	35,637	5.26	34,315	4.65
Total assets	678,136	100.00	737,646	100.00
Capital and reserves	622,287	91.76	657,955	89.20
I. Subscribed capital	401,800	59.25	401,800	54.47
II. Capital reserves	4,490	0.66	4,490	0.61
III. Reserves	8,300	1.22	9,972	1.35
IV. Revaluation reserves	3,346	0.49	2,197	0.30
V. Retained earnings or accumulated loss	39,692	5.85	40,272	5.46
VI. Profit or loss of the current year	164,659	24.28	199,224	27.01
Liabilities	22,990	3.39	45,264	6.14
Reserves	7,361	1.09	7,673	1.04
Accruals and deferred income	24,718	3.65	26,132	3.54
Deferred tax liabilities	780	0.12	622	0.08
Total liabilities	678,136	100.00	737,646	100.00

Source: Hanfa

Table A2: Statement of comprehensive income of pension companies (in HRK thousand)

Item	6. 7. 2014	7. 7. 2015
Income from fund management	360,599	433,244
Fee from paid contributions	42,817	49,882
Fee from total assets of the pension fund	317,765	383,317
Exit fee	17	45
Bonus payment	0	0
Expenses on fund management	84,931	108,533
Transaction costs	100	210
Marketing costs	5,081	5,853
Sales agent costs	10,507	30,181
Other pension fund management costs	69,243	72,290
Profit from fund management	275,668	324,710
Operating expenses	86,960	97,113

Item	6. 7. 2014	7. 7. 2015
Material costs	1,248	1,517
Staff costs	40,381	48,262
Depreciation and adjustment of value of other assets	5,261	5,833
Provisions	0	0
Other operating expenses	40,071	41,502
Profit from regular business activities	188,708	227,598
Net financial result	15,688	17,514
Other income and expenses	1,866	4,276
Pre-tax profit	206,262	249,387
Profit tax	41,603	50,163
Profit	164,659	199,224
Other comprehensive income	2,128	-1,149
Total comprehensive income	166,787	198,075

Source: Hanfa

Table A3: Statement of financial position of the pension insurance company as at 31 December 2014 and 31 December 2015 (in HRK)

Item label	Item	31 Dec 2014	31 Dec 2015	Change (in %)
Assets				
A	Intangible assets	420,185	435,380	3.6
B	Tangible assets	118,966	127,739	7.4
C	Investments	398,716,816	426,700,679	7.0
D	Deferred and current tax assets		53,272	-
E	Receivables	691,179	13,868	-98.0
F	Other assets	12,700,348	10,966,332	-13.7
G	Prepayments and accrued income	35,688	42,361	18.7
H	Total assets	412,683,182	438,339,630	6.2
Liabilities				
A	Capital and reserves	37,464,240	43,868,071	17.1
B	Subordinate liabilities			-
C	Minority interest			-
D	Technical provisions	353,200,432	371,009,414	5.0
E	Reservations		7,279,011	-
F	Financial liabilities			-
G	Deferred and current tax liabilities	195,401	952,338	387.4
H	Other liabilities	524,336	334,967	-36.1
I	Accruals and deferred income	21,298,773	14,895,829	-30.1
J	Total liabilities	412,683,182	438,339,630	6.2

Source: Hanfa

Table A4: Statement of comprehensive income of the pension insurance company for 2014 and 2015 (in HRK)

Item label	Item	2014	2015	Change (in %)
I	Income from payments of pension companies, lump sum payments and payments of other persons	162,739,819	147,393,416	-9.4
II	Income from investments	46,231,587	107,778,793	133.1
III	Income from fees and commissions			-
IV	Other income	19,490	138,542	610.9
V	Expenses arising from pension contracts	-189,848,565	-152,738,259	-19.5
VI	Operating expenses	-3,957,364	-6,295,183	59.1
VII	Investment expenses	-11,460,740	-87,878,541	666.8
VIII	Other expenses		-457,556	-
IX	Pre-tax profit or loss of the accounting period	3,724,226	7,941,212	113.2
X	Profit tax	-743,180	-1,583,836	113.1
XI	Profit or loss of the accounting period	2,981,046	6,357,376	113.3

Source: Hanfa

4.2 Investment funds

Table B1: Statement of financial position of investment fund management companies (in HRK thousand)²⁹⁹

