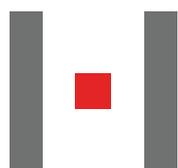


ANNUAL REPORT

2018

**CROATIAN FINANCIAL SERVICES
SUPERVISORY AGENCY**



HANFA

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Table of Contents

Introduction	7
1 Hanfa in figures	9
Supervised entities	10
Financial highlights	10
2018 important dates	11
Key activities	12
Hanfa's vision, mission and goals	13
2 Trends in the financial services sector	14
2.1 Capital market	15
2.2 Investment services providers	16
2.3 Investment funds	19
2.4 Pension funds and pension insurance company	22
2.5 Insurance companies	24
2.6 Leasing companies	26
2.7 Factoring companies	27
3 Supervisory activities	29
3.1 Capital market	30
3.1.1 Supervision of capital market infrastructure	30
3.1.2 Supervision of issuers	31
3.2 Investment firms	32
3.2.1 On-site supervision	32
3.2.2 Off-site supervision	32
3.3 Pension funds, investment funds and management companies	33
3.3.1 On-site supervision	33
3.3.2 Off-site supervision	33
3.4 Insurance companies	34
3.4.1 On-site supervision	34
3.4.2 Off-site supervision	35
3.5 Leasing companies	37
3.5.1 On-site supervision	37
3.5.2 Off-site supervision	37
3.6 Factoring companies	37
3.6.1 On-site supervision	37
3.6.2 Off-site supervision	38
4 Normative activities	39
4.1 Capital market	41
4.1.1 Legislative activities – alignment with MiFID II set of regulations	41

4.1.2	By-laws	42
4.1.3	Other regulatory activities	43
4.2	Investment funds	43
4.2.1	Legislative activities – Alternative Investment Funds Act entering into force	43
4.2.2	Act implementing the Money Market Funds Regulation	44
4.2.3	By-laws	44
4.3	Pension system and pension funds	44
4.3.1	Legislative activities – further improvement of regulation on pension funds	44
4.3.2	By-laws	45
4.4	Pension insurance companies	45
4.4.1	Legislative activities – two amendments to the Act on Pension Insurance Companies	45
4.4.2	By-laws	46
4.5	Insurance market	47
4.5.1	Legislative activities – alignment with the Insurance Distribution Directive	47
4.5.2	By-laws	48
4.5.3	Other regulatory activities	48
4.6	Leasing and factoring market	49
4.6.1	By-laws	49
4.7	Other	49
4.7.1	Legislative activities	49
5	Licensing and training	50
5.1	Licensing	51
5.1.1	Capital market	51
5.1.2	Investment fund management companies and investment funds	53
5.1.3	Pension companies and pension funds	54
5.1.4	Pension insurance companies	54
5.1.5	Insurance market	54
5.1.6	Leasing companies	55
5.1.7	Factoring companies	55
5.2	Examinations and training	56
5.2.1	Examinations for brokers, investment advisors and certified pension insurance company managers	56
5.2.2	Examinations for insurance and/or reinsurance agents and brokers	57
5.2.3	Training organised in cooperation with Zagreb Stock Exchange and Central Depository and Clearing Company	57
6	Consumer protection and improvement of financial literacy	58
6.1	Raising the level of financial literacy	59
6.2	Hanfa website as a source of useful information related to finance	60
6.3	Consumer protection	60
6.4	Access to information	62

