



Annual Report

2022



CONTENTS

FOREWORD.....	1
1 Hanfa in figures	6
2 Trends in the financial services sector.....	11
2.1 Macroeconomic developments and capital market.....	11
2.2 Investment services.....	19
2.3 Pension system	25
2.4 Insurance.....	32
2.5 Non-bank financing.....	34
3 Supervisory activities	39
3.1 Microprudential supervision	39
3.2 Macroprudential supervision.....	64
4 Normative activities.....	74
4.1 Capital market and investment services.....	74
4.2 Investment funds.....	80
4.4 Insurance	85
4.5 Other normative activities	87
5 Licensing and training	91
5.1 Licensing.....	91
5.2 Examinations and professional training.....	95
6 Consumer protection and improvement of financial literacy	98
6.1 Consumer Protection.....	98
6.2 Educational activities.....	103
7 Communication activities.....	111
7.1 Communication activities in 2022.....	111
7.2 Access to information.....	113
8 International cooperation.....	115
8.1 Participation in the work of supervisory authorities and organisations.....	115

8.2 Technical international cooperation, bilateral international cooperation and exchange of information	124
9 Judicial proceedings.....	128
9.1 Misdemeanour proceedings	128
9.2 Administrative disputes.....	130
9.3 Criminal charges	131
9.4 Debt recovery actions.....	131
10 Hanfa's business operations	133
10.1 Internal organisational structure and human resources	133
10.2 Internal audit	136
10.3 Information security at Hanfa	137
10.4 Hanfa's information systems.....	137
10.5 Hanfa's financial operations	138
11 Statistical overview of industries	144
11.1 Investment funds	144
11.2 Pension funds	146
11.3 Insurance companies	149
11.4 Leasing companies.....	150
11.5 Factoring companies.....	150
12 Appendices	152
Appendix 1 List of ordinances adopted in 2022.....	152
Appendix 2 Hanfa's financial operations	161

Croatian Financial Services Supervisory Agency

Address: Franje Račkoga 6, 10000 Zagreb

Telephone: +385 1 6173 200

Fax: +385 1 4811 406

WEB: www.hanfa.hr

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FOREWORD



The year 2022 was marked by the war in Ukraine, with a strong impact on both political and economic developments in Europe and around the world. The ensuing increase in the prices of energy further affected European national economies, still suffering from the fallout of the coronavirus pandemic and increasing climate changes. This was also felt by the citizens of the Republic of Croatia, largely due to the high inflation rate, which peaked at 13.5% in November. Amid strong inflationary pressures, central banks started one of the most severe interest rate hikes ever, which was almost immediately reflected in the trends on global financial markets. Thus, 2022 stood out in historical terms, given that almost all classes of financial assets, from bond investments to share investments and investments in crypto-assets, recorded a drop in value. In such specific circumstances, there was little that the global financial industry could do to avoid losses.

The domestic financial services sector was also faced with a challenging financial environment, given the price corrections in the domestic capital market, of 13% and 5% in the bond and stock segments respectively, which led to a decrease in assets and profitability of domestic funds as well as of leasing, factoring and insurance companies.

In 2022, Hanfa continuously analysed risks to which individual companies were exposed, and our supervisory activities focused on risk management systems, investment processes and valuation of investments, as well as on the financial products distribution process. In addition to focusing on individual institutions, our supervisory activities were also aimed at the financial system as a whole, which was stress-tested under highly unlikely, albeit plausible macroeconomic and financial systemic shocks. The results of the exercise have shown that, despite very turbulent and uncertain developments over the past few years, all segments of the financial services sector remained adequately capitalised and liquid, which underpins the importance of continuous implementation of appropriate activities which allow both regulators and supervised entities to address risks in a timely manner.

Another important event in 2022 for the Croatian financial system was the successful completion of preparations for the adoption of the euro as the official currency at the beginning of 2023. This was the result of two years of intense preparations, in which we took part by participating in the work of four coordination committees established by the National Council for the Introduction of the Euro. We contributed to the preparation of legislative provisions and solutions, taking account of both the providers and users of financial services, so that none of them suffered any damage in the changeover process. This process involved incurring some one-off costs, which will be neutralised by the long-term benefits from the euro adoption for the entire financial sector and the economy in general, such as reduced transaction costs, a considerable decrease in the exposure to currency risk, reduced credit risk and the positive effect on the country's credit rating. This should spur foreign investments and lead to enhanced competition and cheaper financing, while in the domestic capital market the increased engagement of foreign investors might increase liquidity and deepen the securities market.

Judging from the activities implemented so far, we understand that interinstitutional cooperation with domestic and international institutions provides a solid ground for the establishment, development and implementation of both regulatory and supervisory practices. In 2022, we actively engaged with ESMA in assessing the impact of the war in Ukraine on financial markets and funds' asset valuation. In addition, we cooperated with EIOPA on matters concerning consumer protection and with the ESRB in monitoring systemic risks. Our continuous contribution to and engagement in the work of European and international bodies and regulators was further reinforced by hosting the IAIS Global Seminar, one of the most important global gatherings of insurance supervisors, insurance market representatives and other interested stakeholders in 2022. Our international activity in the forthcoming period will primarily be directed towards active participation in the process of Croatia's accession to the OECD, the economic association of the most developed countries.

Even though consumers are always at the heart of our supervisory and educational activities, the systematic and collective protection of consumer rights in the financial

services segment was underpinned in 2022 by the adoption of the new Consumer Protection Act, conferring new supervisory powers on Hanfa. We must ensure that consumers, as the users of financial services, are provided with the necessary information in a timely manner so that they can make reasonable and informed financial decisions. This also strengthens the trust among financial system participants and reduces disputes, which is partly evident from the reduced number of complaints in 2022. In order to adequately design and focus our educational activities, last year we conducted two national surveys about the level of financial literacy of citizens, which showed that special attention should continue to be paid to education, especially of young people, not only about traditional financial products and services, but also about investments in crypto-assets, which are on their way to become a part of a regulated financial spectre in a few years' time.

Taking full account of the intensive development and implementation of technology and artificial intelligence in finance, we are also focused on our own digital transformation. In 2023 we will surely have to adapt to changes, perhaps not so much under the weight of inflation, but certainly with some slowdown in economic activity. This might impact the valuations in financial markets and the financial sector as a whole, which will increasingly necessitate a digital, green and self-sustaining approach. Therefore, we will focus on strategic development and on adjusting the domestic capital market to new sustainable financing, with the catalytic effect of the process of OECD accession and its completion.



Ante Žigman
President of Hanfa Board



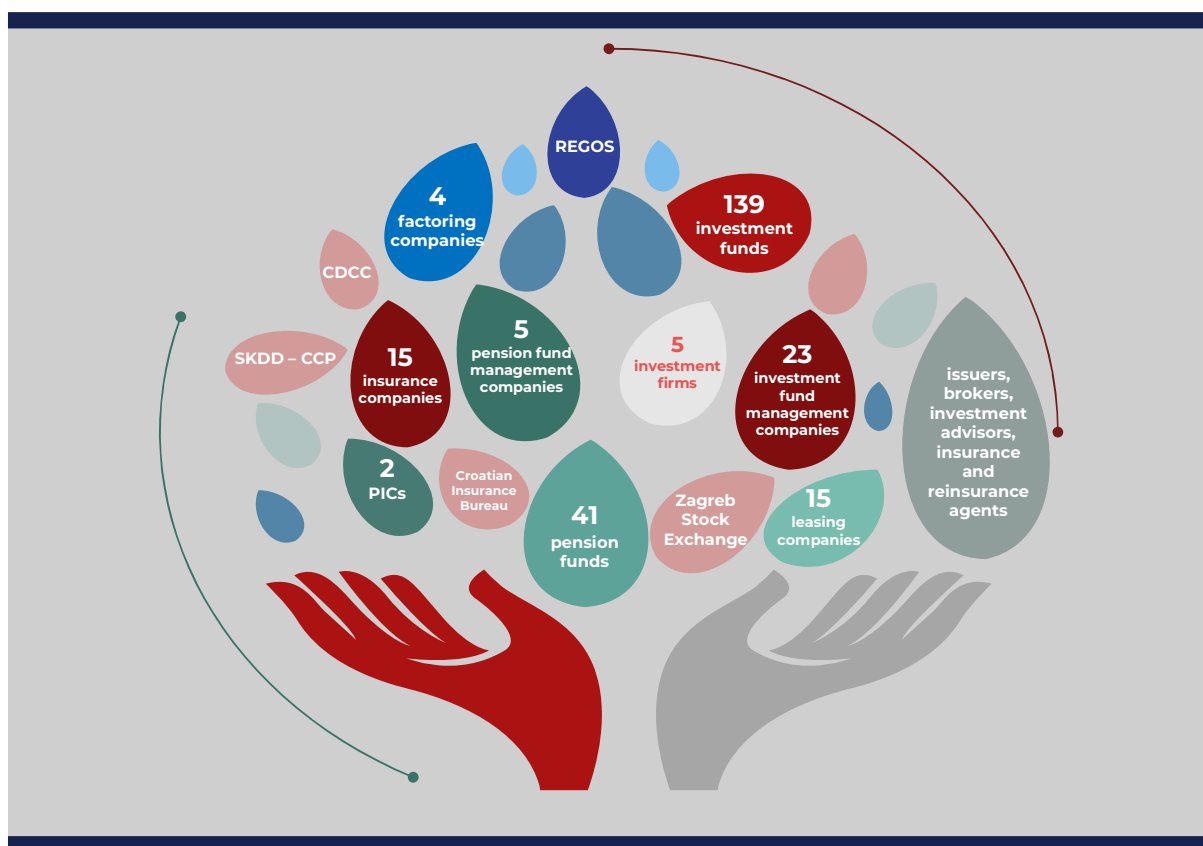
Members of Hanfa Board (from left to right):

Antun Palarić, Jurica Jednačak, Ante Žigman (Board President),
Ilijana Jeleč and Tomislav Ridzak

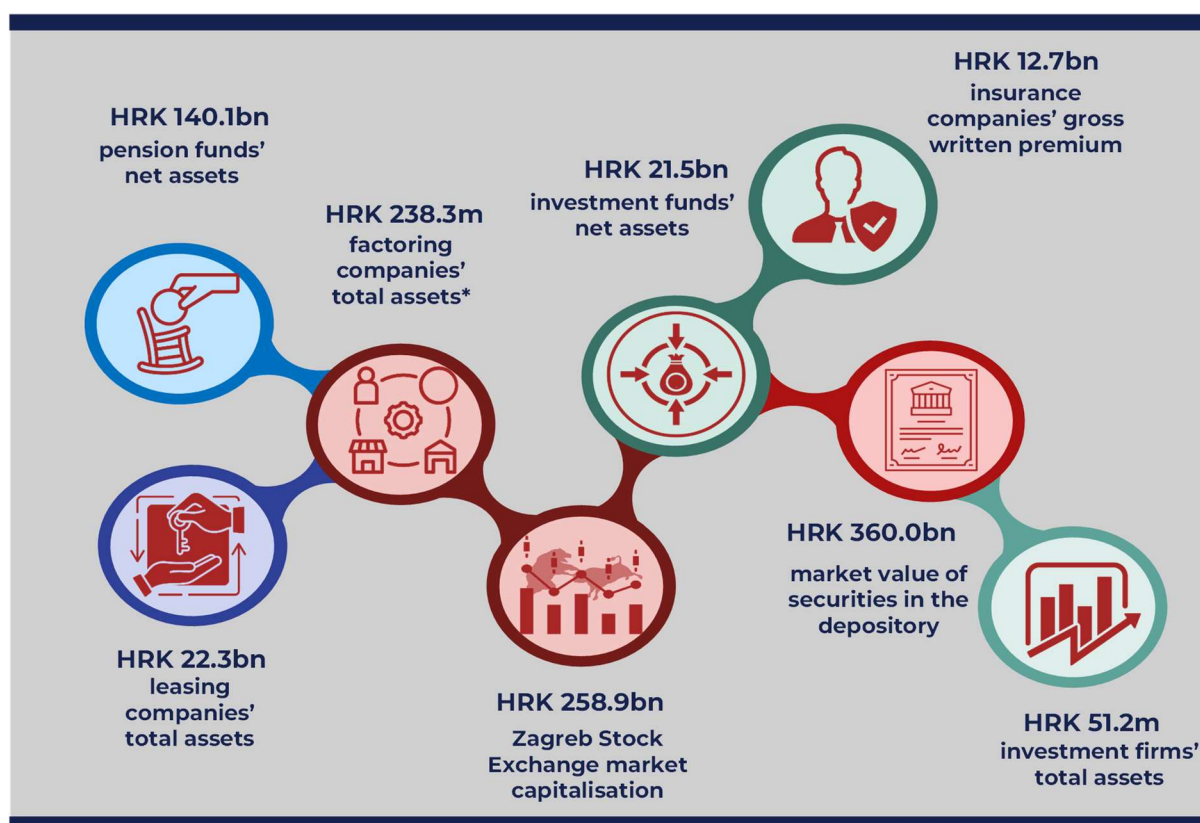
HANFA IN FIGURES

1 HANFA IN FIGURES

Figure 1 Supervised entities



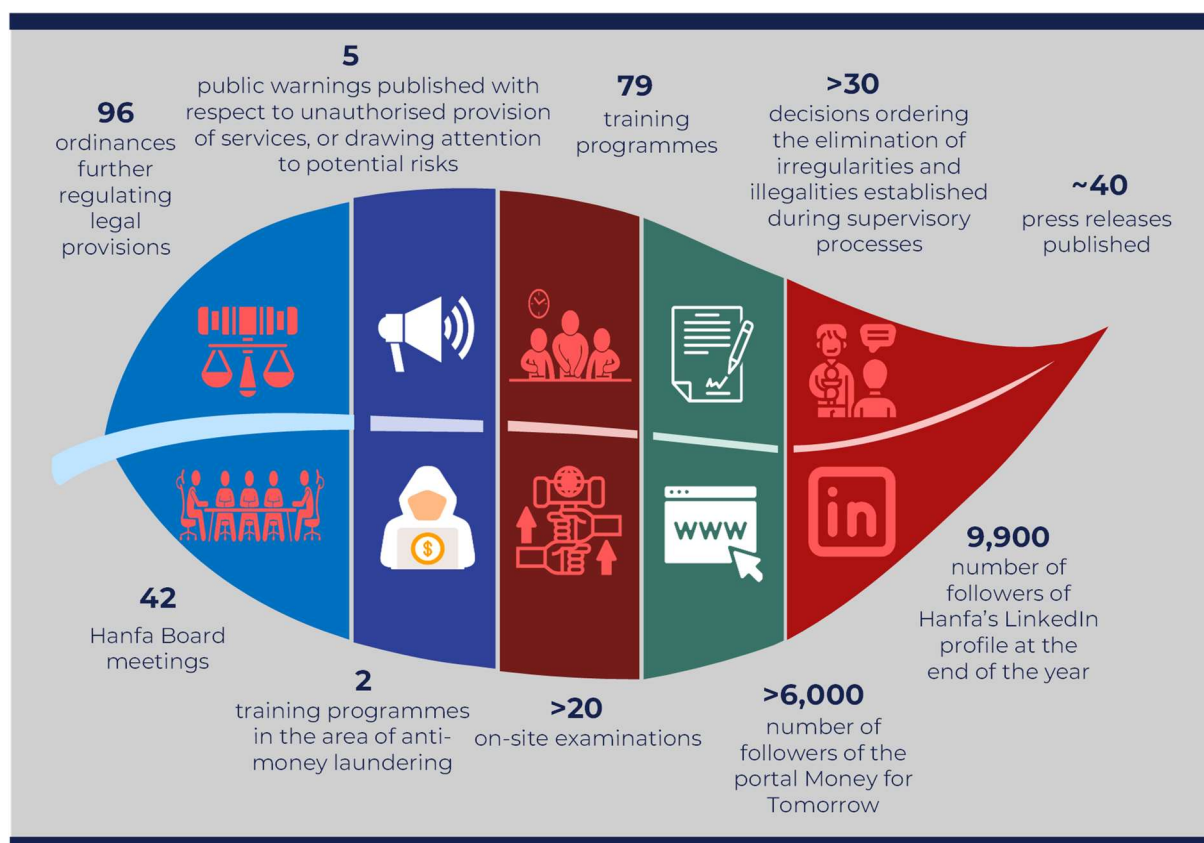
Source: Hanfa

Figure 2 Financial overview

Note: *unrevised data as at 31 December 2022

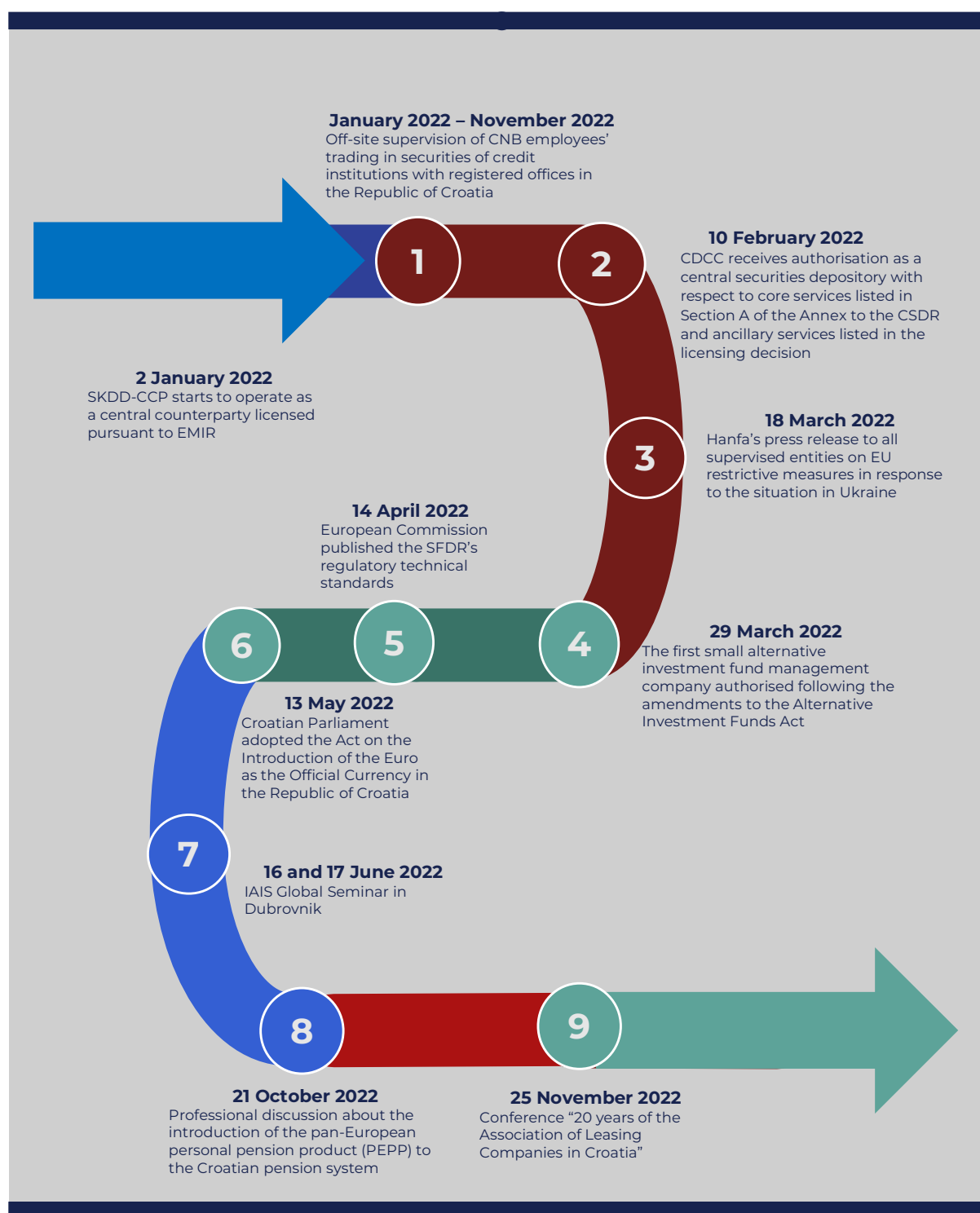
Source: Hanfa

Figure 3 Hanfa's activities



Source: Hanfa

Figure 4 Important dates



Source: Hanfa

TRENDS IN THE FINANCIAL SERVICES SECTOR

2 TRENDS IN THE FINANCIAL SERVICES SECTOR

The year 2022 was marked by strong inflationary pressures, monetary tightening of financing conditions and the Russian invasion of Ukraine, which created heightened uncertainty on a global scale and adversely affected consumer and investor sentiment. A robust labour market, a successful tourist season and fiscal interventions helped to maintain the relatively high growth rate of the domestic economy. However, economic activity decelerated towards the end of the year due to unfavourable market developments and the further rise in inflation. Elevated market volatility and tighter financing conditions caused by the considerable rise in benchmark interest rates in response to growing inflation in the domestic capital market pushed the stock and bond indices down, with a pronounced drop in the CROBIS bond index of 12.6% and a 4.8% decline in the value of the CROBEX stock index. Corrections in the valuation of different classes of assets and an uncertain macroeconomic environment were also reflected in the drop in the value of total assets (-1.9%) and profitability of the financial services sector.

2.1 Macroeconomic developments and capital market

Following a rebound in 2021, economic growth in developed countries continued into 2022, albeit at a relatively slower pace (Figure 2.1). The Russian invasion of Ukraine, economic sanctions against Russia and the partial lockdown in China due to a new wave of the coronavirus disease contributed to further supply chain constraints and a surge in energy prices, also adding to inflationary pressures. November saw a record-high inflation rate of 13.5%, edging down to 13.1% at the end of the year. Wages in real terms decreased year-on-year by 4.3%, despite nominal wage growth of 8.2% and the low unemployment rate of 6.7%. Consumption was reduced due to the decline in disposable income of consumers, while the rise in financing costs led to a slowdown in investments, which dampened economic activity in the second half of the year. Nevertheless, the domestic economy saw a relatively strong annual growth of 6.3% due to a robust labour market, successful tourist season and investment growth.

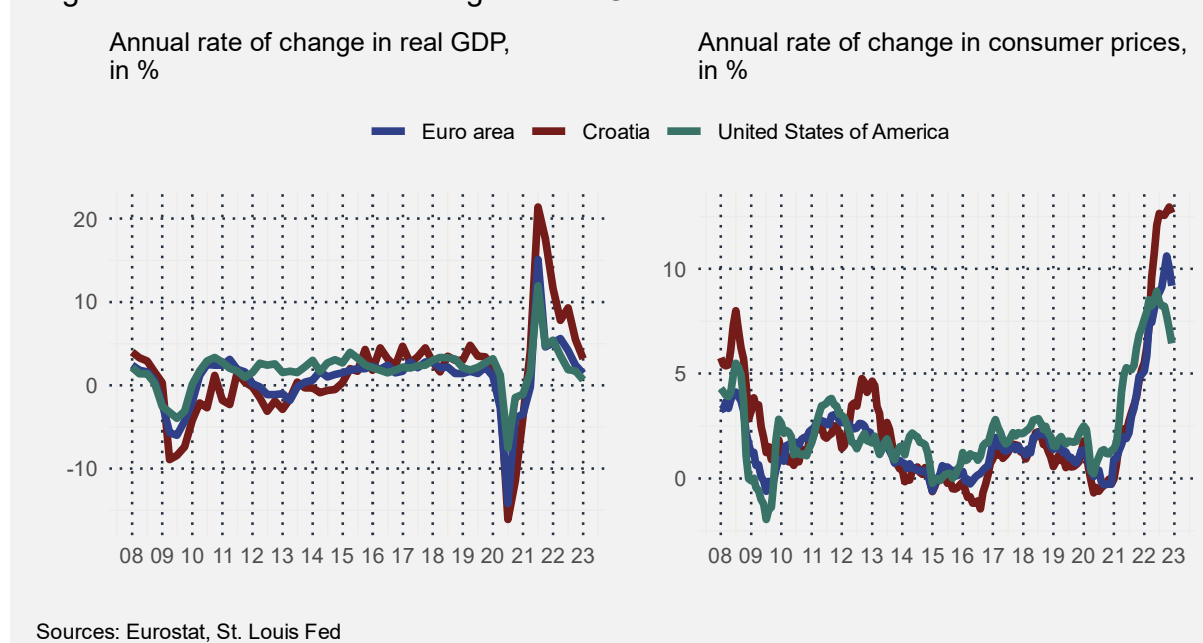
The end of the year was marked by Croatia's joining the euro area, which should strengthen the competitiveness of the Croatian economy and further reinforce ties with euro area countries. The global surge in inflation rates led to increasingly restrictive monetary

Credit rating

Credit rating means a set of criteria used in measuring the creditworthiness of a natural person or a legal entity (borrower).

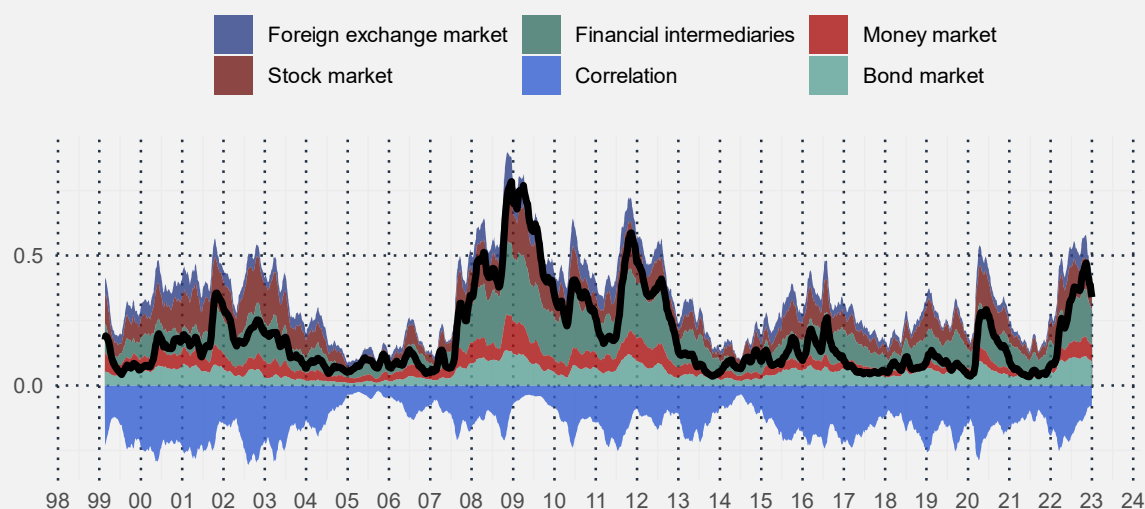
policies pursued by the leading central banks and to the rise in financing costs, which especially weighed on the countries with large levels of public and private debt. Following two years of deficit, general government budget recorded a surplus of almost HRK 2bn in 2022 (0.4% of GDP). The general government surplus and the high rate of nominal economic growth led to a contraction in the public debt-to GDP ratio of 10 p.p., to 68.4% of GDP. The general rise in interest rates also impacted Croatian bonds, with yields standing at 3.4% at the end of the year, up by 3.1 p.p. from the end of 2021. However, the introduction of the euro and upgrading of Croatian bonds to investment grade ensured convergence of the yields towards euro area countries and a relatively low risk premium amid uncertainty.

Figure 2.1 Annual rates of change in real GDP and inflation



The combined effect of elevated geopolitical tensions, strong inflationary pressures and growing costs was reflected in the build-up of systemic stress in the euro area. In 2022, it exceeded the levels recorded at the beginning of the pandemic, even though it dropped by the end of 2022 due to the expected decrease in inflation rates, the gradual easing of measures taken by the monetary authorities and greater-than-expected resilience of the global economy (Figure 2.2). These factors had a negative impact on financial markets, with negative returns in most classes of financial assets, which partly also influenced the valuations in the domestic capital market.

Figure 2.2 Composite Indicator of Systemic Stress (CISS) of the euro area



Note: The chart shows the seven-day moving average of the value of the index and its components.
Source: ECB

The price of inflation – impact on business operations in the financial services sector

The global financial crisis was followed by a period during which the general price increase, that is, inflation, was for a long time not perceived as a serious economic problem raising concerns with economic policy makers. On the contrary, central banks sought to annul deflation trends that arose after the crisis and the economic slowdown caused by the slump in consumption by pursuing expansionary monetary policy measures, expanding the set of their instruments to include less traditional measures of quantitative easing. As a result, inflation remained at low and subdued levels for a protracted period, below the target levels set by central banks. With their accommodative monetary policy, they continued to stimulate economic activity, so that financial regulators were more concerned about low-for-long interest rates, weighing on the operations of financial institutions due to low profitability. However, following the outbreak of the coronavirus pandemic, inflation again, quite unexpectedly, became the main global economic challenge.

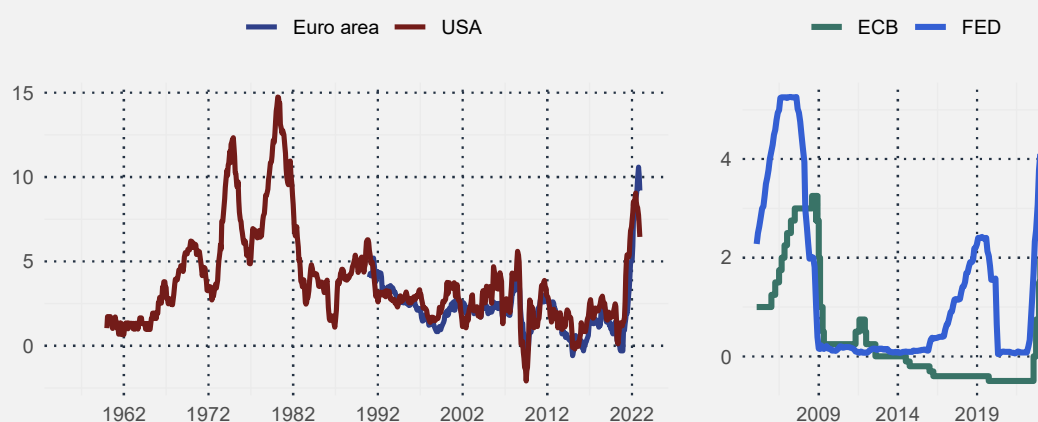
The economic shutdown in response to the pandemic caused serious disturbances in the global supply chains and led to a considerable slump in the supply of many goods and services. In the same period, the impact of the newly arisen circumstances on demand was not as pronounced owing to many government and regulatory support measures to preserve operations in the corporate sector and to safeguard disposable income of consumers. In order to

cushion the impact of negative market developments caused by the coronavirus crisis and stabilise the situation in financial markets, central banks pursued a highly expansionary monetary policy (by increasing the amount of currency in circulation), which further boosted demand for goods, services and financial assets in 2020 and 2021. As economies reopened in 2021, global demand returned to its pre-crisis levels, albeit with still exert adverse impacts on the supply of goods, which triggered a sharp increase in the general level of prices, that is, a surge in inflation. In 2021, prices in the euro area grew by 5%, while in Croatia they increased by 5.2%.

The war in Ukraine in early 2022 exerted additional pressure on the rise in prices, especially of energy and food, but also caused an increase in inflation expectations of consumers in the short run and potentially over the medium term. More specifically, given that the rise in the prices of raw materials and other input production costs was not of the expected temporary character increased operating expenses of corporations were with a time lag passed through to the prices of finished goods, that is, to consumers, causing a growth of inflation, which stood at 9.2% in the euro area in 2022.

Figure 2.3 Sharp leap in prices in 2022 culminated with the tightening of financing conditions

Annual rate of change in consumer prices and benchmark interest rates of central banks, in %



Sources: ECB, St. Louis FED

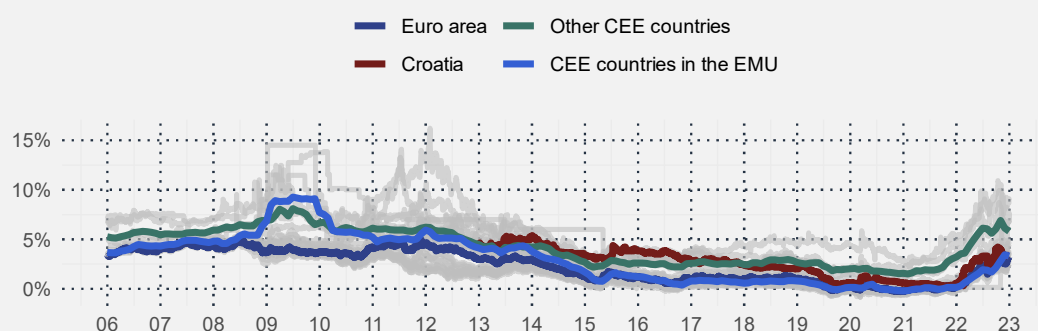
In addition to the energy crisis, the rise in inflation in Croatia in 2022 was largely spurred by the exceptionally good tourist season, witnessing a considerable boost in foreign demand, as well as by expectations of a further rise in inflation. As a result, inflation reached a historical high of 13.5% in November 2022 and decreased only marginally by the end of the year (by 0.4% p.p.). Due to global disruptions in the production of food caused by the war in Ukraine and severe droughts in 2022, the most significant contribution to the rise in inflation came from the price components of energy and food and beverages, which account for as much as 40% of the domestic consumer basket.

In the light of mounting inflationary pressures in 2022, central banks decided to sharply tighten their monetary policies and raise their benchmark rates in order to slow down demand and price growth (Figure 2.3). By the end of the year, as inflationary pressures peaked, the Fed's benchmark rates ranged from 4.25% to 4.50%, while the key interest rate of the European Central Bank (hereinafter: ECB) stood at 2.50%, with expected further increases in case of stronger inflation expectations. All changes in benchmark interest rates of central banks and their announcements were almost immediately reflected in global financial markets. Investors eagerly awaited any news on inflation and adjusted their exposures to individual securities accordingly. 2022 saw a considerable decline in the prices of share and bond investments, the two main investment classes, which adversely affected the profitability of a number of financial institutions.

Monetary policy tightening had a varied impact on the cost of borrowing and bond markets across the European Union countries (hereinafter: EU) due to differences in the level of indebtedness and energy dependency or the level of inflation. This was largely mirrored in the growth of market yields on government bonds, impacted by the costs of long-term general government borrowing, ranging from 1.85% to a high 8.98% across EU Member States at the end of the year (Figure 2.4). Yields on domestic government bonds stood at 3.37% at end-2022, the level last recorded in 2016. Even though yields on government bonds of the Republic of Croatia rose by 2.8 p.p. in 2022, the completion of the process of euro area accession kept them at levels lower than they would have been had Croatia not introduced the euro. Thus, the yield on Croatian bonds was 0.73 p.p. lower at the end of 2022 than the CEE average.

Figure 2.4 Yields on Croatian bonds converged towards the yields of euro area Member States

Yields on long-term government bonds, in %



Note: The grey highlighted lines show indicator movements for individual EU countries. CEE countries are: BG, CZ, EE, HU, LV, LT, PL, RO, SK and SI. CEE countries in the EMU are: EE, LT, LV, SI and SK, while other CEE countries are: BG, CZ, HU, PL, RO.

Source: Eurostat

With regard to stock markets, elevated inflation and the ensuing rise in interest rates were reflected in the materialisation of market risk, that is, a sizeable drop

in the prices of stocks, especially those with expected returns further in future, such as technology stocks.

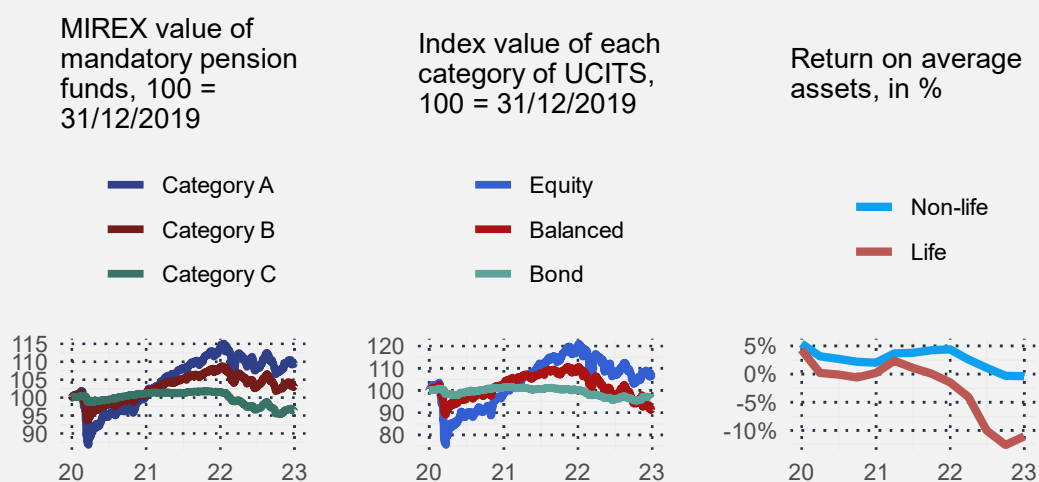
Given the negative impact of inflation on most classes of financial assets, mirrored in the drop in prices and elevated volatility, short-term vulnerabilities of financial institutions investing in them increased considerably. Unfavourable market developments led to a fall in the profitability indicators for a large part of the domestic financial services sector in 2022, with a build-up in liquidity pressures in some sectors. Net assets of pension funds were under the influence of unfavourable market developments in bond and stock markets and decreased considerably in 2022. At the end of 2022, the return of category C mandatory pension funds stood at -5.3%, while category A and B funds recorded a milder decrease in return, of 4.1% and 5.0% respectively. However, owing to positive net payments, which almost entirely neutralised the effect of negative market developments, assets of pension funds went down by only HRK 950m or 0.7% from the end of 2021. In the same period, net assets of UCITS decreased by HRK 5.2bn (24.1%) from the end of 2021 to the end of 2022, as investors in predominantly bond funds withdrew a large portion of their money due to unfavourable market trends. All categories of UCITS recorded negative returns, with the average return standing at -10.2% year-on-year. Similar to funds, the insurance sector also recorded losses in 2022 arising from the revaluation of available-for-sale financial assets of HRK 3.2bn. More than three-fourths of these losses were accounted for by life insurance companies. Because of the nature of their business, these companies invested a significant portion of their assets in long-term bonds, whose value dropped significantly amid rising interest rates. Consequently, comprehensive income of insurance companies in the life insurance segment stood at -11.0% of average assets, while in the segment of non-life insurance it amounted to -0.4% in 2022.

Despite the losses seen in 2022, performance in the financial services sector should be observed in a wider context and over a longer investment horizon, spread over as long as several decades in the pension fund and life insurance sectors. Against this background, some cyclical risks, such as refinancing risk, will become subdued in the upcoming period due to the rise in interest rate yields on new investment, offsetting the losses generated in 2022 due to the decline in the value of the existing share and bond investments.

The degree of monetary policy restrictiveness in the future will thus be a key factor behind financial market developments, while any change in benchmark interest rates that is not aligned with market expectations might cause further price corrections. Against the backdrop of restrictive monetary policies pursued by the leading central banks in efforts to bring inflation back to the 2% target level, the future dynamics and pace of interest rate growth will largely depend on inflationary pressures and the intensity of economic growth as well as fiscal indicators, which deteriorated dramatically on a global scale as a result of

dealing with the consequences of the coronavirus crisis. Market perception of risk, as an important factor for borrowing costs and consequently market trends, was still relatively subdued at the end of 2022. Even though previous crisis episodes¹ warned about the possibility of potential growth in risk premium, the recent introduction of the euro as the official currency in Croatia and further confirmation of the investment rating by credit rating agencies² underpin the expectations of stable yields on domestic government bonds in the coming period as the main form of investment of the domestic financial services sector.

Figure 2.5 Profitability of the financial services sector diminished in 2022



Note: Index value of each category represents the net asset weighted value of the units of individual funds in a sample scaled at the initial date. Return on average assets shows the ratio of comprehensive income to average assets at the beginning and end of the observed year.
Source: Hanfa

The turmoil in global financial markets and deteriorated investment sentiment also impacted the domestic capital market, with the CROBEX stock index reaching 1,979.9 points at end-2022, down by 4.8% from end-2021. CROBIS recorded a more sizeable correction, of 12.6%, from the levels seen in late 2021, ending the year at 96.6 points (Figure 2.6). However, the introduction of the euro at the beginning of 2023 sheltered Croatian government bonds from a more pronounced growth in yields, as recorded in peer CEE countries outside the euro area.

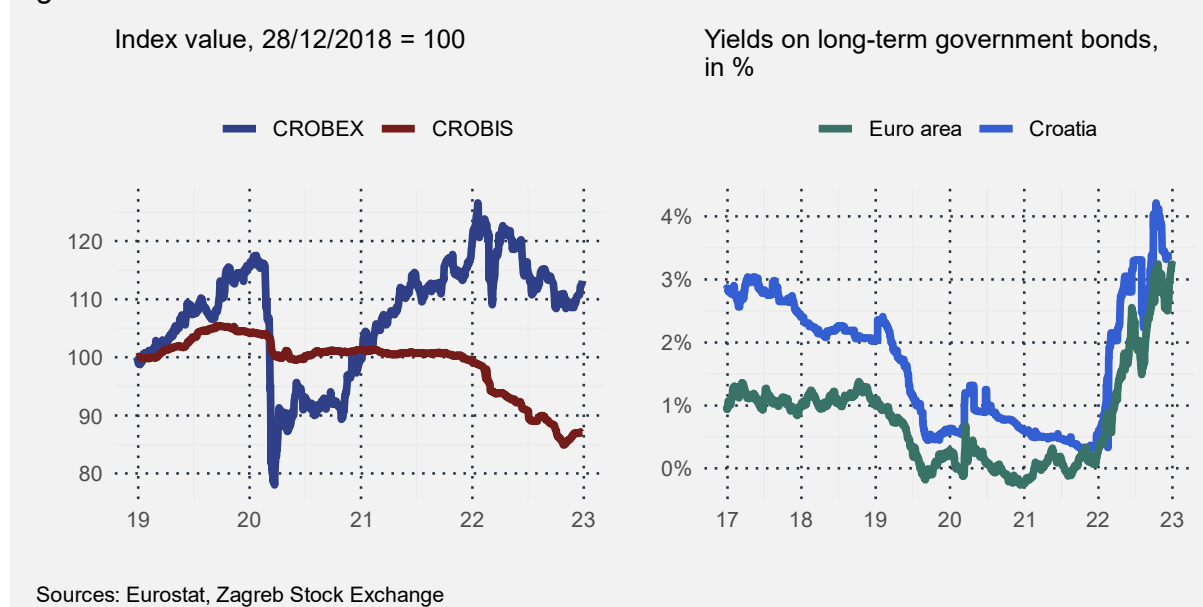
Despite subdued investor sentiment, the total turnover on the Zagreb Stock Exchange (hereinafter: ZSE) increased by 16.5% on an annual basis and reached HRK 3.0bn in 2022. The largest part of regular turnover was accounted for by stocks, which recorded an increase and stood at HRK 2.8bn, accounting for 93.2% of the total regular turnover in

¹ The global financial crisis in 2008 and the European debt crisis in 2011

² All three leading credit rating agencies upgraded Croatia's credit rating by one notch in July 2022, to its current level of BBB+ and Baa2, respectively.

2022, up by 3.9 p.p. The total bond turnover amounted to almost HRK 7.0bn in 2022, down by 3.6% from 2021. Trading concentration remained high, accentuating structural deficiencies of the domestic capital market, given that around half of the stock turnover in 2022 was accounted for by only five securities.

Figure 2.6 Movements in the ZSE stock and bond index and in yields on long-term government bonds



At the end of 2022, there were 92 stocks listed on the ZSE, six stocks less than in the previous year. During the year, five stocks were removed from trading on the Regular Market and three stocks were removed from trading on the Official Market, while two new stocks³ with market capitalisation reaching HRK 464.3m (0.3% of total stock market capitalisation) at the end of 2022 were admitted to trading. Stock market capitalisation stood at HRK 135.8bn at the end of 2022, down by 2.6% from end-2021. The reduction in the number of stocks had an adverse impact on the stock market liquidity, which has been recording relatively low levels for many years now.

At the end of the year, a total of 42 bond issues with market

capitalisation of HRK 123.0bn were listed on the domestic market, which is a decline of 8.6% from the year before. A total of seven bond issues (four corporate and three government bonds) were removed from trading, while five new issues (two corporate and three government bonds) were admitted for trading. The Ministry of Finance issued three new bonds in the domestic market with a total nominal amount of EUR

Regulated market

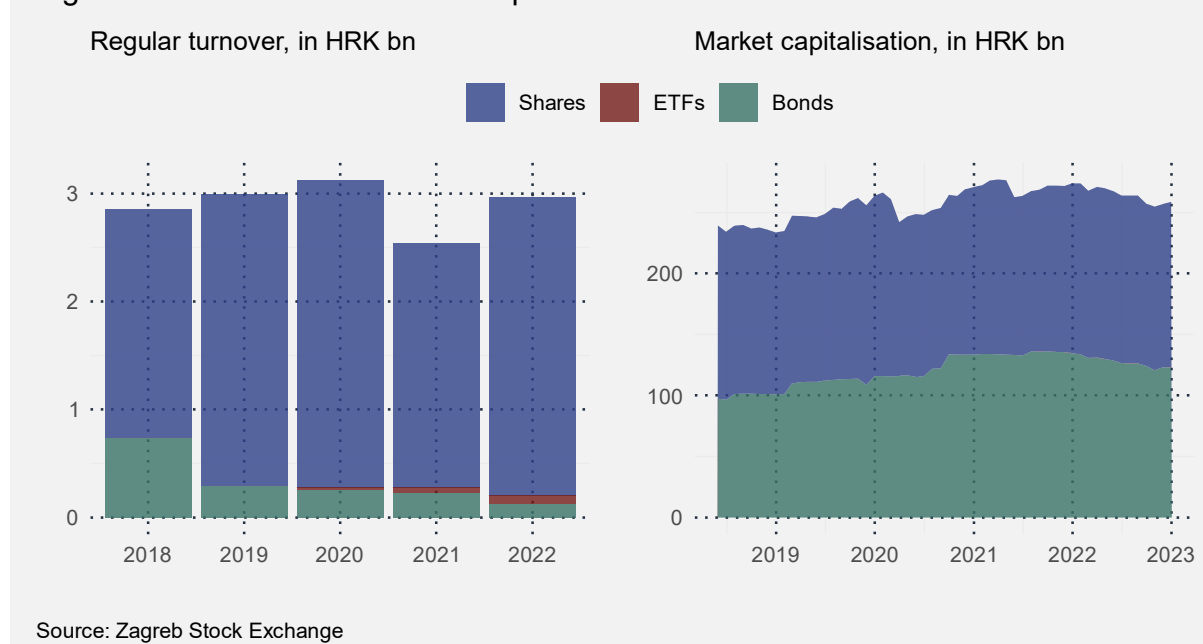
Regulated market is a trading segment managed by the Zagreb Stock Exchange dedicated to securities trading. Regulated market is divided into Prime Market, Official Market and Regular Market, based on the requirements to be met by issuers, especially concerning transparency.

³ Stocks issued by the company MON PERIN d.d. were admitted to trading on the Official Market, while stocks issued by the company QUATTRO LOGISTIKA d.d. were admitted to trading on the Regular Market.

2.2bn, at rates of 1.3%, 2.1% and 3.4% respectively, for the repayment of due bonds totalling EUR 1.5bn and HRK 3.0bn.

Due to negative market developments, market capitalisation of two listed ETFs stood at HRK 56.3m at the end of 2022, down by 10.9% from the previous year. Nevertheless, the total turnover of ETFs grew in both relative and absolute terms and reached HRK 76.4m or 2.6% of the total turnover, which had a positive effect on domestic market liquidity.