Item	31 Dec 2014	Share (in %)	31 Dec 2015	Share (in %)
Property, plant and equipment	1,984	0.64	1,962	0.65
Investment in real estate	0	0.00	0	0.00
Intangible assets	4,744	1.52	3,048	1.01
Financial assets	227,398	72.87	225,099	74.68
Receivables	75,130	24.08	67,285	22.32
Prepayments and accrued income	630	0.20	1,933	0.64
Deferred tax assets	736	0.24	406	0.13
Other assets	1,424	0.46	1,680	0.56
Total assets	312,045	100.00	301,413	100.00
Capital and reserves	222,329	71.25	239,500	79.46
Liabilities	77,524	24.84	51,006	16.92
Provisions	2,096	0.67	2,001	0.66
Accruals and deferred income	8,109	2.60	8,270	2.74
Deferred tax liabilities	1,988	0.64	637	0.21
Total liabilities	312,045	100.00	301,413	100.00

Source: Hanfa

299 For corrected data, see page 190.

Table B2: Statement of comprehensive income of investment fund management companies (in HRK thousand)³⁰⁰

Item	31 Dec 2014	31 Dec 2015
I. Income from investment fund management fees	205,331	225,372
II. Investment fund management expenses	67,099	76,838
Net result from investment fund management fees	138,233	148,534
III. Net income from portfolio management	7,760	10,399
IV. Income from provision of investment advice	181	125
V. Financial income and expenses	6,628	11,708
VI. General and administrative operational expenses	96,597	103,361
VII. Depreciation and value adjustment of other assets	3,693	3,812
VIII. Provisions	866	98
IX. Other income and operational expenses	4,986	3,456
X. Pre-tax profit or loss	56,632	66,952
XI. Profit tax	11,727	13,869
XII. Profit or loss	44,905	53,083
XIII. Other comprehensive income	8,271	-5,268
XIV. Total comprehensive income	53,177	47,814

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 2014			31 Dec 2015		
	Life	Non-life	Total	Life	Non-life	Total
Receivables for subscribed capital unpaid	0	0	0	0	0	0
Intangible assets	13,457	77,042	90,499	26,231	74,888	101,119
Tangible assets	106,612	1,700,658	1,807,269	159,701	1,569,927	1,729,628
Investments	17,788,960	11,813,036	29,601,996	18,630,517	12,048,151	30,678,668
Investments for the account of life insurance policyholders who bear the investment risk	894,622	0	894,622	930,158	0	930,158
Reinsurer's share of technical provisions	390,387	1,207,395	1,597,782	398,926	1,156,649	1,555,575
Deferred and current tax assets	22,085	257,129	279,214	22,331	215,844	238,176
Receivables	165,956	1,990,582	2,156,538	224,870	2,068,062	2,292,932
Other assets	125,366	310,312	435,678	202,136	227,902	430,038
Prepayments and accrued income	301,738	283,716	585,454	303,382	286,236	589,618
TOTAL ASSETS	19,809,183	17,639,869	37,449,052	20,898,252	17,647,659	38,545,911

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For corrected data, see page 190.

	31 Dec 2014			31 Dec 2015		
	Life	Non-life	Total	Life	Non-life	Total
Capital and reserves	2,622,235	5,462,569	8,084,804	2,630,874	5,733,267	8,364,141
Subordinated liabilities	6,129	37,413	43,542	6,108	37,304	43,412
Technical provisions	15,461,150	9,814,872	25,276,022	16,468,326	9,604,935	26,073,262
Special provisions for life insurance policies where the investment risk is borne by the policyholder, gross amount	892,718		892,718	928,563		928,563
Other provisions	28,538	253,654	282,191	17,441	122,340	139,782
Deferred and current tax liabilities	145,634	251,582	397,216	146,633	235,792	382,425
Deposits held under reinsurance business ceded	375,450	82,326	457,776	383,747	91,869	475,616
Financial liabilities	1,586	187,462	189,048	1,395	122,584	123,979
Other liabilities	212,268	1,077,176	1,289,444	244,835	1,147,207	1,392,042
Accruals and deferred income	63,475	472,816	536,291	70,329	552,360	622,689
TOTAL LIABILITIES	19,809,183	17,639,869	37,449,052	20,898,252	17,647,659	38,545,911

Source: Hanfa

Table C2: Abbreviated statement of comprehensive income (profit and loss account) of insurance companies and reinsurance companies (in HRK thousand)