7	International cooperation	63
7.1	Participation in the work of supervisory authorities and organisations	65
7.1.1	ESMA - European Securities and Markets Authority	65
7.1.2	EIOPA - European Insurance and Occupational Pensions Authority	65
7.1.3	EBA - European Banking Authority	66
7.1.4	ESRB - European Systemic Risk Board	66
7.1.5	IAIS - International Association of Insurance Supervisors	66
7.1.6	IOPS - International Organisation of Pension Supervisors	66
7.1.7	IOSCO - International Organisation of Securities Commissions	67
7.2	Prevention of money laundering and terrorist financing and international restrictive measures	67
7.3	Technical international cooperation and exchange of information	67
7.4	Enhancing Hanfa's capacity via Structural Reform Support Programme	68
8	Judicial proceedings	69
8.1	Misdemeanour proceedings	70
8.1.1	Capital market	71
8.1.2	Investment and pension funds	72
8.1.3	Insurance market	72
8.2	Administrative disputes	72
8.3	Criminal charges	72
8.4	Debt recovery actions	73
9	Hanfa's business operations	74
9.1	Internal structure and human resources	75
9.2	Internal audit of business operations	77
9.3	Information security in Hanfa	77
9.4	Hanfa's financial operations	78
9.4.1	Income	79
9.4.2	Expenditure	80
10	Statistical overview of industries	82
	Investment funds	83
	Open-ended investment funds with public offering - UCITS	83
	Alternative investment funds - AIF	84
	Investment firms	84
	Pension funds	85
	Mandatory pension funds	85
	Open-ended voluntary pension funds	86
	Closed-ended voluntary pension funds	86
	Insurance companies	87
	Leasing companies	88
	Factoring companies	88

11 Appendices	89
Appendix 1: List of ordinances adopted in	90
Appendix 2: Participation of Hanfa employees in committees of European and global supervisory authorities	92
Appendix 3: Hanfa's financial statements	94
12 List of tables	105
13 List of figures	107
14 Abbreviations	109

Introduction

In 2018, the Croatian Parliament entrusted my team and myself with the task of ensuring, in the following term of office, consistent, transparent and effective monitoring and smooth functioning of the financial services market, which accounts for almost 32% of the financial market in the Republic of Croatia.

During the previous year, the Croatian Financial Services Supervisory Agency (hereinafter: Hanfa), as the supervisory authority, faced and successfully responded again to a series of challenges posed by the highly dynamic financial market. Through its supervisory and normative activities, Hanfa took measures in all market segments in order to help safeguarding financial stability in Croatia and to provide for pre-conditions for sustainable economic development.

2018 was marked by the commencement of the application of the new Capital Market Act¹, which conferred new powers on Hanfa as regards supervision of issuers' financial statements, thus boosting confidence between investors and issuers and fostering corporate culture. The Capital Market Act also provides for more detailed provisions as regards market abuse and securities trading and settlement, and sets additional requirements for market infrastructure and service providers. The obligation laid down by the Capital Market Act to adopt around 80 subordinate regulations and ordinances, most of which we adopted in 2018, testifies to its importance and significance for the financial services market.

Significant legislative changes were also introduced to the insurance market by the entry into force of the Insurance Distribution Directive² (hereinafter: IDD), which brought about changes in distribution activities, product development and governance system and level of professionalism pertaining to sales networks. This led to new requirements being imposed not only on providers of these services, but also on Hanfa as the insurance market regulator, primarily timely and correct transposition of the IDD into the Croatian legislation, followed by its implementation.

As regards factoring companies, we launched a series of initiatives aimed at raising standards in their business operations, thus preventing risk materialising again in this market segment.

In the previous year, legislative changes also took place in the pension funds sector, as the largest one. The new legislative package regulating this area provided for new opportunities for pension funds to increase their investments in projects offering higher returns, reduced fees imposed on pension fund management companies and set more stringent requirements as regards risk management. It is not possible to build a stronger and stable pension fund system without ongoing efforts aimed at raising public awareness about the pension system and the need to invest in pension funds. Therefore, we attach great importance to activities related to promoting financial literacy and carry them out throughout the whole year, either independently or in cooperation with other authorities and institutions.

The dynamism of financial services markets, as their inherent characteristics, along with the diversity and increased complexity and interconnection of financial markets, services and products subject to Hanfa's regulation and supervision pose a significant challenge to the achievement of our goals. In this light, we have put great effort into and directed a series of activities towards following and participating in the work of the European macroprudential supervisory authority (European Systemic Risk Board (hereinafter: ESRB)) and microprudential supervisory authorities (European Securities and Markets Authority (hereinafter: ESMA) and European Insurance and Occupational Pensions Authority (hereinafter: EIOPA)). My appointment as member of EIOPA's Mediation Panel, in charge of facilitating an impartial