Figure 2.7 Turnover and market capitalisation on the ZSE



2.2 Investment services

2.2.1 Investment services providers

At the end of 2022, investment services were provided and related activities were performed by 23 financial institutions, of which there were six fund management companies, five investment firms and 12 credit institutions, two financial institutions⁴ less than last year. Amid turbulences in financial markets during the year, the value of assets under management went down across all categories of providers of investment services and related activities. More specifically, the global economic slowdown and the global rise in inflation and financing costs triggered price corrections of almost

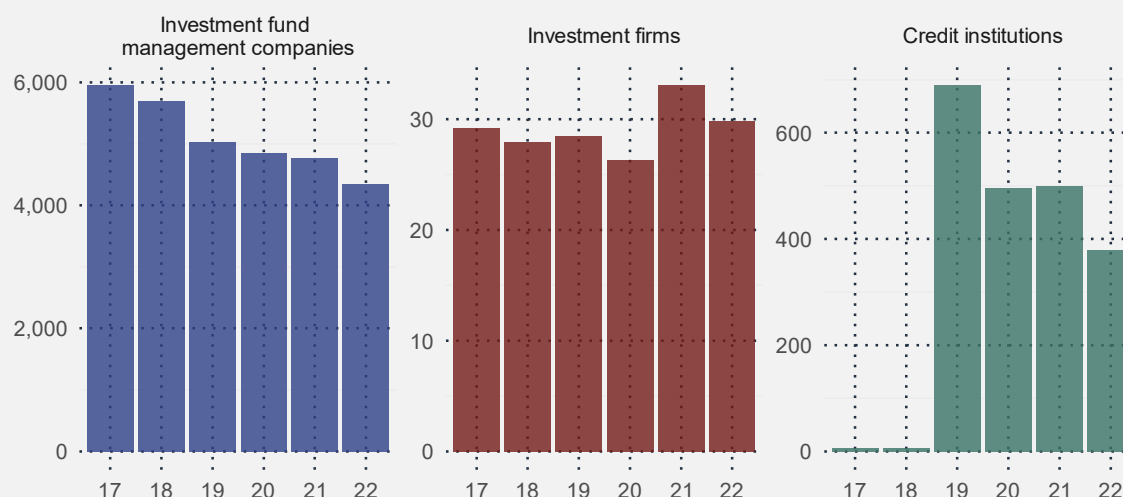
Brokerage services

Brokerage services include execution of orders for the account of clients as well as reception and transmission of orders related to one or several financial instruments.

⁴ Slatinska banka d.d. ceased to provide investment services on 4 May 2022, while the investment firm N3 capital partners d.o.o. ceased to provide investment services on 29 March 2022.

all financial asset classes. The total value of assets under management of investment services providers reached HRK 4.8bn at the end of the year, down by 10.2% on an annual basis. In 2022, assets managed by investment fund management companies dropped by 8.8% (HRK 4.4bn or 91.4% of total assets managed by investment services providers), assets managed by credit institutions decreased by 24.3% (HRK 378.9m or 8.0% of total assets), while assets managed by investment firms went down by 9.8% (HRK 29.8m or 0.6% of total assets) from the end of the previous year (Figure 2.8). Other than by companies registered in Croatia and licensed by Hanfa, investment services may also directly be provided by companies from EU Member States. At the end of the year, there were 436 companies that had notified Hanfa of their intention to provide such services, 151 company less than in 2021.

Figure 2.8 Value of investment services providers' assets under management
In HRK m

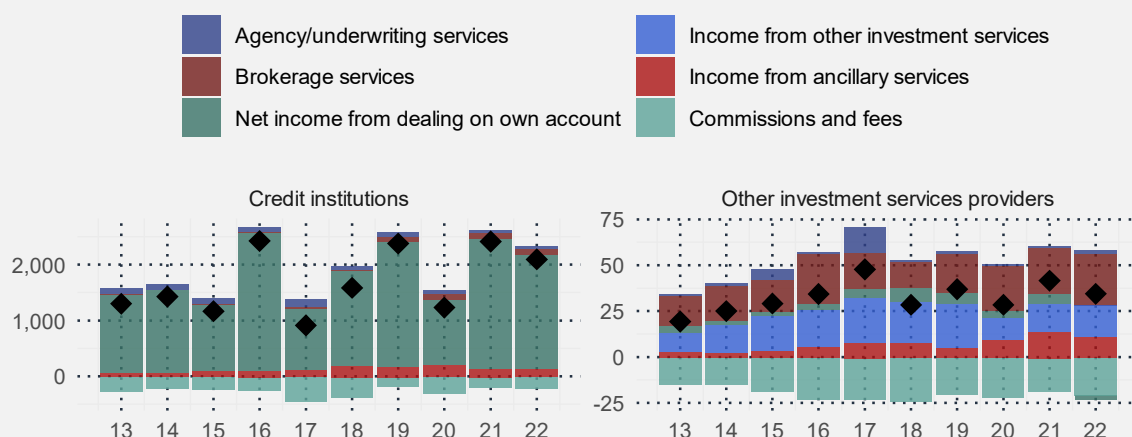


Source: Hanfa

Investment services providers in Croatia recorded a net income of HRK 2.1bn in 2022, which is a decrease of 13.3% on an annual level. Credit institutions accounted for 98.4% of total net income (HRK 2.1bn), while other investment services providers generated 1.6% of total net income (HRK 34.4m). The most significant income item of credit institutions in 2022 (Figure 2.9) was net income from dealing on own account (96.2% of total income), while the most significant income item of non-bank investment services providers was related to brokerage services (60.3% of total income). Net income of credit institutions from dealing on own account dropped by 12.7% (HRK 2.0bn) on an annual basis, while brokerage services by non-bank financial services providers went up by 14.1% (HRK 28.6m).

Figure 2.9 Investment services providers' income and expenditure by type of service

In HRK m



Note: The highlighted dots indicate investment services providers' net income in the year observed.
Source: Hanfa

2.2.2 Investment funds

Open-ended investment funds with public offering

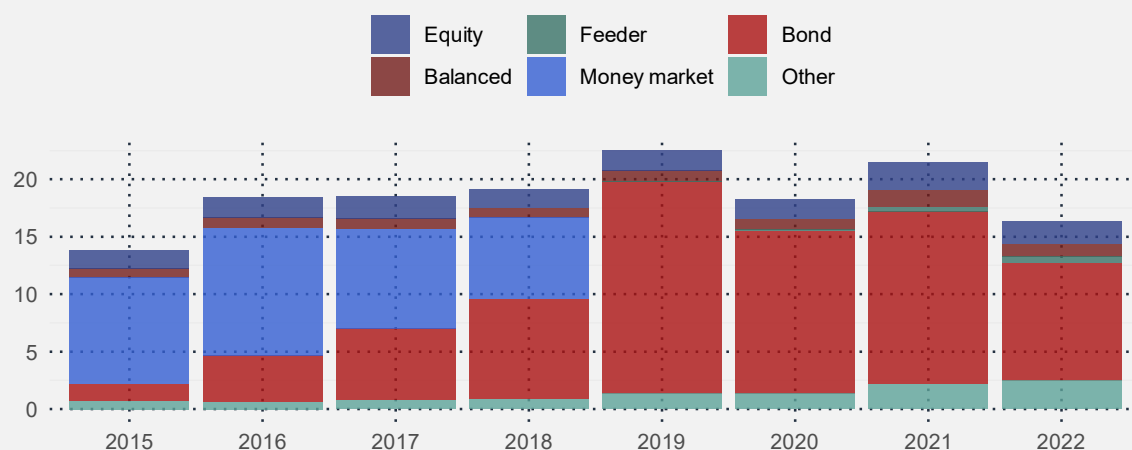
At the end of 2022, there were 100 open-ended investment funds with public offering (hereinafter: UCITS) operating on the domestic market and managing net assets amounting to HRK 16.3bn (a decrease of 24.1% from the year before – Figure 2.10). Unstable conditions in financial

markets in 2022 resulted in an increased volume of investors' demands for repurchase of units, which halted the recovery of the domestic fund industry seen in the previous year. Almost all UCITS categories saw a drop in the value of assets in 2022 due to price corrections of securities and net outflows. The sharpest decrease in net assets, of 31.8% (HRK 10.3bn), was recorded by the largest bond funds. They were followed by balanced funds, which declined by 27.2% (HRK 1.1bn), and equity funds, which dropped by 18.9% (HRK 2.0bn). Over the same period, feeder funds grew by 27.1% (HRK 0.5bn), while the value of funds categorised under "Other" grew by 15.7% (HRK 2.5bn) from end-2021.

UCITS

UCITS (Undertaking for Collective Investment in Transferable Securities) is an open-ended investment fund with public offering operating in accordance with EU directives.

Figure 2.10 Net assets of UCITS
In HRK bn

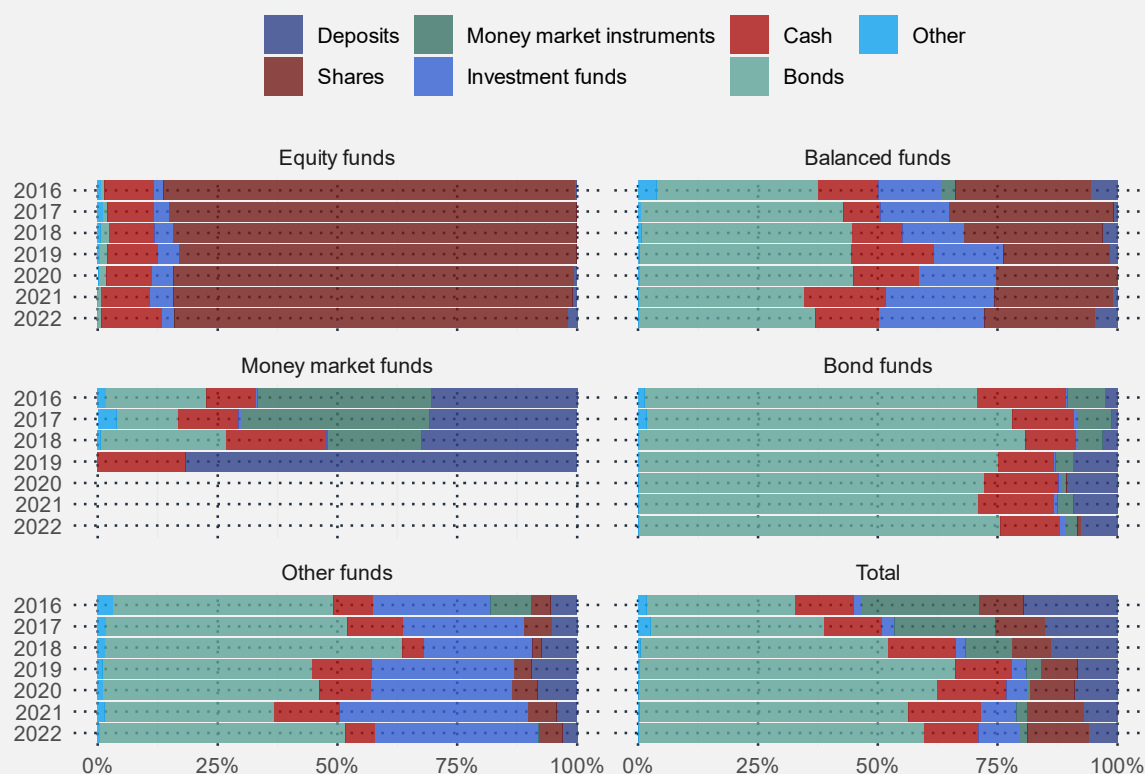


Note: Due to the entry into force of the Money Market Funds Regulation, the majority of money market funds reregistered in early 2019 and continued operating as short-term bond funds.
Source: Hanfa

At the end of 2022, the largest portion of UCITS investments (Figure 2.11) was allocated to bonds (59.6%), followed by stocks (12.8%), cash (11.3%), investment funds (8.6%), deposits (5.9%), money market instruments (1.6%) and other (0.1%). On an annual basis, the share of investments in bonds, investment funds and stocks increased (by 3.4 p.p., 1.2 p.p. and 1 p.p., respectively), while investments in cash, deposits, money market instruments and other declined (by 3.7 p.p., 1.2 p.p., 0.6 p.p. and 0.1 p.p., respectively). Such developments were due to net outflows of investor funds, causing a decrease in highly liquid assets, which resulted in an increase in the relative share of debt and equity securities in UCITS portfolios, despite price corrections in 2022. Most funds increased foreign investments in 2022 from the year before (Figure 2.12), with the largest increases seen in the largest bond funds (+5.7 p.p.) and other funds (+13.1 p.p.), while equity funds and balanced funds decreased the share of foreign investments in their portfolios (-5.6 p.p. and -0.5 p.p., respectively). The largest portion of foreign assets at the end of 2022 was held by other funds (71.8%), followed by equity funds (58.6%), balanced funds (56.9%) and bond funds (28.8%). Portfolio diversification driven by the growth in foreign investment offers increased possibilities in search of competitive yields. In addition, it reduces the exposure of UCITS to concentration and liquidity risks, even though it makes their assets more susceptible to disruptions in foreign markets (primarily stock markets).

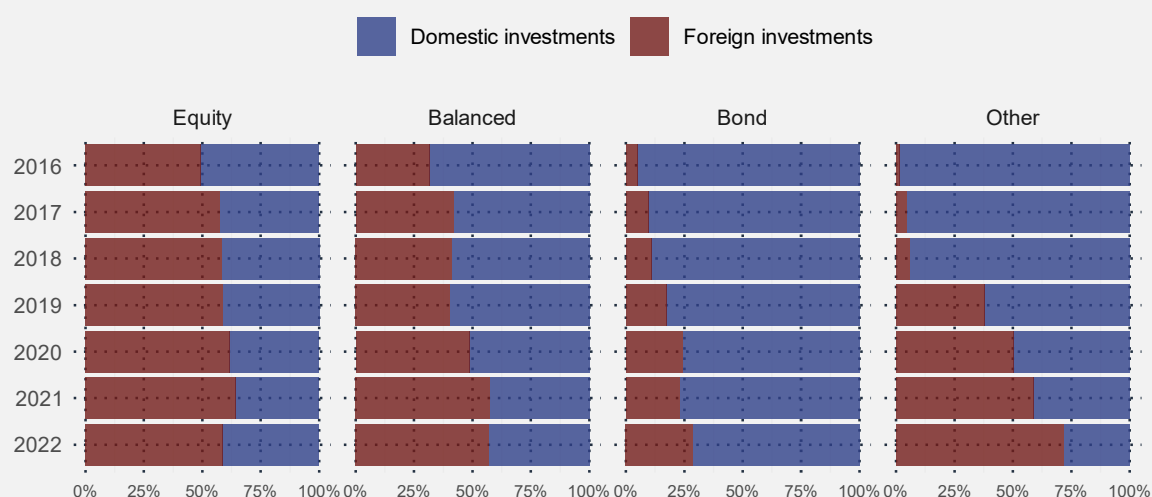
In 2022, against the backdrop of a fast growth in the general price level, economic slowdown and interest rate hikes, almost all UCITS categories recorded negative average annual returns (Figure 2.13). A positive average annual return was recorded by bond funds (3.5%), with negative average annual returns seen in balanced funds (-13.9%), equity funds (-12.8%) and other funds (-11.6%).

Figure 2.11 Asset structure of UCITS by investments type
In % of total assets



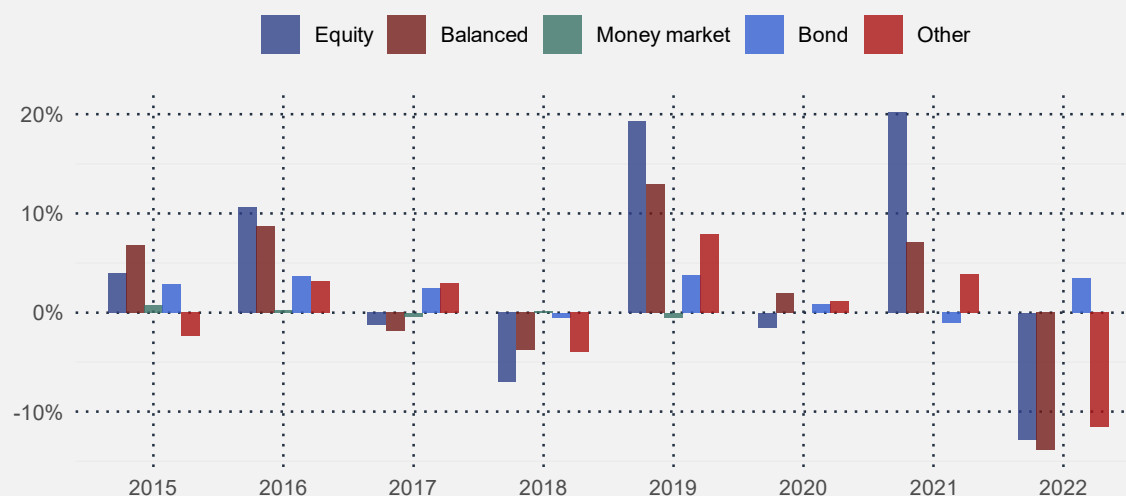
Note: Following the entry into force of the Money Market Funds Regulation, in 2020, all of the 21 money market funds operating in the Republic of Croatia operated as short-term bond funds or were reclassified into the "other" category.
Source: Hanfa

Figure 2.12 Asset structure of UCITS by domicile
In %



Source: Hanfa

Figure 2.13 Average annual returns by fund type weighted by the share in assets
In %



Source: Hanfa

Table 2.1: AIF assets by type

In HRK thousand

Alternative investment funds	2021	Share	2022	Share	Absolute change	Relative change
Public offering	161,621	3.1%	161,499	3.1%	-122	-0.1%
Open-ended	23,137	0.4%	21,682	0.4%	-1,454	-6.3%
Closed-ended	138,485	2.7%	139,817	2.7%	1,332	1.0%
Basic (non-real estate)	138,485	2.7%	139,817	2.7%	1,332	1.0%
Private offering	5,061,262	96.9%	5,009,492	96.9%	-51,769	-1.0%
Open-ended	3,283,524	62.9%	3,323,756	64.3%	40,233	1.2%
Basic	2,186,222	41.9%	2,096,153	40.5%	-90,068	-4.1%
Special	1,097,302	21.0%	1,227,603	23.7%	130,301	11.9%
Hedge fund	964,334	18.5%	1,096,836	21.2%	132,503	13.7%
Multi asset	0	0.0%	0	0.0%	0	-
Venture capital	33,544	0.6%	44,865	0.9%	11,321	33.7%
Risk capital	30,260	0.6%	42,440	0.8%	12,180	40.3%
Specialised AIF	29,116	0.6%	1,387	0.0%	-27,729	-95.2%
For sovereign debt investments	40,048	0.8%	38,915	0.8%	-1,132	-2.8%
For equity investments	0	0.0%	3,159	0.1%	3,159	-
Closed-ended	1,777,738	34.0%	1,685,736	32.6%	-92,002	-5.2%
Basic	1,710,013	32.7%	1,511,142	29.2%	-198,871	-11.6%
Special (venture capital)	67,725	1.3%	174,594	3.4%	106,869	157.8%
Total	5,222,883	100.0%	5,170,992	100.0%	-51,891	-1.0%

Source: Hanfa

Alternative investment funds

At the end of 2022, there were 39 active alternative investment funds (hereinafter: AIFs), of which 35 AIFs with private and four AIFs with public offering. Net assets of AIFs with a private offering went down by 1.0% in 2022, with their portion in AIFs' total assets standing at 96.9% at the end of 2022. The remaining 3.1% of net assets were linked to AIFs with public offering, whose assets decreased by 0.1% relative to end-2021.

Fund established under special act

Net assets of the Fund for Croatian Homeland War Veterans and Members of their Families amounted to HRK 953.6m at end-2022, down by 3.7% relative to the previous year. The price of its units went down by 2.5% on an annual basis, amounting to HRK 534.8 as at 31 December 2022.

Investment fund management companies

The number of investment fund management companies remained unchanged from 2021. In 2022, there were 23 companies managing 139 investment funds. Five of these companies managed UCITS only, 12 companies managed AIFs only, while six companies managed both AIFs and UCITS. Total assets of investment fund management companies stood at HRK 266.5m at the end of 2022, up by 2.2% from the year before. Their net profit amounted to HRK 73.0m as at 31 December 2022.

2.3 Pension system

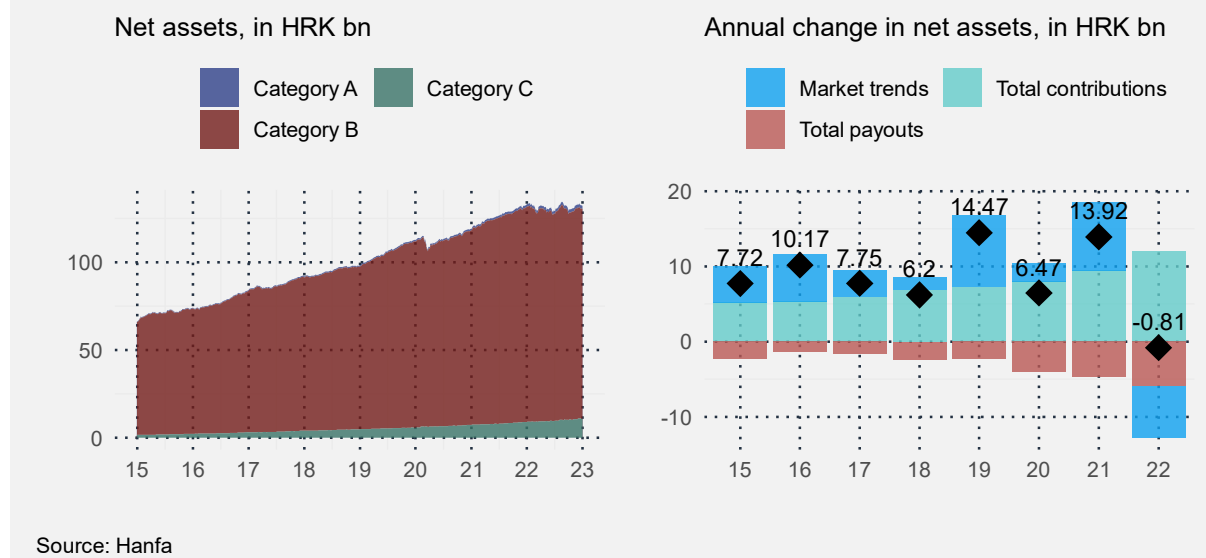
2.3.1 Mandatory pension funds (MPFs)

The number of mandatory pension funds operating within the second pillar of pension insurance remained unchanged in 2022. Net assets of 12 mandatory pension funds (hereinafter: MPFs) reached HRK 132.2bn at the end of 2022 (26.0% of GDP), down by 0.6% on an annual basis (Figure 2.14). Monetary tightening of financing conditions amid strong inflationary pressures, a slowdown in global growth and elevated market uncertainties triggered a considerable change in the prices of financial assets and a deterioration in stock and bond markets, leading to a decrease in assets of pension funds. Net assets of the largest category B dropped by 2.5% and stood at HRK 119.5bn at the end of 2022. Under the influence of the positive inflow of contributions, net assets of categories A and C increased by 33.9% (HRK 1.9bn at the end of 2022) and by 21.1% (HRK 10.8bn at the end of 2022), respectively. Total net contributions paid to MPFs in

2022 amounted to HRK 8.2bn, up by 10.5% from 2021. Total payments from all MPFs due to personal account closures stood at HRK 2.1bn, up by 14.2% from the year before.

Figure 2.14 Net assets, total contributions, payments and market trends recorded by MPFs

In HRK bn

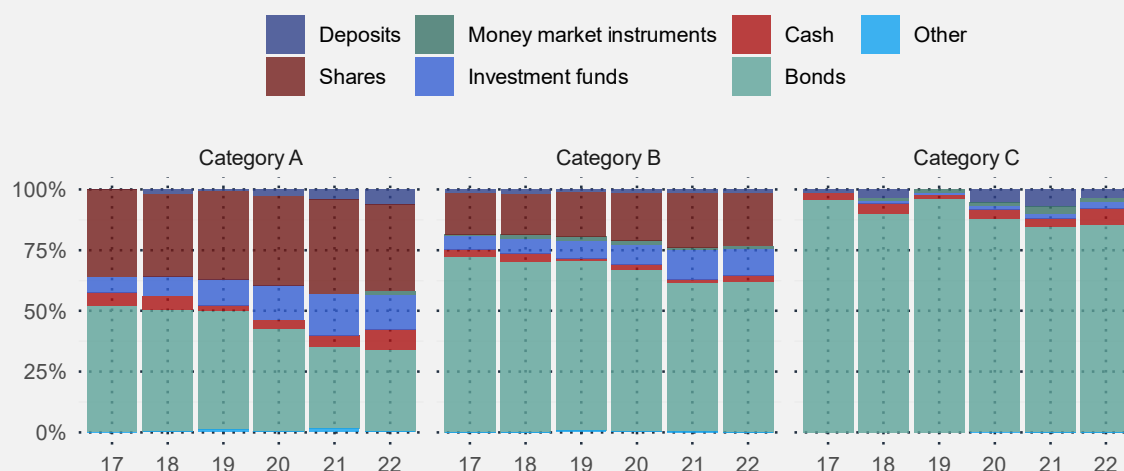


The total number of MPF members rose in 2022 to 2.2 million (an increase of 67.9 thousand). The number of members in categories A and C rose by 150.3 thousand and 18.9 thousand, respectively, while the number of members in the largest category B dropped by 34.2 thousand. The steady rise in the number of category A members was the result of amendments to the Mandatory Pension Funds Act⁵ that entered into force in 2019, according to which any members who fail to select their fund category themselves in the process of selecting the fund for the first time are allocated automatically to one of the category A funds. Of the total number of new members in 2022, 97.4% (81.6 thousand) have been allocated to one of the MPF categories by the Central Registry of Affiliates (hereinafter: Regos) acting *ex officio*.

Pension funds' investment structure is largely defined by law. In 2022, it remained relatively unchanged from the year before (Figure 2.15). Domestic sovereign bonds accounted for the largest portion of MPFs' investments at the end of 2022, with a share of 63.4% in total assets (an increase of 0.9 p.p. on an annual basis). The second largest MPF asset class in 2022 were shares, with a share of 20.2% in total MPF assets (a decrease of 0.9 p.p. from 2021). Category A recorded a decline in investments in bonds (by 0.1 p.p.) and shares (by 3.0 p.p.), while category B saw a drop in investments in shares (by 0.7 p.p.) and an increase in investments in bonds (by 0.6 p.p.). Category C (where investments in shares are not permitted) recorded a 0.6 p.p. increase in bond investments and a drop in the share of deposits in investments (by 3.7 p.p.).

⁵ Legislative changes provide for the procedure according to which any new members who fail to select their pension fund on their own within 30 days following their employment are allocated automatically to one of the four category A funds ([Official Gazette, No 115/2018](#)).

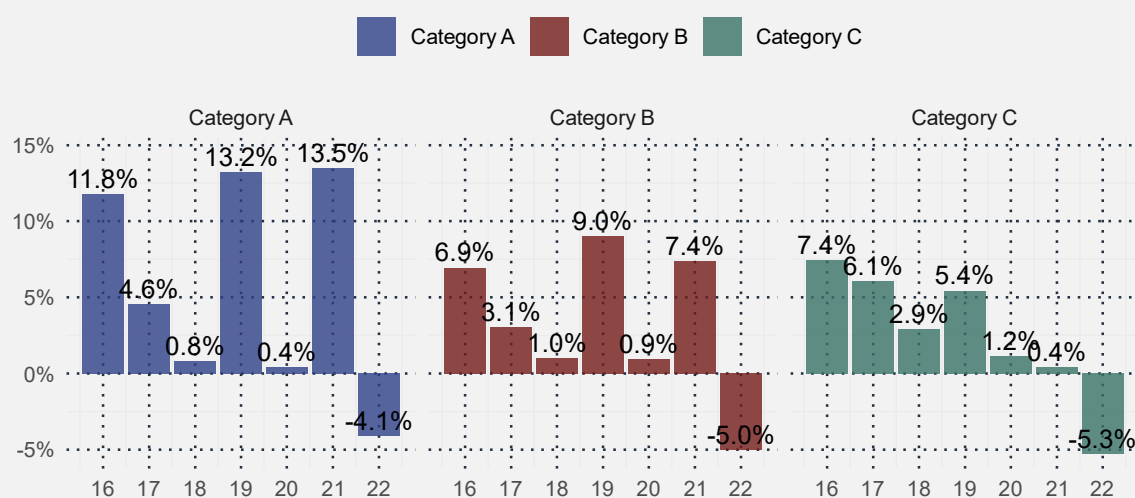
Figure 2.15 Mandatory pension funds' asset structure by investment type
In % of total assets



Source: Hanfa

Adverse market developments affected almost all classes of financial assets in 2022 in terms of rising volatility and the largest price corrections in several years, with a negative impact on the returns of domestic pension funds. At the end of 2022, the return of category C mandatory pension funds stood at -5.3%, while category A and B funds recorded a milder decrease in return, of 4.1% and 5.0%, respectively, thanks to more diversified portfolios and a higher exposure to the domestic stock market (Figure 2.16). The long-term nature of pension savings allows for striking a balance between positive and negative developments in markets. This is why pension funds usually record positive returns over a longer period.

Figure 2.16 Mandatory pension funds' rates of return
In %

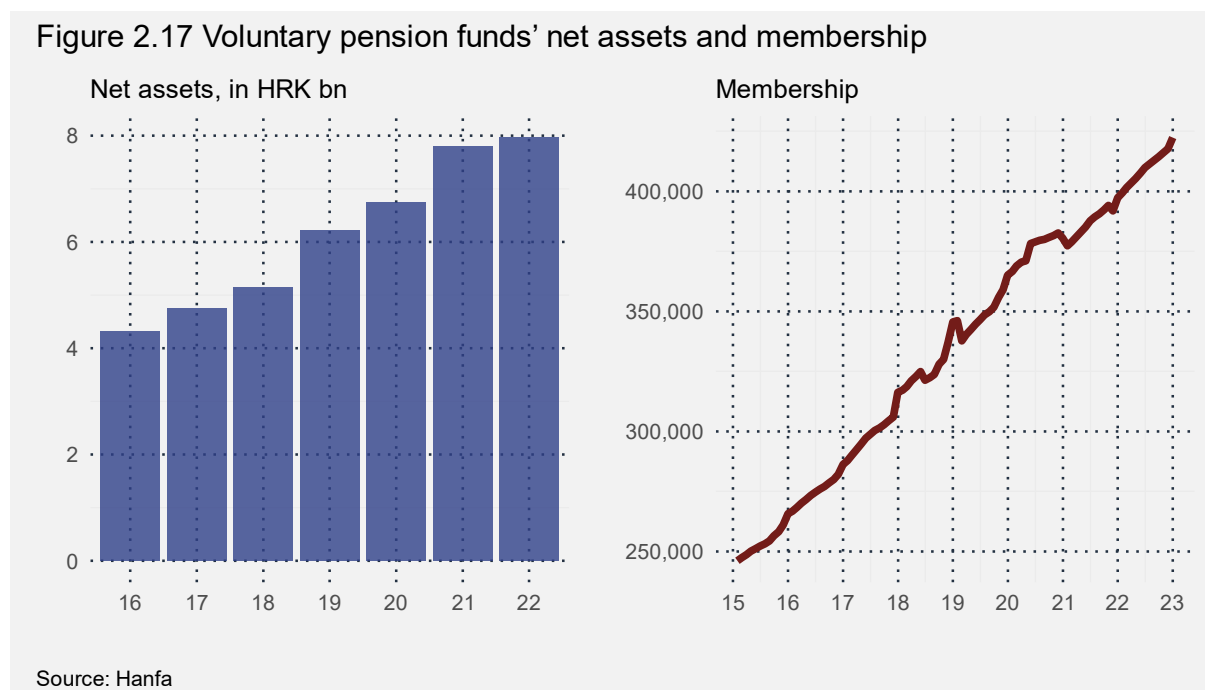


Source: Hanfa

2.3.2 Voluntary pension funds (VPFs)

The number of pension funds operating within the third, voluntary pillar of pension insurance in Croatia rose by one in 2022⁶. At the end of 2022, there were 29 voluntary pension funds (hereinafter: VPFs), of which eight were of an open-ended type (hereinafter: OVPFs) and 21 of closed-ended type (hereinafter: CVPFs). The total number of members in the third pillar reached 422 thousand at the end of the year, up by 6.3% from 2021 (Figure 2.17). The number of OVPF members rose by 6.7% (to 374.7 thousand), while the number of CVPF members increased by 3.7% (to 47.7 thousand). Net assets of VPFs were 2.1% larger at the end of 2022 than a year earlier and stood at HRK 8.0bn. Net payments made to VPFs in 2022 amounted to HRK 643.9m, up by HRK 16.7m (2.7%) from the previous year.

Figure 2.17 Voluntary pension funds' net assets and membership

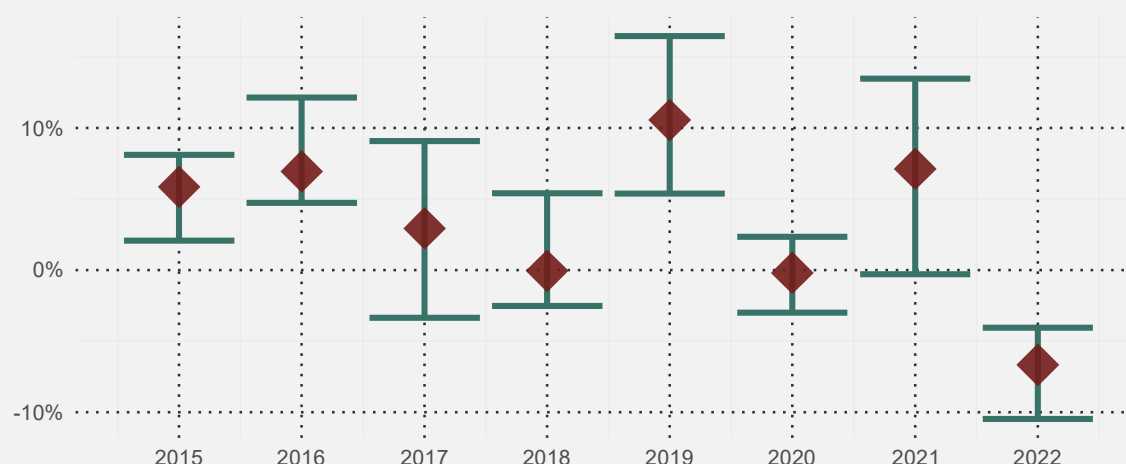


After the very profitable 2021⁷, VPF yields dropped year-on-year amid unfavourable market developments and ranged from -10.5% to -4.1% (Figure 2.18). The VPF investment structure was dominated by bonds (54.4%), shares (24.3%) and cash (10.4%) at the end of 2022, with an increase in the share of bond investments (+2.0 p.p.) and cash (+0.8 p.p.) and a drop in share investments (-0.8 p.p.) from the year before (Figure 2.19).

⁶ Arena Mudra Mirovina ZDMF started to operate on 20 December 2022.

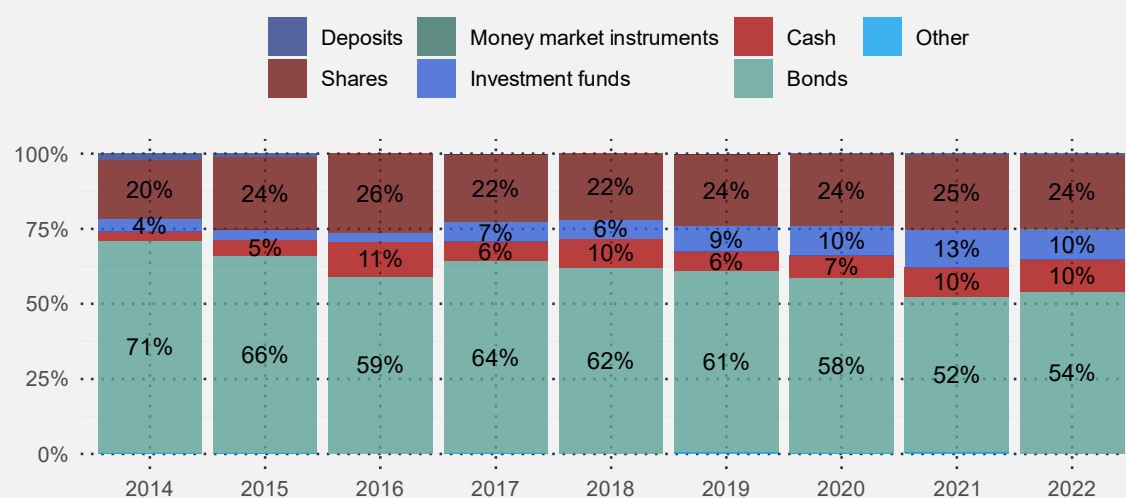
⁷ The average return of VPFs stood at 7.1% in 2021, with return ranging from -0.3% to 13.5%.

Figure 2.18 Voluntary pension funds' annual rates of return
In %



Note: The chart shows average annual rates of return and the range of rates of return of voluntary pension funds in the year observed.
Source: Hanfa

Figure 2.19 Voluntary pension funds' investment structure
In % of total assets



Source: Hanfa

2.3.3 Pension companies

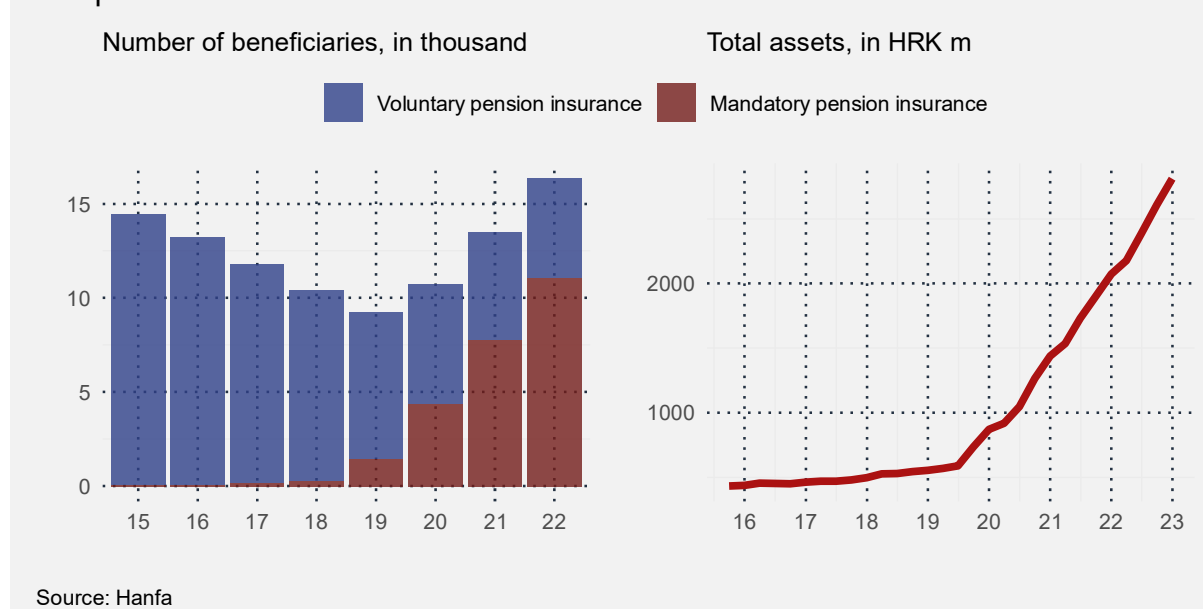
In 2022, pension funds were managed by five companies, as in the previous year. Three of them managed both mandatory and voluntary pension funds, one of them managed only mandatory pension funds, and one of them managed only voluntary pension funds. The net result of fund management stood at HRK 285.7m in 2022, down by 1.3% from 2021. Income from management increased by 1.7%, while expenditure from

management went up by 6.5%. Net profit amounted to HRK 139.2m, a drop of 10.7% compared to the previous year.

2.3.4 Pension insurance companies (PICs)

At the end of 2022, there were two pension insurance companies (hereinafter: PICs) operating in Croatia, as in the previous year. Their total assets amounted to HRK 2.8bn, rising by 35.6% on an annual level. This rise was due to the annual increase in the number of PIC beneficiaries of 21.1%, with their number reaching 16.3 thousand (Figure 2.20). The number of mandatory pension insurance beneficiaries increased by 42.1% (to 11.1 thousand), while the number of voluntary pension insurance beneficiaries declined by 7.8% (to 5.2 thousand). The growth in the number of mandatory pension insurance beneficiaries and the simultaneous fall in the number of voluntary pension insurance beneficiaries were partly a result of legislative changes introduced in 2019⁸, which introduced voluntary pension savings payout options to pension funds and life insurance companies, but also to combined payouts, which were used by a significant part of the members. The changes provided for the payment of a pension supplement for pensions paid from the first and second pillar, which made combined pensions more attractive and competitive, which resulted in a larger number of beneficiaries of such pensions.

Figure 2.20 Number of pension insurance beneficiaries and pension insurance companies' assets



At the end of 2022, technical provisions of PICs stood at HRK 2.5bn, up by 42.1% from the previous year. With regard to pension schemes offered by these companies, the most used in 2022 was the individual pension scheme with a share of 44.8%, followed

⁸ [Official Gazette, No 115/18](#)

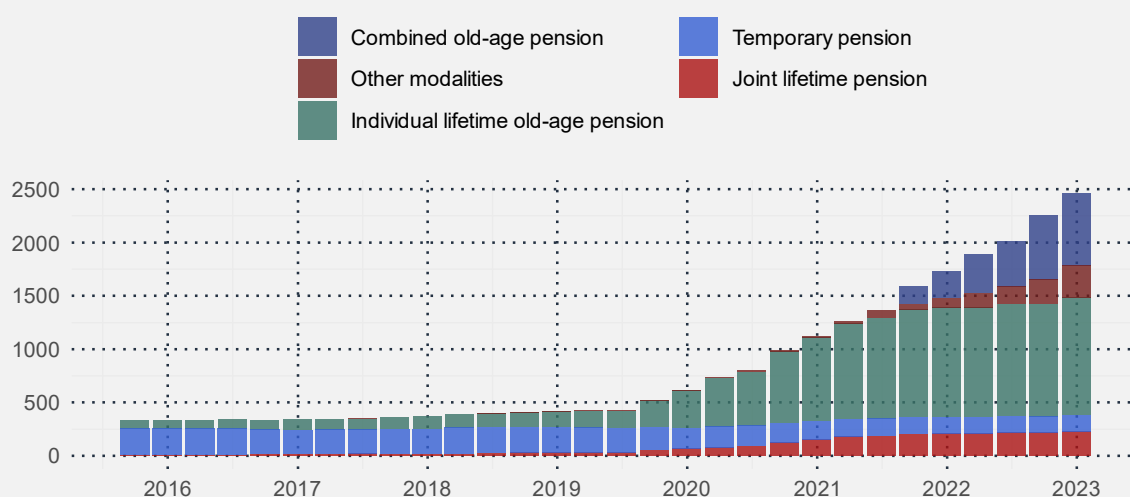
by combined old-age pensions with a share of 27.4%, other modalities with a share of 12.2%, joint lifetime pensions with a share of 9.4% and temporary pensions with a share of 6.2% in the total balance of technical provisions. Compared with the previous year, technical provisions for other modalities recorded the sharpest growth (229.9%), followed by combined old-age pensions (167.5%) and joint lifetime pensions (9.9%), while technical provisions for temporary pensions decreased by 1.1%.

Total pension insurance companies' investments stood at HRK 2.9bn (86.4% of total assets) at end-2022, rising by 25.7% on an annual basis. In line with the relevant legislation, the largest portion of assets covering technical provisions was invested in government bonds (80.1%), followed by corporate bonds (6.3%), other assets (4.8%), investment fund units (4.6%) and cash (4.2%). The share of investments in government bonds and investment fund units decreased from the year before, by 6.7 p.p. and 1.4 p.p., respectively, while the share of investments in corporate bonds, other assets and cash rose by 3.2 p.p., 4.7 p.p. and 0.7 p.p. respectively.

Technical provisions stood at HRK 2.5bn at the end of 2022, up by 38.3% on an annual basis, with a rise in technical provisions for mandatory pension insurance (45.9%) and a fall in technical provisions for voluntary pension insurance (8.0%). Broken down by the type of pension scheme, the largest increase on an annual level was recorded in technical provisions for individual lifetime old-age pensions (47.2%), joint lifetime pensions (38.6%) and individual lifetime disability pensions (30.6%) (Figure 2.21).

In 2022, pension insurance companies recorded a net loss of HRK 82.5m. However, despite a bad year, their capitalisation at end-2022 remained well above the regulatory requirements.

Figure 2.21 Technical provisions by type of pension scheme
In HRK m



Source: Hanfa

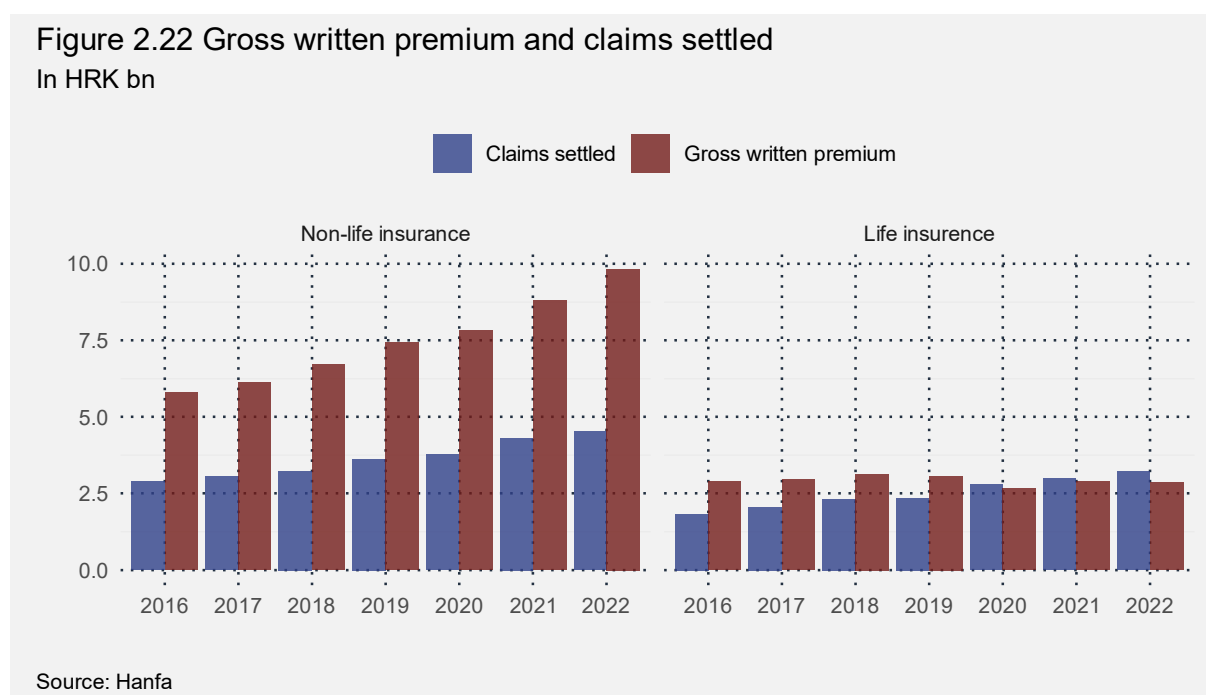
2.4 Insurance

The number of insurance companies remained unchanged in 2022. There were 15 insurance companies operating in Croatia at the end of the year: three life insurance companies, four non-life insurance companies and eight composite insurance companies.

Gross written premium stood at HRK 12.7bn at end-2022, growing by 8.1% on an annual basis (Figure 2.22). This growth stemmed from the increase in non-life insurance premium, with gross written premium in this segment rising by 11.4% on an annual basis, standing at HRK 9.9bn at the end of the year. The rise in non-life insurance premium largely came from motor vehicle liability insurance, motor vehicle insurance and property insurance, which rose by 9.2%, 12.8% and 12.2%, respectively. While non-life insurance premium increased, life insurance premium dropped by 1.8% in 2022 and stood at HRK 2.8bn at the end of 2022.

Claims settled increased by 6.1% in 2022 from the levels recorded in 2021 and amounted to HRK 7.7bn. In 2022, claims settled increased both in the life insurance category (to HRK 3.2bn, up by 7.2%) and non-life insurance category (to HRK 4.5bn, up by 5.3%).