	1 Jan 2014 – 31 Dec 2014			1 Jan 2015 – 31 Dec 2015		
	Life	Non-life	Total	Life	Non-life	Total
I. Earned premiums	2,446,770	5,128,499	7,575,270	2,845,988	4,851,771	7,697,759
II. Income from investments	967,789	586,372	1,554,162	1,034,961	599,382	1,634,342
III. Income from fees and commissions	18,629	189,191	207,820	19,395	187,453	206,849
IV. Other insurancetechnical income, net amount from reinsurance	5,180	105,194	110,374	3,615	43,543	47,158
V. Other income	7,652	61,690	69,343	15,365	84,908	100,273
VI. Costs for insured events, net amount	-1,407,324	-2,558,858	-3,966,183	-1,611,792	-2,461,466	-4,073,258
VII. Changes in mathematical provisions and other technical provisions, net amount from reinsurance	-932,768	-37,565	-970,332	-995,479	28,283	-967,196

	1 Jan 2014 – 31 Dec 2014			1 Jan 2015 – 31 Dec 2015		
	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 (+/-)	-43,094	0	-43,094	-59,021	0	-59,021
IX. Costs for returns of premiums (bonuses and rebates), net amount from reinsurance	0	-2,774	-2,774	0	-309	-309
X. Operating expenses, net amount	-781,793	-2,836,332	-3,618,125	-776,149	-2,520,598	-3,296,746
XI. Investment expenses	-91,431	-519,286	-610,717	-199,228	-210,496	-409,724
XII. Other technical expenses, net amount from reinsurance	-8,023	-189,327	-197,350	-6,689	-154,045	-160,734
XIII. Other expenses, including value adjustments	-6,565	-130,448	-137,013	-13,518	-31,351	-44,869
XIV. Pre-tax profit or loss of the accounting period (+/-)	175,024	-203,644	-28,620	257,449	417,075	674,524
XV. Profit or loss tax	-32,811	13,181	-19,630	-52,301	-101,917	-154,218
XVI. After-tax profit or loss of the accounting period (+/-)	142,213	-190,462	-48,249	205,148	315,158	520,306
XVII. TOTAL INCOME	3,444,169	6,178,417	9,622,586	3,918,695	5,742,030	9,660,726
XVIII. TOTAL EXPENSES	-3,301,956	-6,368,879	-9,670,835	-3,713,547	-5,426,872	-9,140,419
XIX. Other comprehensive income	369,676	153,443	523,119	-87,500	-35,016	-122,516
XX. Total comprehensive income	511,889	-37,020	474,870	117,648	280,142	397,790
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 2014	31 Dec 2015
Fixed assets	13,029,071	13,125,494
Intangible assets	12,622	10,604
Tangible assets	5,236,082	5,181,885
Tangible assets in preparation (investments in progress)	4,043	12,516
Tangible assets leased out under an operating lease	5,032,341	4,865,000
Property	829,269	750,192
Passenger cars	2,971,455	2,959,085
Commercial vehicles	472,191	520,278
Vessels	370,925	312,170
Aircraft	6,415	6,158
Plant, machinery, transport machines and equipment	379,873	315,500
Other	2,212	1,618
Other tangible assets	77,737	64,871
Assets loaned and rented	121,961	239,497
Long-term assets	105,734	276,374
Investments in branches, associates and joint ventures	260	156,623
Investment in long-term securities	97,102	85,522
Long term loans	1,886	30,253
Long term deposits	4,650	3,024
Other long-term financial assets	1,837	952
Long-term receivables	7,520,428	7,522,593
Receivables under finance lease	7,440,899	7,311,599
Other long-term receivables	79,529	210,994
Deferred tax assets	154,204	134,037
Short-term assets	4,767,136	4,422,434
Inventory	816,369	521,579
Short-term receivables	3,259,014	3,267,778
Receivables under operating lease	176,992	174,127
Receivables under finance lease	2,918,598	2,890,015
State and other institutions receivables	58,967	47,022
Other short-term receivables	104,457	156,614
Short-term financial assets	455,326	318,920
Investments in branches, associates and joint ventures	0	0
Investments in securities	28	28
Loans granted	263,356	114,232
Deposits given	188,734	197,157
Other short-term financial assets	3,208	7,503
Cash at bank and in hand	236,428	314,158
Prepayments and accrued income	67,294	78,323
Total assets	17,863,501	17,626,251
Off-balance sheet items	10,503,972	10,005,047

Source: Hanfa

Table D2: Total liabilities of leasing companies (in HRK thousand)