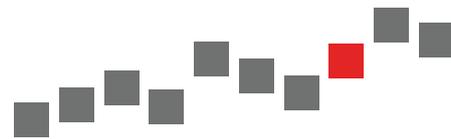
1 Official Gazette, No 65/18

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

settlement of disagreements among national competent authorities, implies an increase in activities related to the regulation and supervision of EU financial services markets. For the purpose of developing and implementing best principles and standards of financial services supervision, in 2018 our focus was also on the cooperation with non-EU regulators. Therefore, at the end of 2018, Hanfa became a full member of the International Association of Insurance Supervisors (hereinafter: IAIS) as one of the CEET (Central and Eastern Europe and Transcaucasia) region members, among which I have been elected as a representative to the IAIS Executive Committee. Our goal is to continue strengthening our cooperation with European and international organisations of financial services regulators in the upcoming period. The reorganisation of Hanfa's structure, that we carried out in 2018, thus strengthening our team in terms of its organisation and personnel, will help us achieve this goal and ensure integrated financial sector vulnerability and risk monitoring as well as proactive, efficient supervision of all financial services market segments, accompanied by increased consumer protection.

Therefore, this Annual Report does not only present an overview of our work during the past year, but also provides a look into the future, which is challenging as regards fostering cross-border provision of services within the context of the development of the single European financial market, at the moment undergoing an intense digital transformation. In this light and within the framework of its competence, Hanfa will continue modifying its activities and helping safeguard financial stability in the Republic of Croatia.

Ante Žigman
President of the Board



Hanfa in figures



1. Hanfa in figures

Supervised entities

41 pension funds	5 pension fund management companies	131 investment funds
20 investment fund management companies	18 insurance companies	7 investment firms
16 leasing companies	7 factoring companies	1 pension insurance company
REGOS	Zagreb Stock Exchange	CDCC
issuers, brokers, investment advisors, tied agents, insurance and reinsurance agents and brokers		

Financial highlights

 <p>103.3 bn HRK pension fund net assets</p>	 <p>22.6 bn HRK investment fund net assets</p>	 <p>9.9 bn HRK insurance companies' gross written premiums</p>	 <p>0.1 bn HRK investment firms' total assets</p>
 <p>19.5 bn HRK leasing companies' total assets</p>	 <p>1.4 bn HRK factoring companies' total assets</p>	 <p>233.5 bn HRK market capitalisation of the Zagreb Stock Exchange</p>	 <p>409.2 bn HRK market value of securities in the depository</p>

2018 important dates

1 February 2018	Croatian Parliament appoints Hanfa's new Board
1 March 2018	Trading in Agrokor's shares suspended
10 March 2018	Alternative Investment Funds Act enters into force
5 April 2018	Act on Amendments to the Voluntary Pension Funds Act and Act on Amendments to the Pension Insurance Companies enter into force
7 May 2018	Erste osiguranje Vienna Insurance Group d.d. merged with Wiener osiguranje Vienna Insurance Group d.d.
2 July 2018	CROATIA osiguranje kredita d.d. merged with CROATIA osiguranje d.d.
4 July 2018	Settlement plan of Agrokor's creditors receives the affirmative vote at the court hearing in the extraordinary administration procedure
6 July 2018	Croatian Parliament adopts the new Capital Market Act
1 October 2018	CE Enter market run by the Zagreb Stock Exchange closed
4 October 2018	Ordinance on criteria for and manner of managing factoring companies' risks enters into force
5 November 2018	Hanfa's relocation and reorganisation
28 November 2018	Zagreb Stock Exchange adopts the decision on the admission of the first issuer to trading on the Progress Market
3 December 2018	Croatian Parliament adopts the Act on Amendments to the Insurance Act
7 December 2018	Croatian Parliament adopts the Act on Amendments to the Act on Pension Insurance Companies, Act on Amendments to the Act on Mandatory Pension Funds and Act on Amendments to the Voluntary Pension Funds Act

Key activities



48

Examinations carried out resulted in 48 reports establishing irregularities and 15 decisions ordering the elimination of irregularities and illegalities established

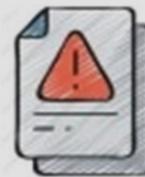


66

66 meetings of the Board, with 1,056 decisions adopted

7

7 public warnings published with respect to unauthorised provision of services, for the purpose of protecting investors' rights and interests