Figure 2.22 Gross written premium and claims settled
In HRK bn

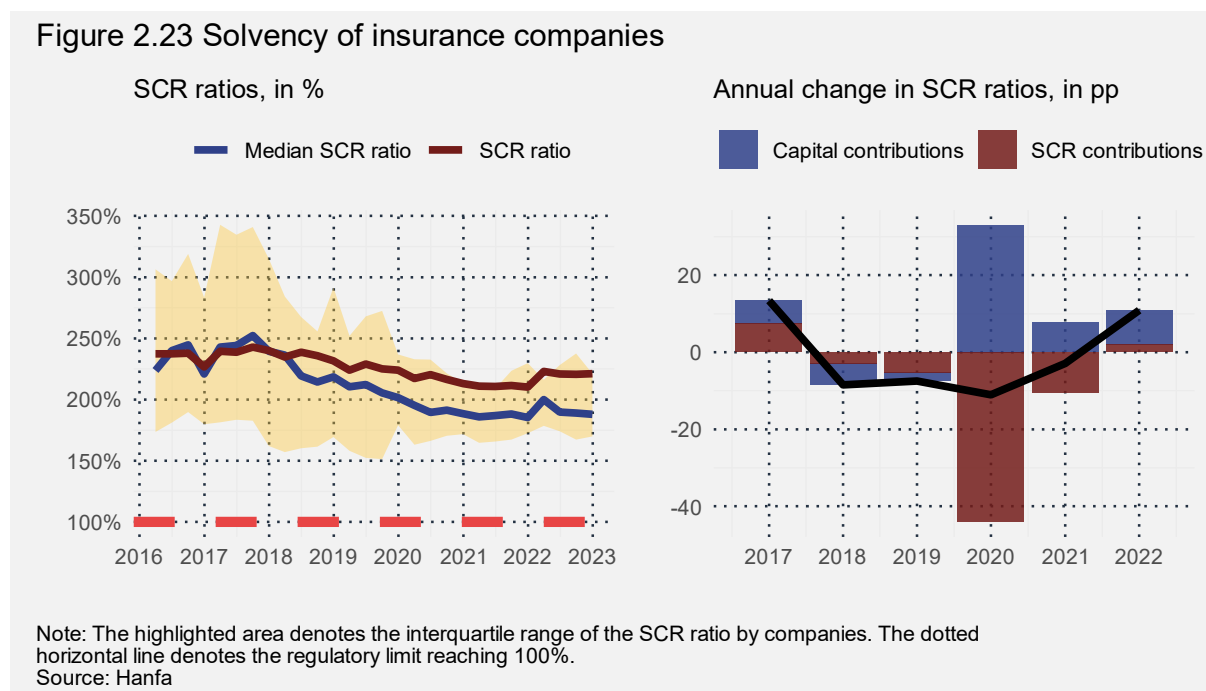


Total assets of insurance companies stood at HRK 46.8bn in 2022, down by 3.1% from 2021. Investments are the largest asset item, accounting for 70.3% of total assets. Their value decreased by 7.9% in 2022. A decrease in investments was primarily due to the decline in the value of bonds related to interest rate increases, given that bonds accounted for as much as 64.2% of total investments at the end of the year. Technical provisions and capital and reserves were most widely represented in the liabilities structure, accounting for 68.7% and 21.8% of total liabilities, respectively. Despite stable

operational business indicators related to insurance, financial losses associated with the rise in interest rates impacted total comprehensive income (especially in the life insurance segment). Consequently, insurance companies recorded a total loss of HRK 3.4bn in 2022.

The capitalisation of insurance companies measured by the solvency ratio (hereinafter: SCR ratio) remained well above the regulatory minimum (Figure 2.23). The system-wide downward trend of the SCR ratio was halted in 2022, and the SCR ratio stood at 221.1% at the end of 2022 (rising by 10.9 p.p.), with the median SCR ratio standing at 188% (a growth of 2.7 p.p.). This growth is the result of a relatively stronger impact of interest rate hikes on the value of technical provisions than their impact on the value of investments, which ultimately contributed to the increase in the own funds of insurance companies.

Figure 2.23 Solvency of insurance companies



Croatian Insurance Bureau

According to the balance sheet of the Regular Business Operations of the Croatian Insurance Bureau (hereinafter: Bureau), total assets of the Bureau amounted to HRK 11.2m at the end of 2022. Total liabilities stood at HRK 4.0m and sources of financing at HRK 7.2m. The Bureau's income totalled HRK 10.4m, increasing by 21.4% relative to the previous year, and was primarily made up of income from its members. The expenditure recorded by the Bureau amounted to HRK 9.6m, up by 10.9% relative to 2021, and was dominated by expenses for regular business activities. As at 31 December 2021, total assets of the Guarantee Fund amounted to HRK 20.2m, rising by 3.4% compared to the previous year.

Croatian Nuclear Insurance and Reinsurance Pool, EIG

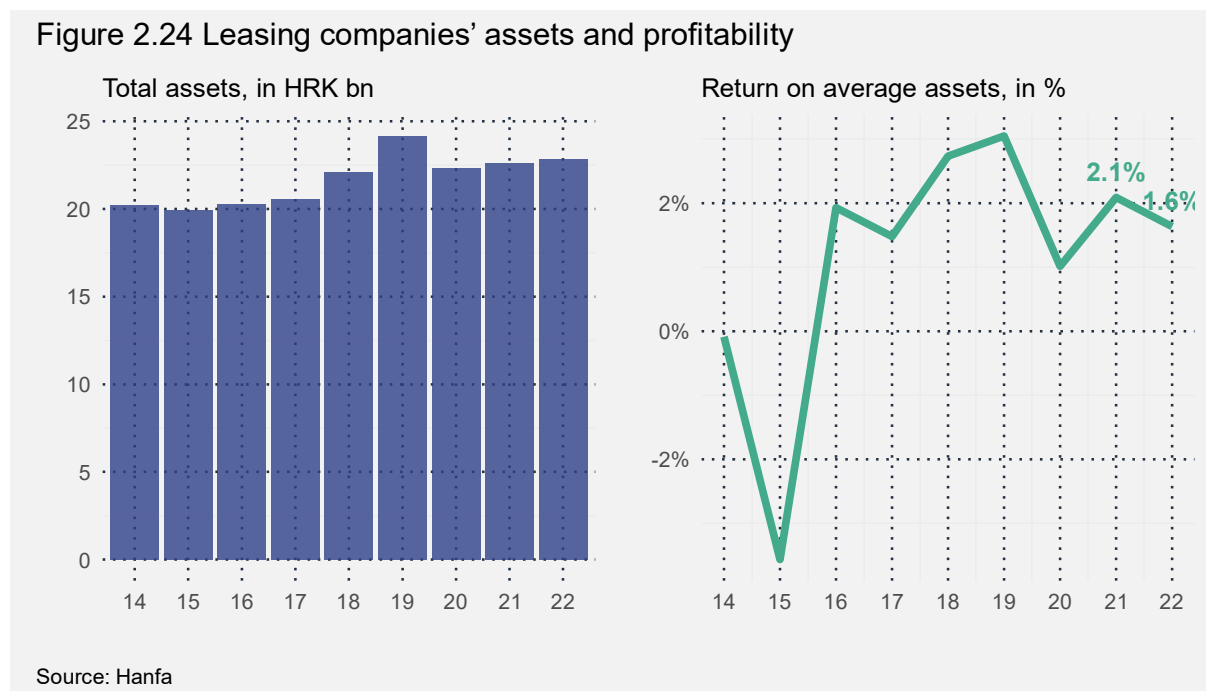
Total investments of the Croatian Nuclear Insurance and Reinsurance Pool, EIG (hereinafter: Croatian Nuclear POOL) stood at HRK 71.9m at the end of 2022. The investment structure recorded a considerable rise in cash (from 40.2% to 87.3%), while exposure related to all other asset classes decreased drastically. Total technical provisions as at 31 December 2022 stood at HRK 70.8m, down by 3.1% from the year before. Gross profit of the Croatian Nuclear POOL amounted to HRK 48.2 thousand at the end of 2022.

2.5 Non-bank financing

2.5.1 Leasing companies

The number of leasing companies remained unchanged at end-2022 from the previous year; therefore, there were 15 leasing companies operating in Croatia. Total assets of leasing companies increased by 11.7% from the previous year and stood at HRK 22.3bn at the end of 2022 (Figure 2.23). Their primary source of financing were loans and credits from foreign banks and institutions, which amounted to HRK 16.5bn in 2022 (rising by 16.5% on an annual basis). The profitability of leasing companies, that is, return on their average assets stood at 1.6% in 2022, which is largely due to the decrease in profit before tax (of 16.8%), which amounted to HRK 345.4m in 2022.

Figure 2.24 Leasing companies' assets and profitability



The number and value of new contracts grew in 2022, with their value amounting to HRK 10.52bn (rising by 29.4%)⁹. The value of new contracts in finance lease increased by 32.9% (their number rose by 8.5%), and in operating lease by 10.8% (the number of new contracts increased by 5.0%). The contracted value of active contracts also rose and stood at HRK 18.6bn at the end of the year (up by 12.1%). The structure of all active contracts was still dominated by vehicles (passenger cars and commercial vehicles), accounting for 78.1% of the total value of active contracts (HRK 14.6bn). Broken down by activities, leasing companies were primarily exposed to tourism-related services (trade, transport and accommodation), which accounted for 31.1% of all active contracts at the end of 2022.

Development of the leasing market in the Republic of Croatia

In the last twenty years, leasing activity in Croatia has gone through different phases marked by economic growth, crises and regulatory changes. Nevertheless, it has become a significant part of the financial system, with its services (financial and operating leasing) posing an important alternative to bank financing.

Given that operations of leasing companies are not uniformly regulated at the EU level, on the national level the domestic leasing market is regulated by the Leasing Act¹⁰ which entered into force in December 2006. The Act lays down the licensing procedure for leasing companies and members of their management boards, capital and organisational requirements, content of lease contracts and the rights and obligations of entities participating in leasing activities. The Act also provides for the establishment of the Register of Leased Assets, largely for the purpose of preventing fraud in the leasing market. In addition, it also regulates the process of supervision carried out by Hanfa as the competent supervisory authority. All of the above has contributed to additional stability of leasing companies and better protection of recipients of leasing services (especially consumers) and ensured leasing companies' resilience to crises, generally improving stability, safety and confidence in the leasing market.

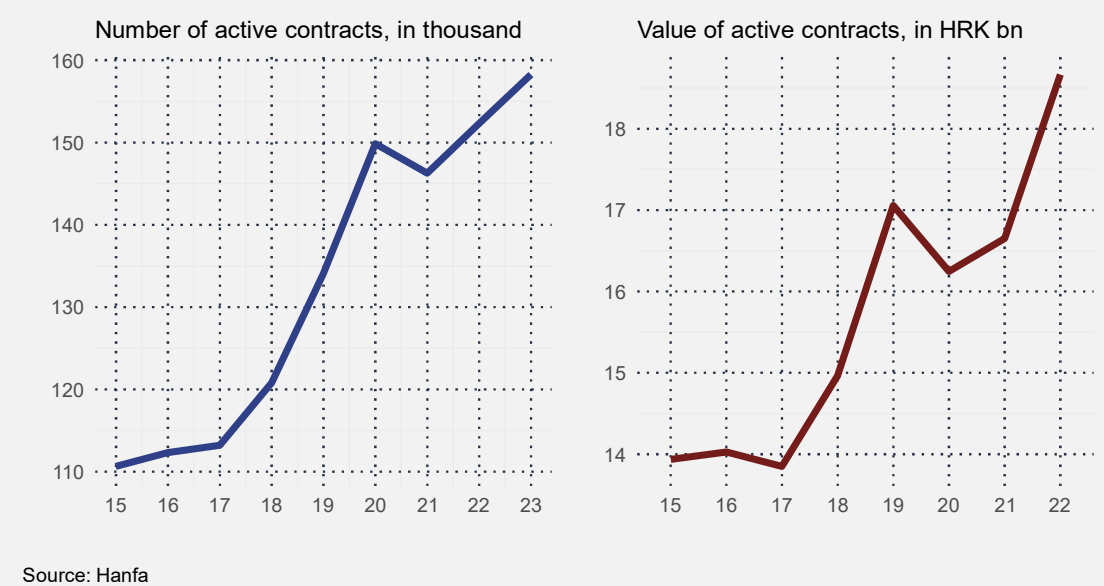
Since the entry into force of the Leasing Act, leasing activities have gone through several business cycles. Leasing companies were severely hit by the financial crisis in 2008, which resulted in a considerable fall in their assets in the years that followed, from HRK 35.4bn at the end of 2008 to HRK 17.3bn at the end of 2015. Their operations started to recover in 2016. However, the volume of leasing operations was again reduced in 2020 amid the coronavirus crisis and

⁹ The number of new contracts rose by 7.7% in 2022 and stood at 53.9 thousand at the end of the year.

¹⁰ Official Gazette, No [135/06](#), [141/13](#)

the economic shutdown, due to a large exposure of leasing companies to the hardest hit activities (transport, car rental and charter), with a strong effect on their operations. However, the negative effects of the crisis and the economic shutdown, were successfully surmounted with the help of Hanfa's recommendations, as well as numerous adequate measures that leasing companies took with respect to their clients to alleviate the economic consequences. Moratoria or rescheduling was approved for almost 28,000 lease contracts in July 2020 (19% of all active lease contracts), with the total value of HRK 5.5bn (30% of the value of all active lease contracts at the time). Thus, leasing companies contributed significantly to overcoming the crisis, mostly through the recovery of those activities that later proved to be the drivers of a successful tourist season. At the end of 2022, there were 158,213 active lease contracts in leasing companies' portfolios (3.9% more than in 2021), with the total value of HRK 19.2bn, 11% more than in 2021, due to inflationary pressures and the availability of leased assets. However, despite their recovery, leasing operations have not yet reached pre-pandemic levels, given that the number of concluded lease contracts dropped by 17.5%.

Figure 2.25 Number and value of active contracts of leasing companies



In the current macrofinancial environment of rising costs of financing, leasing companies are exposed to the potential risk of increased inability to service debt due to interest rate hikes, given that a (small) portion of lease contracts have been concluded with a variable interest rate linked to a certain (variable) benchmark, most often Euribor. Nevertheless, a positive fact in the context of the rise in benchmark interest rates is that over 70% of placements of leasing companies at the end of 2022 were granted with a fixed interest rate, and such placement structure ultimately limits any significant materialisation of interest rate-induced credit risk.

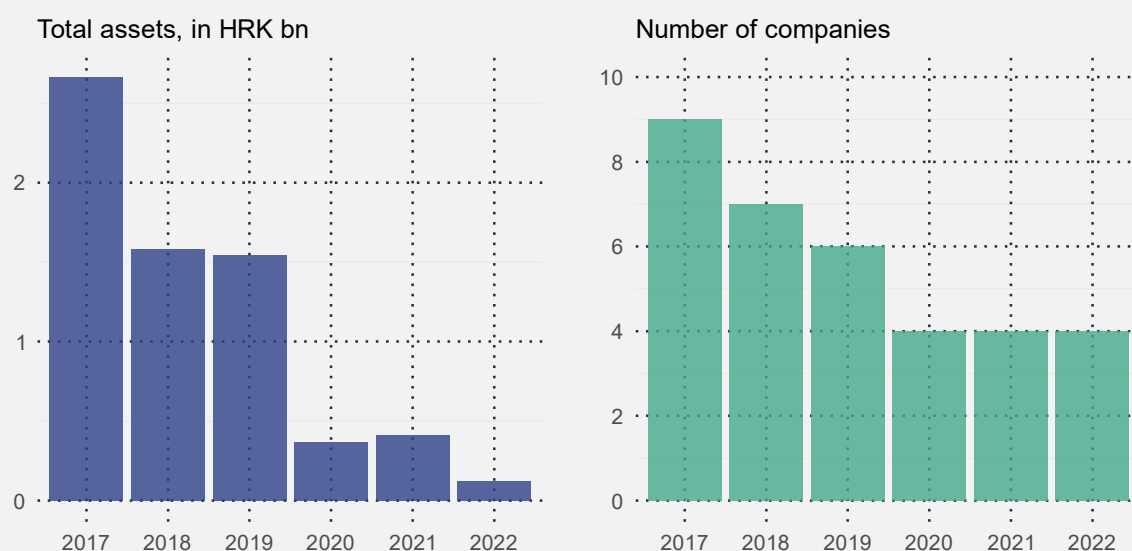
2.5.2 Factoring companies

At the end of 2022, there were four factoring companies operating in Croatia, the same as in the previous year. Their assets decreased by 34.3% from the previous year and stood at HRK 238.3m.

The volume of transactions continued its downward trend in 2022, and amounted to HRK 577.9m at the end of 2022, down by 38.1% from the year before. By far the largest share in this volume was accounted for by regular factoring operations with an 88.6% share, followed by reverse factoring with an 8.3% share and factoring including the discounting of bills of exchange with a 3.1% share.

At the end of 2022, factoring companies' receivables amounted to HRK 70.5m, of which HRK 57.9m related to regular factoring operations, HRK 5.5m to factoring including the discounting of bills of exchange, and HRK 7.0m to reverse factoring operations. Factoring companies reported a net loss of HRK 0.4m at the end of 2022.

Figure 2.26 Number of factoring companies and their assets



Source: Hanfa

SUPERVISORY ACTIVITIES

3 SUPERVISORY ACTIVITIES

Hanfa is a supervisory authority whose scope of activities and competence cover the supervision of financial markets, financial services and legal entities and natural persons providing those services. Within the scope of on-site and off-site inspections carried out on an ongoing basis over more than 1,000 supervised entities, Hanfa seeks to determine whether they operate in compliance with the law, risk management regulations and other rules, internal acts, professional rules and generally in a manner ensuring the safety and stability of their operations. The main objective of supervision is protecting the interests of financial services users and public interest, which contributes to promoting and safeguarding the stability of the financial market.

3.1 Microprudential supervision

3.1.1 Capital market

Supervision of capital market infrastructure

The capital market infrastructure in the Republic of Croatia comprises the Zagreb Stock Exchange as the operator of both the regulated market and a multilateral trading platform for small and medium-sized companies called Progress Market, Central Depository & Clearing Company Inc. (hereinafter: CDCC) as the central securities depository and SKDD-CCP Smart Clear d.d. (hereinafter: SKDD-CCP) as the central counterparty, supervised by Hanfa as the competent supervisory authority¹¹ in accordance with the provisions of the Capital Market Act¹² (hereinafter: CMA) and other legislation transposing EU law into Croatian legislation. Hanfa continuously assesses the risks arising from market infrastructure activities and verifies the compliance with the requirements and criteria laid down in EU legislation and the laws of the Republic of Croatia. As there is only one regulated market operator, one multilateral trading platform operator, one central securities depository and one central counterparty authorised in the Republic of Croatia, the continuous supervision of these entities of

¹¹ Hanfa is a competent authority for:

(i) CDCC as a central securities depository in accordance with the Act Implementing Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012, ([Official Gazette, No 44/16](#)) and the corresponding regulation;

(ii) SKDD-CCP as a central counterparty in accordance with the Act Implementing Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories ([Official Gazette, No 54/13](#)) and the corresponding regulation;

(iii) the stock exchange as the regulated market operator in accordance with the CMA.

¹² Official Gazette, No [65/18](#), [17/20](#), [83/21](#) and [151/22](#)

systemic importance for the proper functioning of the capital market is of utmost importance in order to prevent potential illegalities, irregularities or deficiencies in the operation of market infrastructure entities.

In 2022, Hanfa carried out continuous off-site supervision of trading venues, including trading on the regulated market and Progress Market, operated by the ZSE, and supervision of the ZSE as the provider of APA Service, that is, an approved publication arrangement concerning information about over-the-counter transactions (OTC transactions). In the light of the entry into force of the Act on the Introduction of the Euro as the Official Currency in the Republic of

Croatia¹³ (hereinafter: Act on the Introduction of the Euro), in 2022 Hanfa approved amendments to the Exchange Rules and the Stock Exchange Price List for the purpose of harmonisation of definitions and terms contained therein and the changeover of the amounts denominated in kuna to euro. In addition, in 2022 Hanfa carried out an off-site inspection of trading on the ZSE concerning the establishment and implementation of appropriate systems, procedures and mechanisms for rejecting orders exceeding the predefined volume and price threshold or those that are clearly erroneous. Irregularities found during the inspection were fully remedied and Hanfa issued a decision ending the inspection.

Hanfa continuously monitors and supervises trading in financial instruments admitted to the regulated market and Progress Market. In 2022, Hanfa received 14 reports of suspicious transactions and orders in accordance with Article 16 of the Market Abuse Regulation¹⁴ (hereinafter: STOR reports) and two complaints related to market abuse, of which ten STOR reports related to suspicions of market manipulation, while four STOR reports and two complaints related to suspicions of insider trading. Acting on the submitted reports and complaints, none of the suspicions of market abuse were confirmed. In three cases Hanfa continues to monitor investor's activities.

In 2022, Hanfa carried out an off-site inspection of credit institutions' securities trading by the staff of the Croatian National Bank (hereinafter: CNB) in the period from 1 January 2000 to 18 January 2022. Within the scope of the inspection, all transactions involving securities of credit institutions with a registered office in the Republic of Croatia made by the staff and former staff of the CNB and their related persons were examined.

APA Services

APA (approved publication arrangement) means an approved system for publishing information about transactions involving financial instruments traded on a trading venue that have been executed outside a trading venue (the so-called OTC transactions). The system aims to improve the quality of information about trading which takes place over-the-counter, thus improving the transparency of overall trading on financial markets.

¹³ Official Gazette, No **57/22** and **88/22**

¹⁴ **Regulation (EU) No 596/2014** of the European Parliament and of the Council of 16 April 2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, OJ L 173

Transactions were analysed by taking into account the published mandatory and inside information (previously material facts), the moment when the transactions were made, movements in the prices of securities, the role and position of each member of staff, their access to information, as well as all other facts that might have been material in determining the potential existence of insider trading. Hanfa's conclusions reached in each of the inspection phases were submitted and presented to the Finance and Central Budget Committee of the Croatian Parliament, and were also submitted to the County State Attorney's Office. In this regard, Hanfa also carried out an on-site inspection related to verifying a credit institution's compliance with the Market Abuse Regulation in the part concerning securities issues. As no irregularities were found during the inspection, it was completed in 2022.

Hanfa regularly reports to the European Securities and Markets Authority (hereinafter: ESMA) about its supervisory activities related to trading on the ZSE and infrastructure. In 2022, Hanfa provided ESMA with notifications of temporary suspension of trading and/or removal from trading of financial instruments admitted to the regulated market, data on settlement fails, information on net short positions and data on the duration-adjusted amount of sovereign debt instruments issued by the Republic of Croatia.

In addition to the ZSE, Hanfa also regularly supervises another important segment of the market infrastructure, that is, the CDCC. In 2022, the CDCC was authorised by Hanfa as a central securities depository in accordance with the Regulation on improving securities settlement and on central securities depositories¹⁵ (hereinafter: CSDR).

Central securities depository

A central securities depository (CSD) is a legal person that operates a system for settling securities in a dematerialised form, by carrying out securities transactions so that the parties to transactions receive or deliver securities, cash or both. Additionally, in accordance with the CSDR, CSDs must also provide at least one other core service, which may include either notary service (initial recording of securities in a book-entry system) or central maintenance service.

Currently, there are 29 authorised central securities depositories in the EU. Authorisation granted to the CDCC as the central securities depository in the Republic of Croatia pursuant to the CSDR has a positive effect on all the participant members of the CDCC and on the capital market itself, given that the laws and regulations adopted at the EU level provide clear, precise and clearly defined frameworks, conditions, criteria and requirements to be met by

¹⁵ [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

all central depositories, with defined procedures in case of settlement fails or any other disruptions related to securities settlement.

In addition to central securities depository services (notary services, central maintenance services, settlement services), since February 2022, the CDCC has also been authorised to provide non-banking ancillary services such as services related to shareholders' registers, supporting the processing of corporate actions, including tax, general meetings and information services, new issue services, including allocation and management of ISIN codes and similar codes, establishing links with other central securities depositories, providing information, data and statistics to market/census bureaus or other governmental or inter-governmental entities, providing IT services, trust services, voting as a proxy at general assemblies, performing investor protection fund management activities, as well as providing administrative, accounting and computer services for affiliates.

Figure 3.1 Services provided by the Central Depository & Clearing Company



Source: Hanfa

As a supervisory authority pursuant to the CSDR, Hanfa carries out a review procedure and evaluates the risks and the compliance of the CDCC with the CSDR and other laws and regulations on an annual basis. Hanfa also supervises and analyses the volume and value of internalised settlements of the CDCC on a quarterly level and reports to ESMA on these activities. Hanfa also monitors reports on settlement fails prepared by the CDCC on a monthly basis. Within the scope of regular on-site inspection of overall CDCC operations ¹⁶ initiated in 2021, in 2022 Hanfa discovered organisational deficiencies and shortcomings in the CDCC and will issue recommendations for their removal in 2023. In the course of the year, Hanfa carried out a regular off-site inspection of all the reports that the CDCC is obligated to prepare. In addition, in 2022 Hanfa also carried out an off-site inspection of CDCC's activities as the operator of the Investor Protection Fund by reviewing financial statements, reports on the Fund's members and assets and the number and structure of the Fund's members. Hanfa found no irregularities or deficiencies in the activities of the CDCC as the operator of the Investor Protection Fund.

SKDD-CCP commenced its operations and the provision of central counterparty services in early 2022. Hanfa, as the competent authority, supervises the compliance of SKDD-CCP with the applicable regulatory requirements, and organises and chairs the college of supervisors ¹⁷ of SKDD-CCP, which discusses the supervisory activities already taken and planned and decides on matters that a college of supervisors must decide on pursuant to the Regulation on OTC derivatives, central counterparties and trade repositories ¹⁸ (hereinafter: EMIR). The college of supervisors of SKDD-CCP held its regular annual meeting in 2022. In addition to matters pertaining to the activities and operations of SKDD-CCP, the college also discussed the recovery plan submitted by SKDD-CCP to Hanfa as the competent authority, which is to be prepared by all central counterparties at least annually, in accordance with the Regulation on a framework for the recovery and resolution of central counterparties¹⁹.

The supervisory activities carried out in 2022 included actions taken in response to

Investor Protection Fund

The purpose of the Investor Protection Fund is to protect the claims of investors on the capital market who are clients of investment firms or credit institutions providing investment services or ancillary investment services to investors. The members of the Fund pay initial and regular contributions to the Fund operated by the CDCC. The contributions paid to the Fund are used to protect investors' claims in case bankruptcy proceedings are instigated against a member of the Fund or if Hanfa establishes that a member of the Fund is unable to meet its obligations to clients, and it is not likely that it would be able to do so in the foreseeable future.

¹⁶ The inspection focused on the operation of the CDCC and the activities referred to in Article 629 of the CMA in the period from 1 January 2019 to the date of completion of the procedure.

¹⁷ The college of supervisors of SKDD-CCP comprises the CNB, the ECB, Hanfa and ESMA.

¹⁸ **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

¹⁹ **Regulation (EU) 2021/23** of the European Parliament and of the Council of 16 December 2020 on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, (EU) No 600/2014, (EU) No 806/2014 and (EU) 2015/2365 and Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/EU and (EU) 2017/1132, OJ L 22

sanctions imposed on Russia and Belarus, such as providing timely information about new sanctions imposed and supervising the compliance of supervised entities with these sanctions. The Ministry of Foreign and European Affairs is in charge of coordinating international restrictive measures, while Hanfa takes all the necessary actions within its competence to ensure that the sanctions imposed are fully and timely implemented. Hanfa examined whether there were any assets/positions on accounts kept with the CDCC that were held by sanctioned entities. It also examined and monitored the ownership structure of the CDCC and the ZSE, and checked whether the market infrastructure acted in compliance with the imposed sectoral sanctions. Upon examination and review of the compliance of the market infrastructure with the imposed sanctions, it was established that the market infrastructure complied with all the sectoral sanctions imposed at the EU level and that it understood well the sanctions imposed and its obligations as to the implementation of the sanctions concerned. With regard to the ownership structure of the CDCC and the ZSE, there were no changes that would be related to sanctioned entities (either natural persons or legal entities) connected with Russia/Belarus.

3.1.2 Supervision of issuers

Hanfa continuously monitors the disclosure of regulated information by the issuers of securities in the domestic capital market on the ZSE, the central storage of regulated information and other public platforms in terms of their completeness and timely disclosure, as well as adequate marking and signing²⁰. Hanfa carried out 184 off-site inspections of issuers regarding the handling of regulated information in 2022. Of that number, 106 were focused on the disclosure of regulated information, 27 off-site inspections were related to notifications about the acquisition and/or disposal of issuers' shares by persons with managerial responsibilities in accordance with the Market Abuse Regulation, 22 off-site inspections were related to notifications about the acquisition and/or disposal of own shares of issuers, and 29 to notifications about changes in voting rights. In accordance with the Market Abuse Regulation, Hanfa issued one warning about a failure associated with the disclosure of inside information.

In addition to monitoring the disclosure of regulated information, in 2022 Hanfa regularly examined the preparation and publication of issuers' financial statements. Hanfa continuously monitored issuers' public disclosures and assessed their impact on financial reporting, analysed financial statements and assessed whether the requirements prescribed by the financial reporting framework were met. In accordance with ESMA Guidelines on enforcement of financial information and having regard to the supervisory priorities set by ESMA with regard to annual financial

²⁰ Pursuant to the Ordinance on the contents, form and manner of submitting regulated information to the Croatian Financial Services Supervisory Agency and to the Officially Appointed Mechanism for the Central Storage of Regulated Information ([Official Gazette, No 114/18](#))

statements for 2021²¹, in 2022 Hanfa initiated three full-scope inspections of issuers and their disclosed financial information, completing one of them in 2022. No material deficiencies were found during the inspection. In terms of requirements pertaining to the approval of prospectuses for issuance/admission, a total of 11 inspections were carried out with a focus on financial information and disclosure of alternative performance measures in accordance with ESMA Guidelines on Alternative Performance Measures. Recommendations based on the supervisory findings largely concerned incomplete disclosure of data in accordance with the International Financial Reporting Standards and the clear definition and determination of the names of alternative performance measures and their reconciliation with financial statements in order to avoid conveying misleading messages to users of financial statements.

Before securities are offered to the public or admitted to trading on the regulated market, a prospectus must be submitted for approval. A prospectus is a document containing legal, business, financial and accounting information and information about the internal structure of the issuer, enabling investors to make informed investment decisions. During 2022, Hanfa approved 11 prospectuses, nine of which were prospectuses for the admission of shares to the regulated market, while two of them concerned the issue/admission of bonds to the regulated market. In 2022, two new issuers were admitted to the domestic regulated market (one bond issuer and one share issuer). One of the two approved prospectuses concerning the issuance/admission of bonds to the regulated market involved the admission of sustainability linked bonds. This was the first time such bonds were admitted for trading on the domestic regulated market. In addition, Hanfa received a total of 83 notifications relating to prospectuses, mostly to base prospectuses and their final terms, from competent authorities of other Member States. The CMA sets out cases where entities proposing to offer securities to the public or admit them to trading on the regulated market are not obliged to publish a prospectus. In this respect, a total of 57 notifications were received about the use of an exemption from the obligation to publish a prospectus (issuance/admission to the regulated market).

In 2022, ESMA carried out a peer review of the scrutiny and approval procedures of prospectuses, including notifications of approval between national competent authorities²². Within the scope of the peer review, ESMA assessed the impact of competent authorities' different approaches to scrutiny and approval of prospectuses on issuers' ability to raise capital in the EU and their impact on investor protection. The results of the peer review by areas²³ have been published in the Peer review of the

²¹ Impact of COVID-19, climate-related matters, expected credit losses and taxonomy-related disclosures

²² Article 20 of [Regulation \(EU\) 2017/1129](#) of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, OJ L 168

²³ The report concerned contains assessments for each of the Member States by the following assessment areas: the scrutiny of prospectuses, the approval process concerning prospectuses and notifications of approvals, the application of the guidelines on risk factors, the adequacy of resources of competent authorities and the independence and the liability regime of the competent authorities.

scrutiny and approval procedures of prospectuses by competent authorities²⁴. It has been established that Hanfa fully or largely meets expectations in all the observed areas.

In 2022, Hanfa approved a total of three applications for the approval to publish a bid for the takeover of joint-stock companies²⁵ and one application for the exemption from the obligation to announce a takeover bid for the acquisition of stocks in a target company for the purpose of resolution. In accordance with the provisions of the Act on the Takeover of Joint Stock Companies²⁶ laying down exemptions from the obligation to announce a takeover bid, three notifications of exemption were received.

Hanfa is authorised to collect, process and publicly disclose issuers' data relating to corporate governance, the application of the Corporate Governance Code (hereinafter: Code) and compliance with the Code. The Code adopted by Hanfa and the ZSE in 2019, applicable for the periods starting from 2020, introduced improvements to the corporate governance framework.

Issuers on the regulated market report on the implementation of the Code annually by completing two questionnaires. The compliance questionnaire measures the extent to which issuers comply with each of the recommendations contained in the Code. In the case of partial compliance or non-compliance with some of the recommendations, issuers must provide an explanation and include a description of the measures taken instead of the recommended actions. The compliance questionnaire is publicly disclosed and submitted to Hanfa for the purpose of monitoring compliance for each issuer and jointly for all the issuers whose stocks have been admitted for trading on the regulated market. In the governance practices questionnaire, share and bond issuers provide Hanfa with data describing and confirming their compliance with good corporate governance practices, broken down by individual corporate governance areas²⁷. The compliance of issuers with chapters and recommendations contained in the Code and an overview by corporate governance areas are publicly disclosed in Hanfa's Annual Report on Corporate Governance.

An analysis of the data on the compliance of share issuers with the Code in 2021 has shown that overall compliance of share issuers with the Code was better in 2021 than the overall compliance with the Code in 2020. According to the data provided in the compliance questionnaire for 2021, the highest level of compliance was recorded for "Leadership" and "Shareholders and the general meeting" areas, while the lowest level

In the observed areas, Hanfa has been assessed as follows: scrutiny of prospectuses – fully meets expectations, approval process and notification of approvals – largely meets expectations, implementation of guidelines on risk factors – fully meets expectations, NCA resources – fully meets expectations, NCA independence and liability – largely meets expectations.

²⁴ [Link](#)

²⁵ Pursuant to the Act on the Takeover of Joint Stock Companies

²⁶ Official Gazette, No [109/07](#), [36/09](#), [108/12](#), 90/13, 99/13, [148/13](#)

²⁷ Leadership, duties of board members, appointment of board members, supervisory board and its members, management board, remuneration of board members, risks, internal control and audit, disclosure and transparency, shareholders and the general meeting, as well as stockholders and corporate social responsibility

of compliance was recorded for “Appointment of board members” and “Stakeholders and corporate social responsibility” areas. A considerable increase in the compliance of share issuers in 2021 from the levels recorded in the year before was seen in the “Remuneration of board members” and “Duties of board members” areas.

In addition to supervision, Hanfa also regularly organises training for the issuers on the regulated market. In 2022, Hanfa held two training sessions for issuers, presenting regulatory requirements related to reporting in ESEF (European Single Electronic Format), requirements relating to the disclosure of key performance indicators referred to in the Taxonomy Regulation²⁸ and the results of the analyses of compliance with the Code, preparation of annual reports for 2021 pursuant to the ESEF and reporting on environmental, social and governance (ESG) factors. In addition, in June 2022, along with the ZSE and the CDCC, Hanfa organised the 13th professional gathering for issuers, presenting the amendments to the reporting templates for issuers due to the adoption of the euro, as well as good practices in the publication of inside information.

3.1.3 Investment services

Off-site supervision of the risk management function in fund management companies

In 2022, Hanfa completed five targeted off-site inspections of investment fund management companies that began in the year before, which included the assessment of the efficiency of the risk management system, especially taking into account the type, scope and complexity of the operations of management companies and funds managed by these companies, as well as the independence and the autonomy of the risk management function. The supervision involved an examination of internal acts and reports in the risk management area and an assessment of the efficiency and documentation of the risk management process. Four companies used inappropriate measures for measuring some risks and failed to appropriately document the risk management system. Three of the companies remedied the illegalities and irregularities found by the end of the inspection, while one fund management company was imposed a supervisory measure ordering it to eliminate the illegalities found.

Off-site supervision of inducements for the distribution of domestic UCITS and AIFs with selected credit institutions

In 2022, Hanfa completed the off-site inspection commenced in 2021 and involving credit institutions’ compliance with regulatory requirements when receiving inducements from UCITS/AIF management companies whose units they distribute.

²⁸ **Regulation (EU) 2020/852** of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, OJ L 198

The inspection included nine selected credit institutions and focused on their compliance and behaviour when receiving inducements, especially with regard to meeting the prescribed conditions for receiving inducements, keeping records of received inducements, keeping records of all additional services or higher-level services provided, proportionality of the inducement to the additional service or higher-level service provided and reporting to clients on inducements.

The findings of the off-site inspection have shown certain deficiencies in the presentation of inducements in *ex ante* reports on costs and charges of all the observed credit institutions. In addition, the template of register of inducements of six credit institutions did not contain measures taken in order not to impair the duty of credit institutions to act honestly, fairly, professionally and in accordance with the best interests of their clients. In view of a large number of illegalities and irregularities found in one credit institution, Hanfa prepared a report on the findings of the inspection, with a description of illegalities found. Having received a statement from the credit institution and other relevant documentation, Hanfa prepared an addendum to the report, stating that following the receipt of the report, the credit institution managed to remedy all the illegalities and irregularities which gave rise to the supervisory measure imposed.

Off-site supervision of credit institutions' treasury operations

In 2022, Hanfa carried out an off-site inspection of six credit institutions related to dealing on own account. The exercise was aimed at checking credit institutions' compliance with MiFID II Regulation²⁹ in providing services of dealing on own account by executing OTC orders of retail clients, especially in terms of general organisational requirements, information concerning client categorisation, assessment of the appropriateness of investment services or financial instruments, general requirements concerning the provision of information to clients, information about financial instruments, setting prices of financial instruments, information about costs and associated charges, recording of telephone conversations or electronic communications and record keeping and complaints handling.

In four credit institutions irregularities found during the inspection in the part relating to the updating of documents containing *ex ante* and *ex post* information about costs and charges. The irregularities found were remedied in the course of the inspection.

On-site supervision of a credit institution

^[29] of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive, OJ L 87 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive, OJ L 87

In 2022, Hanfa initiated and completed an on-site inspection of one credit institution with regard to business operations of the depository of UCITS and alternative investment funds, dealing on own account by executing OTC orders of retail clients, and the provision of investment services related to the reception, transmission and execution of orders for the account of clients (brokerage activities).

Over-the-counter (OTC) market

An over-the-counter (OTC) market is a decentralized market in which market participants trade financial instruments directly between two parties, without a central regulated market (exchange) or broker. OTC markets are usually less transparent than stock exchanges and are subject to a lower level of regulation.

Illegalities and irregularities were found in dealing on own account by executing OTC orders of retail clients and in the provision of investment services related to the reception, transmission and execution of orders for the account of clients (brokerage activities). After it has received a report on the on-site inspection, the credit institution has remedied the established illegalities and irregularities, so that no supervisory measures were imposed.

Off-site supervision of organisational requirements in the settlement system and of the transparency towards the clients of members of SKDD-CCP

In 2022, Hanfa initiated and completed an off-site inspection of organisational requirements in the settlement system and of the transparency towards the clients of members of SKDD-CCP. The off-site inspection covered organisational requirements for eight credit institutions and five investment firms that are members of SKDD-CCP, which are to be met for the purpose of participating in the settlement system and for ensuring transparency towards clients. Hanfa also checked the compliance and behaviour of these credit institutions related to membership in the settlement system of SKDD-CCP, especially with regard to internal policies and procedures relating to the settlement system, amendments to the general terms and conditions and price lists in accordance with the applicable provisions of EMIR, collection of collateral, new contractual relationships with clients regarding the collection of collateral and level of segregation, ensuring sufficient levels of liquidity and operational capacity and informing clients about segregation options and cost levels.

Irregularities were found in the internal acts of three supervised entities concerning the use of clients' funds for margin purposes, while notifications to clients by three supervised entities contained no information about the governing bankruptcy law. The supervised entities concerned managed to remedy the deficiencies and irregularities within the set time limit.

Off-site supervision of investment firms' compliance with the new prudential framework

In 2022, Hanfa initiated and completed an off-site inspection of investment firms' compliance with the new European prudential legislation applicable to investment firms. Regulatory requirements within the scope of the new prudential framework are defined in the Ordinance on risk management, capital adequacy, liquidity and the implementation of options and discretionary rights arising from Regulation (EU) 2019/2033³⁰, Regulation (EU) No 2019/2033³¹, Commission Implementing Regulation (EU) No 2021/2284³² and accompanying delegated regulations and guidelines.

The new prudential regulations have introduced simpler prudential rules for most non-systemic investment firms that do not threaten financial stability. The regulations set out separate prudential regimes based on the size, type and complexity of investment firms. Capital requirements for the smallest and the least risky investment firms have become more streamlined.

The inspection covered five investment firms and focused on their compliance and behaviour in relation to the new prudential requirements applicable to investment firms, especially in terms of risk management strategies and policies, strategies for the continuous assessment and maintenance of the level, type and distribution of internal capital and liquid assets, as well as reports on capital adequacy as at 31 March 2022.

The irregularities found within the scope of the inspection included deficiencies in risk management strategies and policies, and errors in the templates prescribed by the Commission Implementing Regulation. All of the investment firms have remedied the irregularities within the set time limit.

Common supervisory action concerning asset valuation

In 2022, ESMA launched a common supervisory action on the valuation of fund assets, in which Hanfa participated as well. In line with the requirements set by ESMA, the aim of the supervisory action was to assess the compliance of investment fund management companies and AIFMs with the organisational requirements set out in asset valuation rules and their adherence to the principles and methodologies for the provision of a true and fair view of their positions under normal and stressed market conditions.

³⁰ **Official Gazette, No 100/22**

³¹ **Regulation (EU) No 2019/2033** of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/ 2010, (EU) No 575/ 2013, (EU) No 600/ 2014 and (EU) No 806/2014 (EU) 2019/2033, OJ L 314

³² **Commission Implementing Regulation (EU) No 2021/2284** of 10 December 2021 laying down implementing technical standards for the application of Regulation (EU) 2019/2033 of the European Parliament and of the Council with regard to supervisory reporting and disclosures of investment firms, OJ L 458

The supervisory action focused on investment fund management companies and AIFMs investing in less liquid assets (unlisted securities, unrated bonds, corporate bonds, real estate, high yield bonds and emerging markets), companies whose funds are marketed to retail investors and professional investors and companies for which the national competent authorities knew were exposed to elevated asset valuation risk.

The action involved a total of ten investment fund management companies selected based on the above criteria and was aimed at assessing whether the valuation techniques were applied consistently for similar assets, whether the valuation function was independent both in terms of hierarchy and organisation, whether the supervised entities had in place valuation models, appropriate mechanisms for valuation errors, control mechanisms, as well as a documented valuation process for the purpose of reporting to investors. Concerning the less liquid assets managed by the selected companies, the exercise involved assessing whether their fair valuation under normal and stressed conditions was ensured, whether roles and responsibilities were set for the functions involved in the valuation process and whether objectivity was maintained in valuation. The exercise also involved assessing data quality.

Illegalities and deficiencies were found in two companies concerning inconsistent application of valuation methods and the failure to ensure that there was no link between the remuneration of the valuation function and performance of the fund. They were remedied during the inspection. In its letter to the Association of Investment Fund Management Companies, Hanfa informed the supervised entities of the supervisory outcome and expectations concerning the documentation of all the phases of the valuation process.

In 2022, Hanfa also carried out other on-going off-site inspections of annual financial statements of UCITS management companies and UCITS, AIFMs, AIFs and investment firms. Off-site inspections involved checking the annual updates of and material amendments to prospectuses and rules of UCITS and AIFs. Hanfa also performed a regular annual inspection of key information documents for UCITS investors, which are to be prepared and updated by management companies on an annual basis and published on their websites.

KIID (Key Investor Information Document)

A key investor information document (KIID) specifies the key properties of UCITS in order to provide retail investors with sufficient information about the investment product and the risks it entails, enabling them to make an informed investment decision.

In late 2022, Hanfa commenced an on-site inspection of an investment fund management company in terms of its control functions in charge of monitoring the compliance with the relevant regulations, internal audit and investment process. In addition, over the same period Hanfa initiated two off-site inspections in order to check whether 12 selected AIFMs had in place control functions that must be maintained by them in accordance with the law. The inspections also dealt with client asset protection

in eight firms providing investment services. These inspections were ongoing at the end of 2022.

3.1.4 Pension savings

In 2022, Hanfa initiated three on-site inspections of pension companies, that is, two regular and one *ad hoc* on-site inspection, and ended the on-site inspection started in 2021. Before ending the procedure, Hanfa issued a decision containing supervisory measures imposed to a pension company aimed at improving the company's investment process, with an emphasis on documenting the process of investing pension fund assets in an adequate manner, including the proposals of investments, analyses, investment decision-making, investment objectives and definition of investment exit procedures.

The regular on-site supervisory procedure included examining the investment process and investing of pension fund assets, involvement of control functions in the investment process and their efficiency, cyber security management, relationship with external ICT key service providers and business continuity.

One pension company remedied the deficiencies and irregularities found during the on-site inspection which related to an inadequately documented investment process, in the part concerning the consideration of potential investment decisions and the reasons why they have not been followed through. Consequently, no supervisory measures were imposed. The other regular on-site inspection was still ongoing at the end of 2022.

The *ad hoc* on-site supervisory procedure involved examining the use of software solutions in the procedures relating to monitoring the performance of fund portfolios and their analysis, as well as measuring and managing their associated risks. In the light of the established facts, Hanfa issued a decision containing supervisory measures, ordering the pension company to improve its reporting to Hanfa about the liquidity of mandatory pension funds under its management and to improve its management of liquidity risks associated with these mandatory pension funds. These measures involved improving the procedure for the preparation of supervisory reports about the liquidity of assets and the coverage of liabilities of a pension fund by performing tests, introducing adjustments and assessing the adequacy of the software solution used by the pension company for assessing future liquidity of pension funds' assets, and consequently amending the internal acts governing the procedure concerned.

In addition to on-site inspections, in 2022 Hanfa carried out on-going off-site inspections of pension companies and pension funds in terms of pension companies' activities aimed at strengthening financial literacy and pension funds' investments in non-listed securities, reviewed and commented reports of mandatory pension funds for the Croatian Parliament, reviewed a report prepared by Regos for the Government

of the Republic of Croatia, reviewed reports on pension fund members' complaints, reviewed financial statements and monitored capital requirements for pension companies and reviewed key information for the members of open-ended voluntary pension funds and pension benefit statements for the members of closed-ended voluntary pension funds. The inspections revealed minor illegalities, irregularities and deficiencies, which were remedied by the pension companies in a timely manner. Consequently, there was no need to take any further action.

Furthermore, due to the impact of the war in Ukraine, in 2022 Hanfa continuously monitored the investment structure, the value of net assets, trading and changes in currency exposures of pension funds, as well as the frequency of contribution payments to mandatory pension funds.

In 2022, Hanfa reviewed reports on the liquidity of assets and coverage of liabilities of mandatory pension funds, with the aim of examining the methodologies used by pension companies in assessing liquidity. Due to divergence in liquidity assessments in the examined statements for the period from 31 December 2020 to 31 December 2021, Hanfa initiated the above *ad hoc* on-site inspection of a pension company.

Following a circular issued by Hanfa in 2021 for the Association of Pension Companies and Pension Insurance Companies, whereby pension companies were warned about deficiencies in the assessments using valuation techniques and whereby they were invited to improve their business process, in 2022 Hanfa carried out an analysis of pension companies' valuation of equity securities, that is, shares in pension fund portfolios traded on an inactive market. Illegalities and irregularities were found in one pension company. Consequently, Hanfa issued a decision ordering the pension company concerned to also implement other accepted valuation methods for equity securities traded on an inactive market, with adequate input data for assessing fair value, and to ensure that the assessments of the fair value of equity securities traded on an inactive market contained documented explanation of why and how the used valuation techniques were chosen. The results of the analysis also showed minor deficiencies in the valuation models and techniques of some pension companies. However, these were not material and had no influence on the obtained values. Thus, the companies were advised to improve their processes.

Also, following a review of the audited annual financial statements of pension funds for 2021, illegalities were found with respect to one pension company and Hanfa issued a decision ordering the pension company to correct the incorrectly recognised income and expenditure in the 2021 comparative period in the Statement of other comprehensive income when preparing annual statements for 2022 for pension funds under its management. The company was also ordered to draw up statements on unrealised income (loss) of a pension fund for 2022, with a separate presentation of net exchange differences for financial assets and liabilities designated at fair value through profit or loss and net exchange differences for financial instruments designated through other comprehensive income. The pension company was ordered by a special

supervisory measure to carry out an internal audit of the software used for keeping accounts of business transactions.

3.1.5 Insurance

In 2022, Hanfa carried out ten on-site inspections, three of which were *ad hoc*. Five of these inspections were started in 2021, while five new inspections were initiated in 2022. Within the scope of on-site inspections, eight decisions were issued. Six of them concerned measures to remedy illegalities and irregularities, while two of them concerned ending of the inspections. The focus of the inspections covered the adequacy of the product oversight and governance system, adequacy of insurance premium, the provisioning process and sufficiency of technical provisions, adequacy of the anti-money laundering and terrorist financing system and of the cyber security management system, the system of governance (risk management system, internal controls system and key functions), adequacy of internal procedures, practices and activities that have an impact on the protection of interested parties, compliance of insurance distribution with regulations in force, and management of products from life and non-life insurance portfolios.

Five off-site inspections were carried out in 2022. Two of these inspections were initiated in 2021. The focus of inspections covered risk management related to the investment of assets covering the minimum capital requirement and the solvency capital requirement, group-level governance system, solvency capital requirement calculation, best practices and reporting on group level, the system of governance concerning insurance company's exposure to transactions associated with insurance operations and pre-contractual provision of information about insurance-based investment products. Within the scope of the inspections, Hanfa issued five decisions ordering the companies to eliminate illegalities and irregularities.