Item / date	31 Dec 2014	31 Dec 2015
CAPITAL AND RESERVES	351,991	1,815,507
Initial capital	1,191,468	1,058,904
of which owned by non-residents	1,066,788	898,907
Other reserves	295,820	242,417
Capital reserves	2,787,772	5,043,011
Retained profit/loss brought forward	-2,593,950	-3,786,727
Profit/loss for the year	-1,329,119	-742,099
PROVISIONS	148,369	132,858
LONG-TERM LIABILITIES	11,633,804	10,143,793
Foreign banks and financial institutions long-term credits and loans	9,560,930	7,958,209
Domestic banks and financial institutions long-term credits and loans	1,314,480	1,104,979
Liabilities for advances in respect of lease	9,410	8,510
Liabilities for deposits and guarantees in respect of lease	373,717	318,486
Liabilities for issued securities	0	0
Other long-term liabilities	369,206	743,540
Deferred tax liability	6,061	10,069
SHORT-TERM LIABILITIES	5,435,101	5,226,531
Foreign banks and financial institutions credits and loans	4,339,479	4,088,287
Domestic banks and financial institutions credits and loans	629,449	786,261
Liabilities for short-term securities	2,518	2,311
Liabilities for advances in respect of lease	59,449	38,323
Liabilities for deposits and guarantees in respect of lease	127,750	115,546
Other short-term liabilities	276,456	195,804
ACCRUALS AND DEFERRED INCOME	294,237	307,562
TOTAL LIABILITIES	17,863,501	17,626,251
Off-balance sheet items	10,503,972	10,005,047
CAPITAL AND RESERVES	334,506	373,982
Attributable to owners of the parent	334,506	373,982
Attributable to non-controlling interests	0	0

Source: Hanfa

Table D3: Statement of comprehensive income of leasing companies (in HRK thousand)

Item / period	1 Jan – 31 Dec 2014	1 Jan – 31 Dec 2015
Interest income	672,351	573,185
Interest income – finance lease	583,295	534,591
Interest income – loans granted	42,189	9,519
Other interest income	46,867	29,075
Interest expenses	383,280	319,462
Interest expenses on credits from domestic banks and financial institutions	66,304	79,468
Interest expenses on credits from foreign banks and financial institutions	300,332	225,822
Other interest expenses	16,644	14,171

Item / period	1 Jan – 31 Dec 2014	1 Jan – 31 Dec 2015
Profit/loss on interest	289,071	253,723
Profit from commissions and fees	40,177	48,917
Expenses on commissions and fees	28,230	22,604
Profit/loss on commissions and fees	11,946	26,312
Other operating income	1,857,427	1,844,875
Income from operating lease	1,552,672	1,446,667
Profit from sale of assets – operating lease	52,522	29,057
Profit from sale of assets – finance lease	15,611	16,017
Profit from reimbursable lease expenses	20,296	21,324
Profit from exchange rate differences	26,076	32,805
Other income	190,250	299,005
Other operating expenses	2,316,092	1,848,226
Loss on sale of assets – operating lease	22,667	24,865
Loss on sale of assets – finance lease	6,455	7,448
Loss on reimbursable lease expenses	3,116	5,396
Loss on exchange rate differences	15,230	25,915
Costs for depreciation of assets under an operating lease	1,176,151	1,109,342
Costs for depreciation of other assets	17,250	22,050
Staff costs	215,541	210,260
Overheads and administrative operating costs	235,733	215,854
Other expenses	623,948	227,096
Profit/loss on other income and expenses	-458,665	-3,351
Profit/loss before expenses on value adjustment for impairment losses	-157,648	276,684
Costs for value adjustment for impairment losses	1,119,664	943,129
Profit/loss before profit tax	-1,277,312	-666,445
Profit tax	51,807	75,654
Profit/loss after profit tax	-1,329,119	-742,099
Attributable to owners of the parent	47,453	43,704
Attributable to owners of the parent	0	0
Other comprehensive income	-26,519	-16,757
Change in revaluation reserves (property, plant, equipment and intangible assets)	0	0
Unrealised gains/losses on financial assets available for sale	-33,138	-21,889
Gains/losses on hedging instruments in a cash flow hedge	-10	534
Actuarial gains/losses on defined benefit pension plans	-1	326
Gains/losses arising from translation of financial statements relating to foreign operations	0	0
Profit tax on other comprehensive income	-6,630	-4,271
Total comprehensive income	-1,355,638	-758,856
Attributable to owners of the parent	47,453	43,704
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 2014		31 Dec 2015	
	Item	Number of active contracts	Value of active contracts (outstanding contract value/outstanding receivables) ¹ (in HRK thousand)	Number of active contracts	Value of active contracts (outstanding contract value/outstanding receivables) ¹ (in HRK thousand)
Operating lease	Total	50,736	3,757,482	50,998	3,356,963
	Property	74	903,857	66	622,515
	Passenger cars	42,602	1,923,848	42,238	1,870,721
	Commercial vehicles	5,452	353,736	6,342	396,404
	Vessels	465	217,375	420	201,266
	Aircraft	1	482	1	0
	Plant, machinery, transport machines and equipment	1,744	356,319	1,615	264,827
	Other	398	1,865	316	1,230
Finance lease	Total	58,126	10,419,586	60,112	10,308,096
	Property	955	3,139,558	704	2,700,604
	Passenger cars	33,482	2,010,267	34,300	2,199,904
	Commercial vehicles	14,430	2,385,949	15,912	2,669,210
	Vessels	710	294,658	680	249,141
	Aircraft	1	0	2	804
	Plant, machinery, transport machines and equipment	7,642	2,520,210	7,453	2,378,596
	Other	906	68,944	1,061	109,836
Loans	Total	1,789	121,359	1,210	75,793
	Property	297	108,714	246	73,231
	Passenger cars	472	2	260	2
	Commercial vehicles	523	0	345	22
	Vessels	50	9,249	33	622
	Aircraft	3	0	0	0
	Plant, machinery, transport machines and equipment	441	3,394	326	1,917
	Other	3	0	0	0
Ukupno	Total	110,651	14,298,426	112,320	13,740,852
	Property	1,326	4,152,129	1,016	3,396,350
	Passenger cars	76,556	3,934,117	76,798	4,070,627
	Commercial vehicles	20,405	2,739,685	22,599	3,065,636
	Vessels	1,225	521,282	1,133	451,029
	Aircraft	5	482	3	804
	Plant, machinery, transport machines and equipment	9,827	2,879,924	9,394	2,645,340
	Other	1,307	70,809	1,377	111,067