67

A total of 67 ordinances adopted, providing additional legal provisions



750

750 primary and high school students visited Hanfa's lectures at and outside Hanfa's premises



78

Following the examinations passed, licences granted to 9 brokers and 69 investment advisors



>500

More than 500 primary and high school students attended lectures related to activities aimed at improving financial literacy

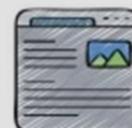


>600

Hanfa opened its LinkedIn profile, numbering more than 600 followers at the end of the year

276,880

Hanfa's website hanfa.hr recorded 276,880 visits in 2018

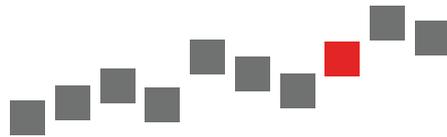


Hanfa's vision, mission and goals

Pursuant to the Act on the Croatian Financial Services Supervisory Agency (hereinafter: Act on Hanfa), Hanfa's vision is to support sustainable development of the financial system in the Republic of Croatia by carrying out proactive supervision, imposing modern regulatory framework and reaching high standards relating to protection of financial services users, at the same time contributing to the overall economic prosperity. Hanfa's mission, pertaining to long-term objectives, may be defined by means of three interrelated factors:

- **safeguarding financial stability** by strengthening the financial system and making it resistant to any macroeconomic and financial imbalances, which is a precondition for a steady economic growth
- **building confidence** among participants of the financial market by regulating and supervising, in a consistent and transparent manner, operations of supervised entities in accordance with best practices and international regulatory standards
- **protecting consumers** by raising awareness of benefits and risks related to various types of financial services provided by supervised entities.

While striving to achieve its goals, Hanfa follows the principles of transparency and timely reporting to financial market participants, financial services users and general public as regards all of its activities. This includes financial market trends analysis, identification and monitoring of risks pertaining to the financial services sector, transparent and consistent supervisions of financial market participants, including their licensing, harmonisation of regulations and cooperation with national and international authorities, and provision of information to and protection of financial services users. By accomplishing these tasks, Hanfa contributes actively to safeguarding the stability and efficiency of financial services markets it supervises, at the same time helping the single European financial market achieve prosperity.



Trends in the financial services sector



2 Trends in the financial services sector

The year 2018 was very challenging for the domestic, as well as foreign financial markets. The year was marked by uncertainty related to the normalisation of the monetary policy of the world's leading central banks, the escalation of trade conflict between the US and China, and events related to the United Kingdom's exit from the European Union (hereinafter: the EU). Concerns were also raised by a slowdown in global economic growth, with the EU particularly monitoring the German economy and Italy's recession. These international developments and circumstances reflected to the domestic financial market in the form of short-term trends or increased volatility. In the next period, the focus of the market will be on continuing the search for returns due to the prolonged period of low interest rates, while assessing the potential impact of possible changes in interest rates on bond portfolios, which could most affect the portfolios of pension funds, insurance companies and bond funds.

2.1 Capital market

The poorly developed domestic capital market is heavily influenced by developments in international markets, and very rarely does a domestic event have a significant and long-lasting effect on investment activity. Following an optimistic start in 2018, another suspension of trading in Agrokor shares in February, and the impact of trade tensions and geopolitical turmoil on global market developments negatively affected the sentiment of investors. Only the end of the year was again marked by a positive sentiment, under the influence of reflection of trends from foreign markets.