With the aim of protecting policyholders, insured persons and beneficiaries of insurance contracts, in 2022 Hanfa monitored actions taken as a follow-up to four on-site inspections involving mystery shopping, monitoring the compliance of insurance distribution services with the applicable legislation in terms of pre-contractual information and distributors' adherence to the rules of professional conduct. Within the scope of the inspections involving mystery shopping, in 2022 Hanfa issued three decisions on the completion of inspections and one decision on the elimination of illegalities and irregularities.

In addition to continuous reviews and analyses of regular financial, supervisory and other reports prepared by insurance companies, pension insurance companies, the Bureau, the Croatian Nuclear POOL and persons authorized to perform insurance distribution and/or reinsurance distribution activities, in 2022 Hanfa performed additional assessments of risks to which insurance companies were exposed, based on quantitative and qualitative information.

Pre-contractual information about insurance-based investment products

In 2022, Hanfa continued examining performance scenarios and presentation of costs in key information documents (hereinafter: KIDs) for insurance-based investment products. Experience of regulatory authorities gained in the first years of the application of regulatory technical standards, that is, the PRIIP Delegated Regulation³³, has shown the need to amend certain elements of presentation and contents of KIDs, especially in the light of the entry into force of Commission Delegated Regulation (EU) 2021/2268³⁴ at the beginning of 2023.

With the aim of protecting potential investors, Hanfa held meetings with insurance companies concerning KIDs, i.e. pre-contractual documents provided to a potential investor buying insurance-based investment products. The companies were asked to amend KIDs in accordance with the applicable PRIIP Delegated Regulation and to take account of the new obligations that will be introduced upon the entry into force of the new delegated regulation in terms of sound management of resources, that is, the costs of amending the regulatory technical standards with regard to the presentation, content, review and revision of KIDs.

Insurance companies' own risk and solvency assessment

In 2022, Hanfa held meetings with the representatives of insurance companies with the aim of improving the own risk and solvency assessment process (hereinafter: ORSA) and ORSA reports and exchanging views. The ORSA process presents a continuous upgrade to risk management, even though the ensuing ORSA report is not exclusively a supervisory report. On the contrary, the ORSA process and report are deemed to be a procedure and a tool assisting insurance companies in managing risks. The ORSA

³³ **Commission Delegated Regulation (EU) 2017/653** of 8 March 2017 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents, OJ L 100

³⁴ **Commission Delegated Regulation (EU) 2021/2268** of 6 September 2021 amending the regulatory technical standards laid down in Commission Delegated Regulation (EU) 2017/653 as regards the underpinning methodology and presentation of performance scenarios, the presentation of costs and the methodology for the calculation of summary cost indicators, the presentation and content of information on past performance and the presentation of costs by packaged retail and insurance-based investment products (PRIIPs) offering a range of options for investment and alignment of the transitional arrangement for PRIIP manufacturers offering units of funds referred to in Article 32 of Regulation (EU) No 1286/2014 of the European Parliament and of the Council as underlying investment options with the prolonged transitional arrangement laid down in that Article, OJ L 455. The application of the regulation concerned has been postponed to 1 January 2023 in accordance with the Commission Delegated Regulation (EU) 2022/975 of 17 March 2022 amending the regulatory technical standards laid down in Delegated Regulation (EU) 2017/653 as regards the extension of the transitional arrangement laid down in Article 14(2) of that Regulation and amending the regulatory technical standards laid down in Delegated Regulation (EU) 2021/2268 as regards the date of application of that Regulation.

report should mirror the importance of the ORSA process for the insurance company. The report should cover key risks and provide an explanation of how they are managed by insurance companies. In order to improve the ORSA process, Hanfa issued additional recommendations to insurance companies about improvements of the ORSA report. In August 2022, the European Insurance and Occupational Pensions Authority (hereinafter: EIOPA) issued a document titled *Application guidance on climate change materiality assessments and climate change scenarios in ORSA*³⁵, with the aim of providing assistance to insurance companies in analysing climate change scenarios in ORSA. In addition, in September 2022 three European supervisory authorities (European Banking Authority (EBA), EIOPA and ESMA) published the Joint Committee Report on risks and vulnerabilities in the EU financial system³⁶, emphasizing that increasingly poor economic outlook, high inflation and rising energy prices have increased the vulnerability of the financial sector. As a result, in its additional recommendations to insurance companies, Hanfa stated that the results of the analyses of the impact of the risk of inflation and further interest rate hikes, as well as the impact of climate changes should be included in the ORSA report.

Monitoring insurance companies' liquidity

In 2022, Hanfa continued the process of monitoring insurance companies' liquidity that had started in 2020. All insurance companies submitted liquidity reports on a semi-annual level, containing data on the liquidity of assets and realised cash flows in the last 180 days, as well as projections for the next 180 days. In addition to monitoring and analysing cash flows, the assessment of insurance companies' liquidity also included determining the share of liquid assets in total assets of a company, as well as the sustainability of cash flows, that is, assessing whether a company had sufficient liquid assets to cover liquidity outflows in the case of negative projections of net cash flows. The analyses have shown that most companies had positive cash flows and that the current liquidity position of insurance companies remained stable. However, the insurance market has recorded an increase in illiquid assets, primarily due to the fall in the value of liquid assets in terms of investments in government bonds and investment funds, which has been alleviated by the growth of investments in cash and deposits.

³⁵ A follow-up to EIOPA's Opinion on the supervision of the use of climate change risk scenarios in ORSA published in April 2021

³⁶ *Joint Committee Report on risks and vulnerabilities in the EU financial system*

Preparation for IFRS 17

In addition to the introduction of the euro, as from 1 January 2023 Croatian insurance companies will also be required to comply with a new accounting standard related to the valuation of insurance contracts (IFRS 17 Insurance Contracts). The new standard introduces significant changes in the recognition of insurance revenue and insurance service results, as well as overall business results. The recognition and presentation of losses have become more frequent, while the valuation procedures, requests for data and the definition of assumptions to be applied in valuation are more complex. In essence, IFRS 17 introduces significant changes in reporting in the following areas:

- liabilities arising from insurance contracts that should include the components of expected cash flow on the premium and claims expenditures and the risk adjustment, as well as the component of unearned profit
- insurance operations results, with a separate presentation of results from core insurance operations and results from investment activities associated with insurance operations
- income from insurance contracts which results from insurance operations.

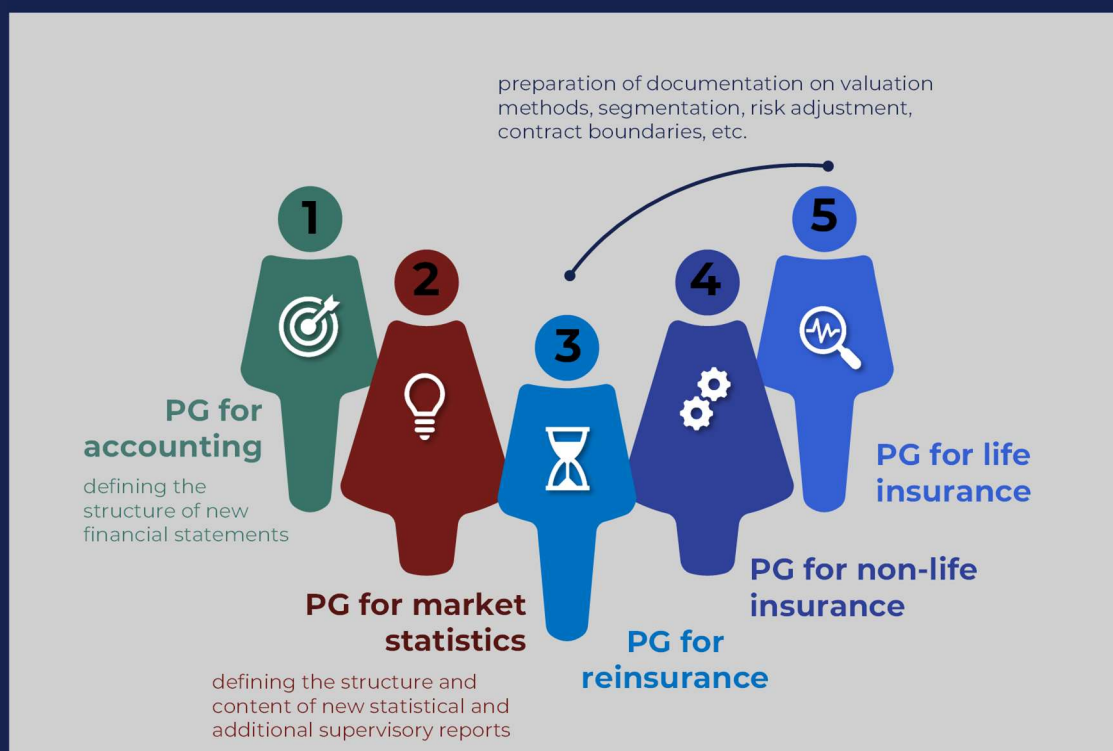
Figure 3.2 Significant changes in IFRS 17 reporting



Source: Hanfa

A large part of Hanfa's activities in 2022 was focused on preparing for the upcoming changes. At the level of insurance market of the Republic of Croatia, the IFRS 17 implementation process began in late 2020 within the scope of a joint working group that included Hanfa, the Croatian Insurance Bureau and the Croatian Actuarial Association, while individual insurance companies started to prepare for the implementation of this standard earlier. The working group at the market level comprised five project groups. The project groups for reinsurance, life insurance and non-life insurance were involved in the preparation of documentation on valuation methods, segmentation, risk adjustment, contract boundaries, etc. The project group for accounting worked on defining the structure of new financial statements, while the project group for market statistics defined the structure and content of new statistical and additional supervisory reports.

Figure 3.3 Project groups for the implementation of the IFRS 17 accounting standard



Source: Hanfa

The implementation of IFRS 17 required amending the Insurance Act, especially in the part dealing with statutory technical provisions, assets covering statutory technical provisions and certified actuaries. In order to ensure the compliance of insurance companies with IFRS 17, Hanfa worked on amendments to a number of ordinances related to changes introduced by the new IFRS 17. The largest part of these amendments concerned adjusting financial statements, statistical and additional reports to be prepared by insurance companies. A total

of 50 reporting templates were defined, to be completed by insurance companies depending on their operations. An obligation was introduced to submit monthly statistical reports for insurance companies from other Member States providing insurance and reinsurance services in the Republic of Croatia through their branches. Given the scope and the complexity of new templates, insurance companies were given more time to submit their quarterly reports in the first two years of the application of IFRS 17.

In 2022, Hanfa asked insurance companies to complete a questionnaire with the aim of collecting information about the process of implementing new accounting standards (IFRS 17 and IFRS 9) in terms of the remaining open areas for the implementation of the new standards, approach to transition, methodology and conditions applied in calculating risk adjustment, methodology and conditions for the allocation of costs and methods for measuring liabilities arising from insurance contracts, as well as the share of attributable costs in total costs.

For the purpose of implementing IFRS 17, insurance companies were required to define the IT infrastructure and data architecture, portfolio segmentation and measurement methodology. Since 2022, insurance companies have been focusing on test calculations and financial results, while in the transition phase they also focused on calculations based on quarterly periods of 2022, as well as on the planning and application of the standards from 1 January 2023. In addition, insurance companies also carried out activities associated with the implementation of the new IFRS 9.

Supervisory activities in cooperation with EIOPA and other national supervisory authorities

In 2022, Hanfa's employees participated in 17 meetings of colleges of supervisors of insurance groups (nine groups) organised by competent supervisory authorities of Member States. Of the total number of meetings held, 15 of them were regular meetings at which Hanfa and other national supervisors exchanged relevant information and data on insurance companies belonging to an insurance group and pursuing insurance business in other Member States. The remaining two meetings dealt with a supervision of a group, carried out in 2022 by nine competent supervisory authorities of Member States, including Hanfa.

3.1.6 Non-bank financing

Leasing

During 2022, Hanfa completed its supervisory activities relating to the calculation of interest charged to lessees in the 2008-2021 period. After decisions were issued in 2021 to end six inspections pertaining to interest calculation, the remaining eight inspections ended in 2022. As a result, contractual relationships became more transparent, given that in accordance with the decisions issued by Hanfa, the companies amended the provisions of their contracts and general terms dealing with the calculation of interest so that they contained a clear indication of interest rates (regardless of whether contracts were concluded with a fixed or variable interest rate), breakdown of instalments, adjustment periods with a variable parameter and conditions of such adjustment.

With the aim of increasing transparency on the market and providing additional protection to lessees (especially consumers), at the end of 2021 Hanfa initiated inspections of 14 active leasing companies in terms of fees calculation. Hanfa examined whether fees price lists were clear and understandable to lessees and whether finance lease contracts were aligned with the provisions of the Consumer Credit Act³⁷. The inspections revealed irregularities and illegalities in 13 leasing companies: these concerned the calculation of fees contrary to the Consumer Credit Act, unclear application of fees price lists and unclear determination of fees to be charged to lessees, their amount and the manner of their calculation. Consequently, in 2022 Hanfa issued eight decisions ordering the companies to eliminate the irregularities found, with five leasing companies having remedied the irregularities found before Hanfa's decision. The inspection of fee calculation in all of the 13 leasing companies was completed by the end of 2022 in the light of Hanfa's decisions establishing that the companies have remedied the irregularities and illegalities found during the inspection.

Hanfa's inspections of the calculation of interest and fees charged to lessees resulted in increased clarity and transparency of contractual provisions, while the overpaid interest and fees were refunded to lessees (fees for early repayment were charged to consumers contrary to the Consumer Credit Act).

In addition, following the inspections of how interest and fees were calculated, Hanfa drew up and published on its website a comparative overview of the fees charged by all leasing companies for finance lease contracts, with the aim of gaining a clear insight into the types and amount of fees charged to consumers by leasing companies and for the purpose of assisting the consumers in their choice of a leasing company.

For all leasing companies, in 2022 Hanfa also examined value adjustments for receivables under finance and operating lease contracts as at 31 December 2021. Hanfa examined whether companies complied with internal acts and procedures and

³⁷ Official Gazette, No [75/09](#), [112/12](#), [143/13](#), [147/13](#), [09/15](#), 78/15, [102/15](#), 52/16

whether the internal acts regulating the calculation of value adjustments were aligned with the applicable laws and regulations. Hanfa also examined the calculation of value adjustments. As a result, administrative proceedings were instigated against three leasing companies and decisions were adopted in 2022 ordering the companies concerned to implement a methodology consistent with the provisions of IFRS 9 Financial Instruments and to calculate value adjustments for receivables by applying this methodology.

In the light of many challenges faced by leasing companies due to the coronavirus pandemic, in 2022 Hanfa continued to monitor the number and volume of active rescheduling/moratoria approved to lessees facing financial difficulties as a result of the economic shutdown in the past. 2022 witnessed a significant decline in the number and volume of rescheduled lease contracts as the activities most affected by the pandemic (transport, car rental and charter) resumed their regular operations following the reopening of the economy.

In the course of the year, Hanfa carried out on-going off-site inspections, including the inspection of financial statements, additional reports and other reports that leasing companies were obligated to submit to Hanfa.

Factoring

In 2022, Hanfa initiated an off-site inspection of a factoring company concerning the recording of short-term loan agreements in the company's business books. Due to illegalities and irregularities found during the inspection, in the first quarter of 2023 Hanfa issued a decision ordering the company to correct accounting errors related to short-term loan agreements in line with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The company was also ordered to prepare financial statements as at 31 December 2022 based on the above corrections in business books. The inspection is still underway.

In the course of the year, Hanfa continued with its inspection of digital platforms for buying and selling receivables and regularly examined financial statements, as well as additional reports and other reports that factoring companies were obligated to submit to Hanfa.

3.1.7 Prevention of money laundering and terrorist financing

Together with other regulatory authorities, Hanfa plays an important role in combating money laundering and terrorist financing in Croatia. Pursuant to the Anti-Money Laundering and Terrorist Financing Act³⁸, Hanfa was delegated the task of supervising

³⁸ Official Gazette, No [108/17](#), [39/19](#), [151/22](#)

the implementation of the measures laid down in the Act concerned by supervised entities falling within its competence. Against this backdrop, Hanfa's core objective is to prevent the use of the financial system for the purposes of money laundering and terrorist financing. In the exercise of its role, Hanfa analyses sector risk and the riskiness of individual supervised entities in terms of money laundering and terrorist financing and examines whether supervised entities have implemented adequate measures to prevent such activities and whether they act in compliance with the law.

In 2022, Hanfa launched 11 on-site inspections of supervised entities, including insurance companies, investment firms, investment fund management companies and virtual asset service providers. Following inspections carried out in 2020, 2021 and 2022, Hanfa issued eight decisions imposing supervisory measures and one warning. In addition to on-site inspections, Hanfa also carried out off-site inspections. In 2022, Hanfa carried out 192 off-site inspections relating to the performance of due diligence exercises and the application of international restrictive measures. Following these off-site inspections, Hanfa issued one decision imposing supervisory measures, while internal procedures needed to be improved in 26 supervised entities.

Hanfa continued its active cooperation with other supervisory authorities in Croatia within the Inter-Institutional Working Group in order to ensure effective prevention of money-laundering and terrorist financing. Hanfa also collaborated with other EU supervisory authorities within the AML/CFT college in supervising the entities with cross-border operations. Based on the 5th Round Evaluation of the Republic of Croatia, adopted at the 62nd plenary meeting of Moneyval in December 2021, at its session held on 12 May 2022 the Government of the Republic of Croatia passed a conclusion endorsing the Action plan for strengthening the anti-money laundering and terrorist financing system in Croatia. In this regard, Hanfa actively worked on the implementation of Moneyval recommendations falling within its competence, that is, imposing the obligation of keeping a list of registered virtual asset service providers and their continued monitoring and identification on the market, improving AML/CFT risk assessments and conducting supervision of supervised entities, ensuring adequate human resources, improving the understanding of AML/CFT risks and organising education for supervised entities.

In addition, in 2022 Hanfa collaborated with the experts from the European Commission (DG REFORM) within the scope of the TAIEX project on improving risk-based supervision. Numerous meetings with experts were held in this regard, resulting in recommendations for improving the current risk-based supervision system. Hanfa also worked on the amendments of the Anti-Money Laundering and Terrorist Financing Act, published in the Official Gazette, No 151/2022. Pursuant to the amended Act, Hanfa was delegated the task of keeping a register of virtual asset service providers. In 2022, Hanfa held training on anti-money laundering and terrorist financing for the supervised entities within the scope of education organised by the Croatian Chamber of Economy and independently, made available on Hanfa's YouTube channel. Given the importance of this topic for the operations of the non-banking financial sector in

Croatia, the educational activities dealt with matters such as due diligence exercises, presenting the real-life cases of money laundering and terrorist financing, proliferation of weapons of mass destruction in the context of terrorism and performance of due diligence, as well as other relevant topics.

3.2 Macroprudential supervision

In 2022, Hanfa performed its regular annual macroeconomic stress testing of the financial services sector. In terms of methodology, the testing exercise was broadened and complemented by new models for the sectors of leasing, insurance and investment funds in order to estimate as precisely as possible the propagation of initially calibrated shocks through the system. The exercise involved stress simulations in the macroeconomic environment and in financial markets in order to test whether the capacity in the financial services sector was sufficient to absorb potential new shocks. Though the uncertainty surrounding the stress testing exercise is always present and even further elevated under stressful circumstances, stress testing is an important macroprudential tool because it enables regulators to strengthen, within their respective powers, the segments of the system assessed to be vulnerable, with the aim of addressing risks before their materialisation and in order to alleviate the potential negative consequences in scenarios envisaging the materialisation of systemic risk. The adverse scenario in the 2022 stress testing exercise assumed that inflation was not bound to stabilise over the medium term, which would have an adverse impact on personal consumption and investment and further hinder economic activity under such stressful conditions. The simulated recession conditions would inevitably have a negative impact on public finances as well, while the simulated tightening of financing conditions over the short term would lead to a rapid increase in volatility and adjustment of financial assets' prices. The results of the exercise have shown that a potential new crisis episode would strongly affect all analysed segments of the financial services sector, diminishing their assets and profitability and increasing systemic risks in the financial services sector as a whole. Bearing in mind the assumptions of the applied methodological framework, the results have also shown that, should the adverse scenario (or any of its parts) materialise, the aggregate sector resilience should remain satisfactory, although profitability might be threatened in some parts of the system.

During 2022, Hanfa continued to develop new macroprudential tools for the identification and management of systemic risks, including a new methodology for the assessment of systemically important institutions in the financial services sector. While the methodology for the identification of

Systemically important financial institution

A systemically important financial institution means an institution the failure or malfunction of which could lead to systemic risk.

systemically important institutions has been regulated in detail in the credit institutions' sector³⁹, the financial services sector lacks a similar legislative framework,

³⁹ See EBA Guidelines on the criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (O-SIIs) available [here](#).

even though many international institutions continuously stress the importance of this macroprudential tool and issue methodological guidelines for its construction. Hanfa's methodology is based on indicators from five criteria used in scoring systemic importance (size, interconnectedness, complexity, substitutability and cross-border activity), which were used for the identification of systemically important institutions in the segment of insurance companies, leasing companies, investment fund management companies and investment firms. In the upcoming period, such information will be incorporated in the process of planning and performing microprudential supervision, as well as in resolution processes and plans, further improving Hanfa's risk management system.

In accordance with Article 25 of Directive 2011/61/EU and ESMA Guidelines on Article 25 of Directive 2011/61/EU⁴⁰, in 2022 Hanfa also analysed risks of excessive leverage by alternative investment funds. The first step of the analysis involved the identification of AIFs using leverage that could be the source of systemic risk. Pursuant to the Guidelines, this means AIFs employing leverage on a substantial basis, that is, those AIFs whose exposure, as calculated

Leverage

Leverage means any method by which an alternative investment fund management company increases the exposure of an alternative investment fund under its management, either by borrowing money or securities, either by leverage embedded in derivative positions or by other means. Leverage of an alternative investment fund is expressed as the ratio between the exposure of an AIF and its net asset value.

according to the commitment method, exceeds three times their net asset value, AIFs employing leverage not on a substantial basis⁴¹ and whose regulatory assets under management are greater than EUR 500m on the reporting date and all other AIFs employing leverage whose unusually high use of leverage may pose risks to financial stability. The second step involved assessing systemic risks associated with the use of leverage by AIFs identified in the first step based on a series of quantitative and qualitative indicators from the four categories (market impact, risk of fire sales, risk of direct spillover to financial institutions and risk of interruption in direct credit intermediation). The analysis of data for end-2021 has shown that no fund (or group of funds) in Croatia employed leverage to the extent that would contribute to the rise in systemic risk in the financial system, risk of market disruptions or risks for long-term economic growth. Consequently, no leverage limits have been imposed. In the upcoming period, Hanfa will continue with this analysis on an annual basis.

During 2022, Hanfa continued to internally coordinate the pursuit of microprudential and macroprudential policy, while the main conclusions were discussed at the meetings of its Risk Committee held in May and December. It also continued to closely cooperate with other domestic and European macroprudential policy makers. Hanfa's

⁴⁰ Guidelines on Article 25 of Directive 2011/61/EU are available [here](#).

⁴¹ Pursuant to Article 111 paragraph (1) of Regulation supplementing Directive on AIFMs available [here](#)

representatives participated at the sessions of the Financial Stability Council, at which the participants discussed the situation and developments in the financial sector, as well as the main risks to the stability of the financial system in Croatia. At the EU level, similar topics were discussed at numerous meetings of committees and groups within the European Systemic Risk Board, attended by Hanfa's representatives as well⁴².

Sustainable finance in Croatia

Sustainable finance is a process of considering and taking into account ESG factors in making investment decisions or giving investment advice, which should ultimately lead to a long-term increase in investment in sustainable economic activities and projects.

The need for an ESG transformation is becoming increasingly important in the light of the geopolitical, energy and resource crisis, while the necessity to align operations with the ESG principles poses a challenge in the context of non-financial reporting obligations and the overall business operations of financial services providers subject to laws and regulations governing sustainable finance. ESG is becoming an increasingly important item on the list of statutory obligations of financial institutions. The ultimate objective is to achieve sustainable results beneficial to both the environment and the society, but also to manage operations in a responsible and inclusive manner, in order to ensure viability in the long run.

The EU legislation relating to sustainable finance is based on three key documents:

- 1 The Taxonomy Regulation, which establishes a uniform classification system at the level of EU to define whether or not a given economic activity is environmentally sustainable;
- 2 Corporate Sustainability Reporting Directive⁴³ (hereinafter: CSRD), which requires companies to publish standardised and verified sustainability reports;
- 3 Regulation on sustainability-related disclosures in the financial services sector⁴⁴ (hereinafter: SFDR), which lays down the obligation to publish

⁴² More details on the work of the ESRB in 2022 can be found in the chapter on international cooperation.

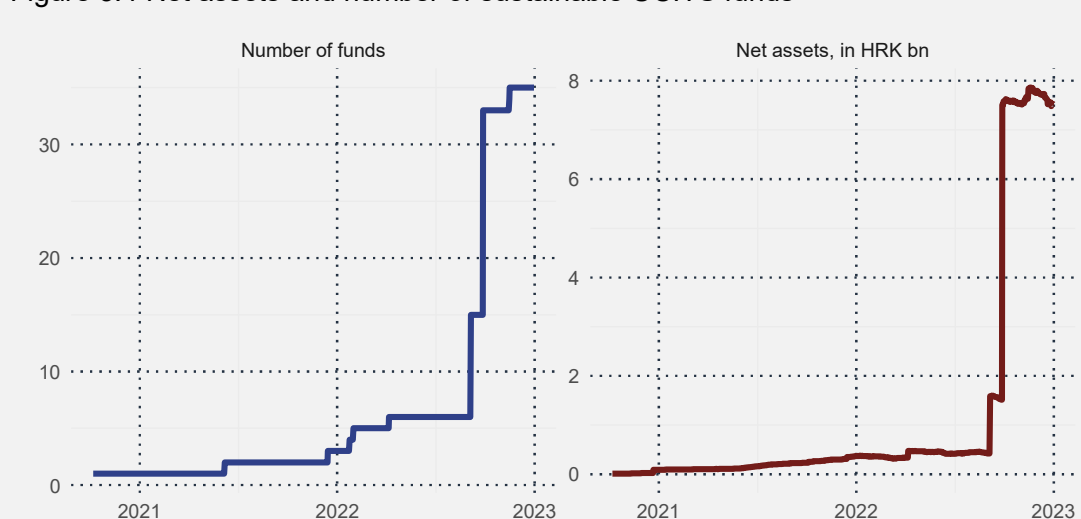
⁴³ **Directive (EU) 2022/2464** of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting, OJ L 322

⁴⁴ **Regulation (EU) 2019/2088** of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, OJ L 317

sustainability-related information with respect to financial products to improve transparency for investors and prevent greenwashing. Greenwashing means practices employed by participants on financial markets to present their operations and investment policy as sustainable, either by creating a false impression or providing false information about the sustainability of a product or a service.

In 2022, Hanfa received first applications by two domestic fund management companies for transforming and licensing of their UCITS as funds promoting certain environmental and/or social characteristics. This concerns 35 UCITS, accounting for 46.1% of total net assets of all domestic UCITS at the end of 2022. Since 2021, the domestic market has also featured feeder funds of two companies that have used their main UCITS to promote environmental and/or social factors, with a sustainable investment objective. This concerns six feeder funds, accounting for 3% of the total net assets of UCITS in the Republic of Croatia at the end of 2022. So far, there has been only one AIFM that declared that it managed an AIF with a private offering that had a sustainable investment objective.

Figure 3.4 Net assets and number of sustainable UCITS funds



Source: Hanfa

Of the eight insurance companies offering insurance-based investment products in their portfolios, two companies distribute products promoting environmental/social characteristics (each of the companies offers one such product). The remaining six companies do not offer in their portfolios and do not distribute products promoting environmental/social characteristics. None of the eight companies offers a product that has a sustainable investment objective. In other words, there are only two insurance-based investment products on the Croatian market that promote environmental/social characteristics, while so far the Croatian market has not featured any products with a sustainable investment objective. To conclude, there is only one

insurance intermediary, that is, a credit institution operating on the Croatian market as a financial adviser within the meaning of the SFDR which provides insurance advice with regard to insurance-based investment products.

With regard to reporting on the sustainability of issuers whose securities have been admitted to the regulated market and listed on the ZSE, the provisions of the Non-Financial Reporting Directive have been transposed into the legislation of the Republic of Croatia, that is to the Accounting Act. Pursuant to the Directive, all issuers exceeding on their balance sheet dates the criterion of the average number of 500 employees during the previous business year are obligated to include a non-financial statement in the management report.

The CSRD, which entered into force at the beginning of 2023, introduced changes as to the entities required to report on sustainability, the place of publication of sustainability reports, implementation of European sustainability reporting standards, the obligation to prepare management reports in a single electronic reporting format and mark up their sustainability reporting, the obligation of verifying sustainability reports and many other changes. The time limit for its transposition to national laws and other regulations is 6 July 2024.

The implementation of the CSRD will be carried out in three phases:

- 1 January 2024 for companies that are already subject to the Non-Financial Reporting Directive;
- 1 January 2025 for large companies that are currently not subject to the Non-the Financial Reporting Directive; and
- 1 January 2026 for small and medium-sized enterprises admitted to the regulated market (except for micro enterprises).

Preparation of the financial services sector for the introduction of the new currency

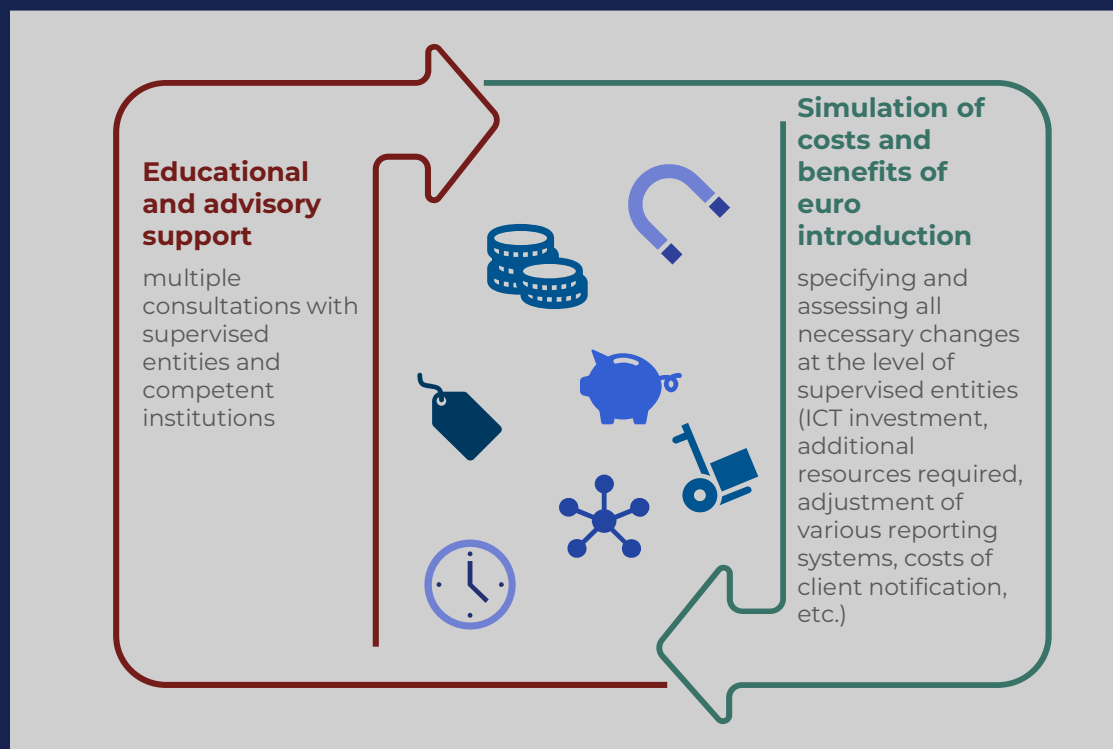
During 2022, intensive preparations were under way in the entire financial services sector for the introduction of the euro as the official currency at the beginning of 2023. This included the adjustment of internal accounting, IT and other systems, adjustments to financial and supervisory reporting, conversion of all accounts, products and services, as well as providing timely information to clients about changes that will occur with the introduction of the euro. Within the scope of the preparations in the financial services sector, Hanfa provided financial institutions with educational and advisory assistance in the form of repeated consultations with supervised entities and competent institutions, but also by preparing a simulation of costs and benefits of euro introduction with the aim of specifying and assessing all necessary changes at the level of supervised entities (ICT investment, necessary additional resources, adjustment of various reporting systems, costs of client notification, etc.).

Another important function performed by Hanfa in the process of euro introduction was its supervisory function. In the course of 2022, special supervisory activities were carried out, focused on all the financial system segments falling within Hanfa's competence, in order to timely remedy potential irregularities.

With regard to adjusting the capital market infrastructure to the new legal tender, the ZSE took a series of steps, supervised by Hanfa, relating to the conversion of market prices of shares and ETFs, conversion and dual display of fees in price lists and data on total turnover on a particular trading venue and the closing price of individual listed financial instruments, adjustment of exchange indices and trading parameters applicable as of 2 January 2023 to euro adoption (for example, the parameter for the minimum size of block trade, cross request and similar), etc. Hanfa continuously monitored the process of adjustment to the euro and examined the process of conversion and appropriateness of dual display of fees in the Exchange price list, as well as all the other actions taken by the ZSE for the purpose of full changeover. The CDCC also took a series of steps and measures for the purpose of euro changeover. In accordance with the Act on the Introduction of the Euro, on the date of euro adoption the CDCC was obligated to convert the nominal amounts and volumes of debt securities and money market instruments issued by the Republic of Croatia and immediately inform the issuers and holders of investor accounts. Following the introduction of the euro as the official currency, the Croatian Large Value Payment System stopped operating, which was followed by the transition to Target payment system (Trans-European Automated Real-

time Gross settlement Express Transfer system). Hanfa supervised all the adjustments of the Target system, as well as the adjustment connected with the conversion and the obligation of dual display of fees.

Figure 3.5 Hanfa's activities in the process of euro introduction



Source: Hanfa

In 2022, Hanfa initiated an off-site inspection of the euro adoption process, covering all investment fund management companies, investment firms and credit institutions performing investment and ancillary services in accordance with the CMA. No later than three months before euro adoption, all supervised entities were required to submit notifications whereby financial services providers inform their clients about the upcoming conversion. Hanfa reviewed the submitted documents and established that all companies complied with the Act on the Introduction of the Euro and the relevant ordinances.

The inspection of activities taken by pension companies and Regos also revealed no irregularities or illegalities concerning the euro adoption process. The off-site inspection was aimed at verifying whether pension companies and Regos fulfilled their obligations concerning the dual display of amounts that are deemed to be material information for the members of mandatory and voluntary pension funds, on the websites of pension companies and Regos and in paper or electronic notifications sent directly to pension fund members.

In the insurance segment, in 2022 Hanfa continued to perform special simulations of potential impact of the changeover and the related effects of the

euro yield curve on the solvency positions of insurance companies, started as early as in 2020. In contrast with 2020 and 2021, when the analysis of the impact of euro adoption covered all insurance companies in the Republic of Croatia, the monitoring exercise in 2022 covered only the insurance companies expecting a significant adverse impact of the euro changeover based on the results of the market exercise carried out in 2021. This mainly concerned insurance companies offering exclusively or mostly life insurance products. This was due to the long-term nature of their liabilities and the use of the benchmark euro interest-rate curve that will increase technical provisions due to the discounting effect, and thus reduce companies' own funds. Market exercises carried out in 2020 and 2021 and the subsequent monitoring of the selected companies in 2022 enabled a timely identification of potential risks to solvency position of insurance companies with the aim of their prevention. Therefore, the euro changeover itself had no significant impact on the capitalisation of the companies, which remained high.

In addition to monitoring the potential impact of the euro changeover on the capitalisation of insurance companies, in January 2022 Hanfa started collecting information on the amount of gross written premium of insurance companies with the aim of monitoring potential changes in prices due to euro adoption and consumer protection. The companies submitted information about price changes on a bi-weekly basis. The inspection focused on types of insurance of particular interest to consumers, that is, mandatory insurance for owners or users of vehicles against liability for damage caused to third parties, comprehensive insurance of land vehicles, insurance against fire and elementary disasters outside industry and crafts, travel medical insurance and accident insurance (type of risk related to loans). Based on the provided data, it has been concluded that the rise in the prices of motor vehicle insurance products preceded the euro adoption. Instead of the euro changeover, it was mostly due to inflation which caused an increase in the prices of car parts, hourly rates in repair workshops and the prices of new and used vehicles.

Supervisory activities related to the euro changeover in 2022 were also focused on the operations of leasing companies, that is, the process of notifying lessees about the conversion and providing general notifications to lessees.

In addition to the activities focused on supervised entities, in 2022 Hanfa's activities were also aimed at the users of financial services and the general public with a view to inform them about all the changes that the introduction of the euro would entail and about their rights and obligations in this process. Hanfa prepared an educational leaflet about the introduction of the euro and the financial services sector, while numerous texts and information for consumers on the topic of euro adoption were published on its portal Money for Tomorrow. The educational leaflet "Introduction of the euro and the financial services sector" was also shared with consumer protection associations with

whom Hanfa cooperated and held lectures for citizens. Every 15th day of the month, Hanfa holds online lectures for the public. In 2022, the lectures also focused on the introduction of the euro. Several media presentations were held as well: two episodes about the impact of the euro adoption on the insurance market, capital market and investment funds were broadcast as part of the radio show “Financial Alphabet” on the Croatian Catholic Radio, with appearance on the portal Večernji TV. In cooperation with Večernji list, Hanfa also published an educational guide to the introduction of the euro, available on Hanfa’s website as well. Five short educational videos were published on the social network profiles of Money for Tomorrow and Hanfa, dealing with the introduction of the euro in the sector of insurance, pension funds, investment funds, as well as the capital market and the leasing market.

For the purpose of carrying out all the above activities and for the purpose of internal adjustments concerning IT application solutions and acts, at the beginning of 2021 Hanfa set up a working party which managed and implemented, on a professional and operational level, all the necessary activities based on obligations arising from coordination boards in which Hanfa was a member, all in accordance with its internal action plan, which included 9 objectives and 28 activities, encompassing all of the above internal and external activities of Hanfa concerning euro adoption.

NORMATIVE ACTIVITIES

4 NORMATIVE ACTIVITIES

Hanfa's normative activities in 2022 included amendments to regulations governing financial services associated with the introduction of the euro as the official currency of the Republic of Croatia. In addition, Hanfa also actively participated in working groups of the Ministry of Finance for drafting legislative proposals in the area of the capital market, investment funds and prevention of money laundering and terrorist financing, as well as the legislative framework for the new form of pension savings, the pan-European Personal Pension Product.

In 2022, Hanfa Board adopted 96 ordinances from almost all areas of its competence, as well as a guideline and four official positions. All of the by-laws were preceded by professional and public consultation process through the e-Consultation portal.

4.1 Capital market and investment services

4.1.1 Legislative activities

Early 2022 saw the adoption of the Act on the Issue of Covered Bonds and Covered Bond Public Supervision⁴⁵, transposing Directive (EU) 2019/2162⁴⁶ into the Croatian legislative framework and regulating the legal framework for the issue of covered bonds and public supervision of covered bonds. Hanfa has been given the authority to supervise the application of this act.

The Act Implementing Regulation (EU) 2021/23 on a framework for the recovery and resolution of central counterparties⁴⁷ was adopted in mid-2022. The new rules reduce the likelihood of a central counterparty's failure by introducing effective incentives for proper risk management. In addition, in the event of financial difficulties, the Act creates preconditions for preserving the critical functions of central counterparties and, therefore, for preserving financial stability. It also contributes to preventing the emergence of circumstances in which it would be necessary for taxpayers to bear the costs of the central counterparty resolution. The proposed Act designated Hanfa as the resolution authority of central counterparties established in the Republic of Croatia. The Act also enabled and clarified the national implementation of the provisions of Regulation on a framework for the recovery and resolution of central counterparties, in particular as regards the application of certain resolution tools and the powers and

⁴⁵ [Official Gazette, No 53/22](#)

⁴⁶ [Directive \(EU\) 2019/2162](#) of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU, OJ L 328

⁴⁷ [Official Gazette, No 119/22](#)

responsibilities of Hanfa and the Ministry of Finance, especially in relation to the use of government tools for financial stabilisation.

Regulation of crowdfunding services

The Act Implementing Regulation (EU) 2020/1503 on European crowdfunding service providers⁴⁸ entered into force at the beginning of 2022. The Act introduced a harmonised legal framework for crowdfunding service providers operating publicly available digital platforms in order to facilitate the matching of prospective investors or lenders with businesses (project owners) that seek funding. Crowdfunding services should be perceived as the matching of business funding interests of investors and project owners through the use of a crowdfunding platform, which consists of any of the following activities:

- the facilitation of granting of loans (loan-based crowdfunding);
- the placing without a firm commitment basis of transferable securities (within the meaning of CMA) and admitted instruments for crowdfunding purposes issued by project owners or a special purpose vehicle and the reception and transmission of client orders in relation to those transferable securities and admitted instruments for crowdfunding purposes (investment-based crowdfunding).

Within the meaning of the legislation governing crowdfunding, “loan” means an agreement whereby an investor makes available to a project owner an agreed amount of money for an agreed period of time and whereby the project owner assumes an unconditional obligation to repay that amount to the investor, together with the accrued interest, in accordance with the instalment payment schedule. “Admitted instruments for crowdfunding purposes” means shares of a private limited liability company that are not subject to restrictions that would effectively prevent them from being transferred, including restrictions to the way in which those shares are offered or advertised to the public (i.e. shares of a limited liability company).

The regulatory framework governing crowdfunding does not include:

- a) other crowdfunding services such as donation-based crowdfunding (when investors do not receive any compensation) or rewards-based crowdfunding (when investors receive a non-financial reward such as a copy of project results);
- b) crowdfunding offers with a consideration of more than EUR 5 000 000, which are to be calculated over a period of 12 months (such offers are subject to the CMA and the Prospectus Regulation);

⁴⁸ Official Gazette, No 144/21

c) crowdfunding offers where project owners are consumers within the meaning of laws governing consumer protection.

In order to avoid a situation where one activity would be subject to more authorisations in the EU, persons which only operate a crowdfunding platform (crowdfunding service providers) are exempted from the obligation to be authorised as an investment firm in line with the CMA. However, crowdfunding service providers with a registered office in the Republic of Croatia are authorised by Hanfa. Upon authorisation, they may offer their crowdfunding services in other Member States via their single EU passport. Entities established in third countries cannot currently be authorised as crowdfunding service providers pursuant to the Crowdfunding Regulation⁴⁹.

Hanfa will grant authorisation to a crowdfunding service provider provided the entity concerned has submitted the documents as set out in the Ordinance on the contents of application for authorisation and application for extension of authorisation of crowdfunding service provider⁵⁰ and Commission Delegated Regulation (EU) 2022/2112. The organisational and operational conditions for crowdfunding service providers include:

- additional incentives restrictions (a crowdfunding service provider must not pay or accept any remuneration, discount or non-monetary benefit for routing investors' orders to a particular offer provided on their platform or on a third-party platform);
- an assessment of the credit risk of the crowdfunding project and the project owner;
- a minimum level of due diligence in respect of project owners (project owner has no criminal record and is not established in a non-cooperative jurisdiction or in a high-risk third country);
- established procedures for handling of complaints;
- appropriate rules for avoiding and preventing conflicts of interest;
- special rules applicable when a crowdfunding service provider offers individual portfolio management of loans to investors;
- capital requirements which are simpler than those imposed on credit institutions and investment firms. The minimum initial capital of a crowdfunding service provider amounts to EUR 25,000.00, that is, one quarter of the fixed overheads of the preceding year, which are to include the cost of servicing loans for three months where the crowdfunding service provider also facilitates the granting of loans. The capital must take the form of own funds, an insurance policy or a comparable guarantee or the form of a combination of the two. Credit institutions, financial services institutions / investment firms, payment institutions and electronic money institutions are subject to special rules.

⁴⁹ **Regulation (EU) 2020/1503** of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937, OJ L 347

⁵⁰ **Official Gazette, No 150/22**

The crowdfunding regulatory framework also prescribes investor protection measures, depending on whether an investor qualifies as a “sophisticated” or “non-sophisticated” investor, based on the criteria and procedure set out in the Crowdfunding Regulation. These measures include:

- marketing communications that are fair, clear and not misleading;
- an entry knowledge test and simulation of the ability to bear loss for non-sophisticated investors;
- a four-day pre-contractual reflection period for non-sophisticated investors;
- a key investment information sheet (KIIS) for all prospective investors provided by a crowdfunding service provider but prepared by the project owner, which must contain the information referred to in the Crowdfunding Regulation, as well as a disclaimer and a risk warning. The project owner is responsible for the information contained in the KIIS, while the crowdfunding service provider must have in place procedures for verifying such information and must signal omissions, mistakes or inaccuracies to the project owner;
- a bulletin board – crowdfunding service providers may operate a bulletin board on which they allow their clients to advertise interest in buying and selling loans, transferable securities or admitted instruments for crowdfunding purposes that were originally offered on their crowdfunding platforms, provided that such bulletin board must not be used to bring together buying and selling interests of third parties in a way that results in a contract. In other words, a bulletin board must not be a multilateral system for matching buying and selling offers (i.e. this must not involve operating an MTP or an OTP within the meaning of the CMA).

With regard to providing payment services, a crowdfunding service provider can provide these services itself or these services can be outsourced to a third party. However, the crowdfunding service provider or such third party must be authorised as a payment service provider.

Pursuant to the Act on Amending the Capital Market Act⁵¹ adopted in late 2022, the amounts denominated in the kuna are aligned with the amounts denominated in the euro as set out in the *acquis communautaire* regulating capital markets, while the range of administrative sanctions is aligned with the provisions of the act governing the introduction of the euro as the official currency in the Republic of Croatia and the amounts denominated in euro and laid down in the *acquis communautaire*. In addition, the Act ensures further harmonisation of the capital market in the Republic of Croatia with EU regulations, in particular as regards the amendment of the definition of a financial instrument, which now also includes instruments issued by using Distributed Ledger Technology (hereinafter: DLT). Furthermore, appointment of Hanfa

⁵¹ Official Gazette, No 151/22

as the competent authority for the implementation of Regulation (EU) 2022/858⁵² aims to ensure that the legislation governing financial services in the Republic of Croatia is suitable for digital era and that it contributes to building an economy that is resilient to future changes for the benefit of all citizens, including by enabling the use of innovative technologies. Research, development and acceptance of transformative technologies in the financial sector, including the acceptance of distributed ledger technologies, is of interest to the EU policy. Regulation (EU) 2022/858, which will directly apply in the Republic of Croatia as of 23 March 2023, lays down an additional regulatory framework for the market infrastructure (multilateral facilities and securities settlement systems) if market infrastructure entities intend to use distributed ledger technology. The aim is to support innovation and the use of new technologies in the area of finance, but also to ensure continued supervision by supervisory authorities in order to protect investors. In this regard, Hanfa plays an important role as the competent authority for the market infrastructure. Pursuant to the directly applicable provisions of Regulation (EU) 2022/858, Hanfa has the power to grant and withdraw permissions and exemptions and to impose compensatory or corrective measures with regard to these additional requirements. The harmonised rules laid down in Regulation (EU) 2022/858 will enable the adjustment of the existing market infrastructure to certain types of crypto-assets that are deemed to be transferable securities, if there is market interest. Also, in the light of Croatia's joining the euro area and consequent integration of the securities settlement system of the Central Depository & Clearing Company Inc. into the European platform TARGET2-Securities, amendments have been introduced in the part concerning the instigation of insolvency proceedings over the participants in the clearing and/or settlement system and the possibility of (money) settlement of financial instrument transmission orders accepted in the settlement system until the instigation of insolvency proceedings.

4.1.2 By-laws

In 2022, pursuant to the provisions of the CMA, Hanfa adopted 27 ordinances in the field of capital market, which mainly referred to amendments to the current and future reporting and supervisory obligations of capital market participants⁵³. Most of the adopted ordinances relate to amendments to mandatory templates and rules in view of the adoption of the euro as the official currency in the Republic of Croatia and the way in which reports are to be submitted. Report submission is no longer prescribed in ordinances and is instead set out in Hanfa's technical instructions in order to enable the streamlining of the way in which reports are to be submitted to Hanfa's report retrieval system.

The Ordinance amending the Ordinance on organisational requirements and conduct of business rules for the provision of investment services and activities⁵⁴ transposes

⁵² **Regulation (EU) 2022/858** of the European Parliament and of the Council of 30 May 2022 on a pilot regime for market infrastructures based on distributed ledger technology, and amending Regulations (EU) No 600/2014 and (EU) No 909/2014 and Directive 2014/65/EU, OJ L 151

⁵³ The list of ordinances adopted by Hanfa in 2022 is provided in the Appendix.