1) Outstanding contract value of the operating lease portfolio structure refers to the amount of outstanding leases (VAT excluded) under operating lease contracts. Outstanding receivables refer to the outstanding amount of financing (outstanding principal) under finance lease contracts and loans in gross amount.

Source: Hanfa

Table D5: Structure of newly concluded lease contracts by type and by leased asset

	Period from 1 Jan to	31 Dec 2014		31 Dec 2015	
	Item	Number of newly concluded contracts	Value of newly concluded contracts (contract/financed value) ¹ (in HRK thousand)	Number of newly concluded contracts	Value of newly concluded contracts (contract/financed value) ¹ (in HRK thousand)
Operating lease	Total	17,308	1,868,046	17,798	1,504,247
	Property	9	144,137	13	12,904
	Passenger cars	15,532	1,332,952	15,470	1,087,884
	Commercial vehicles	1,246	200,608	2,018	249,094
	Vessels	87	106,579	63	91,965
	Aircraft	0	0	0	0
	Plant, machinery, transport machines and equipment	197	81,656	208	62,160
	Other	237	2,115	26	241
Finance lease	Total	17,501	3,375,383	18,565	3,625,340
	Property	58	63,998	14	59,194
	Passenger cars	11,346	1,312,682	11,282	1,407,914
	Commercial vehicles	4,081	1,193,501	5,232	1,389,766
	Vessels	176	97,026	189	119,501
	Aircraft	0	0	1	854
	Plant, machinery, transport machines and equipment	1,646	683,883	1,585	611,559
	Other	194	24,293	262	36,552
Total	Total	34,809	5,243,429	36,363	5,129,588
	Property	67	208,135	27	72,098
	Passenger cars	26,878	2,645,634	26,752	2,495,798
	Commercial vehicles	5,327	1,394,110	7,250	1,638,860
	Vessels	263	203,605	252	211,465
	Aircraft	0	0	1	854
	Plant, machinery, transport machines and equipment	1,843	765,539	1,793	673,720
	Other	431	26,408	288	36,793

1) Contract value of the operating lease portfolio structure refers to total contract value equalling the sum of leases (VAT excluded) under newly concluded operating lease contracts. Financed value of the finance lease portfolio structure refers to the amount used for financing lessees (principal) under newly concluded finance lease contracts concluded in the reporting period.