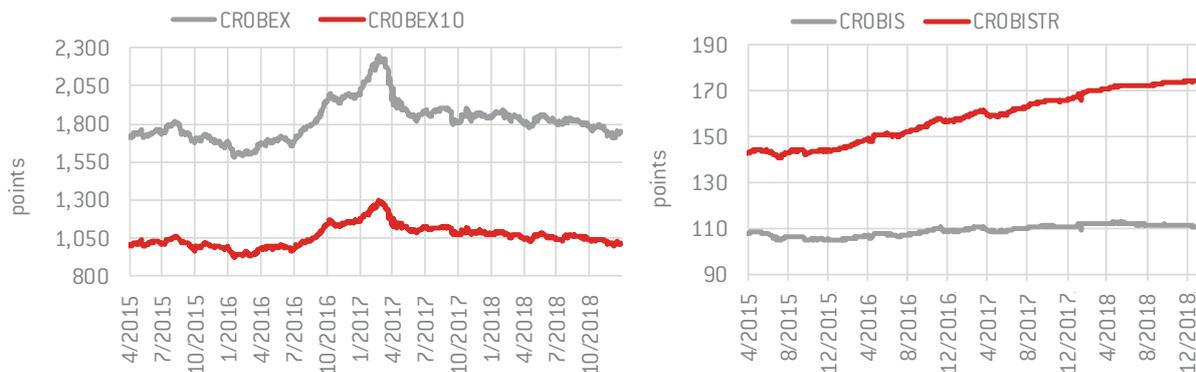
The Zagreb Stock Exchange (hereinafter: the ZSE) recorded a total turnover amounting to HRK 2.85bn, a 22% decrease compared to 2017. The decline in total turnover on the domestic capital market is primarily the result of lower share turnover (a decrease of 39.8% on the annual basis) and block trade (a decrease of 12.2% on the annual level), while at the same time bond turnover increased by 86.6% compared to the previous year. The low activity and liquidity of the market is indicated by the focus of investors on a small number of shares and the fact that the turnover of the ten most traded shares (out of a total of 132 listed shares) represented almost 70% of the total share turnover, or 38.4% of the total turnover on the ZSE. The CROBEX share index decreased by 5.1% by the end of 2018, compared to the end of the previous year, and the fall in average return on equity investments was only slightly milder if dividends paid are also taken into account (CROBEXtr decreased by 2.8%). At the same time, the CROBIS bond index remained at the end-2017 level (down 0.01% on the annual basis). The market capitalisation of shares decreased by 4% during 2018, while the market capitalisation of bonds increased by 3%, so the total market capitalisation on the ZSE amounted to HRK 233.5bn, i.e. 1% less than the year before.

Figure 2.1.1 Total turnover and market capitalisation



Source: ZSE

Figure 2.1.2 Changes in the values of ZSE indices



Source: ZSE

2.2 Investment services providers

Low demand for investment services and low turnover in the domestic market significantly affect the business of companies that offer investment services. In 2018, there were seven investment firms providing investment and related services, as well as seven investment funds management companies and 13 credit institutions. Total income from the provision of investment services generated by these companies during 2018 decreased by 15.2% compared to the previous year, with all categories of companies authorised to provide investment services recording a decrease in income³.

Credit institutions accounted for the largest share of total income from investment services (as much as 85.3% of total income), primarily through foreign exchange services related to the provision of investment services⁴. The remainder of the income from the provision of investment services in 2018 was generated almost uniformly by investment firms (7.6% of total income) and investment fund management companies (7.1% of total income). However, given that the issuing agency / financial instruments

³ Investment firms by 44.8%, credit institutions by 11.5% and investment fund management companies by 8.4%

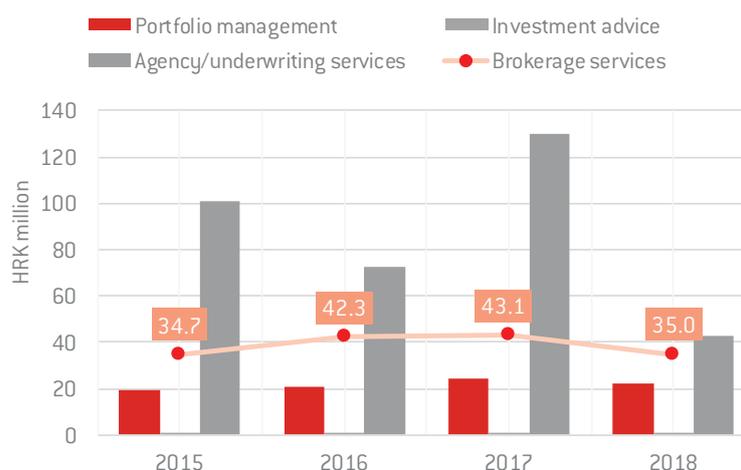
⁴ These services generate 42.4% of total income from investment services for credit institutions. In 2018, this type of income further increased by as much as 72.2% on an annual basis.