⁵⁴ **Official Gazette, No 65/22**

Commission Delegated Regulation (EU) 2021/1269 on sustainability⁵⁵ into the Croatian legal framework and lays down the obligation of investment firms and credit institutions performing investment services and activities to integrate sustainability factors into the product governance obligations, and especially in the process of identifying a target market for the products they distribute. The Ordinance also lays down the content of compliance function reports and the time limits for their submission.

In the course of the year, Hanfa adopted all the by-laws for the implementation of the Act Implementing Regulation (EU) 2020/1503 on European crowdfunding service providers: Ordinance on the contents of application for authorisation and application for extension of authorisation of crowdfunding service providers⁵⁶, Ordinance on the submission of complaints to the Croatian Financial Services Supervisory Agency about the work of European crowdfunding service providers and actions of the Croatian Financial Services Supervisory Agency following received complaints⁵⁷ and Guidelines on marketing communications relating to crowdfunding services⁵⁸. This package of subordinate legislation completes the regulatory framework governing the operations of European crowdfunding service providers in the Republic of Croatia. Guidelines on marketing communications are of particular importance. With a view to protecting investors in the Republic of Croatia, they lay down relevant requirements pertaining to marketing communications employed by European crowdfunding service providers in carrying out their marketing activities and offering their services in the Republic of Croatia, regardless of whether this concerns a company with a registered office in Croatia or in another Member State providing these services in the Republic of Croatia based on the single EU passport.

In order to stimulate, organise and supervise measures for the efficient functioning of the financial market with a view to harmonising the conduct of supervised entities, Hanfa adopted and published one official position in the field of capital market concerning the application of the Act on the Takeover of Joint-Stock Companies.

In its official position concerning the application of Article 13 paragraph (2) item (1) of the Act on the Takeover of Joint-Stock Companies⁵⁹, with a view to harmonise the conduct in the application of the Act concerned, Hanfa explained certain matters to the interested public, in particular the case where Hanfa has issued a decision on the obligation to announce a takeover bid, where such decision does not contain an order to fulfil this obligation. Hanfa holds that the prohibition to exercise voting rights attached to the shares of the offeree company held by the offeror and the persons acting in concert with the offeror becomes effective on the date of finality of Hanfa's decision about the imposition of the obligation and lasts until the date of payment and transfer of shares deposited in the takeover bid, regardless of whether the performance

⁵⁵ [Commission Delegated Directive \(EU\) 2021/1269](#) of 21 April 2021 amending Delegated Directive (EU) 2017/593 as regards the integration of sustainability factors into the product governance obligations, OJ L 277

⁵⁶ [Official Gazette, No 150/22](#)

⁵⁷ [Official Gazette, No 146/22](#)

⁵⁸ [Link](#)

⁵⁹ [Link](#)

of actions for the purpose of announcing the takeover bid has been ordered by way of Hanfa's decision imposing such obligation or by way of a separate decision.

4.2 Investment funds

4.2.1 Legislative activities

The Act Amending the Act on Open-Ended Investment Funds with Public Offering⁶⁰ entered into force in 2022. The amendments introduced by the Act concerned primarily relate to further harmonisation of the Croatian capital market regulatory framework with the EU *acquis communautaire*, in terms of the transposition of Directive 2021/2261 (EU)⁶¹. The UCITS Directive⁶² requires management companies to draw up a short document containing key information about the essential characteristics of UCITS for investors (hereinafter: key investor information), so that those investors are able to understand the nature and the risks of the UCITS that are being offered to them and, consequently, to take investment decisions on an informed basis. On the other hand, the PRIIP Regulation⁶³ requires issuers of packaged retail and insurance-based investment products (PRIIP), before a PRIIP is made available to retail investors, to draw up for that product a key information document so that investors are able to understand and compare the key characteristics of PRIIPs and the associated risks.

However, while UCITS are also deemed to be PRIIPs for which the PRIIP Regulation lays down the obligation to draw up a key information document, pursuant to Article 32 paragraph (1) of the Regulation, management companies and distributors of units in UCITS were exempted until 31 December 2021 from the obligations laid down therein, including the obligation to draw up a key information document.

In order to ensure sufficient time to prepare for the obligation to produce a key information document, the PRIIP Regulation was amended by Regulation (EU) 2021/2259⁶⁴ to extend the transitional arrangement until 31 December 2022.

Key investor information (for UCITS) and a key information document (for PRIIPs) basically involve the same requirements concerning the provision of information. Therefore, it should be ensured that PRIIP retail investors interested in the acquisition

⁶⁰ **Official Gazette, No 76/22**

⁶¹ **Directive (EU) 2021/2261** of the European Parliament and of the Council of 15 December 2021 amending Directive 2009/65/EC as regards the use of key information documents by management companies of undertakings for collective investment in transferable securities (UCITS), OJ L 455

⁶² **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) (recast), OJ L 302

⁶³ **Regulation (EU) No 1286/2014** of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs), OJ L 352

⁶⁴ **Regulation (EU) 2021/2259** of the European Parliament and of the Council of 15 December 2021 amending Regulation (EU) No 1286/2014 as regards the extension of the transitional arrangement for management companies, investment firms and persons advising on, or selling, units of undertakings for collective investment in transferable securities (UCITS) and non-UCITS (Text with EEA relevance) (OJ L 455)

of UCITS units, as of 1 January 2023, are not provided with both documents for the same financial product. This is why the Act Amending the Act on Open-Ended Investment Funds with Public Offering lays down that a key information document meets all the requirements applicable to key investor information. Furthermore, with regard to non-retail investors, management companies must draw up key investor information pursuant to the applicable law, except where they decide to draw up a key information document, as set out in the PRIIP Regulation. In such case, Hanfa, as the competent authority, should not require management companies to provide key investor information. Instead, such investors should only be provided with a key information document.

The proposed amendments also concern the conversion of amounts denominated in the kuna to euro, while the amount of the range of administrative sanctions is aligned with the provisions of the Act on the Introduction of the Euro.

4.2.2 By-laws

Open-ended investment funds with public offering

Nine ordinances governing the operations of UCITS and management companies were amended in 2022⁶⁵. Most of the adopted ordinances relate to amendments to mandatory templates, rules and amounts denominated in the kuna in view of the adoption of the euro as the official currency in the Republic of Croatia and the way in which reports are to be submitted. Report submission is no longer prescribed in ordinances and is instead set out in Hanfa's technical instructions in order to enable the streamlining of the way in which reports are to be submitted.

The Ordinance amending the Ordinance on determination of the net asset value and the unit price of UCITS⁶⁶ lays down adjustments to the scope of options in valuing UCITS assets at amortised cost by applying the effective interest rate method, so that it relates to the valuation of investments into deposits in credit institutions and instruments used for the purpose of effective portfolio management, which meet the conditions set out in item 4.2.1 of IFRS 9⁶⁷. The amendments also provide that money market instruments, bonds and other debt securities, which are at the time of the entry into force of these amendments already valued at amortised cost by applying the effective interest rate method, that is, which are already held within a business model whose objective is to hold financial assets in order to collect only contractual cash flows, may continue to be valued in such a way until maturity of these instruments. In addition, the ordinance also prescribes the circumstances in which impairment of assets is recognised based on objective evidence for the instruments valued at amortised cost.

⁶⁵ The list of ordinances adopted by Hanfa in 2022 is provided in the Appendix.

⁶⁶ **Official Gazette, No 155/22**

⁶⁷ **Commission Regulation (EU) 2016/2067** of 22 November 2016 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9, OJ L 323

Alternative investment funds

A total of 13 ordinances governing the operations of AIFMs and AIFs have been amended in 2022⁶⁸. Ordinance on the issuance of authorisation to establish and manage AIFs⁶⁹ lays down a new authorisation procedure for the establishment and management of AIFs with a private offering, subject to the so-called “accelerated procedure” that requires rendering of a decision within 10 days from the date of submission of a valid application. The ordinance also lays down a template to be completed by AIFMs and enclosed to their application for authorisation to establish and manage an AIF with a private offering, which also contains the required guarantees and declarations by AIFMs that the content of the application and the content of AIF documents are aligned with the provisions of the Alternative Investment Funds Act, guarantees and a declaration by the depositary on the acceptance of the AIF rules and a description of the way in which AIF documents have been aligned with the Alternative Investment Funds Act, as well as the way in which the required guarantees and declarations of AIFMs are given and their content.

In line with this procedure, Hanfa no longer issues authorisations of AIF rules, which an AIFM is obligated to clearly indicate to investors. The new accelerated procedure for the issuance of authorisation to establish and manage AIFs with a private offering resulted in a streamlined authorisation procedure.

The Ordinance amending the Ordinance on types of alternative investment funds⁷⁰ brings further harmonisation for the purpose of lightening the regulatory load and further development of the AIF market by enabling the establishment of real estate AIFs to be offered to retail investors as well, provided that an appropriate level of investor protection has been ensured. The ordinance also lays down permitted investments of open-ended AIFs with a public offering for the purpose of investing in real estate, as well as the conditions to be met by real estate to qualify as a permitted investment and investment restrictions.

Most of the other adopted ordinances relate to amendments to mandatory templates and amounts denominated in the kuna in view of the adoption of the euro as the official currency in the Republic of Croatia and the way in which reports are to be submitted. Report submission is no longer prescribed in ordinances and is instead set out in Hanfa’s technical instructions in order to enable the streamlining of the way in which reports are to be submitted.

The Ordinance amending the Ordinance on determination of the net asset value and the unit price of AIFs⁷¹ introduces the same amendments relating to the valuation of AIF assets as the above Ordinance amending the Ordinance on determination of the net asset value and the unit price of UCITS.

⁶⁸ The list of ordinances adopted by Hanfa in 2022 is provided in the Appendix.

⁶⁹ [Official Gazette, No 26/22](#)

⁷⁰ [Official Gazette, No 155/22](#)

⁷¹ [Official Gazette, No 155/22](#)

4.3 Pension system

4.2.1 Legislative activities

2022 saw the adoption of the Act Implementing Regulation (EU) 2019/1238 on a pan-European Personal Pension Product (PEPP)⁷², introducing in the Croatian legislation a new type of a financial pension product registered in accordance with the provisions of the PEPP Regulation⁷³. In accordance with the Act, Hanfa is the competent authority for the implementation of the PEPP Regulation, while supervised entities are PEPP manufacturers, distributors and depositaries.

Pan-European Personal Pension Product

A pan-European Personal Pension Product (PEPP) is a pension product subscribed to voluntarily by a PEPP saver in view of retirement, intended for all Union citizens who can and wish to save for private pension, regardless of age and employment status.

What is special about PEPP is that it is adapted to the needs of EU citizens who, due to employment or life interests, have worked or lived outside their home countries or who often relocate to other Member States given that their savings, i.e. pension “move” based on their residence. This is a form of long-term voluntary pension savings with no possibility or limited possibility of early redemption.

The key features of PEPP are the following:

- mobility: savers can continue to save within the same product even if they change residence within the EU;
- the possibility to choose a different investment option after five years without any cost;
- full product transparency, including in terms of costs and fees – relevant information is disclosed in a simple key information document (KID) provided before the purchase, accompanied by a personal statement on pension during the product life-cycle;
- the possibility to offer up to six investment options, with one of them being the basic PEPP. The basic PEPP provides protection of invested capital, with its costs not exceeding 1% of the accumulated capital per year.

⁷² **Official Gazette, No 151/22**

⁷³ **Regulation (EU) 2019/1238** of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP), OJ L 198

Before offering a PEPP, a PEPP provider must draw up a KID, which must be accurate, fair, clear and not misleading, and which must be a stand-alone document, clearly separate from marketing materials. One of the specifics of PEPP is that savers are able to claim damages from PEPP providers for the loss suffered if the information contained in the KID or its translation are misleading, inaccurate or inconsistent with the relevant parts of legally binding pre-contractual and contractual documents or with the requirements as to the content of the KID.

A PEPP saver or beneficiary who wishes to switch PEPP providers must submit a written application for switching PEPP providers, while the PEPP provider must provide the PEPP saver or beneficiary with a written acceptance of application within three working days from the date of receiving the application.

A PEPP saver is entitled to receive pension upon reaching the age of 55, while a PEPP provider is obligated to set out in its PEPP conditions the minimum accumulation period prior to acquiring the right to a pension. The benefits by PEPP savers and/or beneficiaries can be inherited. If a PEPP saver and/or beneficiary has agreed on payment of pension in annuities or temporary out-payment, inheritors are entitled to also choose between out-payment in the form of annuity, a lump sum or temporary out-payment, pursuant to the provisions of the PEPP contract.

In accordance with the provisions of the PEPP contract, pension entitlement can be exercised even earlier, in the following cases:

- in the case of death, given that the benefits can be inherited;
- in the case of partial or total disability (to be approved based on a decision issued by the Croatian Pension Insurance Institute); or
- in the case of long-term unemployment (payment of a lump sum up to 100% of the amount on the sub-account).

The proceeds within the scope of the PEPP are subject to the provisions of the income tax regulations governing the proceeds based on a contract on voluntary pension insurance.

The PEPP can be offered and distributed in the EU only if it has been registered in a central public register formally kept by EIOPA. Registration decisions are adopted by national competent authorities. The registration of a PEPP in the register kept by EIOPA is valid in all Member States and permits PEPP providers and distributors to offer and distribute PEPP products.

4.2.2 By-laws

In 2022, Hanfa adopted 27 ordinances governing the operations of pension companies, mandatory and voluntary pension funds and pension insurance companies⁷⁴. As with most subordinate regulations adopted by Hanfa, the amendments concerned adjustments of prescribed reports and amounts denominated in the kuna in view of the introduction of the euro as the official currency in the Republic of Croatia and adjustments of the manner of their submission to Hanfa. The rules concerning the manner of signing are no longer defined in ordinances, but are instead set out in Hanfa's technical instructions to enable the streamlining of the way in which reports are to be submitted and signed.

4.4 Insurance

4.2.1 Legislative activities

During 2022, Hanfa participated in the drafting of the Act Amending the Insurance Act,⁷⁵ which entered into force on 1 January 2023, laying down the assumptions for the application of the new international financial reporting standard IFRS 17 – Insurance contracts, which fully replaced IFRS 4. The aim of IFRS 17 is to achieve greater uniformity and comparability of financial statements in the insurance industry, as well as across the insurance sector and other economic sectors, by applying economic principles, best estimate assumptions and market data as important principles in measuring insurance contracts. IFRS 17 helps investors to better understand insurer exposure risk, as well as the financial position and performance of insurers.

In essence, IFRS 17 introduces the following significant changes in reporting and disclosures by insurers:

- liabilities arising from insurance contracts (insurance liabilities and risks) that include also the component of expected cash flow on the premium and claims, benefits and cost expenditures and the risk adjustment, as well as the component of unearned profit;
- insurance results that separately report the results of core insurance operations and results from investment activities associated with insurer operations;
- insurance revenue – instead of premium, this will include profit from insurance coverage.

Changes have also been introduced as to profit recognition: under IFRS 4, profit was recognised in the year of contract conclusion, while under IFRS 17 profit is recognised over the period of the contract. This approach ensures the consistency between IFRS

⁷⁴ The list of ordinances adopted by Hanfa in 2022 is provided in the Appendix.

⁷⁵ [Official Gazette, No 151/22](#)

17 and other IFRSs, while the insurance contract standard is brought closer to the long-term nature of insurance operations.

In the light of these amendments, considerable work is expected in 2023 on drafting subordinate legislation.

4.5.2 By-laws

In 2022, Hanfa adopted four ordinances in the area of insurance companies and insurance distributors' operations⁷⁶.

Pursuant to the Ordinance on the requirements for the acquisition and examination of professional knowledge required in order to perform activities of a certified actuary⁷⁷, in order to be granted authorisation to perform activities of a certified actuary, a person must primarily have passed an examination at the Croatian Actuarial Association. The Croatian Actuarial Association must ensure and provide Hanfa with the following:

- proof that the examination was aligned with training programmes organised by international/European actuarial associations;
- proof that the examination was performed under controlled conditions;
- proof that the grading procedure was impartial and objective;
- proof of performed examinations and persons that passed the examination.

If the Croatian Actuarial Association no longer meets the above conditions (if it loses its accreditation granted by an international association or if it fails to prove that the examination was performed under controlled conditions, etc.) resulting in Hanfa no longer admitting such examination as a proof of professional knowledge, the ordinance sets out that Hanfa will hold a training programme and examination itself.

The Ordinance on documentation for the outsourcing of activities or functions of insurance undertakings or reinsurance undertakings⁷⁸ lays down in more detail the documents proving that conditions have been met for the outsourcing of activities or functions of insurance/reinsurance undertakings, and prescribes a time limit of 60 days to notify Hanfa about the intention to outsource these activities or functions, with Hanfa being empowered to set out a shorter time limit upon receiving a reasoned application by an insurance undertaking.

In order to stimulate, organise and supervise measures for the efficient functioning of the financial market with a view to unifying the conduct of supervised entities, Hanfa has adopted and published two official positions in the field of performing insurance distribution business.

In the first official position⁷⁹, Hanfa took a stance on the establishment of an incentive system between a credit institution acting as an insurance intermediary and an insurance company. In essence, Hanfa holds that prior to concluding an insurance

⁷⁶ The list of ordinances adopted by Hanfa in 2022 is provided in the Appendix.

⁷⁷ [Official Gazette, No 48/22](#)

⁷⁸ [Official Gazette, No 155/22](#)

⁷⁹ [Link](#)

contract, an insurance intermediary must, among other things, provide the client with clear and unambiguous information on the nature of received proceeds, with a combination of different forms of proceeds being permitted (commission, economic benefit, fees, etc.). Intermediaries are warned that proceeds must not be structured in a way that is contrary to the clients' best interests. In addition, with regard to distribution of insurance-based investment products, insurance intermediaries or insurance companies must provide clients with clear and timely information about the properties and any source of conflict of interest before the conclusion of an insurance contract. Finally, Hanfa notes that an insurance distributor especially must refrain from entering into any agreements related to bonuses, sales targets or other similar arrangements which could induce the distributor or its employees to offer an insurance product that does not cater to the needs of the client.

In view of the questions raised in practice about the possibility of a leasing company to act as an insurance intermediary, in the second official position⁸⁰ Hanfa took a clear stance that this is possible given that pursuant to the Insurance Act, leasing companies are clearly included in one of the categories of insurance intermediaries, despite the fact that this activity is not expressly set out in the Leasing Act.

4.5 Other normative activities

4.5.1 Legislative activities

The Act on the Introduction of the Euro was the most important regulation adopted in 2022 with an impact on the operations of all the entities supervised by Hanfa. Hanfa also participated in its drafting. With regard to the areas falling within Hanfa's competence, the Act lays down the rules for dual display of prices and values in the financial sector and the conversion of the value of securities and units in pension and investment funds, as well the obligation of financial services providers to notify their clients about the conversion of their assets and liabilities denominated in the kuna to the euro by applying the fixed conversion rate, in the form of both a general and personalised notification.

The Act Amending the Anti-Money Laundering and Terrorist Financing Act⁸¹ has been aligned with the recommendations by Moneyval from the 5th Round Evaluation of the Republic of Croatia contained in the Action plan for strengthening the anti-money laundering and terrorist financing system in Croatia ⁸². The most important amendments falling within Hanfa's competence include more detailed obligations of virtual asset service provider. These services have been broadened, while virtual asset service providers have been imposed the obligation to register in a register of virtual asset service providers kept by Hanfa, with the obligation to verify good reputation of owners and management board members. Pursuant to the amended Act, persons not

⁸⁰ [Link](#)

⁸¹ [Official Gazette, No 151/22](#)

⁸² [Official Gazette, No 56/22](#)

listed in the register kept by Hanfa are prohibited from providing virtual asset services, with the exemption of equivalent service providers authorised or registered in other Member States by following the prescribed procedure.

Pursuant to the amended Act, virtual currency service providers are also obligated to perform client due diligence for all occasional transactions equal to or exceeding EUR 1,000.00, as well as for all occasional transactions that involve transmission of virtual assets with their value equal to or exceeding EUR 1,000.00, and provide Hanfa with an annual work plan for the current year and the work report for the preceding year in the area of prevention of money laundering and terrorist financing, no later than by 30 June in the current year. In addition, the amendments provide more detailed obligations concerning the taking of measures to verify the identity of beneficial owners, while the threshold for notifying about cash transactions has been lowered from HRK 200,000.00 to EUR 10,000.00.

4.5.2 By-laws

One of the most important normative activities of Hanfa related to the adoption of by-laws in 2022⁸³ is the adoption of the Ordinance on the notification of clients of financial services providers on the introduction of the euro as the official currency in the Republic of Croatia⁸⁴. Following a comprehensive public discussion with all entities supervised by Hanfa, the Ordinance lays down the content, structure and manner of submission of general and personalised notifications to clients of Hanfa's supervised entities about the conversion to euro of all the liabilities and assets of clients denominated in the kuna.

The remaining amendments to Hanfa's ordinances introduced in 2022 concern further amendments of 14 ordinances in the leasing and factoring areas in view of the introduction of the euro as the official currency in the Republic of Croatia. These ordinances no longer contain rules on the manner of signing of reports to be submitted to Hanfa. Instead, these rules are defined in Hanfa's technical instructions, in order to streamline the manner of submission and signing of the reports concerned in the upcoming period. The Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2023⁸⁵ lays down supervision fees paid by Hanfa's new supervised entities, that is, crowdfunding service providers and credit institutions providing crowdfunding services, as well as the issuers of covered bonds. Fees charged to other supervised entities were not changed, but only converted to the euro and rounded down to the nearest ten.

Finally, in its official position on the application of the Anti-Money Laundering and Terrorist Financing Act⁸⁶, Hanfa held that considering all the relevant factors and in view of the fact that the exchange between virtual currencies and fiat currencies poses a higher risk than the operations of authorised currency exchange offices, in the exchange between virtual currencies and fiat currencies, the threshold above which a

⁸³ The list of ordinances adopted by Hanfa in 2022 is provided in the Appendix.

⁸⁴ [Official Gazette, No 90/22](#)

⁸⁵ [Official Gazette, No 152/22](#)

⁸⁶ [Link](#)

transaction cannot be anonymous can be lower than the statutory minimum, which is to be clearly defined by all entities in their internal procedures. Hanfa also held that due diligence by virtual and fiat currency exchange service providers, except for the amounts exceeding HRK 105,000.00, must be performed also in other cases in accordance with the Act concerned. The amendments to the Anti-Money Laundering and Terrorist Financing Act have introduced better defined thresholds and obligations.

LICENSING AND TRAINING



5 LICENSING AND TRAINING

In licensing procedures based on relevant regulations Hanfa verifies the fulfilment of requirements for authorisations issued to legal and natural persons relating to the acquisition of appropriate knowledge and qualifications for conducting activities falling within Hanfa's competence. In the course of procedures representing the first step of entry into the financial market, Hanfa verifies the fulfilment of prescribed conditions with respect to the regulatory requirements for establishment of companies, such as the amount of initial capital, and the conditions regarding the organisational requirements for companies as well as many other necessary conditions. In the procedure of licensing management and supervisory board members of supervised entities, before issuing relevant approvals, Hanfa verifies the good reputation and integrity of candidates, their work experience, expertise and other requirements laid down in legislation and subordinate legislation, while in the procedure before Hanfa, holders of qualifying holdings prove their good reputation, financial standing and transparent origin of the funds used to finance the proposed acquisition.

5.1 Licensing

In 2022, Hanfa carried out 225 licensing procedures, which involved the issuance of approvals to acquire a qualifying holding, authorisations, approvals to perform the function of a management board member and a supervisory board member, approvals to perform activities of a certified actuary and authorisations to pursue insurance and reinsurance distribution business, as well as procedures determining the termination of a licence.

The largest number of licensing applications related to applications for authorisation to pursue insurance and reinsurance distribution business (70), of which the majority of authorisations were issued to insurance representation crafts to pursue insurance distribution business (43).

5.1.1 Capital market

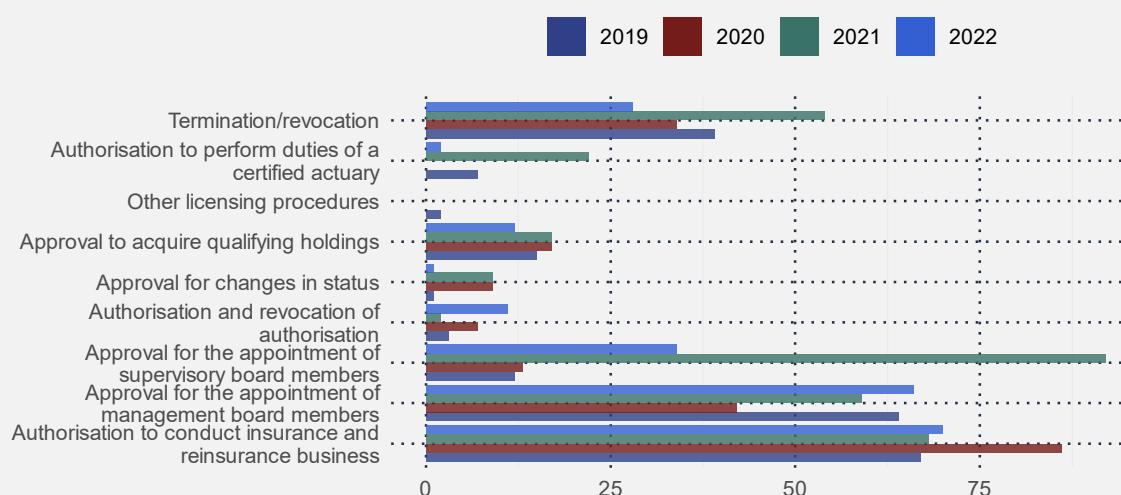
In 2022, Hanfa issued two approvals to perform the function of a member of the management board of an investment firm, while one procedure was terminated.

Pursuant to the own decision of an investment firm, Hanfa in 2022 revoked that firm's authorisation to provide investment services and carry out investment activities and related ancillary activities issued pursuant to the law governing the capital market and, acting on the firm's application, issued to it an authorisation for a small AIFM.

Also issued in 2022 were two approvals to perform the function of a management board member of the Zagreb Stock Exchange, both relating to the reappointment of the existing ZSE management board members. Hanfa also issued three approvals to perform the function of a management board member of the central securities depository and one approval to perform the function of a management board member of a central counterparty.

Figure 5.1 Licensing procedures in 2022, by the type of procedure

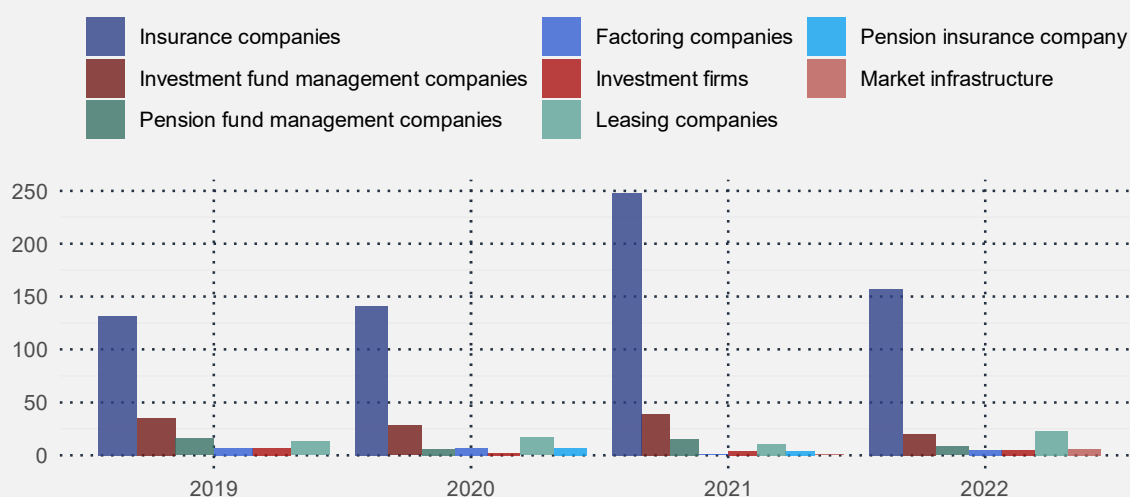
Number of procedures



Source: Hanfa

Figure 5.2 Licensing procedures in 2022, by industry

Number of procedures



Source: Hanfa

5.1.2 Investments

During 2022, Hanfa issued four authorisations to alternative investment fund management companies, one in the medium-sized AIFM category, and three in the small AIFM category. The authorisation in the medium-sized AIFM category was issued to an existing AIFM which had already possessed authorisation in the large AIFM category. The authorisation for a small AIFM was issued to an existing firm that had formerly been an investment firm; pursuant to the firm's application, Hanfa revoked its authorisation to provide investment services and carry out investment activities and related ancillary activities. The other two authorisations for a small AIFM were issued to two existing AIFMs that had already possessed authorisation in the large and medium-sized AIFM category.

In 2022 issued were ten approvals to perform the function of a management board member of an investment fund management company, four of which were issued with respect to the performance of the function of a member of the UCITS management company's management board and AIF management companies, and six with respect to the performance of the function of a member of the AIFM management board.

One investment fund management company obtained in 2022 Hanfa's approval to delegate compliance function tasks.

In 2022, Hanfa issued five approvals to acquire qualifying holdings in investment fund management companies, four of which related to a direct and one to an indirect acquisition.

Furthermore, revoked was a decision under which an investment fund management company was granted approval to directly and indirectly acquire a qualifying holding as the company decided not to pursue the proposed acquisition.

Hanfa revoked an AIFM's authorisation pursuant to the AIFM's own decision to cease its activities to manage alternative investment funds, after which the company changed its firm name and subject of business in the register of companies and ceased to be an entity supervised by Hanfa.

5.1.3 Pension system

Four approvals were issued in 2022 to perform the function of a member of the pension company's management board, as well as four approvals to perform the function of a member of the pension company's supervisory board.

5.1.4 Insurance

In a joint procedure, Hanfa issued an approval to a domestic insurance company to directly acquire a qualifying holding in another insurance company with a registered office in the Republic of Croatia reaching 100% of the initial capital and voting rights in that company, while three companies having a registered office in the Republic of

Austria obtained approvals for an indirect acquisition of a qualifying holding in the same company.

During the year, 23 approvals were issued to members of insurance companies' management boards, 30 approvals to members of insurance companies' supervisory boards and two approvals to perform the activities of a certified actuary.

The largest number of approvals, 70 in total, were issued in the area of insurance and reinsurance distribution, of which 43 were issued to insurance representation crafts engaged in insurance distribution business.

In the area of insurance and reinsurance distribution, in 2022 Hanfa issued 28 decisions on the termination of authorisation to pursue insurance distribution business, most of which (21) related to insurance representation crafts.

5.1.5 Non-bank financing

Leasing and factoring companies

In 2022, Hanfa adopted 15 decisions on issuing approval to perform the function of a member of the leasing company's management board. In a joint procedure Hanfa issued an authorisation to a newly-established company to conduct leasing operations (finance and operating lease), approval to the founder, a company headquartered in Japan, to acquire a qualifying holding in the newly-established leasing company, as well as two approvals to perform the function of a management board member.

On the other hand, two leasing companies ceased operations as their authorisations to conduct leasing operations were revoked on their request. In one case, the procedure where a leasing company requested approval to establish a branch in a third country was terminated at the request of the applicant.

In a joint procedure Hanfa issued an approval to a company with a registered office in London and a company from Luxembourg to acquire a qualifying holding of 12.21% of the initial capital and voting rights in a domestic leasing company.

Within the framework of non-administrative proceedings, Hanfa verified the fulfilment of requirements for members of supervisory boards of leasing companies, having confirmed the fulfilment of requirements by 22 members of leasing companies' supervisory boards.

The authorisation of a factoring company to pursue factoring business was revoked as the company decided to cease operating as a factoring company. Four approvals to perform the function of a factoring company's management board member were issued, whereas one procedure to acquire a qualifying holding in a factoring company was terminated at the request of the applicant.

5.2 Examinations and professional training

5.2.1 Examinations in the area of capital market, pension funds and pension insurance companies

In 2022, Hanfa organised a professional training programme and 12 examination cycles related to the examination of knowledge and acquisition of qualifications needed to provide information on investment products and services, carry out brokerage activities and provide investment advice services, perform the function of a certified pension fund manager and manage pension insurance companies.

The professional training programme, carried out by expert lecturers in the field of capital market, pension funds and pension insurance companies, including a number of Hanfa's employees, was held in November 2022 and attended by 12 persons. It covered the areas of actuarial services, legislative framework, foreign exchange and payment system, financial institutions and markets, market abuse, quantitative methods, risk management, financial reporting fundamentals, company law, corporate finance, portfolio theory, Zagreb Stock Exchange Rules, ethical standards, economic policy, prevention of money laundering and terrorist financing, takeover of joint-stock companies, corporate governance code, licensing, accounting and financial reporting and insurance fundamentals.

The 2022 examinations were held online on a continuous monthly basis and they were taken by 48 applicants, of whom 20 passed.

5.2.2 Examinations of professional knowledge required in order to pursue insurance and/or reinsurance distribution activities and on-going professional training for distributors

Starting from February 2021, Hanfa organises online examinations for insurance and/or reinsurance distributors and as of July 2022, examinations are organised through a common infrastructure of the Central State Office for the Development of the Digital Society, which is accessible through the e-Citizen system. The examination is organised pursuant to the Ordinance on the fit and proper requirements for insurance distributors and reinsurance distributors and their entry in the register⁸⁷, and involves the examination of knowledge with respect to the selected insurance group, category of insurance intermediaries and ancillary intermediaries, and insurance or reinsurance products the intermediary intends to distribute. Examinations, which continued to be organised on a weekly basis in 2022, were taken by a total of 884 candidates, with the pass levels similar to those in previous years.

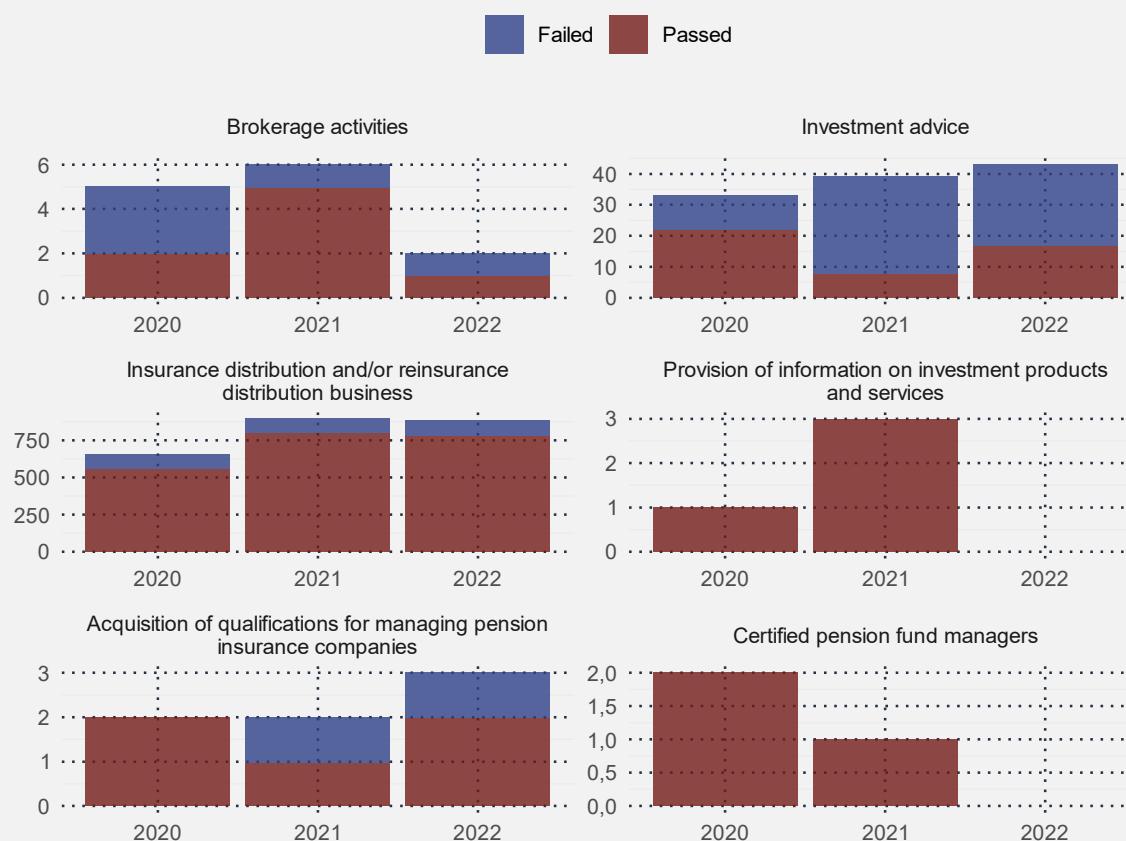
In addition to passing the examination of professional knowledge required in order to pursue insurance and/or reinsurance distribution activities, insurance and/or

⁸⁷ [Official Gazette, No 16/19](#)

reinsurance distributors' expertise implies the maintenance of an adequate level of knowledge and competence of distributors throughout the entire period of pursuing insurance and/or reinsurance business. For this reason, Hanfa continued to monitor the compliance of distributors regarding on-going professional training, which is required to retain a license.

Figure 5.3 Examination results, by type of examination

Number of exams



Source: Hanfa

CONSUMER PROTECTION AND IMPROVEMENT OF FINANCIAL LITERACY

6 CONSUMER PROTECTION AND IMPROVEMENT OF FINANCIAL LITERACY

In the pursuit of its activities, Hanfa is, among other things, guided by the principle of building mutual trust among all financial market participants and informing and monitoring the protection of financial services users. Consumer protection primarily implies improvements in the legal position of citizens – users of financial services – in the context of buying or contracting various financial services in the market, with education also being one of the major tools of consumer protection. To that end, Hanfa pays special attention to education in financial literacy falling within its competence, as well as communication with consumers and the interested public. This includes responding to consumer complaints, releasing educational materials and warnings, as well as holding lectures, workshops as well as other forms of education both for target groups and the general public.

6.1 Consumer Protection

Acting on complaints of financial services users and their analysis are among the tools used for monitoring consumer protection. Hanfa receives complaints from users of financial services and other interested persons within all areas of its competence, that is, insurance, the capital market, leasing, factoring, investment funds, pension funds, pension insurance companies and investment firms, and acts on any complaint received. After verifying the allegations made in the complaint, Hanfa submits a reply to the complaint submitter within 30 days of its receipt. In some cases, the allegations made in a complaint may point to the existence of certain systemic problems or deficiencies in business processes of a supervised entity so that the thus obtained findings may be useful to Hanfa in the performance of activities falling within its competence.

A total of 166 complaints were received in 2022, which is 22 complaints or 11.7% less than in 2021.

The largest number of complaints again referred to insurance (101 or 61% of the total number of received complaints). The large share of complaints referring to insurance is attributable to the fact that insurance is one of the most widespread financial services with a relatively large number of insurance contracts. As a result, the number of disputes between consumers and financial services providers is expected to remain large, particularly bearing in mind the nature of that service and its integration in everyday life of consumers – users of financial services.

Figure 6.1 Number of complaints received during the year

Number of complaints



Source: Hanfa

The largest-number of insurance-related complaints received in 2022 concerned car insurance (40 complaints or 41%), of which 30 complaints related to motor vehicle liability insurance and ten related to comprehensive insurance. Complaints were most often related to the justification of a claim and the amount of damages, as well as the conduct while handling claims. Four misdemeanour proceedings associated with the breaches of Article 12 of the Act on Compulsory Traffic Insurance⁸⁸ were initiated based on these complaints. An increase in the number of complaints was also seen in the field of health insurance, accounting for 10% of insurance-related complaints. Most complaints related to the issues associated with the possibility of terminating the contract and understanding contract terms. By contrast, the number of complaints related to property insurance dropped sharply, falling to only 6% of all insurance-related complaints. This was in contrast with 2021, when complaints related to property insurance accounted for 26% of insurance-related complaints; however, this was the consequence of the earthquakes that hit the area of the City of Zagreb, Zagreb County and Sisak and Moslavina County in 2020.

The upward trend in the number of complaints in the leasing segment seen in 2020, which was largely due to the market events associated with the coronavirus pandemic, came to a halt in 2021. The fall continued in 2022, when only eight such complaints were received, a decrease of 58% from 2021. The number of complaints concerning the capital market also dropped; 18 complaints were received in 2022, which was a decrease of 33% (nine) from 2021.

In 2022, Hanfa received more complaints (12) concerning the operation of investment and pension fund management companies, compared with five complaints received in the year before. The complaints mostly related to the decrease in the value of assets and fund management, which was the outcome of current developments in financial markets. As regards pension insurance companies, two complaints were received, that

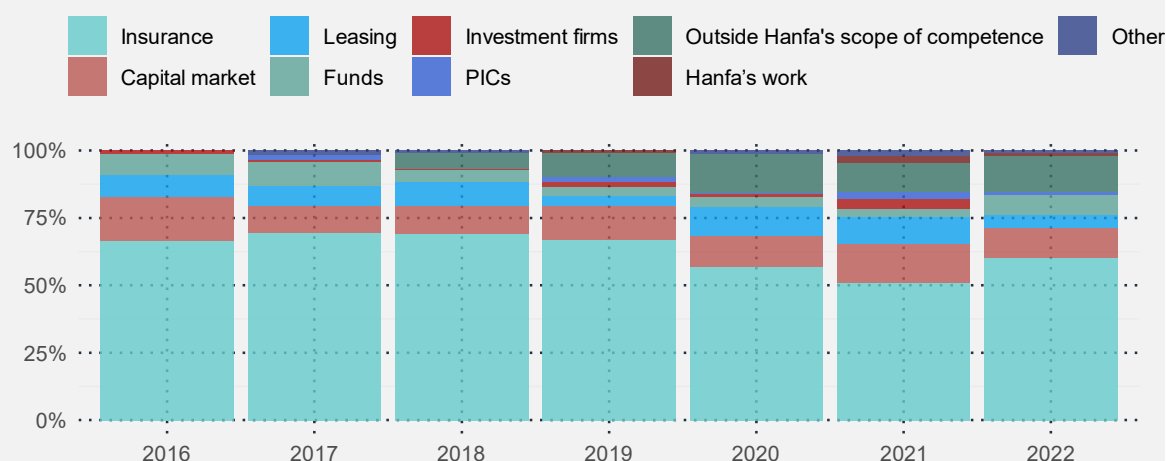
⁸⁸ Official Gazette, No [151/2005](#), [36/2009](#), [75/2009](#), [76/2013](#), [152/2014](#)

is, three less than in 2021, and they were related to pension calculation issues, pension adjustment and pension lagging behind inflation. The number of complaints related to pension insurance is expected to rise further in the upcoming period in view of the increasing number of pension beneficiaries in the system.

The number of received complaints falling outside the area of Hanfa's competence (22) did not change significantly from 2021, with most of them relating to telecommunication companies and banks. Only two complaints received in 2022 were related to Hanfa's work, but their analysis showed no irregularities. One complaint was related to the issue of prevention of money laundering and terrorist financing.

Figure 6.2 Structure of financial services users' complaints submitted to Hanfa by years

In % of the total number of complaints received



Source: Hanfa

All complaints received in 2022 were resolved. In other words, Hanfa responded to submitters in all cases, or, when complaints fell outside the area of its competence, it forwarded the complaints to the relevant competent institution or notified the submitter that the subject of complaint was not within its area of competence.

In some cases, Hanfa may initiate a supervisory procedure on the basis of received complaints. The *ad hoc* supervisory procedure of an insurance company regarding the handling of consumer claims initiated in 2021 was completed in 2022 by adoption of a decision ordering the company to eliminate illegalities and irregularities. Furthermore, Hanfa carried out off-site inspections of all insurance companies in the part related to complaints/objections of interested persons in accordance with the Insurance Act. Hanfa examined internal regulations governing the actions on complaints and objections of interested persons, company records of complaints and objections received in 2020 and 2021 and company websites. Minor deficiencies were identified in several insurance companies in the area of client information on the possibility of filing complaints/objections through a company's website. The companies were recommended to carry out actions aimed at improving the awareness of interested persons regarding the possibilities and methods of filing complaints/objections. It was

established that on-site inspections should be carried out in four companies and they are scheduled to take place in 2023.

In 2022, Hanfa carried out an *ad hoc* on-site inspection of a leasing company based on information provided in the complaint in relation to the company's actions in accordance with the Leasing Act and its own internal regulations concerning a termination of a lease contract due to the failure to deliver leased assets. As illegalities and irregularities were identified during the inspection, Hanfa issued a decision ordering their elimination.

Inspired by the findings from complaints and other forms of communication with consumers, Hanfa published several warnings and informative texts on its website in 2022. In the field of insurance, it published a text titled "KID – identity card of packaged investment products", which relates to life insurance where policyholders bear investment risk, that is, insurance-based investment products – IBIPs. Because of the complexity of such products, regulations prescribe in detail the key information that must be supplied to consumers and their format – key information document, KID, specified in an informative text.

In addition to questions related to supervised entities, Hanfa received a large number of questions, particularly through a phone line for consumers, related to foreign companies providing high-risk investment services (e.g. contracts for differences, CFDs), which often result in a loss of invested funds or even internet frauds. In response to questions received in 2022, Hanfa issued a warning related to trading through [tradingview.io](https://tradingview.com) and [eenmarket.group](https://www.eenmarketgroup.com) platforms and companies Umedia LLC and Bodacious Consulting LLC managing them. Hanfa also made a warning about the trading platform soltechx.com and the company Ford Beckett, which, according to its own website, offers a variety of financial services, from trading in options, exchange trading funds (ETFs) and securities, to asset management and pension planning. In addition, Hanfa issued a warning about its falsified authorisation to the company DNCA Finance Luxembourg, which provided citizens with a document bearing a falsified Hanfa logo and names of its representatives as proof of its legitimacy. In view of increased public interest for information about investment gold, Hanfa also issued a notification to warn the public that investing in investment gold is not an investment service and is therefore not subject to Hanfa's supervision. Companies offering investment gold services are not subject to Hanfa's supervision and Hanfa has no supervisory or other powers with respect to their operations.

Following its acting on complaints and increased interest and questions of investors in the capital market, relating to the beginning of transaction settlement via the company SKDD-CCP Smart Clear d.d., Hanfa also published an informative text to explain the role of that company as an intermediary between other parties with respect to contracts related to financial market trading.

To enhance the awareness about benefits and risks of insurance services, in 2022 Hanfa began to prepare an overview of the main sources of risks faced by insurance services users in the form of assessments of the probability of materialisation and impact of such risks provided by all insurance companies in Croatia. These assessments were then integrated together with Hanfa's assessments based on supervisory and other

activities in relation to consumer protection in the area of insurance. The purpose was to provide consumers with one place to get summary information on the trends and main risks that may be encountered in contracting insurance services. Risks to consumers may arise from business processes, actions and policies of insurance companies and insurance distributors with respect to consumers, financial understanding and expectations of consumers, as well as general macroeconomic, financial, geopolitical, regulatory, technical and other circumstances. This overview of the main sources of risks which the users of insurance services may face in the course of 2023 was published on Hanfa's website.

A special informative text was published in mid-2022 as the new Consumer Protection Act⁸⁹ conferred new supervisory powers to Hanfa in respect of the companies it has authorised.

Consumer Protection Act

A new Consumer Protection Act entered into force on 28 May 2022. One of the significant novelties of the Act is that Hanfa is given supervisory powers for the enforcement of the Act in respect of the companies it has authorised. Supervision will be exercised in the manner prescribed in the special acts governing the operation of these entities.