Source: Hanfa

4.5 Factoring

Table E1: Aggregate balance sheet of factoring companies (in HRK thousand)

Item	31 Dec 2014	31 Dec 2015
Assets		
Receivables for subscribed capital unpaid	0	0
Fixed assets	142,768	123,058
Current assets	7,675,183	6,452,212
Accounts receivable	1,503,175	1,752,740
Domestic factoring	1,318,766	1,544,585
Export factoring	56,300	33,554
Import factoring	128,109	174,601
Discounting of bills of exchange	4,809,197	3,867,882
Loans granted	256,565	130,426
Deposits given	457,543	84,627
Cash at bank and in hand	516,016	484,298
Other current assets	132,686	132,239
Prepayments and accrued income i nedospjela naplata prihoda	9,911	11,950
Total assets	7,827,862	6,587,220
Liabilities		
Capital and reserves	566,436	730,100
Long-term liabilities	754,087	307,306
Loans from domestic banks and financial institutions	7,780	21,229
Loans from foreign banks and financial institutions	689,532	183,241
Other long-term liabilities	56,775	102,836
Short-term liabilities	6,493,302	5,538,974
Loans from domestic banks and financial institutions	1,555,775	772,986
Loans from foreign banks and financial institutions	4,484,939	4,249,217
Other short-term liabilities	452,588	516,771
Accruals and deferred income	14,036	10,840
Total liabilities	7,827,862	6,587,220

Source: Hanfa

Table E2: Aggregate profit and loss account of factoring companies (in HRK thousand)

Item	1 Jan – 31 Dec 2014	1 Jan – 31 Dec 2015
Interest income	494,870	408,975
Interest income – factoring	90,794	91,480
Domestic factoring	81,735	80,571
Export factoring	3,673	2,120
Import factoring	5,386	8,788
Interest income – discounting of bills of exchange	362,179	294,573
Interest income – loans granted	20,607	9,639
Interest income – deposits given	13,060	6,776
Other interest expenses	8,230	6,507

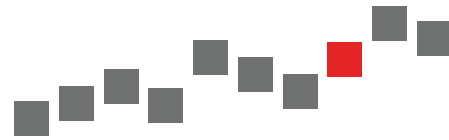
Item	1 Jan – 31 Dec 2014	1 Jan – 31 Dec 2015
Interest expenses	250,074	187,067
Interest expenses – domestic banks and financial institutions	109,324	91,160
Interest expenses – foreign banks and financial institutions	121,768	81,975
Ostali rashodi od kamata	18,982	13,932
Interest profit/loss	244,797	221,909
Income from fees and commissions	88,273	69,943
Expenses on fees and commissions	33,812	25,037
Profit/loss on fees and commissions	54,461	44,906
Other operating income	206,124	362,194
Other operating expenses	235,722	362,979
Service costs	25,499	20,234
Staff costs	31,880	36,967
Costs for value adjustment for impairment losses	35,541	117,289
Other operating costs	142,802	188,488
Profit/loss on other income and expenses	-29,598	-784
Profit/loss before profit tax	269,660	266,030
Profit tax	54,529	53,568
Profit/loss after profit tax	215,131	212,462

Source: Hanfa

Table E3: Transaction volume of factoring companies (in HRK thousand)

Item	1 Jan – 31 Dec 2014	1 Jan – 31 Dec 2015
Factoring	3,685,483	3,768,098
Domestic factoring	3,238,647	3,153,036
Export factoring	170,577	182,332
Import factoring	276,259	432,730
Discounting of bills of exchange	15,159,001	13,967,577
Loans granted	306,122	68,848
Total	19,150,607	17,804,523

Source: Hanfa



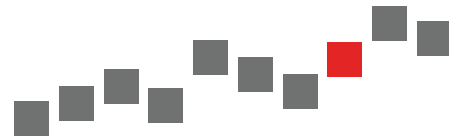
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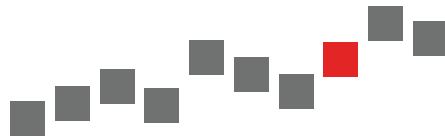
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Abbreviations and symbols



15 Abbreviations and symbols

AIF	Alternative investment fund
CCP	Central counterparty
CEDOH	Insurance Education Centre
CEESEEG	CEE Stock Exchange Group
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
Commission Delegated Regulation (EU) No 918/2012	Commission Delegated Regulation (EU) 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 (Text with EEA relevance), OJ L 274/1
Delegated Regulation supplementing the Solvency II Directive	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) (Text with EEA relevance), OJ L 12/1
AIFMD Directive	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	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 (Text with EEA relevance), OJ L 173/190
CRD IV Directive	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 and 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 L 176
CSMAD Directive	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	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
MiFID II Directive	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 (Text with EEA relevance), 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) (Text with EEA relevance), OJ L 26/19