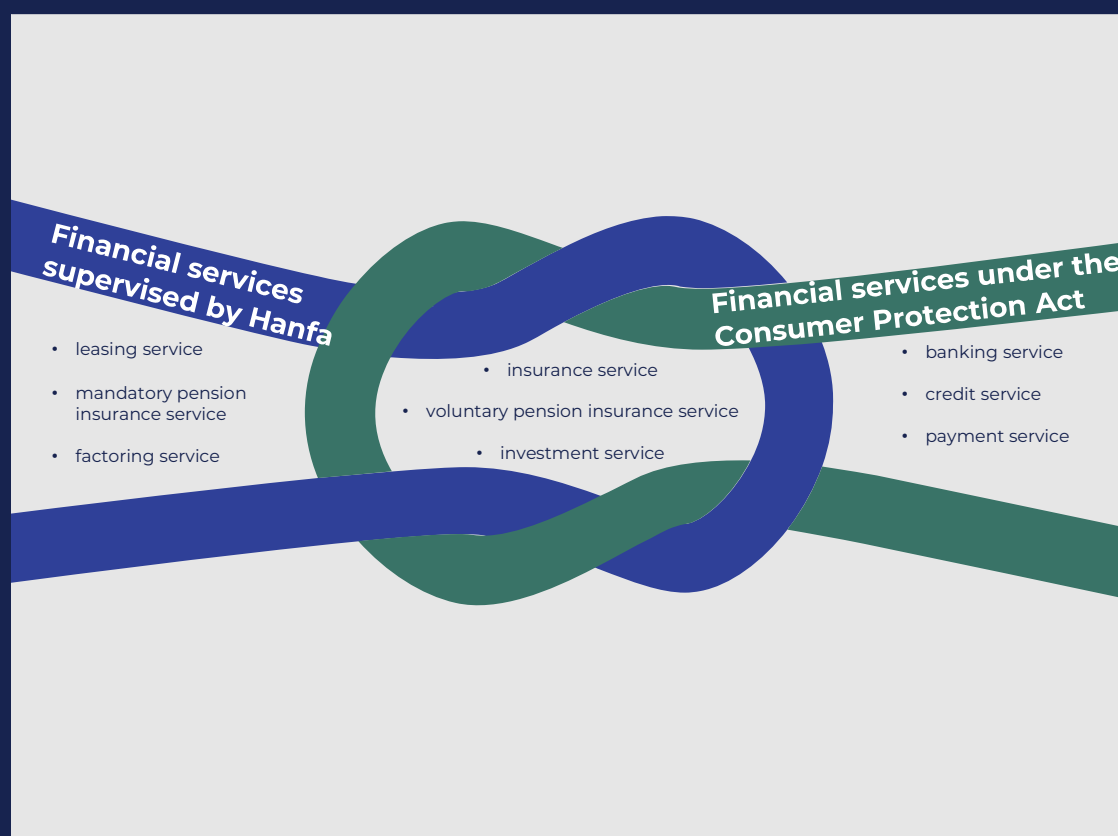
Under the Consumer Protection Act, financial services include any service of a banking, credit, insurance, voluntary pension insurance, investment or payment nature. Under the Act, among the listed services, Hanfa supervises the provision of insurance, voluntary pension insurance and investment services. However, in addition to that, Hanfa also supervises the enforcement of that Act in respect of other services provided by companies it has authorised (e.g. leasing and factoring). The application of specific provisions of the Act, which may differ depending on whether a service is defined as financial or not, will depend on whether a particular case involves the provision of financial services as defined in the Act or the provision of other services falling within Hanfa's competence.

On its website Hanfa published an informative text to notify consumers of that novelty and instruct them on how to file a written complaint to a trader as well as on the content of complaints submitted to Hanfa. More specifically, the Act governs the protection of essential consumer rights and defines that a consumer is any natural person who concludes contracts or is acting for purposes, which are outside his trade, business, craft or profession. This needs to be noticed as, in accordance with the Insurance Act, interested persons that may submit a complaint regarding an insurance company and a complaint to Hanfa are natural as well as legal persons that have rights and obligations under an insurance contract. Therefore, regardless of the powers under the Consumer

⁸⁹ Article 141 of the Consumer Protection Act ([Official Gazette, No 19/22](#))

Protection Act, Hanfa continues to receive complaints of all users of financial services that fall within its competence under the Act on the Croatian Financial Services Supervisory Agency⁹⁰ (hereinafter: Act on Hanfa). This includes the possibility that claims may be submitted by both natural and legal persons. In the pursuit of its activities, Hanfa also takes into account anonymous complaints.

Figure 6.3 Overview of financial services under the Consumer Protection Act and financial services supervised by Hanfa



Source: Hanfa

6.2 Educational activities

Digitalisation and development of new financial products and services have further highlighted the importance of financial literacy. The year 2022 was particularly challenging in this respect because of many external factors affecting financial markets as well as preparations for euro adoption. While the easing of epidemiological measures led to the increase in the number of Hanfa's educational programmes held in person, the number of its online programmes continued to grow, both in respect of monthly online lectures for the general public and educational programmes for specific schools and teachers to ensure a broader geographic spread. Most of such activities

⁹⁰ Official Gazette, No [140/05](#) and [12/12](#)

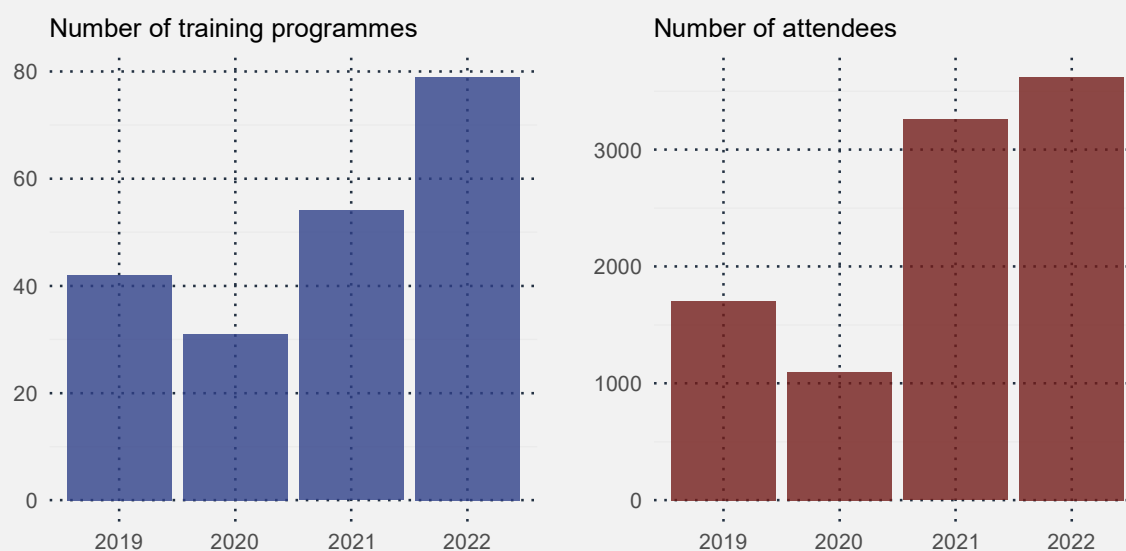
involve schools and universities, with the number of programmes intended for other target groups also growing, particularly in the form of public online lectures. A total of 79 educational activities were carried out in 2022, with more than 3,600 direct participants and more than 2,200 people participating indirectly by following Hanfa's monthly online lectures on Hanfa's YouTube channel. This means that the number of activities grew by 46%, while the number of participants rose by 11% from 2021.

Financial literacy

The Organisation for Economic Cooperation and Development (OECD) defines financial literacy as a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.

The year 2022 was also marked by the growing number of international events associated with financial literacy or activities falling within Hanfa's competence, with many cooperation initiatives realised through public calls for cooperation in educational activities, which Hanfa publishes at the beginning of each January. The objective of the public calls is to intensify cooperation with interested stakeholders in the field of financial literacy. Throughout the year Hanfa cooperates with other institutions and organisations in the field of financial literacy as a member of the National Consumer Protection Council and a member of the Task Force for monitoring the implementation of measures and activities defined in the Action Plan for the Improvement of Financial Literacy, coordinated by the Ministry of Finance.

Figure 6.4 Training programmes held by Hanfa and number of attendees



Source: Hanfa

As most surveys suggest that young people show the lowest level of financial literacy, in its educational activities Hanfa pays special attention to that target group. More than half of all educational activities were carried out in cooperation with secondary schools. Four educational activities involved primary schools, while no such activities were carried out in 2021. Specific educational content intended for primary and secondary school pupils was created in 2022, together with four comics for secondary school

pupils (“Personal Budget Creation”, “Insurance”, “Voluntary Pension Insurance” and “Pension Fund Categories”) as well as one comic for primary schools (“Savings”). Two competitions were organised: one for video content creators from secondary schools and a game creation contest for pupils of higher primary school grades. The contest for secondary school pupils titled “Insure yourself wisely” was announced on the occasion of marking the World and European Money Week. Its purpose was to inspire young people to think about the future and importance of the insurance system in Croatia. The first competition for primary schools titled “Financial Literacy through Games” was also organised in 2022, where pupils aided by mentors were invited to create a board game. The contest aimed to inspire pupils to learn the concepts of financial literacy, with particular emphasis on the financial services sector. The schools from all parts of Croatia joined the competition, and the schools that won the competition were awarded smart boards. The award-winning video was published on Hanfa’s website and YouTube channel.

In addition to the above, Hanfa conducted the call for students titled “Hanfa Annual Award for students for the best scientific and expert papers in 2022”. The awards were given to students of three faculties of economics in Croatia, and the ceremony was held in January 2023. Awarded were three students that submitted excellent papers on very current topics: “Sustainability of public finances in post-COVID economic circumstances” and “ESG funds – leaders of sustainable investment”. The purpose of the contest was to further improve cooperation with universities, give students the opportunity to develop their scientific and research skills and encourage their critical and analytical thinking.

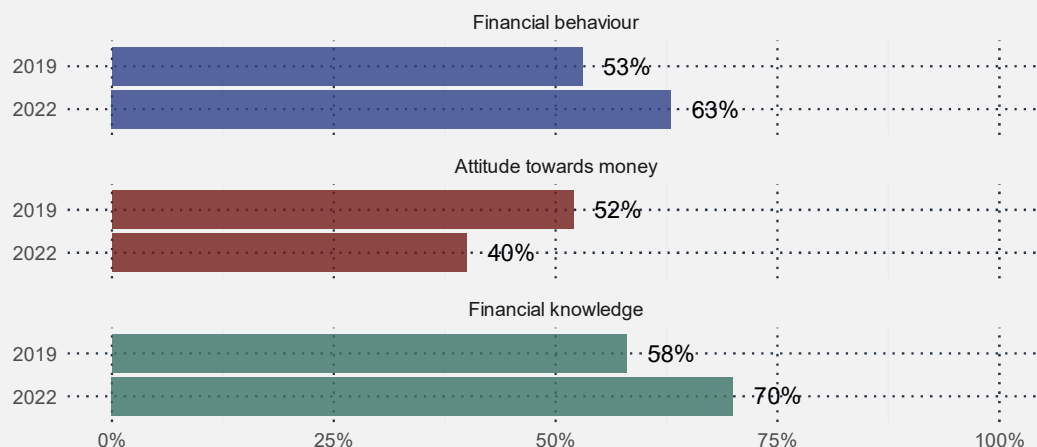
In 2022, Hanfa carried out two nationally representative surveys to examine the level of financial literacy in two important target groups: young people who enter the labour market and make their first financial decisions and persons about to retire and exit from the labour market, who usually have much smaller income than during their working life. The survey results showed a mild increase in the overall financial literacy level among young persons and people approaching retirement and in retirement, as well as a relatively low level of pension literacy. These results will be used to improve the content and methods of communication, with particular emphasis on pension literacy.

Financial literacy of young people and people approaching retirement and in retirement

Hanfa conducted two financial literacy surveys: among young people from 20 to 35 years of age and people from 50 to 65 years, taking the survey questionnaire of the Organisation for Economic Co-operation and Development (hereinafter: OECD) as a model. Financial literacy is measured as a combination of the following three components: financial knowledge, financial behaviour and attitude towards money. The overall score of financial literacy of young people was 12.1 out of a maximum 20 points, while it was 12.2

for people approaching retirement and in retirement. This shows that respondents gave a correct answer to a total of 61% of the questions on average. The level of financial literacy for young people was 6 percentage points higher than in 2019, while people approaching retirement and in retirement showed a 2 percentage point higher level of financial literacy than the general population in 2019.

Figure 6.5 Assessment of the financial literacy of young people by components



Note: The data for 2019 refer to the OECD data for the 18-29 age group, while the data for 2022 cover the 20-35 age group.
Sources: Hanfa, OECD

In terms of financial literacy components, respondents in both target groups achieved the highest score in the category of financial knowledge, while the lowest score was achieved in the attitude towards money category.

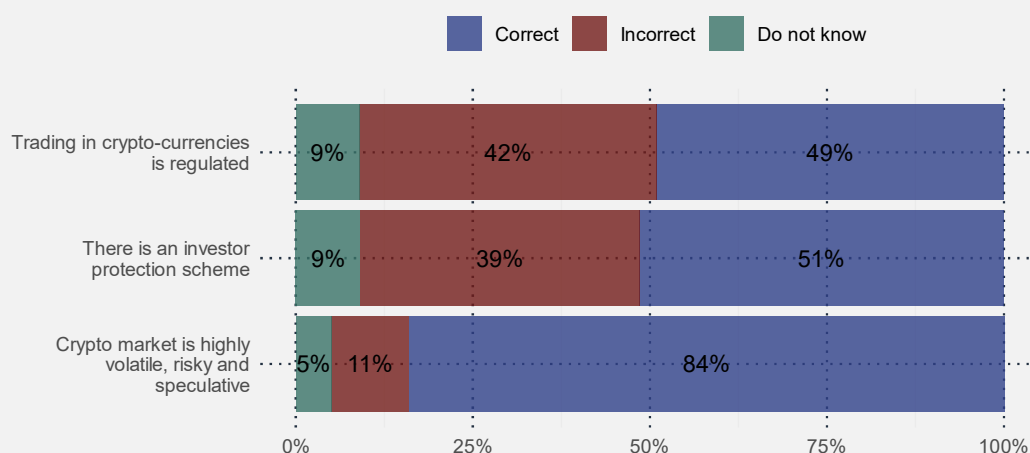
Young people are not very active in managing their personal finances; only 59% plan their monthly budgets, while 15% of them have never made any savings. In terms of investment and participation in the capital market, young people are relatively conservative and more oriented towards savings, opting to keep money at home (61%), with only 4% of them investing in investment funds. While relatively conservative in terms of saving and investing in traditional financial markets, young people are prone to investing in cryptomarkets, so that as much as 26% of them have plans or already invest in crypto- assets. Despite their interest in cryptomarket investments, young people have little knowledge of the market characteristics, so that as many as 11% of them believe that it is not speculative and highly risky.

They are also not sufficiently familiar with other aspects of the market: 51% of the young people that trade in crypto-assets believe that such trading is covered by the same consumer protection system as trading in traditional financial instruments, whereas 49% of them think that there are laws and regulations governing the cryptomarket. This indicates the relevance of educating young people on the cryptomarket, its characteristics and current lack of regulations.

In addition to active management of personal finances, equally important is financial planning, including pension planning. This is why the survey also analysed pension literacy of young people as well as respondents from 50 to 65 years of age. It showed that both young people and people approaching retirement and in retirement are aware of the fact that the third pension pillar is voluntary (82% and 84%, respectively), but showed insufficient awareness of the characteristics of voluntary pension savings.

Figure 6.6 Knowledge about crypto markets

In % of total responses



Source: Hanfa

Only around 40% of respondents are aware that the dynamics and amount of third pillar payments are arbitrary. At the same time, around one third of young respondents are aware that there is a system of government incentives for voluntary pension savings, while that share is higher among people approaching retirement and in retirement (42%). Therefore, it is not surprising that only 36% of young people plan to finance their pensions from the third pillar, while more than a third of respondents plan to rely on spouses, children or other family members.

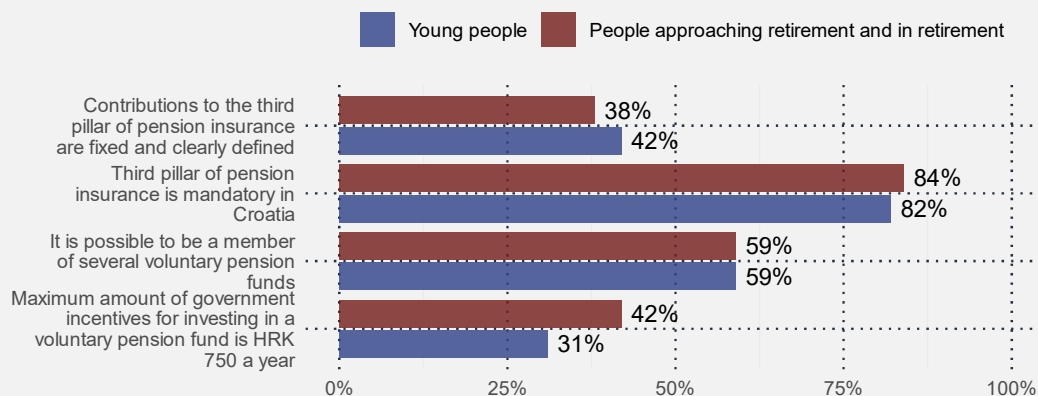
As much as a third of respondents in the 50 to 65 age group are already retired, while 41% of them rely financially on family members. In that age group, 24% make additional income from further work during retirement, while only 5% rely on voluntary pension savings. A high percentage (40%) of persons planning to retire also expect to continue working during retirement, 43% of them plan to also rely on a family member, which is associated with the fact that 64% of respondents believe they will not have a sufficient pension amount from formal sources.

The survey results showed that both young persons and people approaching retirement and in retirement, though frequently using individual financial services (88% of the young and 92% of the elderly have additional or voluntary health insurance), have insufficient knowledge of their characteristics. Almost a third of young people are unaware of their consumer rights associated with financial services, for example, 30% of them do not know where to file a

complaint in case of inappropriate behaviour on the part of a company. In view of these results, it is evident that there is a need to continue with improving financial literacy among young people on a systematic and ongoing basis, as well as to intensify activities associated with raising the awareness about the pension system and the general level of pension literacy.

Figure 6.7 Comparison of pension literacy components of young people and people approaching retirement and in retirement

In % of correct responses



Source: Hanfa

In 2022 Hanfa organised a conference titled “Blockchain and cryptomarkets – disruptive innovations” in cooperation with the Faculty of Economics in Split. It also participated in two conferences dedicated to students on the topic of consumer protection in traditional and crypto markets, and sustainable finances at the Faculty of Economics Zagreb, in cooperation with Institutional Investors Lab and on the Pan-European Pension Product in cooperation with EFFECTUS. In the context of cooperation with the young, Hanfa for the first time cooperated with the Zagreb Youth Centre, so that, on the occasion of the World Investor Week, Hanfa’s representative gave a lecture on the topic of “Investment and Investor Profiling”, followed by a workshop presenting the MarketWatch Stock Market Simulation. In cooperation with the Youth Council of the Osijek and Baranja County, a lecture and a workshop were held on several topics covered by Hanfa’s educational programme.

Apart from pupils and students, Hanfa focuses its educational activities on their teachers. As part of these efforts, in 2022 Hanfa organised four teacher educational programmes and participated in a two-day State Professional Meeting for Educational Staff organised in April, which focused on an interdisciplinary topic of

Interactive workshops

In its educational programmes, Hanfa uses inclusive methods, including several software tools such as MarketWatch. It offers a virtual simulation of securities trading in real time, enabling pupils and students to trade on their own and apply acquired knowledge.

“Entrepreneurship” and gathered more than 400 teachers. In addition, in cooperation with the Croatian Chamber of Economy, a lecture for teachers was held in Požega.

The successful series of Hanfa’s monthly online lectures for the general public launched in 2021 was continued to be held in 2022. Ten online lectures were held, attracting more than 480 participants. The lectures covered various topics, from euro adoption, consumer protection in the field of insurance, fraud in financial and crypto markets, to some more expert and specific topics, such as the prevention of money laundering and terrorism financing and the takeover of joint-stock companies. The recordings of all ten lectures were subsequently uploaded on Hanfa’s YouTube channel, attracting more than 2,200 views by the end of 2022. Regular satisfaction surveys showed that viewers are mostly very satisfied with these lectures and interested in seeing new ones.

Hanfa also marked almost all relevant international events, such as the World and European Money Week, the World Investor Week, the International Fraud Awareness Week, etc. Appropriate educational activities, workshops, public online presentations, discussions with students and closed presentations for target groups were held as part of such events. A large number of Hanfa’s educational activities in 2022 focused on the adoption of the euro, including lectures and workshops, organised both independently and in cooperation with student associations, as well as an educational leaflet “Introduction of the euro and the financial services sector”. During the World and European Money Week, Hanfa organised an online discussion with students from the Faculty of Economics in Rijeka, in cooperation with the CNB.

In addition to all the mentioned educational materials, Hanfa published a number of texts, warnings and short videos on its website, the Internet portal Money for Tomorrow and social networks. The texts covered the topics such as “Why most people have no retirement financial plan?” and “Euro introduction from the consumers’ perspective”, while the topics of the short videos were “Financial literacy”, “Fraud in financial markets” and “Sustainable finances”.

In the course of the educational activities in cooperation with secondary schools, Hanfa surveys the financial literacy of secondary school pupils. In 2022, such a survey questionnaire was completed by 923 pupils, of which 5% were from grammar schools, 70% were from high schools of economics, while 25% came from vocational schools. The same as in 2021, pupils achieved the lowest results in the financial knowledge category, having on average only 40% of the correct answers, while only 20% of them were able to calculate a real interest rate. They performed better as regards financial behaviour, which implies responsible money management (54%), while attitude towards money (42%) describes how pupils perceive money. Pupils are rarely informed about financial topics (45%), while only 10% are informed about these topics several times a week. Internet, parents and school are the usual sources of information for pupils. In view of the relatively low level of financial literacy, particularly in the area of financial knowledge, Hanfa will continue to deliver ongoing and innovative education on financial literacy for students, young people and the general interested public.

COMMUNICATION ACTIVITIES

7 COMMUNICATION ACTIVITIES

With public relations being recognised as an important component of Hanfa's activities, the goals of its communication strategy have been aligned with its long-term objectives. All communication activities and efforts aim to inform the general public about the work, decision-making and decisions rendered by Hanfa and ultimately to raise the general level of knowledge about financial services.

7.1 Communication activities in 2022

In 2022, Hanfa continued with intensive and timely communication activities, with the emphasis on education of specific target groups, financial market participants and the public at large.

It was particularly important to prepare and inform financial market participants and the broad public about the impact of euro introduction on financial services. Hanfa organised many workshops with financial sector representatives and continuously provided essential information in the form of texts, columns, infographics and animated videos posted on its website, as well as its educational portal Money for Tomorrow. It also organised a major educational campaign titled "A guide to the introduction of the euro ". As part of its regular supervisory activities, Hanfa monitored the communication of financial entities under its supervision to ensure that all users of financial services are informed accurately, completely and on time.

The year 2022 was also marked by soaring inflation, the war in Ukraine and the beginning of interest rate growth in the context of negative trends in stock and bond market returns, both at the global level and in Croatia. In such circumstances, regulators play an important role in explaining the impact of the global situation on the domestic market of pension and investment funds. For this reason, this topic was frequently covered in educational campaigns, columns, Hanfa's monthly reports with comments on market developments and participation of regulator's representatives in TV and radio shows. Furthermore, the professional and general public were timely informed about the main developments and trends in the financial services sector by means of systematic statistical data on recent performance published on Hanfa's website.

Also, Hanfa continued to transparently report on the decisions adopted at the meetings of Hanfa Board, while separate explanations and releases were published in respect of decisions of particular interest to the market and the general public. This particularly refers to the decisions approving or refusing a takeover bid for joint stock companies listed on the Zagreb Stock Exchange.

The number of public conferences and professional meetings organised or co-organised by Hanfa increased as epidemiological conditions changed over the year. The most important among them was the Global Seminar of the International Association of Insurance Supervisors (IAIS) held in Dubrovnik in June 2022 and hosted by Hanfa. This was one of the most important meetings of insurance supervisors, insurance market representatives and other interested stakeholders in 2022, which gathered more than 350 participants from 70 countries worldwide, and was for the first time held in Croatia. Domestic and foreign media reported on the many topics covered at the seminar.

Hanfa was also actively involved in explaining the new ESG and forthcoming regulations to define non-financial reporting and financial investments in sustainable projects and the green transformation of companies, with many presentations dedicated to the issuers and the overall financial sector.

In addition to challenging market conditions, the last year was marked by two anniversaries associated with the industries under Hanfa's supervision: 20 years of pension funds and 20 years of the Association of Leasing Companies in Croatia. Over the year, in addition to these thematic conferences, members of Hanfa Board and its employees also gave lectures at many other professional and scientific conferences covering the area of financial services.

Hanfa was also actively involved in a large number of public events dedicated to consumer education, which it co-organised with other branch associations and state institutions.

Towards the end of the year, in December, Hanfa co-organised the conference "Corporate governance in Croatia – sustainability and confidence in challenging times", which focused on the extreme importance of high-quality corporate governance, both for individual business success and for general economic growth. Particular emphasis was placed on sustainability and confidence in challenging time. On this occasion, awards were presented to best companies – issuers of securities admitted to the regulated market, for best compliance with the Corporate Governance Code according to the 2021 indicators.

Hanfa actively communicated all its conclusions through Hanfa's Council: from explaining the impact of euro adoption on financial corporations, current legislative changes related to the financial services sector and new developments on the capital market to interpretations of potential obligations that the ESG may bring to the financial sector and issuers listed in the Zagreb Stock Exchange.

In addition to presentations and workshops held at public events, Hanfa regularly communicates through its social networks by addressing messages to the business community, the financial market and consumers. Hanfa's LinkedIn community had more than 9,900 followers at the end of 2022, while its Facebook site Money for Tomorrow was followed by more than 6,000 people. Hanfa published around 40 press releases and nine educational video materials last year. The year 2022 also marked the beginning of work on Hanfa's new website, which is to facilitate communication with specific target groups and ease access to its content (financial market, consumers,

future employees and students). Along with changes in Hanfa's visual identity, communication through digital channels will be further expanded in the future, particularly due to market digitalisation, adoption of new EU regulations and regulations covering new areas that are yet to be implemented.

7.2 Access to information

As a public authority, Hanfa provides regular and timely access to all information laid down in the Act on the Right to Access Information⁹¹ in an easily searchable manner and in a machine readable format.

In 2022, Hanfa received seven requests for access to information and handled them within the legal deadline by providing the submitters with the requested information relating to activities falling within Hanfa's competence. Particularly noteworthy were two requests for access to information on Hanfa's comprehensive records about acquisition or disposal of financial instruments with respect of members of Hanfa Board and employees pursuant to the provisions of Article 404 of the CMA.

Hanfa's website continues to provide all relevant data regarding its activities and scope of competence. Particularly significant are decisions adopted at Board meetings important for the financial public, information on tasks carried out by Hanfa, and information on its internal structure with names and contact data of employees in managerial positions. Hanfa regularly publishes and updates regulations governing its scope of activity, registers, templates and data bases. It continuously publishes information on all its vacancy notices and related recruitment procedure results. Also published are Hanfa's plans: strategic plan, public procurement plan, revenue and expenditure plan, annual plan of normative activities, and data on Hanfa's donations and sponsorships. Finally, Hanfa publishes all the required information concerning the right to access information, along with relevant templates for submitting requests.

Taking account of its legal obligations referred to in the Act on the Right to Access Information, Hanfa submitted its 2022 Report on the implementation of the Act on the Right to Access Information to the Information Commissioner within the legal deadline, and the Report will form an integral part of the 2022 Annual Report of the Information Commissioner.

⁹¹ Act on the Right to Access Information (Official Gazette, No [25/13](#), [85/15](#), [69/22](#))

INTERNATIONAL COOPERATION

8 INTERNATIONAL COOPERATION

Hanfa's international activities are mostly related to participation in the work of EU institutions and other international institutions. In 2022, Hanfa focused on relevant areas from the perspective of its own operation as well as from the perspective of operation of the common market of EU financial services. EU institutions had various priorities in 2022; activities of ESMA focused on the market consequences of the war in Ukraine and disruptions in the energy market. EIOPA focused on providing strong and consistent protection of consumer interests around the EU and maintaining financial stability in the insurance and pension insurance sectors. The ESRB continued to identify, monitor and analyse systemic risks to which the European financial system is exposed. Participation in the work of global international institutions was marked by the election of the President of Hanfa Board as a member of the IAIS Executive Committee as the representative of the CEET region (Central and Eastern Europe and Transcaucasia), followed by Hanfa's hosting of the Committee meetings and the IAIS Global Seminar in Dubrovnik, appointment of a Hanfa's representative as a member of the IOPS Executive Committee and Hanfa's participation in the negotiation process for Croatia's accession to the OECD. Following the pandemic years, when it was impossible to organise international cooperation activities in person, in 2022 Hanfa directed its activities to technical and bilateral international cooperation, organising study visits, missions and other forms of cooperation with institutions from other countries, mostly for the purpose of sharing knowledge, experience and good supervisory practices. Hanfa also participated in the project aimed at strengthening the central bank capacities in the Western Balkans in cooperation with EU central banks, the European Central Bank and the European Commission. Hanfa continued to strengthen its own capacities through three projects implemented within the EU Technical Support Instrument (TSI).

8.1 Participation in the work of supervisory authorities and organisations

8.1.1 ESMA – European Securities and Markets Authority

In 2022, Hanfa actively participated in the work of 33 ESMA working bodies. The President of Hanfa Board or his alternate participated in the work of ESMA Board of Supervisors, composed of the representatives of national supervisory authorities, where topics are addressed at a strategic level. The Board held 13 meetings last year. In addition to active participation and voting in the meetings of the Board of Supervisors, Hanfa participated in 134 voting procedures (by written procedure) in the process of

adopting various ESMA's decisions. In addition to this, Hanfa expressed its compliance with five ESMA guidelines. The President of Hanfa Board actively participated in 2022 in the work of the Advisory Proportionality Committee (APC), which focused on assessing the adequacy of applying the proportionality principle in guidelines on product governance arrangements. Hanfa regularly informed supervised entities and the wider community about all these activities via e-mail and its website.

Two interconnected events influenced the regular framework of ESMA's activities and its cooperation with national supervisory authorities: the war in Ukraine and disruptions in the energy

market leading to huge price spikes and pronounced volatility in the energy derivatives market. To provide an adequate response to these events, ESMA and national supervisory authorities held a number of extraordinary meetings to discuss the impact of the new circumstances on the orderly functioning of the EU capital market, the maintenance of financial stability and investor protection. Also discussed was appropriate implementation of restriction measures adopted by the European Commission, with particular attention being paid to developments in financial market prices and the readiness to intervene in case regular trading becomes impossible. Notwithstanding the elevated volatility in the first weeks of the invasion, there was no major impact on the regular trading in the market as a whole, although some market participants involved in trading and settling transactions in some commodities had some operational and financial problems.

However, disruptions arising in the segment of energy distribution over the summer of 2022 fuelled a rise in oil and natural gas prices as well as volatility in the market for energy derivatives. In consequence to this, in autumn 2022, the European Commission asked ESMA to analyse developments in affected markets and identify volatility triggers in order to potentially adopt (regulatory) measures that would help to stabilise prices in affected markets⁹².

Furthermore, ESMA and national supervisory authorities continued in 2022 with previous activities in the context of raising the level of supervisory convergence in order to streamline the standard of national authorities' conduct and to develop and adopt draft texts of technical standards and guidelines, thus enabling market participants to understand and apply the relevant provisions of primary rules, directives and regulations in their day-to-day business.

Hanfa's regulatory bulletins

In response to the continuous evolution of European and domestic regulations governing the field of finance, Hanfa has decided to launch the drafting of regulatory bulletins that are to provide essential and current regulatory information in an easily accessible and searchable digital format. The intention is to list in one place important changes in European and national regulations and documents so as to announce forthcoming relevant regulatory changes to market participants and the broader interested public. The bulletin structure was drafted in 2022, while the first issue, covering the capital market, is scheduled for publication in the first half of 2023.

⁹² The result of these activities was the adoption of [**Council Regulation \(EU\) 2022/2578**](#) of 22 December 2022 establishing a market correction mechanism to protect Union citizens and the economy against excessively high prices (Market Correction Mechanism Regulation).

In 2022 ESMA and national supervisory authorities also focused on the area of sustainable finance and digital finance. As regards sustainable finance, in cooperation with national supervisory authorities, EIOPA and EBA, ESMA worked on the publication of various acts aimed at explaining the provisions of primary rules (within the SFDR) and amendments to the previously published technical standards on sustainability-related disclosures in the financial services sector. The results were as follows: publication of a supervisory briefing intended for national supervisory authorities in their supervisory activities, update of a supervisory statement intended for market participants as regards correct implementation of primary rules, the draft guidelines for the use of ESG or sustainability-related terms in funds' names, amendments to the draft guidelines for suitability assessment to take into account sustainability preferences regarding financial products, and comments regarding European corporate sustainability reporting. As regards digital finances, the focus in 2022 was put on the elaboration of guidelines on the DLT pilot regime, preparation for the drafting of technical standards for implementation of the package of regulations associated with the digital operational resilience in the financial sector (in the form of a regulation and a directive – Digital Operational Resilience Act (hereinafter: DORA), and preparations to adopt the Markets in Crypto-Assets Regulation (hereinafter: MiCA).

In addition to the above acts, ESMA and national supervisory authorities discussed amendments to the MiFID/MiFIR regulations and the Regulation on money market funds⁹³, adoption of the package of regulations on the establishment of the financial and non-financial information database European Single Access Point (ESAP) and amendments to the AIFMD Directive and⁹⁴ the ELTIF Regulation⁹⁵.

In view of increasingly intensive cross-border services, launched were peer reviews that comprised reviews of investment funds in the context of cross-border activities of marketing and asset management of investment fund management companies, as well as the issue of interoperability as regards central depositories. In addition to peer reviews, conducted were reviews related to the process of approving prospectuses and the process of transferring the operations of companies with registered offices in the United Kingdom to EU Member States.

The regulatory framework for central counterparties was also regulated in 2022 by the adoption of additional standards regarding the functioning of central securities depositories, which are a critical part of the market infrastructure whose functioning affects the smooth operation of the capital market. In addition to the draft technical standards with respect of central counterparties (hereinafter: CCPs) and CDSs, drafted

⁹³ **REGULATION (EU) 2017/1131** OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 June 2017 on money market funds (Text with EEA relevance), OJ L 169

⁹⁴ **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 (Text with EEA relevance), OJ L 174

⁹⁵ **COMMISSION DELEGATED REGULATION (EU) 2018/480** of 4 December 2017 supplementing Regulation (EU) 2015/760 of the European Parliament and of the Council with regard to regulatory technical standards on financial derivative instruments solely serving hedging purposes, sufficient length of the life of the European long-term investment funds, assessment criteria for the market for potential buyers and valuation of the assets to be divested, and the types and characteristics of the facilities available to retail investors (Text with EEA relevance), OJ L 81

were technical standards associated with benchmark administrators, best execution rules for investment firms and pre- and post-trade transparency. With respect to guidelines as supervisory convergence tools, in 2022 Hanfa expressed its compliance with the following ESMA guidelines: Guidelines for common procedures and methodologies for the supervisory review and evaluation process of CCPs under Article 21 of EMIR and MAR Guidelines on delay in the disclosure of inside information and interactions with prudential supervision. In efforts to achieve supervisory convergence, a common supervisory action was launched related to the issue of fees and costs of investment funds.

As regards cooperation with third countries, ESMA and national supervisory authorities discussed the conclusion or updating of the following agreements: on cooperation with competent supervisory authorities of the United Kingdom and third-country supervisory authorities with respect of supervising third-country CCPs and on ESMA membership in the International Organization of Securities Commissions (hereinafter: IOSCO).

In cooperation with employees of national supervisory authorities, the Risk Committee of ESMA prepares and publishes various articles in order to provide an overview of market developments and warn about identified risks. The focus last year was put on the issues of inflation, costs and performance of ESG funds, as well as investments in crypto-assets. In view of the new focus areas of both ESMA and national supervisory authorities, the year 2022 marked the beginning of reorganisation of ESMA working groups consisting of employees of both ESMA and national supervisory authorities that together work on drafting the above-mentioned acts and documents. The reorganisation process will continue in 2023.

8.1.2 EIOPA – European Insurance and Occupational Pensions Authority

As part of its general objective of building a safe and sustainable insurance and pension insurance market in the EU, a strategic objective of EIOPA in 2022 was to ensure strong and consistent consumer protection across the EU and safeguard financial stability of insurance and pension insurance sectors and financial system efficiency.

In 2022, EIOPA continued to pursue activities associated with the transition of the insurance sector to a sustainable economy, which included a series of reports and guidelines on sustainability risk and its impact on the risk management process of insurance companies and occupational pension funds. Stress testing exercises were carried out to assess the climate risk resilience of institutions for occupational retirement provision to gain an insight into the impact of environmental risks on the European sector of occupational pension insurance, while developing many indicators of physical climate risks in the segment of non-life insurance. EIOPA included these new risks into its supervisory activities by monitoring greenwashing activities and issuing a call for consultation in that area. Over the year, EIOPA and other European supervisory authorities continued their joint efforts related to the SFDR. It continued to

actively participate in platforms and colleges for cross-border cooperation, study visits and comparative studies.

Members of Hanfa Board participated in all EIOPA activities as active members of all governing bodies: Board of Supervisors (BoS), Policy Steering Committee (PSC), Supervisory Steering Committee (SSC) and Risks and Financial Stability Steering Committee (RFSC). In the course of 2022, there were ten meetings of the Board of Supervisors, 11 meetings of the Policy Steering Committee, ten meetings of the Supervisory Steering Committee and 12 meetings of the Risks and Financial Stability Steering Committee. Hanfa experts participated at the meetings of the Information Technology and Data Committee, the Committee on Consumer Protection and Financial Innovation, eight specialised expert networks and many project and working groups. In 2022, Hanfa also participated in 99 written procedures of the Board of Supervisors, 20 written procedures of the Supervisory Steering Committee, 24 written procedures of the Risks and Financial Stability Steering Committee and 22 written procedures of the Policy Steering Committee, that is, a total of 165 written procedures.

8.1.3 EBA – European Banking Authority

Within the EBA Investment Firms Subgroup, employees of Hanfa participated in 2022 in the development of one technical standard and three guidelines governing the operation of investment firms and aimed at ensuring proportionate application of regulations to small and non-complex investment firms. Within the framework of the activities of the above-mentioned sub-group, Hanfa's employees, together with representatives of the CNB, participated in the preparation of materials for the meetings of the EBA Board of Supervisors, as well as in many written procedures preceding the adoption of Board decisions.

8.1.4 ESRB – European Systemic Risk Board

In 2022, the ESRB continued to identify, monitor and analyse systemic risks to which the European financial system is exposed and to adjust accordingly the framework for macroprudential action and harmonisation of national macroprudential policies. In September 2022, the ESRB first issued a warning on vulnerabilities in the Union financial system⁹⁶ and communicated its concerns about heightened uncertainty and growing risks to financial stability. The warning points out that the deterioration in the macroeconomic outlook combined with the tightening of financing conditions implies a renewed rise in systemic stress, especially in sectors and Member States that are most affected by rapidly increasing energy prices. These developments weigh on the debt servicing capacity of non-financial corporations and households, affecting also asset quality and the profitability outlook of credit institutions. Also, risks to financial stability

⁹⁶ The text of the Warning is available [here](#).

stemming from a sharp fall in financial asset prices remain severe. This has the potential to trigger large mark-to-market losses, which, in turn, may amplify market volatility and cause liquidity strains. The main objective of the warning is to encourage a further strengthening of the resilience of the financial system so that it does not become an additional drag on economic growth in case of risk materialisation. The warning again confirmed the importance and significance of developing macroprudential tools to measure, detect and prevent systemic risk, which is what Hanfa does for the financial services sector on an ongoing basis.

In addition to carefully monitoring systemic risks for the EU financial system and the warning issued on these risks, in late 2022 the ESRB completed a detailed analysis of the EU commercial real estate market. The analysis showed that the commercial real estate market is a potential source of systemic risk. This is why the ESRB issued in late 2022 the Recommendation on vulnerabilities in the commercial real estate sector in the European Economic Area⁹⁷, in the drafting of which Hanfa representatives were also actively involved. The Recommendation consists of the four sections aimed at improving the monitoring of systemic risks stemming from the commercial real estate market (Recommendation A), ensuring sound commercial real estate financing practices (Recommendation B), increasing resilience of financial institutions (Recommendation C) and developing activity-based tools for commercial real estate in the EU (Recommendation D). Pursuant to the Recommendation, Hanfa is requested to submit, in cooperation with the CNB, to the European Parliament, the Council, the Commission and to the ESRB a report on any actions taken with regard to Recommendations A, B and C by the end of the first quarter of 2026.

In the first half of 2022, the ESRB continued to monitor the impact of the measures adopted under the Recommendation on monitoring the financial stability implications of debt moratoria, and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID-19 pandemic⁹⁸. Pursuant to that recommendation, Hanfa collected and submitted data on granted moratoria to leasing companies in accordance with the required reporting structure and the quarterly reporting dynamics. In 2022, Hanfa also continued to meet its obligations arising under other recommendations published by the ESRB in preceding years. Following on the obligations arising from the Recommendation on identifying legal entities⁹⁹, several ordinances on registers were amended in 2022, introducing a LEI as one of the data that supervised entities deliver to Hanfa. In confirmation of its effective actions, in the report on compliance with Recommendation amending Recommendation ESRB/2020/7 on restriction of distributions during the COVID-19 pandemic¹⁰⁰, issued by the ESRB in mid-2022, Hanfa was assessed to be in full compliance with that recommendation.

In line with its tasks, the ESRB continuously monitored and analysed developments in the macroeconomic and financial system through the work of its permanent bodies and temporary groups. Hanfa representatives also took part in meetings and discussions: a member of Hanfa Board attended the ESRB General Board meetings,

⁹⁷ The text of the Recommendation is available [here](#).

⁹⁸ The text of the Recommendation is available [here](#).

⁹⁹ The text of the Recommendation is available [here](#).

¹⁰⁰ The text of the Recommendation is available [here](#).

while Hanfa's employees participated in meetings of its Advisory Technical Committee and Analysis Working Group.

8.1.5 IAIS – International Association of Insurance Supervisors

The mission of the IAIS is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability. The significant contribution of Hanfa to the promotion of the IAIS mission is reflected in the re-election of the President of Hanfa Board as a member of the IAIS Executive Committee as the representative of the CEET region (Central and Eastern Europe and Transcaucasia) and Hanfa's hosting of the Committee meetings and the IAIS Global Seminar in Dubrovnik in June 2022. Over the year, the President of Hanfa Board or his alternate participated in the meetings of the IAIS Executive Committee, Macprudential Committee, Selection Committee, the Working Group for Strategic and Financial Planning, the Global Seminar and the annual discussion of the Executive Committee with insurance market stakeholders, the General Meeting and the Annual Conference. Other than on the highest level, Hanfa's employees were also active in the work of other expert bodies and working groups, such as the Fintech Forum, the Macprudential Supervision Working Group, the Audit and Risk Committee and the Budget Committee.

After two mandates, in 2018 and 2020, the President of Hanfa Board was elected for the third time to a position in the IAIS Executive Committee in late 2022. His role in the IAIS Executive Committee will be to continue representing and coordinating the work of IAIS members from the CEET region for the purpose of encouraging further development of the insurance market in the region within the policies promoted by the IAIS. The emphasis will be on the promotion of the proportionality principle, particularly with regard to supervisory practices and standards required from market participants and further improvements of standards relating to consumer protection, having in mind financial inclusion and financial literacy as priorities in this area. Hanfa's participation in the work of the IAIS is also focused on growing challenges faced by all regulators today, such as the impact of the pandemic, macroprudential conditions, macroeconomic developments, as well as new technologies, cyber risks and climate changes.

In June 2022, Hanfa hosted IAIS Committee meetings and the IAIS Global Seminar in Dubrovnik. IAIS Committee Meetings were held during the first three days, at which members discussed current topics at the IAIS level. The last two days were dedicated to the Global Seminar, which gathered together more than 350 participants from 70 countries all over the world. This is one of the most significant annual meetings attended by insurance supervisors, insurance market representatives and other stakeholders, and it was the first IAIS event organised in person since COVID-19 was declared a global pandemic. In Dubrovnik, regulators discussed the current challenges in the insurance industry, as well as those expected in the future, such as drastic changes in the global insurance market due to the pandemic, the impact of climate,

cyber and operational risks, the provision of support to a sustainable, green economy, adequate responses to social changes and fostering education and protection of financial services consumers. Regulators also exchanged experience and conclusions regarding the application of guidelines included in the Insurance Capital Standard (ICS), which form the basis for new regulatory rules on the more efficient monitoring of the global solvency level on the world's insurance market.

Other significant activities connected with the work of the IAIS in 2022 included regular participation in the meetings of the above-mentioned committees, preparation of various IAIS materials and documents, discussion and exchange of information with other IAIS members, and participation in organised training for supervisory authorities. A noted example is Hanfa's participation in the assessment of the compliance of the Croatian regulations connected with insurance within Hanfa's competence with the IAIS Insurance Core Principles 9 and 10, relating to supervision and reporting, and preventive and corrective measures and sanctions. Hanfa was assessed as fully compliant in all areas covered by the compliance assessment. In 2022, Hanfa provided information on various topics within its competence for the preparation of IAIS materials, such as safeguards for insured persons and initiatives in the area of diversity, equality and inclusion, and provided inputs regarding plans for future IAIS projects and activities in the period to the end of 2024. It also continued to participate in the Global Monitoring Exercise, Sector-Wide Monitoring, providing required data on the Croatian insurance market. Based on the collected data, the IAIS prepared an analysis and report on developments in the global insurance market. Activities on the signing of the IAIS Multilateral Memorandum of Understanding, which regulates cooperation and data exchange between insurance supervisors, also continued.

8.1.6 IOPS – International Organisation of Pension Supervisors

The International Organisation of Pension Supervisors (hereinafter: IOPS) is an international body representing supervisory authorities in charge of the supervision of private pension arrangements. In Croatia, these are pension fund management companies and pension insurance companies. IOPS currently has 90 members and observers representing supervisory bodies from 79 jurisdictions and associated members and observers, mostly international organisations engaged in issues associated with private pensions.

In 2022, Hanfa representatives participated in regular meetings of the IOPS Technical Committee, the IOPS regular annual meeting and the extraordinary meeting and the workshop on risk-based supervision. Hanfa also participated in IOPS researches on the best practices in the area of risk-based supervision and application of digital technologies in supervision.

At regular elections held before the IOPS regular annual meeting Hanfa's representative was appointed as a member of the Executive Committee for the 2023-2024 period. The Executive Committee consists of 15 members. Apart from Hanfa, it comprises representatives of supervisory authorities from Australia, Austria, Brazil,

Egypt, Germany, Hong Kong, India, Kenya, Mexico, Namibia, Romania, Slovakia, South Africa and Uganda. In the upcoming period, Hanfa will actively participate in the creation of the IOPS programme of work, as well as particular activities under that programme.

8.1.7 IOSCO – International Organisation of Securities Commissions

In 2022, Hanfa Board members continued to participate in the work of IOSCO by attending the meetings of the Presidents Committee, the Growth and Emerging Markets Committee and the European Regional Committee, as well as through participation in written procedures of these committees. By participating in the Financial Innovation Network and in the Multilateral Memorandum of Understanding (hereinafter: IOSCO MMoU) Monitoring Group, Hanfa's representatives also continued to take part in the work of that international organisation. Hanfa experts also joined the work of the Special Purpose Acquisition Companies Network (SPAC network), where members exchange information on special purpose acquisition companies in their jurisdictions. In view of the surge in their transactions in recent years, such companies have drawn regulatory attention because of the increased need for investor protection and maintenance of market integrity. IOSCO plans to publish a report in the upcoming period to help its members in the supervision of SPACs. Over 2022, Hanfa exchanged information with other supervisory authorities regarding the carrying out of supervisory activities on the basis of the IOSCO MMoU relating to consultation, cooperation and exchange of information, and participated in the marking of the World Investor Week¹⁰¹.

8.8 OECD – Organisation for Economic Cooperation and Development

In June 2022, Croatia, as well as Brazil, Bulgaria, Peru and Romania received an invitation to join the OECD. As part of the negotiation team for OECD accession, Hanfa participated in the drafting of the initial memorandum by making a self-assessment of compliance with OECD instruments completely or partially within the area of Hanfa's competence, including financial services associated with insurance and private pensions, financial markets, financial literacy and protection of financial services users, corporate governance and codes on the liberalisation of capital movements, freedom to provide services and freedom of establishment.

The process of OECD accession includes a series of technical reviews by OECD committees in charge of specific policies. Technical reviews comprise policy analysis, the regulatory framework and practices in specific areas, including a detailed analysis of a candidate country's implementation and alignment with OECD legal instruments. The process of technical reviews includes a preparation of responses to OECD questionnaires, meetings between OECD representatives and competent Croatian

¹⁰¹ More details on Hanfa's activities marking the World Investor Week can be found in Chapter 6 of this Annual Report.

institutions as well as other interested stakeholders (in both the private and non-government sectors) and it may include a detailed self-assessment of compliance with particular OECD legal instruments. In 2022, Hanfa participated in the preparation of responses to the OECD questionnaire on the Codes of Liberalisation in the part related to the treatment of third countries with respect to investments, establishment and the provision of financial services falling within Hanfa's competence. Together with the Ministry of Justice and Public Administration, Hanfa participated in the self-assessment of compliance with the OECD Code on Corporate Governance. Hanfa's engagement in the accession process is expected to gain momentum in 2023; in addition to the technical reviews already in progress, technical reviews in the areas of insurance, private pensions, financial markets, financial literacy and protection of financial services users are also to be carried out.