Prospectus Directive	Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directives 2003/71/EC and 2009/138/EC and Regulations (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 Directives 2003/71/EC and 2009/138/EC and Regulations (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 (Text with EEA relevance), 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
The Bureau	Croatian Insurance Bureau
IORP	Institutions for Occupational Retirement Provision
IOSCO	International Organisation of Securities Commissions
LEI	Legal Entity Identifier
MIRS	Inter-Institutional Working Group on the Prevention of Money Laundering and Terrorist Financing
MOD	Pension Insurance Company
MONEYVAL	Committee of Experts of the Council of Europe on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
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 Securitization	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) 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 Register of Insured Persons
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	Regulation (EU) 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 L 176/1
CSDR Regulation	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	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 201/1

MAR Regulation	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 (Text with EEA relevance), OJ L 173/1
MiFIR Regulation	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 (Text with EEA relevance), OJ L 173/84
Credit Rating Agencies Regulation	Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (Text with EEA relevance), 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 Securities and Markets 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 (Text with EEA relevance), 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 2009/79/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 (Text with EEA relevance), OJ L 241/1
CMU	Capital Markets Union
AIFA	Alternative Investment Funds Act (Official Gazette, No 16/13 and 143/14)
Hanfa Act	Act on the Croatian Financial Services Supervisory Agency (Official Gazette, No 140/05 and 12/12)
Act amending the Capital Market Act	Act on Amendments to the Capital Market Act (Official Gazette, No 18/15)
ZDMF	Voluntary Pension Funds Act (Official Gazette, No 19/14)
ZMOD	Act on Pension Insurance Companies (Official Gazette, No 22/14)
ZOF	Factoring Act (Official Gazette, No 94/14 and 85/15)
ZOIFJP	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)
ZOMF	Mandatory Pension Fund Act (Official Gazette, No 19/14 and 93/15)
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)
ZPDD	Act on the Takeover of Joint-Stock Companies (Official Gazette, No 109/07, 36/09, 108/12, 90/13, 99/13 and 148/13)
ZSPNFT	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

Data correction:

- On page 7, sentence: “In the same period, the net assets of open-end investment funds increased by 6.8% and at the end of the year amounted to HRK 13.9bn while the net assets of alternative investment funds grew by 14.3% and at the end of the year amounted to HRK 3bn.” is replaced by the following: “In the same period, the net assets of open-end investment funds with a public offering increased by 6.8% and at the end of the year amounted to HRK 13.9bn while the net assets of alternative investment funds grew by 10.5% and at the end of the year amounted to HRK 2.9bn.”
- On page 11, sentence: “Total assets under custody did not change significantly and reached HRK 62.4bn, reported primarily by credit institutions.” is replaced by the following: “Total assets under custody did not change significantly and reached HRK 62.1bn, still reported primarily by credit institutions.”
- On page 12, sentence: “Investment fund management companies realised an after-tax profit in the amount of HRK 53.1m, an increase of 18.2% compared to 2014.” is replaced by the following: “Investment fund management companies realised an after-tax profit in the amount of HRK 53.1m, an increase of 13.8% compared to 2014.”
- On page 12, sentence: “Net assets of AIFs increased by 14.3% compared to 2014 and amounted to HRK 3bn.” is replaced by the following: “Net assets of AIFs increased by 10.5% compared to 2014 and amounted to HRK 2.9bn.”
- On page 15, sentence: “This was largely due to an increase in life insurance assets in the amount of HRK 1.1bn or 5.34%.” is replaced by the following: “This was largely due to an increase in life insurance assets in the amount of HRK 1.1bn or 5.5%.”
- On page 52, sentence: “Management companies making a part of a banking group managed 89.5% of UCITS assets, while three management companies making a part of a banking group managed 12.5% of AIF assets at the end of 2015.” is replaced by the following: “Management companies making a part of a banking group managed 89.5% of all UCITS assets, while three management companies making a part of a banking group managed 9.7% of all AIF assets at the end of 2015.”
- On page 53, paragraph “Investment fund management companies realised an after-tax profit in the amount of HRK 53.1m, an increase of 18.2% compared to 2014. There was an increase in overheads and administrative operating expenses in the amount of HRK 6.8m, with a more pronounced increase in net results from fees from investment funds management, compared to the previous year. At the end of 2015, the largest share in total assets of investment fund management companies was accounted for by financial assets (74.7%), while the largest share in total liabilities was made up of capital and reserves (79.5%).” is replaced by the following: “In 2015, investment fund management companies realised an after-tax profit in the amount of HRK 53.1m, an increase of 13.8% compared to 2014. There was a decrease in overheads and administrative operating expenses in the amount of HRK 17.3m, with a slight increase in net results from fees from investment funds management, compared to the previous year. At the end of 2015, the largest share in total assets of investment fund management companies was accounted for by financial assets (76.5%), while the largest share in total liabilities was made up of capital and reserves (79.5%).”, and the footnote No 92: “The Statement of financial position and the Statement of comprehensive income of investment fund management companies are provided in the Appendix. These financial statements are not complete for the reporting period because some firms report less frequently in line with the statutory provisions.” is replaced by the following: “The Statement of financial position and the Statement of comprehensive income of investment fund management companies are provided in the Appendix.”
- On page 56, Table 3.4 Net assets of AIFs as at 31 December 2014 and 31 December 2015 (in HRK thousand) is replaced by the following:

Table 3.4. Net assets of AIFs as at 31 December 2014 and 31 December 2015 (in HRK thousand)

AIF	31 Dec 2014	Share (%)	Dec 31 2015	Share (%)	Absolute change	Change (in %)
Private offering	1,125,069	43,0%	2,512,593	86,9%	1,387,524	123.3
basic	236,761	9,1%	381,020	13,2%	144,259	60.9
hedge (special types)	8,400	0,3%	57,037	2,0%	48,637	579.0
venture capital (special types)	97,217	3,7%	70,550	2,4%	-26,667	-27.4
venture capital – economic cooperation (special types)	782,691	29,9%	872,689	30,2%	89,998	11.5
closed-ended	-	-	1,131,297	39,1%	1,131,297	-
Public offering	1,490,679	57,0%	378,477	13,1%	-1,112,202	-74.6
open-ended	28,480	1,1%	50,183	1,7%	21,703	76.2
closed-ended	1,343,368	51,4%	251,859	8,7%	-1,091,509	-81.3
closed-ended real estate	118,831	4,5%	76,435	2,6%	-42,396	-35.7
Total	2,615,748	100,0%	2,891,070	100,0%	275,322	10.5

- On page 56, the following footnote is removed: This data relates to the latest available data on net assets of venture capital AIFs with private offering – economic cooperation funds.”
- On page 56, sentence: “Net assets of venture capital AIFs with private offering – economic cooperation funds rose by HRK 168.9 compared to 2014, whereas net assets of hedge funds (special types) increased by HRK 48.6m.” is replaced by the following: “Net assets of venture capital AIFs with private offering – economic cooperation funds rose by HRK 90.0 compared to 2014, whereas net assets of hedge funds (special types) increased by HRK 48.6m.”
- On page 168, Table B1: Statement of financial position of investment fund management companies (in HRK thousand) is replaced by the following:

Table B1: Statement of financial position of investment fund management companies (in HRK thousand)

Item	31 Dec 2014	Share (%)	31 Dec 2015	Share (%)
Property, plant and equipment	2,296	0.27	1,962	0.65
Investment in real estate	0	0.00	0	0.00
Intangible assets	4,977	0.59	3,048	1.01
Financial assets	759,647	89.33	230,468	74.46
Receivables	78,391	9.22	61,916	20.54
Prepayments and accrued income	2,926	0.34	1,933	0.64
Deferred tax assets	736	0.34	1,933	0.64
Other assets	1,436	0.17	1,680	0.56
Total assets	850,409	100.00	301,413	100.00
Capital and reserves	246,719	29.01	239,500	79.46
Liabilities	590,439	69.43	51,006	16.92
Provisions	2,734	0.32	2,001	0.66
Accruals and deferred income	8,529	1.00	8,270	2.74
Deferred tax liabilities	1,988	0.23	637	0.21
Total liabilities	850,409	100.00	301,413	100.00

Source: Hanfa

- On page 169, Table B2: Statement of comprehensive income of investment fund management companies (in HRK thousand) is replaced by the following:

Table B2: Statement of comprehensive income of investment fund management companies (in HRK thousand)

Item	31 Dec 2014	31 Dec 2015
I. Income from investment fund management fees	214,092	225,372
II. Investment fund management expenses	68,125	76,838
Net result from investment fund management fees	145,967	148,534
III. Net income from portfolio management	7,760	10,399
IV. Income from provision of investment advice	181	125
V. Financial income and expenses	25,720	11,708
VI. General and administrative operational expenses	120,654	103,361
VII. Depreciation and value adjustment of other assets	4,058	3,812
VIII. Provisions	1,904	98
IX. Other income and operational expenses	9,146	3,456
X. Pre-tax profit or loss	62,394	66,952
XI. Profit tax	15,760	13,869
XII. Profit or loss	46,634	53,083
XIII. Other comprehensive income	8,271	-5,268
XIV. Total comprehensive income	53,177	47,814

Source: Hanfa