Apart from the activities associated with Croatia's accession to the OECD, Hanfa participated in regular meetings of the OECD Insurance and Private Pensions Committee and the corresponding Working Party on Private Pensions, the OECD Financial Markets Committee and the OECD Corporate Governance Committee. It also took part in regular reporting to the OECD on private pensions, which includes the preparation of statistical data on pension funds and pension insurance companies and information on the regulatory framework and investment rules.

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

Following the easing of the pandemic's impact, which limited cooperation with other regulators and institutions to online meetings, in 2022 Hanfa again had the opportunity to organise some activities in person. To exchange knowledge, experience and good practices in the area of supervision of central counterparties and the central registry of securities, Hanfa cooperated with experts from the Austrian Financial Supervisory Authority by means of an online mission and organised a study visit of its experts to the National Bank of Hungary. Hanfa began negotiations with supervisory authorities of Bosnia and Herzegovina (Insurance Agency of Bosnia and Herzegovina, Insurance Supervisory Agency of the Federation of Bosnia and Herzegovina and Insurance Agency of Republika Srpska) on the signing of a memorandum of cooperation and held several meetings with the Insurance Supervisory Agency of the Federation of Bosnia and Herzegovina to discuss other topics of interest for both institutions and insurance markets, in addition to the potential memorandum. Hanfa organised a study visit of experts from the German Federal Financial Supervisory Authority, with a focus on discussions regarding possible future technical cooperation. Hanfa also

Technical Support Instrument (TSI)

TSI is the EU programme that provides tailor-made technical expertise to EU Member States to design and implement reforms. It is an important pillar of the EU's initiative to help Member States mitigate the economic and social consequences of the outbreak of the COVID-19 crisis.

received a study visit from the National Commission on Securities and Stock Market of Ukraine, which focused on the transfer of Hanfa's knowledge and experience as regards the alignment of legislation with the *acquis communautaire* in the area of UCITS and alternative investment funds. The visit was organised as part of the EU project to provide assistance in the harmonisation of legislation in the field of financial services. On that occasion, Hanfa and the Commission signed a Memorandum of Understanding regarding technical cooperation in the field of competence of both regulators, including the supervision of capital markets and pension funds. Hanfa and the Albanian Financial Supervisory Authority cooperated on several occasions over the year, with the focus on the exchange of experience and good practices as regards the impact of global trends on the market of investment funds and the implementation of relevant regulatory measures, as well as possible future cooperation in the process of Albania's accession to the EU, particularly the alignment of its regulations with the *acquis communautaire*.

In 2022, Hanfa joined the project "Programme for Strengthening the Central Bank Capacities in the Western Balkans" (stage 2, hereinafter: Programme), which is financed by the European Commission and aimed at fostering the integration of the central banks of North Macedonia, Kosovo, Serbia, Montenegro, Bosnia and Herzegovina and Albania into the European System of Central Banks. The purpose of the Programme is to align financial services legislation with the *acquis communautaire* and to strengthen the regulatory and supervisory capacities of the central banks of these countries. Nineteen EU central banks, including the CNB, together with the German central bank as the Programme coordinator, and the European Central Bank, participate in the implementation and provision of support in the Programme. Following an invitation by the CNB, Hanfa joined the Programme as some beneficiaries of the project expressed their need for technical assistance in the field of insurance, in particular as regards the assessment of actuarial supervision that falls within the scope of competence of Hanfa. Hanfa experts also participated in a TAIEX (Technical Assistance) programme, under which they provided information to institutions in Bosnia and Herzegovina (Republika Srpska) as regards the provisions of Directive 2018/843¹⁰² related to exchange offices and custodian wallet providers and the relevant experience of EU Member States.

Hanfa's participation in the work of the Council

In 2022, Hanfa actively participated in the process of adopting new or amending existing EU legislative acts during discussions of the Council by providing support to competent ministries from the position of an expert authority; it provided comments and opinions on draft legislation both during the negotiations of Member States within the Council and in the later process of negotiations with the European Parliament. This relates to comments and opinions given in the course of adoption of a set of acts in the area of sustainable finance, digital finances, review of several regulations on capital markets and the package of regulations in the area of anti-money laundering and terrorist financing and the area of insurance and investment funds.

¹⁰² **Directive (EU) 2018/843** of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU OJ L 156

In 2022, Hanfa launched the implementation of two projects approved through the EU Technical Support Instrument. The project “Implementation of regulations and supervisory practices with regard to market conduct” is a joint project of Hanfa and the CNB, which focuses on strengthening the capacities of both institutions in the area of consumer protection. The scope of the project in Hanfa’s domain covers the area of insurance, pension system and, in part, leasing. The project should be completed in early 2024. The second project concerns the implementation of the EU flagship initiative “EU Supervisory Digital Finance Academy”, which aims to ensure the transfer of knowledge to Member States’ supervisory authorities on new technologies in the area of financial services, the development of supervisory tools and information on the development of the regulatory framework. Hanfa’s employees are actively involved in the work of the Academy, which, within organised core and advanced education modules, transfers the most recent knowledge necessary for the supervision of digital financial services.

In 2022, Hanfa and the CNB continued with the implementation of their joint project that began in 2021 under the name “The improvement of risk-based supervision of anti-money laundering and terrorist financing”, which aims at further improving supervisory practices of both institutions, particularly with respect to changes in relevant regulations. The project should be completed in the second half of 2023.

A multinational project “Sustainable finance – supervisory capacity enhancement”, in which Hanfa participates together with national supervisory authorities of Malta, Poland and Romania, is scheduled to begin in 2023. The project includes a tailored approach for each supervisory authority and ensures a coordinated approach as regards common aspects. Hanfa’s goal is to enhance its expertise in the field of the EU’s sustainable financial framework and to improve the robustness of the system under its supervision.

JUDICIAL PROCEEDINGS

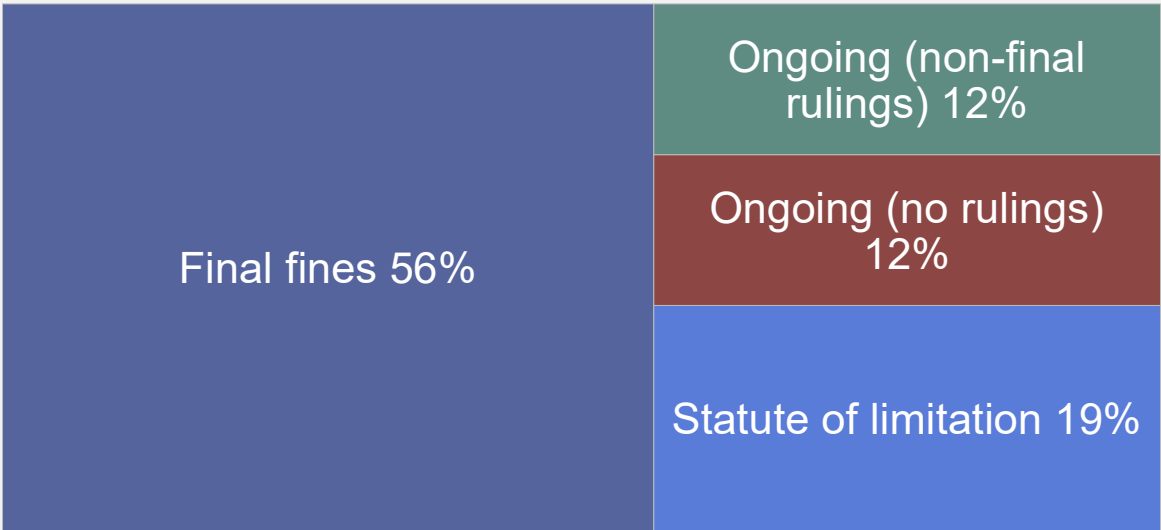
9 JUDICIAL PROCEEDINGS

Hanfa actively participates in misdemeanour proceedings, administrative disputes and other proceedings in which it is a party (by attending hearings, preparing statements and submissions and taking all other actions in proceedings). In misdemeanour proceedings, Hanfa, as an authorised prosecutor, regularly initiates such misdemeanour proceedings by bringing indictments to the Zagreb Municipal Misdemeanour Court and to the Financial Inspectorate of the Ministry of Finance of the Republic of Croatia. Administrative disputes may be initiated against Hanfa's acts by filing an action, as these acts are final pursuant to the Act on Hanfa. Hanfa participates in these proceedings as a defendant. In the event of a criminal offence that is prosecuted *ex officio*, Hanfa files criminal charges to the competent State Attorney's Office in accordance with criminal procedure regulations.

9.1 Misdemeanour proceedings

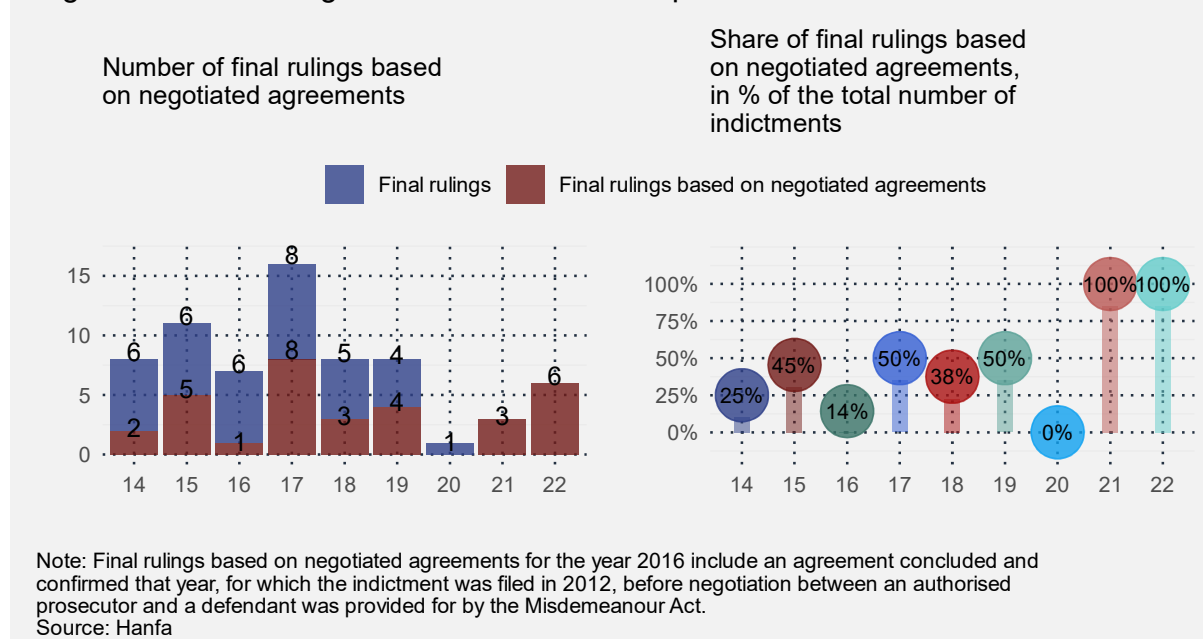
In 2022, as an authorised prosecutor, Hanfa filed 13 indictments to the Zagreb Municipal Misdemeanour Court. Six of them were related to the insurance market, the same number of indictments related to the leasing segment, while one indictment related to the capital market.

Figure 9.1 Structure of misdemeanour proceedings by type of outcome
In % of the total number of misdemeanour proceedings in the period from 2018 to end-2022



Source: Hanfa

Figure 9.2 Final rulings and indictments in the period from 2014 to end-2022



Since its establishment at the beginning of 2006 until the end of 2022, Hanfa filed a total of 516 indictments serving as a basis for initiating misdemeanour proceedings. A large number of the proceedings initiated before 2018 (as many as 54%) were terminated as they were time-barred, which was the consequence of many reasons associated with the functioning of the judicial system.

However, the number of such cases decreased significantly in the period from 2018 to the end of 2022, and the period of limitation became effective for only 19% of them. This was largely the outcome of greater trust on the part of competent courts in the correctness and regularity of Hanfa's actions, among other things, thanks to the steady strengthening of its internal capacities. Also, one of the reasons behind the decrease in the number of cases that had been barred due to the limitation period was an alternative dispute resolution, that is, the possibility for the authorised prosecutor and the defendant to negotiate terms and conditions for the admission of guilt and to agree on the type and amount of the sanction provided under the Misdemeanour Act¹⁰³. This possibility increased the number of cases that are settled by an agreement over the course of years. In the period from 2014 to 2022, 32 final convictions were passed based on alternative dispute resolution. The rise in the number of such settlements continued in 2022, when six settlements were reached with defendants, that is, all of the proceedings were concluded by alternative dispute resolution in that year.

9.1.1 Capital market

Hanfa filed one indictment against a legal person (issuer) because of the violation of the provisions of the Market Abuse Regulation as that person failed to notify the public of inside information directly related to it in the prescribed manner and under the prescribed conditions.

¹⁰³ Official Gazette, No [107/07](#), [39/13](#), [157/13](#), [110/15](#), [70/17](#), [118/18](#), [114/22](#)

9.1.2 Insurance market

Six indictments in total were filed in the field of insurance market in 2022. Three indictments were brought against insurance companies and their responsible persons as a result of consumer complaints relating to the violation of the provisions of the Act on Compulsory Traffic Insurance, specifically, due to the non-compliance with legally prescribed time limits for the submission of a reasoned offer or a reasoned reply to their claim, which also led to non-compliance with time limits for the payment of compensation (or the uncontested part of the claim as an advance) to injured parties. Two indictments were brought against insurance companies and their responsible persons due to the violation of the provisions of the Insurance Act¹⁰⁴, specifically, the lack of cooperation during the inspection, that is, the failure to enable the carrying out of the on-site inspection. In non-final rulings made in the two latter cases defendants were found guilty and given a fine. Appeals were submitted against the rulings and they are being processed before the High Misdemeanour Court.

One misdemeanour procedure was initiated against a legal person insurance agent and against its responsible persons due to the violation of the provisions of the Insurance Act, as they failed to act honestly, fairly and professionally in accordance with the best interests of their clients in the course of distribution of insurance products. This procedure was ended by the final ruling based on the settlement of the parties.

9.1.3 Leasing

Hanfa brought five indictments against leasing companies in 2022 due to the failure to comply with the provisions of the Leasing Act¹⁰⁵ relating to interest rate calculation in concluded lease contracts. All these proceedings were ended by the final rulings based on the settlement of the parties.

In addition, Hanfa brought an indictment against a leasing company and its responsible persons as they failed to enable the consumers to make an early repayment of the credit in accordance with Article 16 of the Consumer Credit Act. The proceedings are still pending.

9.2 Administrative disputes

During 2022, 13 administrative disputes were initiated against Hanfa's decisions, of which three were brought before the Administrative Court in Rijeka and the remaining ten were brought before the Administrative Court in Zagreb. Seven administrative disputes were initiated against decisions relating to the insurance sector, five were made against decisions related to the capital market, and one against a decision relating to leasing. Pursuant to the Administrative Disputes Act¹⁰⁶, Hanfa provided responses to the actions, and during the proceedings its employees submitted reports and attended hearings before the court regularly. One of the disputes related to the capital market was terminated by a final decision on the dismissal of the action. The other proceedings are still pending.

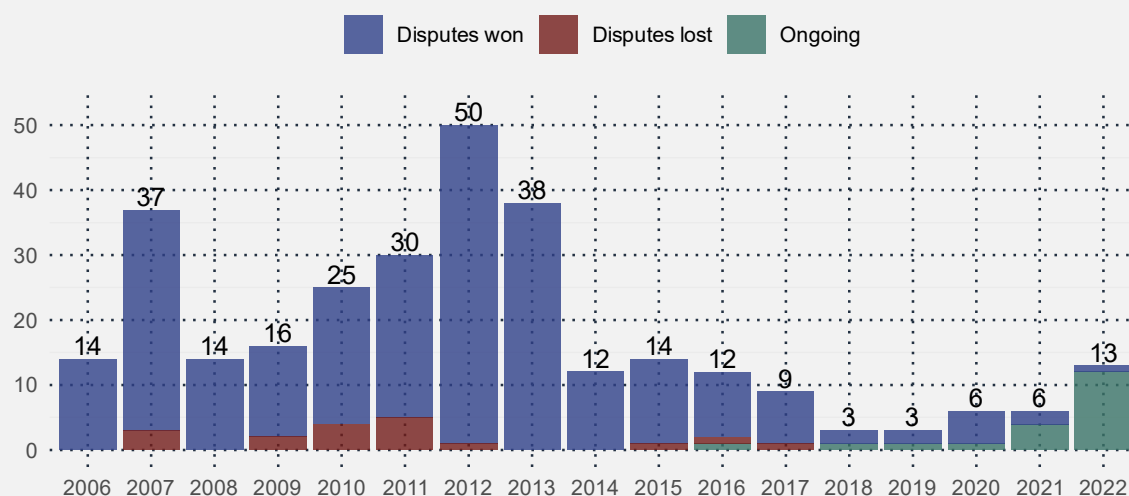
¹⁰⁴ Official Gazette, No [30/15](#), [112/18](#), [63/20](#), [133/20](#)

¹⁰⁵ Official Gazette, No [141/13](#)

¹⁰⁶ Official Gazette, No [20/10](#), [143/12](#), [152/14](#), [94/16](#), [29/17](#), [110/21](#)

Figure 9.3 Outcomes of administrative disputes

Number of disputes by type of outcome



Source: Hanfa

9.3 Criminal charges

During 2022, Hanfa filed a criminal charge with the competent State Attorney's Office after having established that there were grounds for suspicion that a criminal offence of forgery of documents, described by and punishable pursuant to Article 278(1) of the Criminal Code¹⁰⁷, had been committed. The criminal offence had been committed by the perpetrator who falsified a document proving the existence of a license for investment fund management services. Apart from the falsified content, the document contained a falsified signature of a Hanfa Board member.

Since its establishment on 1 January 2006 until 31 December 2022, Hanfa filed 52 criminal charges with the competent State Attorney.

9.4 Debt recovery actions

In 2022, Hanfa, in its capacity as a creditor, participated in one insolvency proceeding conducted before the competent commercial court. Hanfa was paid the related amount of realised insolvency estate proportional to its determined claim. The insolvency proceeding was terminated and the insolvency debtor was removed from the court register.

¹⁰⁷ Official Gazette, No [125/11](#), [144/12](#), [56/15](#), [61/15](#), [101/17](#), [118/18](#), [126/19](#), [84/21](#)

HANFA'S BUSINESS OPERATIONS

10 HANFA'S BUSINESS OPERATIONS

Hanfa's activities are organised within five divisions and ten offices within the direct competence of Hanfa Board. The Office of the Secretary General and its five departments provide business support by performing activities in the areas of general services, procurement, finances, accounting, human resources and information technology. This involves a continuous advancement of processes, procedures and internal acts regulating and directing the business and focusing on the digitalisation and automation of data and activities.

10.1 Internal organisational structure and human resources

Hanfa is governed by the Board consisting of the President and four Board members; they are all appointed by the Croatian Parliament at the proposal of the Government of the Republic of Croatia. The President of the Board, which was appointed for a term of six years in 2018, is Ante Žigman, and Board members are Tomislav Ridzak, Antun Palarić, Ilijana Jeleč and Jurica Jednačak. Members of the Board rotate in the position of Deputy President every 18 months. In 2022, Hanfa Board held 42 meetings and adopted 1,030 decisions. Board decisions are taken by a majority of at least three votes, and neither the President nor members of the Board are allowed to abstain from voting.

Five divisions and ten offices, which are directly managed by the Board, carry out Hanfa's core functions and tasks defined in the Act on Hanfa. The exception is the Office of the Secretary General, which provides operational, information and administrative support both to the Board and all organisational units performing the tasks under their competence.

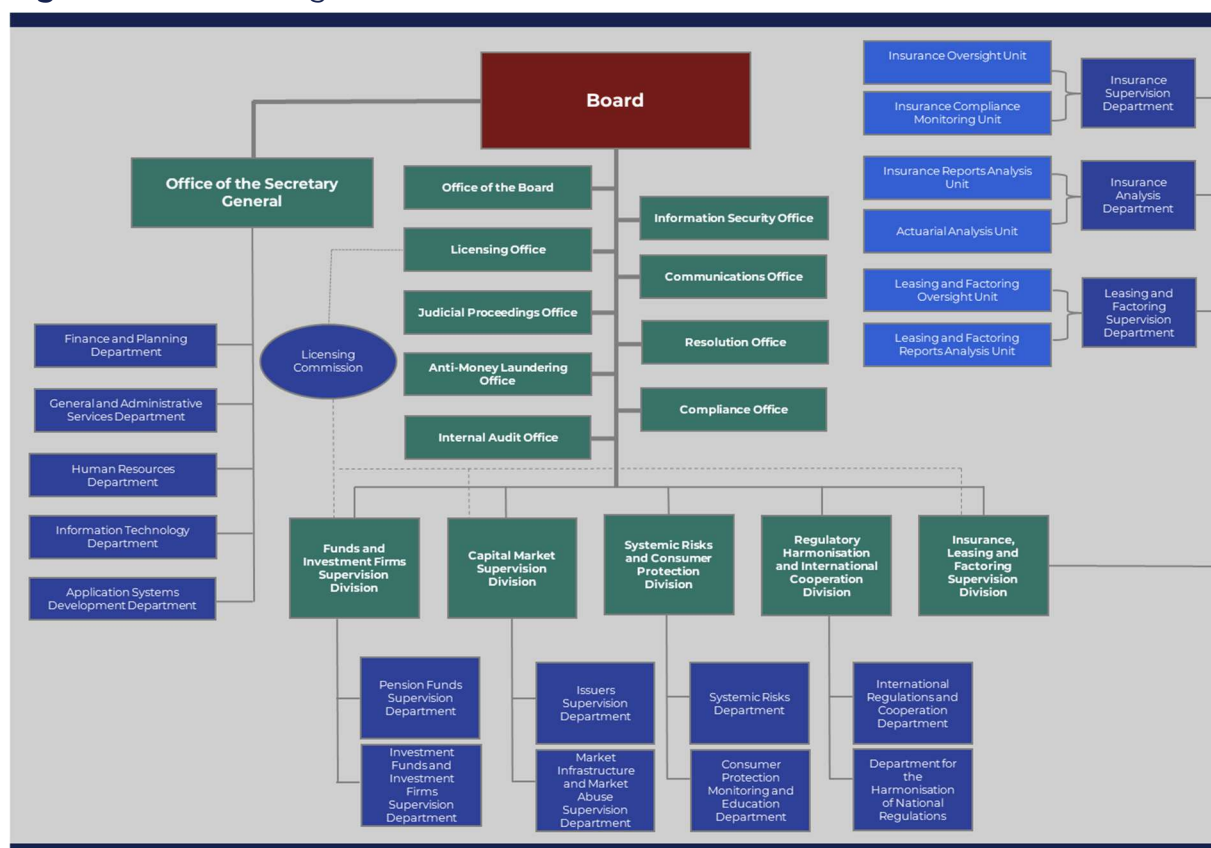
Hanfa's Council is an advisory body, consisting of nine members. Three members are appointed by the Government of the Republic of Croatia and five by representatives of supervised entities' associations at the Croatian Chamber of Economy. The President of Hanfa Board is a member of the Council by virtue of his office. The Council provides opinions and expert and scientific advice for the purpose of developing Hanfa's supervisory practice. Members of the Council are appointed for a four-year term of office. In 2022, a change occurred in the membership of the Council. In addition to the President of Hanfa Board Ante Žigman, Council members in 2022 were Kristijan Buk (President of the Council), Ivana Gažić, Josip Glavaš, Marko Juranić up to 22 September, and Klaudija Karabuva Vidas from 22 September, Ivana Ravlić Ivanović, Davor Tomašković, Ivana Žepić and Novka Simić. The Council held four meetings in 2022.

At the end of 2022, Hanfa had a staff of 204, which is an increase of 5.7% from the end of 2021. As in the previous years, around two-thirds of total staff were female employees,

holding both executive and managerial positions. The average total number of years in service was 17.4, and the average number of years working in Hanfa was 9.4. The average employee age reached 42.3 years.

As in the previous years, employees participated in different kinds of professional training in line with business needs. A large portion of the training was in the form of internal transfer of knowledge. Through lectures and workshops, Hanfa's employees shared their knowledge on relevant topics with new employees, as part of their preparation for job positions, and all other colleagues.

Figure 10.1 Hanfa's organisational structure as at 31 December 2022



Source: Hanfa

Two new offices were established in late 2022 – the Compliance Office and the Resolution Office. They were established in response to the need to further enhance the quality of compliance with regulations and to better coordinate activities falling within the area of competence of individual offices as well as to ensure the continuity of key functions in the financial services sector and avoid a severe adverse impact on the financial stability.

The Resolution Office was established in response to a considerable increase in Hanfa's obligations with respect to the requirements and exercise of resolution powers

pursuant to EU regulations¹⁰⁸ transposed into the Croatian legal system. This ensures that employees performing exclusively resolution tasks are structurally and functionally separated from employees performing all other tasks within the Capital Market Supervision Division and the Funds and Investment Firms Supervision Division. Separation of reporting lines also ensures the independence of individual organisational units and eliminates the possibility of any conflicts of interest between Hanfa's supervisory and resolution powers and functions. The Resolution Office plans, carries out, coordinates and supervises resolution activities under Hanfa's competence, which in practice implies the receipt of resolution reports by resolution entities, resolvability assessment and preparation of resolution plans. In addition, the Office participates in the work of resolution teams that may be established within resolution colleges, coordinates the procedure of taking resolution actions, conducts inspections for resolution purposes in cooperation with supervision divisions, establishes the preconditions for the exercise of resolution powers under Hanfa's competence, carries out the procedure for the exercise of resolution powers, opens and governs resolution proceedings and carries out other resolution actions as necessary.

The Compliance Office has been established to ensure high quality monitoring and better coordination of activities related to the compliance with relevant regulations as well as consistency among internal acts. The Office has a central role in monitoring regulations governing the protection of personal data as well as in monitoring and promoting compliance of employees with the provisions of Hanfa's Code of Conduct.

In addition to the implementation of organisational changes and drafting a new Ordinance on the internal organisational structure and the systematisation of jobs in Hanfa, other important internal acts relating to human resources were drafted or enhanced in 2022. A new Ordinance on teleworking was drafted, while the Ordinance on performance management in Hanfa and the Ordinance on wages and other remuneration of Hanfa's employees were amended in 2022.

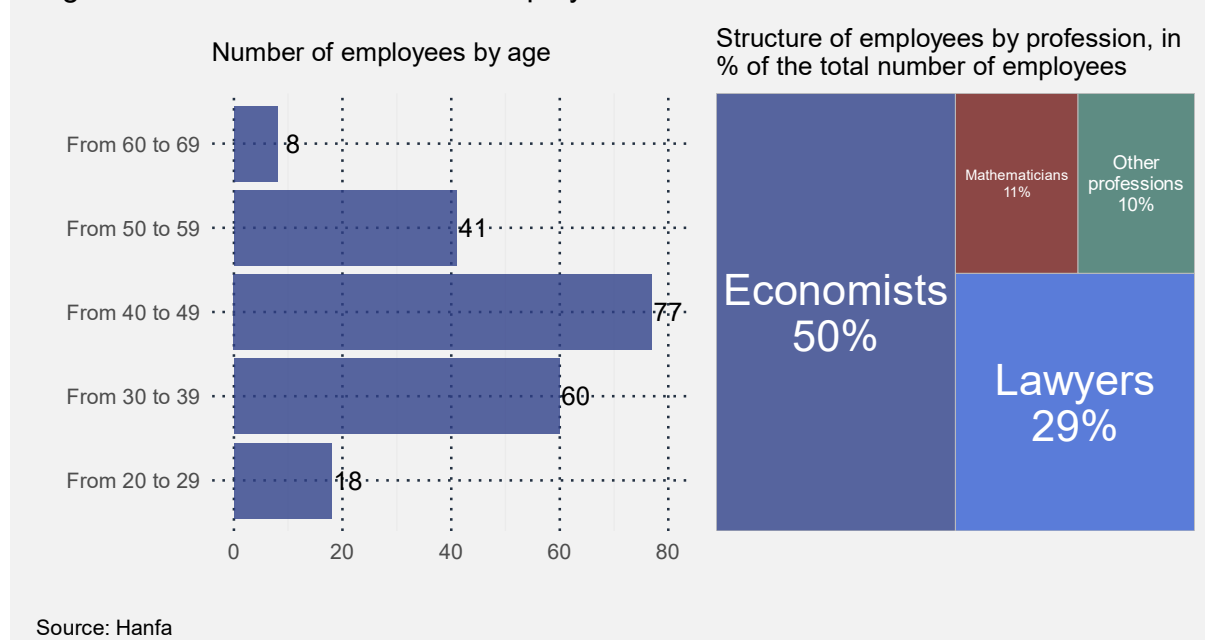
The current human resources and finance software has been upgraded in order to improve the procedure of monitoring and evaluating work efficiency of employees. Digitalisation of the performance evaluation process has eliminated the need for paper forms and facilitated and expedited the activities of both management and employees, as well as the monitoring of the implementation of certain activities and data analysis. Thanks to internal development of the application, specific activities associated with the records of hours of work have been automated.

Following a two-year interruption because of the COVID-19 pandemic, Hanfa launched a scholarship tender aimed at students of economics, law, mathematics or IT. In

¹⁰⁸ [Directive 2014/59/EU](#) of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012 of the European Parliament and of the Council, OJ L 173; Regulation (EU) 2021/23 of 16 December 2020 on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, (EU) No 600/2014, (EU) No 806/2014 and (EU) 2015/2365 and Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/EU and (EU) 2017/1132, OJ L 22, and 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

addition to two recipients from before, five other students became new recipients of Hanfa's scholarship in 2022, which provides them with financial support during studies and with the possibility for internship with Hanfa. After completion of studies, scholarship recipients have the opportunity for employment with Hanfa depending on its personnel needs. Following a competition, ten students were selected and given the opportunity for student internship, which took place during summer months. The students gained general knowledge about Hanfa's powers and learned in more detail about the competence of the organisational units where the internship took place.

Figure 10.2 Structure of Hanfa's employees at the end of 2022



10.2 Internal audit

In 2022, the Internal Audit Office coordinated the adoption of a new Ordinance on actions of Hanfa's employees with regard to the acquisition or disposal of financial instruments. Its objective is to clearly define permissible and impermissible actions of Hanfa's employees with regard to the acquisition and disposal of financial instruments and to define measures with respect to employee actions which are contrary to the provisions of the ordinance. In the course of the year an audit was carried out about the information Hanfa's workers obtained regarding the CDCC system and an audit of acquisitions and disposals of financial instruments in the period from 2008 to 2022, both with respect to Hanfa's current employees, former employees and household members of Hanfa's current employees. The purpose of the audit was to establish whether all employees who had acquired and disposed of financial instruments submitted notifications thereof in accordance with the regulations governing the acquisition and disposal of financial instruments by Hanfa's employees. The audit also looked into potential violations of the regulations and conflicts of interest in relation to

the duties and tasks employees currently perform or that they performed at the time when unreported transactions of acquisition and disposal of financial instruments were made. The audit of unreported transactions of acquisition and disposal of financial instruments by Hanfa's employees did not establish that inside information had been used in the course of acquisitions and disposals of financial instruments or any conflicts of interest in relation to the duties and tasks employees currently perform or had performed at the time when unreported transactions of acquisition and disposal of financial instruments were made.

10.3 Information security at Hanfa

In 2022, Hanfa continuously worked on raising the awareness of its employees about the importance of information security and implementation of measures aimed at protecting its IT system from cyber attacks. As part of these activities, the security of the IT system was checked in cooperation with an external provider by means of a penetration test and social engineering.

In the course of supervision of supervised entities, particular attention was paid to cyber security, business continuity and management of relations with external suppliers. In 2022, Hanfa adopted four decisions requiring supervised entities to eliminate illegalities and irregularities detected in the area of IT risk management.

Last year Hanfa also adopted the Guidelines on adequate management of risks pertaining to supervised entities' information systems and the Guidelines on carrying out the audit of supervised entities' information systems by audit firms. Hanfa's employees who are members of the national and European working bodies responsible for drafting regulations covering IT and cyber security actively participated throughout the year in the drafting of European regulations in the area of information security.

10.4 Hanfa's information systems

In 2022, the main focus was on the maintenance of the current information system. Hanfa's employees were provided support in the exercise of their regular working activities. As in the previous years, one of the main objectives was to facilitate teleworking. In this regard, particular attention was paid to the insurance of business continuity as well as availability, adequate level of capacities and security of the IT system.

External users of Hanfa's information system were provided regular assistance in report submission, with particular emphasis on easy use of the system.

10.5 Hanfa's financial operations

Hanfa keeps business books in accordance with the provisions of the Act on Financial Operations and Accounting of Non-Profit Organisations¹⁰⁹, Ordinance on non-profit accounting and the accounting plan¹¹⁰, Ordinance on reporting in non-profit accounting and the register of non-profit organisations¹¹¹ and the Ordinance on the system of financial management and control, and the preparation and execution of financial plans of non-profit organisations¹¹².

As at 31 December 2022, Hanfa's total assets amounted to HRK 31.2m, falling by 11.2% from the end of 2021. Financial assets accounted for 78.9% of its total assets, while own funds accounted for two-thirds of its liabilities at end-2022.

Table 10.1 Hanfa's balance sheet as at 31 December 2022

In HRK thousand

Assets	Amount	Share in assets
Non-financial assets	6,577	21.1%
Financial assets	24,667	78.9%
Total assets	31,244	
Liabilities	Amount	Share in liabilities
Liabilities	10,463	33.5%
Own sources	20,781	66.5%
Total liabilities	31,244	

Note: Hanfa's detailed balance sheet is provided on its website.

Source: Hanfa

Cash at bank and in hand accounted for 90.3% of Hanfa's financial assets, while the rest was accounted for by guarantee deposits, receivables and prepayments. Most of non-financial assets (69.7%) related to intangible assets, that is, licenses and other rights. The remaining part of non-financial assets consisted of buildings, equipment and furniture, and software investments. The largest item in liabilities (97.4%) were liabilities for expenditures, that is, liabilities for employees, liabilities for material expenses and liabilities for prepayments and taxes. The remaining 2.6% of liabilities related to accrued expenses and deferred income. Own sources comprised operating sources and surplus income over expenditure, which amounted to HRK 1.2m in 2022 and was transferred into the state budget of the Republic of Croatia.

¹⁰⁹ [Official Gazette, No 121/14](#)

¹¹⁰ [Official Gazette, No 1/15, 25/17, 96/18 and 103/18](#)

¹¹¹ [Official Gazette, No 31/15, 67/17, 115/18 and 21/21](#)

¹¹² [Official Gazette, No 119/15](#)

Income

Hanfa's total income amounted to HRK 87.5m in 2022, an increase of 4.8% from the year before. The most significant source of income was income received under special regulations, comprising income received from fees from assets and income of supervised entities, fees charged for the provision of services within Hanfa's competence and other income received under special regulations. This income accounted for 98.6% (HRK 86.2m) of Hanfa's total income.

In June 2022, Hanfa hosted the IAIS Global Seminar in Dubrovnik. Interested stakeholders from the insurance market who participated in the seminar were charged a participation fee; the income received was recorded as income from the provision of services and accounted for 0.3% (HRK 264.5 thousand) of Hanfa's total income.

The remaining 1.1% of total income consisted of income from assets, income from donations and other income, reaching a total of HRK 982.2 thousand.

Table 10.2 Summary of income realised in 2022

In HRK thousand

Total income	87,495
Income from the sale of goods and provision of services	265
Income received under special regulations	86,249
Income received under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2022	82,177
Income generated under the Ordinance on the type and amount of fees paid to Hanfa	3,977
Other income received under special regulations	95
Income from assets	23
Income from donations	0
Other income	958

Source: Hanfa

The largest share of income received under special regulations in 2022, 95.3%, was accounted for by income made on the basis of the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2022¹¹³. The most important item in that income category was income from pension fund management companies, which rose by 5.1% from 2021 and reached HRK 49.1m in 2022.

Income generated under the Ordinance on the type and amount of fees paid to the Croatian Financial Services Supervisory Agency¹¹⁴ made up 4.6% of income received under special regulations. The largest part of income earned from the provision of services falling within Hanfa's competence was realised pursuant to the Insurance Act

¹¹³ [Official Gazette, No 144/21](#)

¹¹⁴ [Official Gazette, No 26/19](#)

and was based on the examination of professional knowledge and issuance of authorisations and licences to pursue insurance and reinsurance distribution business. This income amounted to HRK 1.7m in 2022, which was 3.5% more than in 2021.

Table 10.3 Income from fees generated in 2022

In HRK thousand

Income received under the Ordinance on the calculation, amount and changing of fees paid to Hanfa in 2022	Amount	Share in total income
Income from pension companies	49,056	59.70%
Income from insurance companies and reinsurance companies	9,855	11.99%
Income from investment fund management companies	7,722	9.40%
Income from investment firms	5,051	6.15%
Income from leasing companies	3,990	4.86%
Income from issuers	3,327	4.05%
Income from the Central Depository and Clearing Company	1,232	1.50%
Income from insurance distributors and reinsurance distributors	595	0.72%
Income from pension insurance companies	574	0.70%
Income from the Zagreb Stock Exchange	426	0.52%
Income from companies managing funds established under special regulations	275	0.33%
Income from factoring companies	39	0.05%
Income from the central counterparty	35	0.04%
Total	82,177	100.00%

Income generated under the Ordinance on the type and amount of fees paid to Hanfa	Amount	Share in total income
Income generated under the Insurance Act	1,672	42.04%
Income generated under the Capital Market Act	534	13.43%
Income generated under the Act on the Takeover of Joint-Stock Companies	503	12.65%
Income generated under the Act on Open-Ended Investment Funds with Public Offering	415	10.44%
Income generated under the Leasing Act	171	4.30%
Income from the maintenance of the Register of Leased Assets	167	4.20%
Income generated under the Alternative Investment Funds Act	166	4.17%
Income generated under the Factoring Act	100	2.51%
Income generated under the Act on Hanfa (issuance of opinions and copies)	84	2.11%
Income from fees charged for the training organised for brokers, investment advisers, certified pension fund managers, certified pension insurance company managers	60	1.51%
Income generated under the Mandatory Pension Funds Act	57	1.43%
Income generated under the Voluntary Pension Funds Act	21	0.53%
Income generated under the Act on Pension Insurance Companies	19	0.48%
Income generated under the Act implementing EMIR	8	0.20%
Total	3,977	100.00%

Source: Hanfa

In comparison with Hanfa's 2022 Financial Plan, the amount of income realised was 2.3% or HRK 2.1m smaller than the planned level. The lower-than planned income was influenced by the market situation, as evidenced in income generated under the

Ordinance on the calculation, amount and charging of fees paid to Hanfa. The largest negative deviation from the planned amount was recorded with respect to pension fund management companies, open-ended investment fund management companies and the CDCC. In addition, income from the provision of services was smaller than planned as the number of participants that paid participation fees for the Global Seminar was smaller than expected.

Expenditure

Hanfa's expenditure is recognised on the basis of the accrual principle, that is, in the reporting period when it is incurred, regardless of the time of its payment. Hanfa's total expenditure amounted to HRK 86.3m in 2022, or 12.4% more than in 2021.

Table 10.4 Summary of expenditure realised in 2022

In HRK thousand

Total expenses	86,282
Employee expenses	52,570
Material expenditure	29,956
Costs for employees	3,520
Costs for external staff	223
Expenditure on services	14,789
Expenses on materials and energy	1,790
Other material expenditure	9,634
Depreciation expenditure	2,544
Financial expenditure	134
Donations	83
Other expenses	995

Source: Hanfa

Employee expenses accounted for the largest share of total expenditure (60.9%), growing by 9.5% from 2021. The rise was due to the increase in the number of employees and the wage calculation basis. Material expenditure accounted for 34.7% of total expenditure, growing by 20.5% compared to the preceding year. The growth in material expenditure was driven by the rise in the consumer price index. This was particularly noticeable in expenditure on services and costs for employees, which grew because of the Global Seminar hosted by Hanfa. This also caused a rise in the costs for external staff as external staff had to be engaged. Depreciation expenditure accounted for 2.95% of total expenditure, falling by 3.3% compared with 2021 due to the expiry of the depreciation period of some assets. Other expenses included fines for failure to meet the employment quota for persons with disabilities, net book value and other expenses for fixed assets, receivables written-off, tax on road motor vehicles, fee

refunds, voluntary pension insurance premiums and other unspecified expenses. Other expenses accounted for 1.15% of total expenditure in 2022.

Relative to Hanfa's 2022 Financial Plan, its expenditure was 2.7% or HRK 2.4m lower, primarily due to lower realised material expenditure and depreciation expenditure. This was influenced by the fact that some procurement plans were moved to future periods or given up, there was a lower number of business trips and employees' professional training programmes, lower IT maintenance costs and the lower amount of membership fees paid to the European Supervisory Authorities (ESAs).

In accordance with the Act on Financial Operations and Accounting of Non-Profit Organisations, an external audit of Hanfa's 2022 financial statements was carried out, and the Independent Auditor's Report was published on Hanfa's website.

STATISTICAL OVERVIEW OF INDUSTRIES

11 STATISTICAL OVERVIEW OF INDUSTRIES

11.1 Investment funds

Open-ended investment funds with public offering – UCITS

Investment funds – UCITS

	2017	2018	2019	2020	2021	2022
Number of funds	92	93	96	96	93	100
Net assets, in HRK thousand	18,499,606	19,117,203	22,577,123	18,216,156	21,512,344	16,317,854

Issuance and redemption of units in UCITS

In HRK thousand

	2017	2018	2019	2020	2021	2022
Issuance of units	18,108,512	11,496,927	11,498,262	8,830,386	10,454,735	7,681,725
Redemption of units	18,219,022	10,811,532	9,486,498	13,742,012	7,456,225	11,116,410

Asset structure of equity UCITS per asset type

In HRK thousand

	2017	2018	2019	2020	2021	2022
Cash	187,921	155,063	191,965	160,011	249,192	251,392
Shares	1,640,305	1,356,601	1,513,730	1,402,870	2,033,892	1,625,725
Bonds	20,305	26,685	29,050	27,560	13,886	13,703
Investment funds	58,850	61,403	79,575	75,361	121,798	51,630
Money market instruments	0	0	0	0	0	1,000
Deposits	2,732	3,205	1,363	10,002	22,003	37,848

Asset structure of balanced UCITS per asset type

In HRK thousand

	2017	2018	2019	2020	2021	2022
Cash	70,187	94,989	170,954	132,900	254,073	140,838
Shares	309,063	257,702	221,032	246,464	366,698	247,110
Bonds	379,825	390,711	438,988	432,432	512,892	395,139
Investment funds	127,699	113,786	146,212	154,773	339,341	234,901
Money market instruments	0	0	0	0	0	0
Deposits	7,664	27,948	15,459	0	14,502	49,595

Asset structure of bond UCITS per asset type

In HRK thousand

	2017	2018	2019	2020	2021	2022
Cash	829,976	991,665	2,232,505	2,292,276	2,429,903	1,285,314
Shares	0	0	0	13,128	25,546	77,009
Bonds	4,982,146	7,491,015	14,408,996	10,600,488	10,853,886	7,830,644
Investment funds	53,664	37,221	87,145	113,888	120,107	102,905
Money market instruments	458,012	474,855	692,834	119,118	484,568	265,460
Deposits	80,003	291,476	1,797,672	1,569,641	1,402,549	790,870

Asset structure of money market UCITS per asset type

In HRK thousand

	2017	2018	2019	2020	2021	2022
Cash	1,144,437	1,561,461	1,486			
Shares	0	0	0			
Bonds	1,173,673	1,949,331	0			
Investment funds	49,792	21,411	0			
Money market instruments	3,586,937	1,466,158	0			
Deposits	2,800,701	2,421,975	6,600			

Asset structure of other UCITS per asset type

In HRK thousand

	2017	2018	2019	2020	2021	2022
Cash	92,020	39,281	173,691	159,567	350,246	170,334
Shares	46,346	17,670	50,558	81,401	156,933	145,788
Bonds	402,083	568,729	611,887	680,927	1,064,842	1,698,707
Investment funds	201,057	189,580	402,438	331,781	620,933	495,782
Money market instruments	0	0	0	200	300	3,506
Deposits	41,715	67,835	133,383	124,349	113,779	94,539

Asset structure of feeder UCITS per asset type

In HRK thousand

	2017	2018	2019	2020	2021	2022
Cash		2,159	764	3,745	15,235	15,237
Shares		0	0	0	0	0
Bonds		0	0	0	0	0
Investment funds		17,312	14,476	111,062	416,969	534,193
Money market instruments		0	0	0	0	0
Deposits		0	0	0	0	0

Alternative investment funds – AIF**Investment funds – AIF**

	2017	2018	2019	2020	2021	2022
Number of funds	38	34	36	38	34	35
Net assets, in HRK thousand	3,486,817	3,588,528	4,474,656	4,712,125	5,222,883	5,170,992

Investment firms**Investment firms**

	2017	2018	2019	2020	2021	2022
Number of firms	7	7	7	6	6	5
Portfolio management, in HRK thousand	29,169	27,934	23,106	26,312	33,060	29,826
Custody of financial instruments, in HRK thousand	691,026	677,305	1,055,282	1,822,577	4,378,445	4,970,281

11.2 Pension funds

Mandatory pension funds

Mandatory pension funds

	2017	2018	2019	2020	2021	2022
Number of funds	12	12	12	12	12	12
Number of fund members	1,844,272	1,936,261	2,010,403	2,057,391	2,111,192	2,179,051
Category A	5,874	6,273	25,453	83,448	150,266	233,445
Category B	1,810,704	1,896,361	1,948,510	1,925,328	1,899,623	1,865,378
Category C	27,694	33,627	36,440	48,615	61,303	80,228
Net assets, in HRK thousand	91,924,545	98,126,194	112,598,105	119,068,058	132,984,229	132,174,465
Total contributions, in HRK thousand	67,011,806	73,191,233	79,885,879	86,715,548	94,171,693	102,412,577
Total payments, in HRK thousand	-7,143,223	-8,143,581	-9,280,324	-10,788,978	-12,649,473	-14,774,053

MIREX values

	2017	2018	2019	2020	2021	2022
Mirex A	133.4	134.6	152.3	153.0	173.7	166.5
Mirex B	240.8	243.2	265.2	267.7	287.4	272.9
Mirex C	125.3	129.0	136.0	137.5	138.1	130.9

Asset structure of category A MPFs by investment type

In HRK thousand

	2017	2018	2019	2020	2021	2022
Cash	31,596	33,699	15,702	35,296	63,354	156,978
Shares	214,033	222,283	305,045	363,879	564,600	691,373
Bonds	308,956	332,626	411,578	417,817	494,502	654,712
Investment funds	37,767	54,301	97,084	139,857	249,969	281,552
Money market instruments	0	0	0	0	0	23,362
Deposits	307	13,000	5,000	26,801	60,402	118,002

Asset structure of category B MPFs by investment type

In HRK thousand

	2017	2018	2019	2020	2021	2022
Cash	2,040,812	3,095,922	820,503	2,030,600	1,505,894	3,250,077
Shares	15,177,046	15,500,483	19,555,589	21,647,924	27,587,606	26,007,962
Bonds	64,105,360	65,269,705	74,555,257	74,374,498	75,274,404	73,905,640
Investment funds	5,252,268	6,040,680	8,582,871	9,554,559	15,083,286	13,392,212
Money market instruments	199,512	1,249,715	1,405,660	1,764,742	1,079,949	907,849
Deposits	1,195,812	1,811,324	1,165,028	1,622,544	1,766,056	1,889,494

Asset structure of category C MPFs by investment type

In HRK thousand

	2017	2018	2019	2020	2021	2022
Cash	128,031	184,826	85,683	264,893	274,893	701,191
Shares	0	0	0	0	0	0
Bonds	3,809,899	4,388,270	5,499,820	6,394,115	7,635,017	9,288,378
Investment funds	0	69,079	33,321	134,428	185,036	325,098
Money market instruments	0	39,996	55,973	79,956	239,995	150,721
Deposits	30,467	169,001	0	397,005	641,508	377,530

Voluntary pension funds**Open-ended voluntary pension funds**

	2017	2018	2019	2020	2021	2022
Number of funds	8	8	8	8	8	8
Number of fund members	285,822	305,145	320,533	335,327	351,266	374,760
Net assets, in HRK thousand	3,895,569	4,231,346	5,119,466	5,542,772	6,420,544	6,597,271
Total contributions during the year, in HRK thousand	548,789	624,305	727,137	718,688	791,349	848,130
Total payments during the year, in HRK thousand	-202,942	-250,782	-243,343	-247,513	-257,632	-282,031

Annual returns of OVPFs

	2017	2018	2019	2020	2021	2022
AZ Benefit OVPF	3.80%	-0.07%	6.56%	-0.44%	0.55%	-6.53%
AZ Profit OVPF	-3.37%	-2.53%	10.45%	-1.26%	7.03%	-6.33%
Croatia osiguranje OVPF	2.10%	-1.52%	12.20%	0.39%	5.92%	-7.55%
Croatia osiguranje 1000 A OVPF		5.23%	13.76%	0.82%	7.69%	-10.47%
Croatia osiguranje 1000 C OVPF		2.45%	5.37%	1.76%	0.76%	-4.05%
Erste Plavi Expert OVPF	4.31%	-2.09%	12.60%	-3.00%	11.26%	-4.16%
Erste Plavi Protect OVPF	3.51%	5.40%	6.85%	0.42%	-0.30%	-6.44%
Raiffeisen OVPF	3.19%	1.61%	8.86%	-1.04%	8.12%	-4.99%

Asset structure of OVPFs by investment type

In HRK thousand

	2017	2018	2019	2020	2021	2022
Cash	236,344	401,078	318,790	423,805	611,347	709,663
Shares	877,886	910,732	1,216,157	1,319,016	1,599,166	1,585,227
Bonds	2,537,236	2,675,416	3,177,205	3,331,395	3,442,322	3,613,337
Investment funds	249,754	264,014	427,111	472,074	743,274	629,275
Money market instruments	0	0	0	0	0	29,766
Deposits	13,529	0	12,800	14,000	35,000	42,482

Closed-ended voluntary pension funds**Closed-ended voluntary pension funds**

	2016	2017	2018	2019	2020	2022
Number of funds	19	21	20	20	20	21
Number of fund members	30,387	40,482	44,569	45,228	46,001	47,718
Net assets, in HRK thousand	849,556	908,054	1,101,694	1,198,075	1,384,181	1,368,243
Total contributions during the year, in HRK thousand	93,986	124,961	154,667	132,290	142,605	134,241
Total payments during the year, in HRK thousand	-34,480	-56,864	-37,454	-39,524	-49,152	-57,046

Asset structure of CVPFs by investment type

In HRK thousand

	2017	2018	2019	2020	2021	2022
Cash	60,718	108,159	66,942	82,249	140,828	120,324
Shares	193,817	212,670	280,586	298,919	358,803	348,183
Bonds	534,282	533,800	635,612	641,920	644,932	720,129
Investment funds	60,449	58,831	117,674	199,950	239,079	181,351
Money market instruments	0	0	0	0	0	0
Deposits	2,041	0	4,260	0	0	0

11.3 Insurance companies

Insurance

	2017	2018	2019	2020	2021	2022
Number of insurance and reinsurance companies	20	18	16	15	15	15
Gross written premiums, in HRK thousand	9,062,401	9,862,029	10,487,755	10,481,574	11,743,839	12,717,477
Claims settled, gross amounts, in HRK thousand	5,106,300	5,553,116	5,976,279	6,548,767	7,330,071	7,716,136

Gross written premium by insurance classes

In HRK thousand

Code	Insurance class	2021	Share	2022	Share	Change
01	Personal accident insurance	514,796	4.38%	549,172	4.32%	6.68%
02	Health insurance	703,436	5.99%	784,822	6.17%	11.57%
03	Insurance of land motor vehicles	1,407,981	11.99%	1,587,279	12.48%	12.73%
04	Insurance of railway rolling stock	3,245	0.03%	5,169	0.04%	59.29%
05	Insurance of aircraft	11,571	0.10%	19,513	0.15%	68.63%
06	Insurance of vessels	193,274	1.65%	242,802	1.91%	25.63%
07	Insurance of goods in transit	35,768	0.30%	47,382	0.37%	32.47%
08	Insurance against fire and natural disasters	821,316	6.99%	891,901	7.01%	8.59%
09	Other property insurance lines	939,885	8.00%	1,079,858	8.49%	14.89%
10	Motor vehicle liability insurance	2,962,150	25.22%	3,233,889	25.43%	9.17%
11	Aircraft liability insurance	4,746	0.04%	8,373	0.07%	76.42%
12	Insurance against liability arising out of the use of vessels	40,081	0.34%	45,682	0.36%	13.97%
13	Other liability insurance lines	530,069	4.51%	541,606	4.26%	2.18%
14	Credit insurance	367,254	3.13%	463,981	3.65%	26.34%
15	Suretyship insurance	15,956	0.14%	11,877	0.09%	-25.56%
16	Insurance against miscellaneous financial losses	177,495	1.51%	203,818	1.60%	14.83%
17	Legal expenses insurance	4,285	0.04%	3,275	0.03%	-23.58%
18	Travel insurance	113,059	0.96%	151,545	1.19%	34.04%
19	Life insurance	2,361,269	20.11%	2,124,367	16.70%	-10.03%
20	Annuity insurance	11,071	0.09%	14,817	0.12%	33.84%
21	Supplementary insurance linked with life insurance	122,850	1.05%	121,083	0.95%	-1.44%
22	Marriage and birth insurance	3,493	0.03%	3,188	0.03%	-8.74%
23	Life or annuity insurance where the investment risk is borne by the policyholder	398,788	3.40%	582,078	4.58%	45.96%
24	Tontines	0	0.00%	0	0.00%	
25	Insurance with paid-up sum assured	0	0.00%	0	0.00%	
Total non-life insurance (classes 01 – 18)		8,846,368	75.33%	9,871,945	77.63%	11.59%
Total life insurance (classes 19 – 25)		2,897,471	24.67%	2,845,532	22.37%	-1.79%
Total (classes 01 – 25)		11,743,839	100.00%	12,717,477	100.00%	8.29%

11.4 Leasing companies

Leasing companies						
	2017	2018	2019	2020	2021	2022
Number of leasing companies	17	16	14	15	15	15
Leasing companies' assets, in HRK thousand	18,149,656	19,526,659	21,320,617	19,704,217	19,979,465	22,316,360
Number of newly concluded contracts (from 1 January to 31 December)						
Operating lease	22,388	20,483	14,853	10,392	10,983	11,530
Finance lease	30,696	41,223	50,600	30,033	39,130	42,438
Total	53,084	61,706	65,453	40,425	50,113	53,968
Value of newly concluded contracts , in HRK thousand (from 1 January to 31 December)						
Operating lease	1,595,112	1,493,608	1,640,408	1,246,705	1,289,628	1,426,727
Finance lease	5,717,928	7,320,667	8,543,535	5,336,236	6,845,483	9,096,729
Total	7,313,041	8,814,275	10,183,942	6,582,941	8,135,110	10,523,456
Number of active contracts						
Operating lease	44,486	43,426	43,399	39,582	38,409	36,585
Finance lease	76,057	90,457	106,438	106,679	113,893	121,622
Loans	238	205	25	24	17	6
Total	120,781	134,088	149,862	146,285	152,319	158,213
Value of active contracts , in HRK thousand						
Operating lease	2,928,944	2,523,613	2,616,111	2,431,243	2,375,506	2,413,281
Finance lease	10,949,997	12,425,489	14,438,107	13,823,383	14,279,182	16,251,325
Loans	23,842	15,263	562	332	0	0
Total	13,902,783	14,964,365	17,054,781	16,254,958	16,654,688	18,664,606

11.5 Factoring companies

Factoring companies						
	2017	2018	2019	2020	2021	2022
Number of factoring companies	6	7	6	4	4	4
Factoring companies' assets, in HRK thousand	2,352,743	1,397,891	1,363,017	323,957	362,730	238,331
Transaction volume , in HRK thousand (from 1 January to 31 December)						
Factoring	2,394,857	1,721,668	1,869,816	783,628	740,179	512,032
Factoring including discounting of bills of exchange	1,914,769	500,620	213,476	85,402	83,488	18,021
Reverse factoring	1,036,558	1,004,048	1,029,198	124,674	109,991	47,915
Total	5,346,184	3,226,337	3,112,490	993,704	933,659	577,968
Receivables , in HRK thousand						
Factoring	720,577	394,346	452,151	115,984	144,165	57,941
Factoring including discounting of bills of exchange	1,383,402	258,730	62,972	24,427	14,124	5,554
Reverse factoring	414,747	388,689	369,925	41,347	36,846	7,022
Total	2,518,726	1,041,765	885,048	181,757	195,135	70,517

APPENDICES

12 APPENDICES

Appendix 1 List of ordinances adopted in 2022

Ordinances adopted under the Capital Market Act

1. Ordinance amending the Ordinance on reporting on failed settlements and on internalized settlement (**Official Gazette, No 13/22**)
2. Ordinance amending the Ordinance on the contents and structure of issuers' interim reports and on the form and manner of their submission to the Croatian Financial Services Supervisory Agency (**Official Gazette, No 26/22**)
3. Ordinance amending the Ordinance on the professional training and examinations taken in order to acquire qualifications to provide information on investment products and services, carry out brokerage activities and provide investment advice services (**Official Gazette, No 79/22**)
4. Ordinance amending the Ordinance on organisational requirements and conduct of business rules for the provision of investment services and performance of investment activities (**Official Gazette, No 65/22**)
5. Ordinance on annual reporting to Hanfa on the compliance with Regulation (EU) No 648/2012 and preparation of reports on the compliance with the provisions of Delegated Regulation (EU) 2021/1883 (**Official Gazette, No 58/22**)
6. Ordinance amending the Ordinance on the structure, content, manner and time limits for the submission of annual financial statements and audit report, interim financial reports and the application of the chart of accounts for a central securities depository (**Official Gazette, No 48/22**)
7. Ordinance amending the Ordinance on issuing authorisation to investment firms, market intermediaries, third-country branches, register of persons authorised to perform services and activities referred to in the capital market act and status changes of investment firms (**Official Gazette, No 48/22**)
8. Ordinance amending the Ordinance on issuing approval for management board members and for the acquisition of a qualifying holding / controlling interest and criteria for suitability assessment of supervisory board members, key function holders and senior management (**Official Gazette, No 48/22**)
9. Ordinance amending the Ordinance on the recovery plan, materiality criteria and trend indicators that indicate the impossibility of continuous fulfilment of working conditions and the allocation of significant activities and processes of the CCP (**Official Gazette, No 79/22**)

10. Ordinance on risk management, capital adequacy, liquidity and usage of possibilities and discretionary rights referred to in Regulation (EU) 2019/2033 (**Official Gazette, No 100/22**)
11. Ordinance on the resolution of investment firms (**Official Gazette, No 100/22**)
12. Ordinance amending the Ordinance on regular contributions of members, manner of disposing of the funds and financial statements of the Investor Protection Scheme (**Official Gazette, No 142/22**)
13. Ordinance amending the Ordinance on reporting on failed settlements and on internalized settlement (**Official Gazette, No 142/22**)
14. Ordinance amending the Ordinance on the structure, content, manner and deadlines for the submission of reports in case of an exemption from the obligation to register dematerialised securities with the central depository or another register prescribed by a special act (**Official Gazette, No 142/22**)
15. Ordinance amending the Ordinance on the form, content, deadlines and manner of submitting reports on transactions and trading in financial instruments executed on the regulated market managed by the stock exchange (**Official Gazette, No 142/22**)
16. Ordinance amending the Ordinance on issuing approval for management board members and for the acquisition of a qualifying holding / controlling interest and criteria for suitability assessment of supervisory board members, key function holders and senior management (**Official Gazette, No 142/22**)
17. Ordinance amending the Ordinance on the content of application and documentation for authorisation issued to the stock exchange (**Official Gazette, No 142/22**)
18. Ordinance amending the Ordinance on periodic, statistical and capital reporting by the central securities depository and reporting by the central securities depository of another Member State (**Official Gazette, No 146/22**)
19. Ordinance amending the Ordinance on supervisory reports of the central counterparty (**Official Gazette, No 146/22**)
20. Ordinance amending the Ordinance on reporting breaches or suspected breaches of the provisions of the Capital Market Act, Regulation (EU) No 600/2014, Regulation (EU) No 596/2014 and Regulation (EU) No 909/2104 (**Official Gazette, No 146/22**)
21. Ordinance on supervisory reports for legal persons authorised to provide investment and ancillary services and perform investment activities, market intermediaries, and branches of investment firms from a Member State or third country (**Official Gazette, No 150/22**)

22. Ordinance on the structure and contents of annual financial statements of investment firms ([Official Gazette, No 150/22](#))
23. Ordinance amending the Ordinance on the structure and contents of annual financial statements of the stock exchange ([Official Gazette, No 155/22](#))
24. Ordinance amending the Ordinance on the structure, content and manner of and time limits for the submission of annual financial statements and audit reports and on the application of the chart of accounts for central counterparties ([Official Gazette, No 155/22](#))
25. Ordinance amending the Ordinance on the structure, content and manner of and time limits for the submission of annual financial statements, audit reports and interim financial reports, and on the application of the chart of accounts for central securities depositories ([Official Gazette, No 155/22](#))

Ordinances adopted under the Act Implementing Regulation (EU) 2020/1503 on European crowdfunding service

1. Ordinance on the contents of application for authorisation and application for extension of authorisation of crowdfunding service providers ([Official Gazette, No 150/22](#))
2. Ordinance on the submission of complaints to the Croatian Financial Services Supervisory Agency about the work of European crowdfunding service providers and actions of the Croatian Financial Services Supervisory Agency following received complaints ([Official Gazette, No 146/22](#))

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

1. Ordinance amending the Ordinance on the content and method of keeping a register of UCITS management companies and UCITS ([Official Gazette, No 34/22](#))
2. Ordinance amending the Ordinance on organisational requirements for UCITS management companies ([Official Gazette, No 87/22](#))
3. Ordinance amending the Ordinance on the criteria for membership in the management and supervisory boards of UCITS management companies ([Official Gazette, No 79/22](#))
4. Ordinance on fees and costs charged by management companies ([Official Gazette, No 79/22](#))
5. Ordinance on regulatory capital of UCITS management companies ([Official Gazette, No 132/22](#))

6. Ordinance amending the Ordinance on compensating investors in UCITS and/or compensating UCITS (**Official Gazette, No 150/22**)
7. Ordinance amending the Ordinance on determination of the net asset value and the unit price of UCITS (**Official Gazette, No 155/22**)
8. Ordinance amending the Ordinance on the structure and contents of annual and semi-annual financial statements and other reports of UCITS (**Official Gazette, No 155/22**)
9. Ordinance amending the Ordinance on the structure and contents of financial statements and other reports of UCITS management companies (**Official Gazette, No 155/22**)

Ordinances adopted under the Alternative Investment Funds Act

1. Ordinance on the issuance of authorisation to establish and manage AIFs (**Official Gazette, No 26/22**)
2. Ordinance amending the Ordinance on the content and method of keeping a register of AIFMs and AIFs (**Official Gazette, No 34/22**)
3. Ordinance amending the Ordinance on the criteria for assessing requirements for performing the function of a member of the management and supervisory board of an AIFM and of the supervisory board of a closed-ended AIF with an external manager (**Official Gazette, No 79/22**)
4. Ordinance on costs and fees that may be paid directly from the assets of an AIF with a public offering (**Official Gazette, No 79/22**)
5. Ordinance on the acquisition and increase of a qualifying holding in a small and medium-sized AIFM (**Official Gazette, No 100/22**)
6. Ordinance amending the Ordinance on exercising depositary functions with respect to AIFs (**Official Gazette, No 100/22**)
7. Ordinance amending the Ordinance on issuing authorisation for operation of AIFMs (**Official Gazette, No 100/22**)
8. Ordinance on regulatory capital of AIF management companies (**Official Gazette, No 132/22**)
9. Ordinance on the structure and contents of annual and semi-annual financial statements and other reports of AIFMs (**Official Gazette, No 150/22**)
10. Ordinance amending the Ordinance on compensating investors in AIFs and/or compensating AIFs (**Official Gazette, No 150/22**)

11. Ordinance amending the Ordinance on determination of the net asset value and the unit price of AIFs ([Official Gazette, No 155/22](#))
12. Ordinance on the structure and contents of annual and semi-annual financial statements and other reports of alternative investment funds ([Official Gazette, No 155/22](#))
13. Ordinance amending the Ordinance on types of alternative investment funds ([Official Gazette, No 155/22](#))

Ordinances adopted under the Mandatory Pension Funds Act

1. Ordinance amending the Ordinance on the content and manner of keeping the register of mandatory pension companies and mandatory pension funds ([Official Gazette, No 34/22](#))
2. Ordinance amending the Ordinance on the structure and contents of financial statements and other reports of pension companies managing mandatory pension funds ([Official Gazette, No 146/22](#))
3. Ordinance amending the Ordinance on determination of the net asset value and the unit price of mandatory pension funds ([Official Gazette, No 146/22](#))
4. Ordinance amending the Ordinance on annual, quarterly and other reports of mandatory pension funds ([Official Gazette, No 146/22](#))
5. Ordinance amending the Ordinance on the capital of pension companies managing mandatory pension funds ([Official Gazette, No 146/22](#))
6. Ordinance amending the Ordinance on compensating members of mandatory pension funds and/or mandatory pension funds ([Official Gazette, No 146/22](#))

Ordinances adopted under the Voluntary Pension Funds Act

1. Ordinance amending the Ordinance on the content and manner of keeping the register of pension companies and voluntary pension funds ([Official Gazette, No 34/22](#))
2. Ordinance amending the Ordinance on the structure and contents of financial statements and other reports of pension companies managing voluntary pension funds ([Official Gazette, No 146/22](#))
3. Ordinance amending the Ordinance on determination of the net asset value and the unit price of voluntary pension funds ([Official Gazette, No 146/22](#))

4. Ordinance amending the Ordinance on annual, semi-annual and other reports of voluntary pension funds (**Official Gazette, No 146/22**)
5. Ordinance amending the ordinance on the capital and technical provisions of pension companies managing voluntary pension funds (**Official Gazette, No 146/22**)
6. Ordinance amending the Ordinance on compensating members of voluntary pension funds and/or voluntary pension funds (**Official Gazette, No 146/22**)

Ordinances adopted under the Act on Pension Insurance Companies

1. Ordinance on reporting to the Croatian Financial Services Supervisory Agency on complaints of pension beneficiaries to pension insurance companies (**Official Gazette, No 26/22**)
2. Ordinance amending the Ordinance on the content and manner of keeping the register of pension insurance companies (**Official Gazette, No 34/22**)
3. Ordinance amending the Ordinance on the educational programme and examination taken by candidates for certified pension fund managers and managers of pension insurance companies (**Official Gazette, No 79/22**)
4. Ordinance amending the Ordinance on minimum standards, manner of calculating and criteria for calculating technical provisions of pension insurance companies (**Official Gazette, No 146/22**)
5. Ordinance amending the Ordinance on audit in pension insurance companies (**Official Gazette, No 155/22**)
6. Ordinance amending the Ordinance on capital adequacy of pension insurance companies (**Official Gazette, No 155/22**)
7. Ordinance amending the Ordinance on marketing activities and websites of pension insurance companies (**Official Gazette, No 155/22**)
8. Ordinance amending the Ordinance on pension insurance companies' pension scheme offer (**Official Gazette, No 155/22**)
9. Ordinance amending the Ordinance on minimum standards, manner of calculating and criteria for calculating technical provisions in accordance with accounting regulations (**Official Gazette, No 155/22**)
10. Ordinance on the accounting for supplementary pension purchase companies (**Official Gazette, No 155/22**)

11. Ordinance amending the Ordinance on the structure and contents of financial statements and additional reports of pension insurance companies (**Official Gazette, No 155/22**)
12. Ordinance amending the Ordinance on emergency reserves of the pension insurance company (**Official Gazette, No 155/22**)
13. Ordinance amending the Ordinance on permitted investments and investment limits relating to assets covering technical provisions of the pension insurance company (**Official Gazette, No 155/22**)
14. Ordinance amending the Ordinance on the content and manner of keeping the register of pension insurance companies (**Official Gazette, No 155/22**)
15. Ordinance amending the Ordinance on regular reports of pension insurance companies (**Official Gazette, No 155/22**)

Ordinances adopted under the Insurance Act

1. Ordinance on the requirements for the acquisition and examination of professional knowledge required in order to perform activities of a certified actuary (**Official Gazette, No 48/22**)
2. Ordinance amending the Ordinance on the classification of risk types by groups and classes of insurance or reinsurance (**Official Gazette, No 142/22**)
3. Ordinance on the structure and content of financial and statistical reports of persons who have a licence to pursue insurance distribution business and/or reinsurance distribution business (**Official Gazette, No 142/22**)
4. Ordinance on documentation for the outsourcing of activities or functions of insurance undertakings or reinsurance undertakings (**Official Gazette, No 155/22**)

Ordinances adopted under the Leasing Act

1. Ordinance amending the Ordinance on the structure and content of financial statements and additional reports of leasing companies and on the manner of and time limits for their submission (**Official Gazette, No 142/22**)
2. Ordinance amending the 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 142/22**)

3. Ordinance amending the Ordinance on outsourcing business processes of leasing companies (**Official Gazette, No 142/22**)
4. Ordinance amending the Ordinance on the Register of Leased Assets (**Official Gazette, No 142/22**)
5. Ordinance amending the Ordinance on the chart of accounts for leasing companies (**Official Gazette, No 142/22**)
6. Ordinance amending the Ordinance on the capital of leasing companies (**Official Gazette, No 142/22**)
7. Ordinance amending the Ordinance on criteria for and manner of leasing companies' risk management (**Official Gazette, No 150/22**)

Ordinances adopted under the Factoring Act

1. Ordinance amending the Ordinance on criteria for and manner of factoring companies' risk management (**Official Gazette, No 142/22**)
2. Ordinance amending the Ordinance on financial statements and additional reports and the chart of accounts of factoring companies (**Official Gazette, No 142/22**)
3. Ordinance amending the Ordinance on factoring activities carried out in the territory of the Republic of Croatia by factoring companies from Member States or third countries (**Official Gazette, No 142/22**)
4. Ordinance amending the Ordinance on the application of the provisions of the Factoring Act and other regulations to factoring companies undergoing winding-up proceedings (**Official Gazette, No 142/22**)
5. Ordinance amending the Ordinance on the capital of factoring companies (**Official Gazette, No 142/22**)
6. Ordinance amending the Ordinance on the content of factoring companies' regular reports and reports submitted at the request of the Croatian Financial Services Supervisory Agency and on the manner of and time limits for their submission (**Official Gazette, No 142/22**)
7. Ordinance amending the Ordinance on the method of carrying out internal audit of factoring companies (**Official Gazette, No 142/22**)

Ordinances adopted under the Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia

1. Ordinance on the notification of clients of financial services providers on the introduction of the euro as the official currency in the Republic of Croatia (**Official Gazette, No 90/22**)

Ordinances adopted under the Act on the Croatian Financial Services Supervisory Agency

1. Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2023 (**Official Gazette, No 155/22**)

Appendix 2 Hanfa's financial operations

Hanfa's balance sheet as at 31 December 2022

In HRK thousand

Account from the		ADP	As at 1 January	As at 31 December	Index (5/4)
Chart of Accounts	ITEM				
1	2	3	4	5	6
ASSETS					
	ASSETS (ADP 002+074)	1	35,191,806	31,244,147	88.8%
0	Non-financial assets (ADP 003+018+047+051+055+064)	2	7,350,762	6,576,599	89.5%
01	Non-produced fixed assets (ADP 004+008-017)	3	339,861	122,510	36.0%
011	Tangible assets - natural resources (ADP 005 to 007)	4	0	0	-
0111	Land	5	0	0	-
0112	Mineral resources	6	0	0	-
0113	Other tangible assets (natural resources)	7	0	0	-
012	Intangible assets (ADP 009 to 016)	8	4,479,995	4,581,872	102.3%
0121	Patents	9	0	0	-
0122	Concessions	10	0	0	-
0123	Licenses	11	3,332,176	3,357,809	100.8%
0124	Other rights	12	1,147,819	1,224,063	106.6%
0125	Goodwill	13	0	0	-
0126	Formation expenses	14	0	0	-
0127	Research and development	15	0	0	-
0128	Other intangible assets	16	0	0	-
019	Value adjustment for produced fixed assets	17	4,140,134	4,459,362	107.7%
02	Produced fixed assets (ADP 019+023+031+034+039+042-046)	18	6,899,360	6,397,983	92.7%
021	Buildings (ADP 020 to 022)	19	3,564,810	3,564,810	100.0%
0211	Houses	20	0	0	-
0212	Commercial buildings	21	3,450,670	3,450,670	100.0%
0213	Other buildings	22	114,140	114,140	100.0%
022	Plant and equipment (ADP 024 to 030)	23	11,722,140	12,347,581	105.3%
0221	Office equipment and furniture	24	10,642,720	11,256,057	105.8%
0222	Telecommunications equipment	25	262,655	270,959	103.2%
0223	Maintenance and security equipment	26	615,639	619,439	100.6%
0224	Medical and laboratory equipment	27	0	0	-
0225	Instruments and machines	28	65,561	65,561	100.0%
0226	Sports and musical equipment	29	0	0	-
0227	Machines and equipment for other purposes	30	135,565	135,565	100.0%
023	Means of transportation (ADP 032+033)	31	273,709	273,709	100.0%
0231	Means of road transportation	32	273,709	273,709	100.0%
0232	Other means of transportation	33	0	0	-
024	Books, artwork and other exhibits (ADP 035 to 038)	34	152,751	152,751	100.0%
0241	Library books	35	0	0	-
0242	Works of art (in galleries, museums etc.)	36	152,751	152,751	100.0%
0243	Museum exhibits and objects of natural rarities	37	0	0	-
0244	Other exhibits	38	0	0	-
025	Growing crops and live stock (ADP 040+041)	39	0	0	-
0251	Growing crops	40	0	0	-
0252	Live stock	41	0	0	-
026	Intangible produced assets (ADP 043 to 045)	42	5,923,247	6,658,028	112.4%
0261	Software investments	43	5,923,247	6,658,028	112.4%
0262	Works of art, literary and scientific works	44	0	0	-
0263	Other intangible produced assets	45	0	0	-
029	Value adjustment for produced fixed assets	46	14,737,297	16,598,896	112.6%
03	Precious metals and other valuables (ADP 048)	47	0	0	-
031	Precious metals and other valuables (ADP 049+050)	48	0	0	-
0311	Precious metals and precious stones	49	0	0	-
0312	Archived books, works of art and similar valuables	50	0	0	-
04	Small inventory (ADP 052+053-054)	51	0	0	-
041	Small inventory on stock	52	0	0	-
042	Small inventory in use	53	980,761	1,061,198	108.2%
049	Value adjustment for small inventory	54	980,761	1,061,198	108.2%
05	Non-financial assets - work in progress (ADP 056 to 059+062+063)	55	76,729	0	0
051	Buildings - work in progress	56	0	0	-
052	Plant and equipment - work in progress	57	76,729	0	0
053	Means of transportation - work in progress	58	0	0	-
054	Growing crops and livestock - work in progress (ADP 060+061)	59	0	0	-
0541	Growing crops - work in progress	60	0	0	-

0542	Live stock - work in progress	61	0	0	-
055	Other intangible produced assets - work in progress	62	0	0	-
056	Other intangible assets - work in progress	63	0	0	-
06	Produced current assets (ADP 065+070+073)	64	34,812	56,106	161.2%
061	Inventories for the pursuit of activities (ADP 066 to 069)	65	34,812	56,106	161.2%
0611	Inventories for redistribution	66	0	0	-
0612	Materials inventory for regular needs	67	34,812	56,106	161.2%
0613	Spare parts inventory	68	0	0	-
0614	Materials inventory for special needs	69	0	0	-
062	Production and products (ADP 071+072)	70	0	0	-
0621	Production in progress	71	0	0	-
0622	Finished goods	72	0	0	-
063	Goods for resale	73	0	0	-
1	Financial assets (ADP 075 +083+100+105+125+133+142)	74	27,841,044	24,667,548	88.6%
11	Cash at bank and in hand (ADP 076+080+081+082)	75	26,062,253	22,271,184	85.5%
111	Cash at bank (ADP 077 to 079)	76	26,058,483	22,267,014	85.5%
1111	Cash in the account with domestic commercial banks	77	26,058,483	22,267,014	85.5%
1112	Cash in the account with foreign commercial banks	78	0	0	-
1113	Interim account	79	0	0	-
112	Cash reserved	80	0	0	-
113	Cash in hand	81	3,770	4,170	110.6%
114	Securities in hand	82	0	0	-
12	Deposits, guarantee deposits, employee receivables and receivables for prepaid taxes, and other (ADP 084+087+088+089+095)	83	710,194	677,767	95.4%
121	Deposits with banks and other financial institutions (ADP 085+086)	84	0	0	-
1211	Deposits with domestic banks and other financial institutions	85	0	0	-
1212	Deposits with foreign banks and other financial institutions	86	0	0	-
122	Guarantee deposits	87	603,502	603,502	100.0%
123	Employee receivables	88	7,422	10,200	137.4%
124	Receivables for prepaid taxes and contributions (ADP 090 to 094)	89	0	6,463	-
1241	Receivables for prepaid taxes	90	0	2,892	-
1242	Value-added tax receivables	91	0	0	-
1243	Receivables for prepaid duties and customs duties	92	0	0	-
1244	Receivables for prepaid other taxes	93	0	0	-
1245	Receivables for prepaid contributions	94	0	3,571	-
129	Other receivables (ADP 096 to 099)	95	99,270	57,602	58.0%
1291	Receivables for refundable benefits	96	29,586	21,245	71.8%
1292	Receivables for damages	97	0	0	-
1293	Receivables for advance payments	98	29,992	36,357	121.2%
1294	Other receivables	99	39,692	0	0
13	Loans (ADP 101+102+103-104)	100	0	0	-
131	Loans to citizens and households	101	0	0	-
132	Loans to legal entities engaged in entrepreneurial activity	102	0	0	-
133	Loans to other entities	103	0	0	-
139	Impairment of loan receivables	104	0	0	-
14	Securities (ADP 106 +109+112+115+118+121-124)	105	0	0	-
141	Cheques (ADP 107+108)	106	0	0	-
1411	Cheques – domestic	107	0	0	-
1412	Cheques – foreign	108	0	0	-
142	Commercial papers and treasury bills (ADP 110+111)	109	0	0	-
1421	Commercial papers and treasury bills – domestic	110	0	0	-
1422	Commercial papers and treasury bills – foreign	111	0	0	-
143	Bills of exchange (ADP 113+114)	112	0	0	-
1431	Bills of exchange – domestic	113	0	0	-
1432	Bills of exchange – foreign	114	0	0	-
144	Bonds (ADP 116+117)	115	0	0	-
1441	Bonds – domestic	116	0	0	-
1442	Bonds – foreign	117	0	0	-
145	Options and other financial derivatives (ADP 119+120)	118	0	0	-
1451	Options and other financial derivatives – domestic	119	0	0	-
1452	Options and other financial derivatives – foreign	120	0	0	-
146	Other securities (ADP 122+123)	121	0	0	-
1461	Other domestic securities	122	0	0	-
1462	Other foreign securities	123	0	0	-
149	Value adjustment for securities	124	0	0	-
15	Shares and participations in equity (ADP 126+129-132)	125	0	0	-
151	Shares and participations in equity of banks and other financial institutions (ADP 127+128)	126	0	0	-
1511	Shares and participations in equity of domestic banks and other financial institutions	127	0	0	-
1512	Shares and participations in equity of foreign banks and other financial institutions	128	0	0	-
152	Shares and participations in equity of companies (ADP 130+131)	129	0	0	-
1521	Shares and participations in equity of domestic companies	130	0	0	-

1522	Shares and participations in equity of foreign companies	131	0	0	-
159	Value adjustment for shares and participations in equity	132	0	0	-
16	Income receivables (ADP 134 to 137+140-141)	133	0	0	-
161	Customer receivables	134	0	0	-
162	Receivables for membership fees and membership contributions	135	0	0	-
163	Receivables for income under special regulations	136	0	0	-
164	Receivables for income from assets (ADP 138+139)	137	0	0	-
1641	Receivables for income from financial assets	138	0	0	-
1642	Receivables for income from non-financial assets	139	0	0	-
165	Other receivables	140	0	0	-
169	Value adjustment for receivables	141	0	0	-
19	Prepayments and accrued income (ADP 143+144)	142	1,068,597	1,718,597	160.8%
191	Prepayments	143	1,068,597	1,718,597	160.8%
192	Accrued income	144	0	0	-
LIABILITIES AND OWN SOURCES					
LIABILITIES AND OWN SOURCES (ADP 146+195)		145	35,191,806	31,244,147	88.8%
2	Liabilities (ADP 147+174+182+190)	146	8,814,881	10,462,726	118.7%
24	Liabilities for expenditures (ADP 148+156+164+168+169+170)	147	8,290,818	10,195,431	123.0%
241	Liabilities for employees (ADP 149 to 155)	148	7,354,061	7,921,291	107.7%
2411	Liabilities for salaries – net	149	1,979,301	2,202,547	111.3%
2412	Liabilities for salary compensations – net	150	197,414	227,089	115.0%
2413	Liabilities for salaries in kind – net	151	0	0	-
2414	Liabilities for tax and surtax on salaries	152	369,581	594,167	160.8%
2415	Liabilities for contributions from salaries	153	639,659	875,584	136.9%
2416	Liabilities for contributions on salaries	154	480,125	677,086	141.0%
2417	Other liabilities for employees	155	3,687,981	3,344,818	90.7%
242	Liabilities for material expenses (ADP 157 to 163)	156	738,731	2,063,733	279.4%
2421	Costs for employees	157	78,743	78,411	99.6%
2422	Remuneration for members of representative and executive bodies, committees etc.	158	40,006	0	0
2423	Remuneration for volunteers	159	0	0	-
2424	Costs for external staff	160	0	0	-
2425	Liabilities towards domestic suppliers	161	619,812	1,559,400	251.6%
2426	Liabilities towards foreign suppliers	162	170	393,789	100
2429	Other liabilities for financing operating expenses	163	0	32,133	-
244	Liabilities for financial expenses (ADP 165 to 167)	164	0	0	-
2441	Liabilities for interest on issued securities	165	0	0	-
2442	Liabilities for interest on credits and loans received	166	0	0	-
2443	Liabilities for other financial expenses	167	0	0	-
245	Liabilities for financial aid funds collected	168	0	0	-
246	Liabilities for penalties and damages	169	0	0	-
249	Other liabilities (ADP 171 to 173)	170	198,026	210,407	106.3%
2491	Liabilities for taxes	171	0	0	-
2492	Liabilities for value-added tax	172	62,147	18,161	29.2%
2493	Liabilities for prepayments, deposits, caution money received and other liabilities	173	135,879	192,246	141.5%
25	Liabilities for securities (ADP 175+178-181)	174	0	0	-
251	Liabilities for cheques (ADP 176+177)	175	0	0	-
2511	Liabilities for cheques – domestic	176	0	0	-
2512	Liabilities for cheques – foreign	177	0	0	-
252	Liabilities for bills of exchange (ADP 179+180)	178	0	0	-
2521	Liabilities for bills of exchange – domestic	179	0	0	-
2522	Liabilities for bills of exchange – foreign	180	0	0	-
259	Value adjustment for securities liabilities	181	0	0	-
26	Liabilities for credits and loans (ADP 183+186-189)	182	0	0	-
261	Liabilities for bank credits and credits from other creditors (ADP 184+185)	183	0	0	-
2611	Liabilities for domestic credits	184	0	0	-
2612	Liabilities for foreign credits	185	0	0	-
262	Liabilities for commodity and other loans (ADP 187+188)	186	0	0	-
2621	Liabilities for domestic credits	187	0	0	-
2622	Liabilities for foreign credits	188	0	0	-
269	Value adjustment for liabilities for credits and loans	189	0	0	-
29	Accrued expenses and deferred income (ADP 191+192)	190	524,063	267,295	51.0%
291	Accrued expenses	191	286,211	242,053	84.6%
292	Deferred income (ADP 193+194)	192	237,852	25,242	10.6%
2921	Accrued income	193	212,160	25,242	11.9%
2922	Deferred income	194	25,692	0	0.0%
5	Own sources (ADP 196+199-200)	195	26,376,925	20,781,421	78.8%
51	Own sources (ADP 197+198)	196	2,219,838	2,170,998	97.8%
511	Own sources	197	2,219,838	2,170,998	97.8%
512	Revaluation reserves	198	0	0	-
5221	Excess of income	199	24,157,087	18,610,423	77.0%
5222	Income deficit	200	0	0	-
OFF-BALANCE SHEET ITEMS					
61	Off-balance sheet items – assets	201	139,479	523,566	375.4%
62	Off-balance sheet items – liabilities	202	139,479	523,566	375.4%

Statement of Hanfa's income and expenditure for the period from 1 January 2022 to 31 December 2022

In HRK thousand

Account from the Chart of Accounts		Realised in the previous year		Realised in the reporting period	Index (5/4)	
1	ITEM	ADP	year	period	5	6
INCOME						
3	INCOME (ADP 002 +005+008+011+024+040+049)	1	83,507,486	87,495,307	104.8%	
31	Income from the sale of goods and provision of services (ADP 003+004)	2	0	264,541	-	
3111	Income from the sale of goods	3	0	0	-	
3112	Income from the provision of services	4	0	264,541	-	
32	Income from membership fees and membership contributions (ADP 006+007)	5	0	0	-	
3211	Membership fees	6	0	0	-	
3212	Membership contributions	7	0	0	-	
33	Income under special regulations (ADP 009+010)	8	82,770,879	86,248,525	104.2%	
3311	Income under special regulations from the state budget	9	0	0	-	
3312	Income under special regulations from other sources	10	82,770,879	86,248,525	104.2%	
34	Income from assets (ADP 012+021)	11	8,015	23,432	292.4%	
341	Income from financial assets (ADP 013 to 020)	12	8,015	23,432	292.4%	
3411	Interest income from loans granted	13	0	0	-	
3412	Income from interest on securities	14	0	0	-	
3413	Interest on time deposits and demand deposits	15	215	184	85.6%	
3414	Income from default interest	16	0	0	-	
3415	Income from positive exchange rate differences	17	7,800	23,248	298.1%	
3416	Dividend income	18	0	0	-	
3417	Income from profits of companies, banks and other financial institutions under special regulations	19	0	0	-	
3418	Other income from financial assets	20	0	0	-	
342	Income from non-financial assets (ADP 022+023)	21	0	0	-	
3421	Income from leases and rents	22	0	0	-	
3422	Other income from non-financial assets	23	0	0	-	
35	Income from donations (ADP 025+030+033+036+037)	24	833	278	33.4%	
351	Income from donations from the budget (ADP 026 to 029)	25	0	0	-	
3511	Income from donations from the state budget	26	0	0	-	
3512	Income from donations from bodies of local and regional self-government	27	0	0	-	
3513	Income from donations from the state budget for EU projects	28	0	0	-	
3514	Income from donations from bodies of local and regional self-government for EU projects	29	0	0	-	
352	Income from foreign governments and international organisations (ADP 031+032)	30	0	0	-	
3521	Income from foreign governments and international organisations	31	0	0	-	
3522	Income from EU institutions and bodies	32	0	0	-	
353	Income from companies and other legal persons (ADP 034+035)	33	833	278	33.4%	
3531	Income from companies and other legal persons	34	833	278	33.4%	
3532	Income from companies and other legal persons for EU projects	35	0	0	-	
354	Income from citizens and households	36	0	0	-	
355	Other income from donations (ADP 038+039)	37	0	0	-	
3551	Other income from donations	38	0	0	-	
3552	Other income from donations for EU projects	39	0	0	-	
36	Other income (ADP 041+044+045)	40	727,759	958,531	131.7%	
361	Income from damages and refunds (ADP 042+043)	41	636,734	869,844	136.6%	
3611	Income from damages	42	0	0	-	
3612	Income from refunds	43	636,734	869,844	136.6%	
362	Income from the sale of fixed assets	44	22,700	8,600	37.9%	
363	Other income (ADP 046 to 048)	45	6,8325	80,087	117.2%	
3631	Liability write-off	46	0	6,600	-	
3632	Receivables written off	47	0	0	-	
3633	Other income	48	68,325	73,487	107.6%	
37	Income from related non-profit organisations (ADP 050 to 053)	49	0	0	-	
3711	Current income from related non-profit organisations	50	0	0	-	
3712	Capital income from related non-profit organisations	51	0	0	-	
3713	Current income from related non-profit organisations for EU projects	52	0	0	-	
3714	Capital income from related non-profit organisations for EU projects	53	0	0	-	
EXPENDITURE						
4	EXPENSES (ADP 055 +067+108+109+120+128+139)	54	76,747,081	86,281,566	112.4%	
41	Employee expenses (ADP 056 to +062)	55	48,028,420	52,569,509	109.5%	
411	Salaries (ADP 057 to 060)	56	37,334,691	41,089,138	110.1%	
4111	Salaries for regular work	57	36,852,990	40,485,942	109.9%	
4112	Salaries in kind	58	361,580	449,810	124.4%	
4113	Salaries for overtime work	59	120,121	153,386	127.7%	
4114	Salaries for extraordinary working conditions	60	0	0	-	
412	Other employee expenses	61	4,642,383	4,855,543	104.6%	
413	Contributions on salaries (ADP 063 to 066)	62	6,051,346	6,624,828	109.5%	
4131	Contributions for health insurance	63	6,051,346	6,624,828	109.5%	
4132	Employment contributions	64	0	0	-	

4133	Pension insurance contributions paid by the employer	65	0	0	-
4134	Special contributions for stimulating employment of people with disabilities	66	0	0	-
42	Material expenses (ADP 068+072+077+082+087+097+102)	67	24,851,893	29,956,312	120.5%
421	Employees' costs (ADP 069 to 071)	68	2,136,175	3,520,279	164.8%
4211	Business trips	69	417,430	1,909,314	457.4%
4212	Travel, field and separate maintenance allowance	70	942,219	1,049,077	111.3%
4213	Employees' professional training	71	776,526	561,888	72.4%
422	Remuneration for members of representative and executive bodies, committees etc. (ADP 073 to 076)	72	48,357	62,536	129.3%
4221	Remuneration for regular activities	73	48,357	62,536	129.3%
4222	Business travel costs	74	0	0	-
4223	Other costs	75	0	0	-
4224	Other remuneration	76	0	0	-
423	Remuneration to volunteers (ADP 078 to 081)	77	0	0	-
4231	Remuneration for regular activities	78	0	0	-
4232	Business travel costs	79	0	0	-
4233	Other costs	80	0	0	-
4234	Other remuneration	81	0	0	-
424	Remuneration to external staff (ADP 083 to 086)	82	95,856	160,771	167.7%
4241	Remuneration for regular activities	83	90,914	154,252	169.7%
4242	Business travel costs	84	4,942	6,519	131.9%
4243	Other costs	85	0	0	-
4244	Other remuneration	86	0	0	-
425	Expenses for services (ADP 088 to 096)	87	12,510,333	14,788,853	118.2%
4251	Telephone, postal and transport services	88	487,524	707,440	145.1%
4252	Daily and investment maintenance services	89	2,144,090	2,659,775	124.1%
4253	Promotional and information services	90	653,900	575,506	88.0%
4254	Public utility services	91	1,174,894	1,160,259	98.8%
4255	Leases and rents	92	4,303,717	5,023,422	116.7%
4256	Health care and veterinary services	93	169,450	129,791	76.6%
4257	Intellectual and personal services	94	1,149,813	1,372,879	119.4%
4258	IT services	95	152,163	372,955	245.1%
4259	Other services	96	2,274,782	2,786,826	122.5%
426	Expenses for material and energy (ADP 098 to 101)	97	1,857,055	1,789,832	96.4%
4261	Stationery and other material expenses	98	494,933	508,922	102.8%
4262	Raw materials and consumables	99	0	0	-
4263	Energy	100	1,001,077	1,180,222	117.9%
4264	Small inventory and car tires	101	361,045	100,688	27.9%
429	Other material expenses (ADP 103 to 107)	102	8,204,117	9,634,041	117.4%
4291	Insurance premiums	103	111,701	166,051	148.7%
4292	Representation	104	416,352	1,131,901	271.9%
4293	Membership fees	105	7,667,939	8,327,214	108.6%
4294	Participation fees	106	8,125	8,875	109.2%
4295	Other material expenditure	107	0	0	-
43	Depreciation expenditure	108	2,632,339	2,544,483	96.7%
44	Financial expenses (ADP 110+111+115)	109	94,645	133,552	141.1%
441	Interest on securities issued	110	0	0	-
442	Interest on credits and loans received (ADP 112 to 114)	111	0	0	-
4421	Interest on credits received from banks and other creditors	112	0	0	-
4422	Interest on received commodity and other loans	113	0	0	-
4423	Interest on approved, unconsumed credits and loans	114	0	0	-
443	Other financial expenses (ADP 116 to 119)	115	94,645	133,552	141.1%
4431	Banking and payment system services	116	45,567	61,685	135.4%
4432	Negative exchange rate differences and currency clause	117	48,990	71,086	145.1%
4433	Default interest	118	88	108	122.7%
4434	Other material expenditure	119	0	673	-
45	Donations (ADP 121+125)	120	106,938	82,925	77.5%
451	Current donations (ADP 122 to 124)	121	106,938	82,925	77.5%
4511	Current donations	122	7,188	19,925	277.2%
4512	Scholarships	123	99,750	63,000	63.2%
4513	Current donations from EU funds	124	0	0	-
452	Capital donations (ADP 126+127)	125	0	0	-
4521	Capital donations	126	0	0	-
4522	Capital donations from EU funds	127	0	0	-
46	Other expenses (ADP 129+134)	128	1,032,846	994,785	96.3%
461	Fines, penalties and indemnities (ADP 130 to 133)	129	0	0	-
4611	Compensation for financial losses given to legal and natural persons	130	0	0	-
4612	Penalties, storage charges and other	131	0	0	-
4613	Indemnities for employees	132	0	0	-
4614	Agreed fines and other compensations for damage	133	0	0	-
462	Other financial expenses (ADP 135 to 138)	134	1,032,846	994,785	96%
4621	Net book value and other expenses for retired and disposed fixed assets	135	187	4,680	2503%
4622	Receivables written off	136	0	1,050	-
4623	Expenses for other tax levies	137	6,750	6,650	98.5%
4624	Other expenses	138	1,025,909	982,405	95.8%
47	Expenses for the funding of related non-profit organisations (ADP 140 to 143)	139	0	0	-

4711	Current expenses for the funding of related non-profit organisations	140	0	0	-
4712	Capital expenses for the funding of related non-profit organisations	141	0	0	-
4713	Current expenses for the funding of related non-profit organisations for EU projects	142	0	0	-
4714	Capital expenses for the funding of related non-profit organisations for EU projects	143	0	0	-
	Production and finished goods inventory at the beginning of the period	144	0	0	-
	Production and finished goods inventory at the end of the period	145	0	0	-
	Increase in production and finished goods inventory (ADP 145-144)	146	0	0	-
	Decrease in production and finished goods inventory (ADP 144-145)	147	0	0	-
	TOTAL EXPENSES (ADP 054-146 or 054+147)	148	76,747,081	86,281,566	112.4%
	EXCESS OF INCOME (ADP 001-148)	149	6,760,405	1,213,741	18.0%
	DEFICIENCY OF INCOME (ADP 148-001)	150	0	0	-
5221	Excess of income – transferred	151	17,396,682	17,396,682	100.0%
5222	Income deficit – transferred	152	0	0	-
	Income tax liabilities	153	0	0	-
	Surplus income available in the following period (ADP 149+151-150-152-153)	154	24,157,087	18,610,423	77.0%
	Deficit of income for the coverage in the following period (ADP 150+152-149-151+153)	155	0	0	-
ADDITIONAL DATA					
11	Cash at the beginning of the year	156	20,404,605	26,062,253	127.7%
11 - payables	Total inflows of cash at bank and in hand payables	157	99,252,040	103,428,232	104.2%
11 - receivables	Total outflows of cash at bank and in hand receivables	158	93,594,392	107,219,301	114.6%
11	Cash at the end of the period (ADP 156+157-158)	159	26,062,253	22,271,184	85.5%
	Average number of employees at the end of the reporting period (whole number)	160	196	203	103.6%
	Average number of employees' working hours (whole number)	161	185	199	107.6%
	Number of volunteers	162	0	0	-
	Number of volunteered hours	163	0	0	-
VALUE OF REALISED INVESTMENTS IN FIXED ASSETS					
051	Buildings - work in progress	164	0	0	-
052	Plant and equipment - work in progress	165	317,323	965,888	304.4%
053	Means of transportation - work in progress	166	0	0	-
054	Growing crops and livestock - work in progress	167	0	0	-
055	Other intangible produced assets - work in progress	168	1,144,853	734,781	64.2%
056	Other intangible assets - work in progress	169	361,045	100,688	27.9%
ITEM DESCRIPTION					
	Inventories	170	34,812	56,106	161.2%
	Control sum (ADP 160 to 170)	171	1,858,414	1,857,865	100.0%