INVESTMENT SERVICES

Investment services and investment activities in the Republic of Croatia may be provided by investment firms authorised to do so by Hanfa, investment firms with their registered office in a Member State other than credit institutions or financial institutions and which, in accordance with legal provisions, establish a branch in the Republic of Croatia or are authorised to directly provide investment services and perform investment activities in the Republic of Croatia, and investment firm branches with their registered office in a third country which possess a work authorisation issued by Hanfa. Other than by investment firms, investment services and investment activities in the Republic of Croatia may be provided by credit institutions authorised to do so by the Croatian National Bank, credit or financial institutions from a Member State which, in accordance with legal provisions, establish a branch in the Republic of Croatia or are authorised to directly provide financial services in the Republic of Croatia, and credit institution branches with their registered office in a third country with work authorisation from the Croatian National Bank. Within the meaning of the Capital Market Act, investment services and activities are: reception and transmission of orders in relation to one or more financial instruments, execution of orders on behalf of clients, dealing on own account, portfolio management, investment advice, underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis, placing of financial instruments without a firm commitment basis, operation of the multilateral trading facility. The following are ancillary services within the meaning of the Capital Market Act: safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management, granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction, providing advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings, foreign exchange services where these are connected to the provision of investment services, investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments.

underwriting and execution of orders on behalf of clients are the main investment services of investment firms generating over 70% of their total income⁵, due to weak investment activity in the domestic and international markets, investment firms' revenue in 2018 almost halved compared to the previous year and amounted to HRK 100.3 million. The most significant item in the income structure of UCITS management companies was income from portfolio management, making up 99% of total income and decreasing by 8% in 2018.

Figure 2.2.1 Income of investment firms per activities

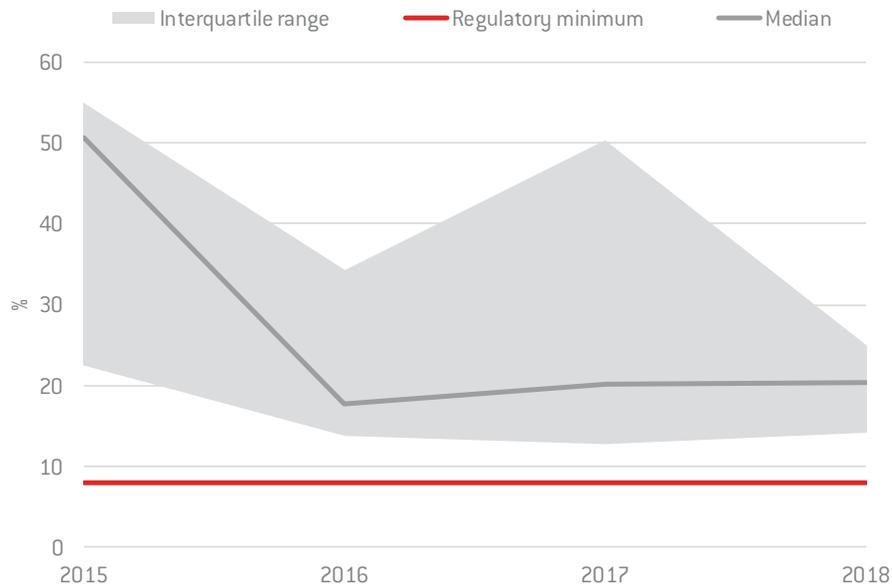


Source: Hanfa

⁵ The major part of income generated by credit institutions was accounted for by income from provision of agency and underwriting services (42.8%), followed by income from brokerage services (34.9%) and portfolio management services (22.3%).

Declining revenue in a challenging business environment has diminished the capital buffers of investment firms. However, although the capitalisation of individual companies is significantly weakened, it is still kept above the minimum regulatory requirements.

Figure 2.2.2 Investment firms' capital adequacy



Source: Hanfa

Figure 2.2.3 Value of assets managed by legal entities authorised to provide portfolio management investment services



Source: Hanfa

2.3 Investment funds

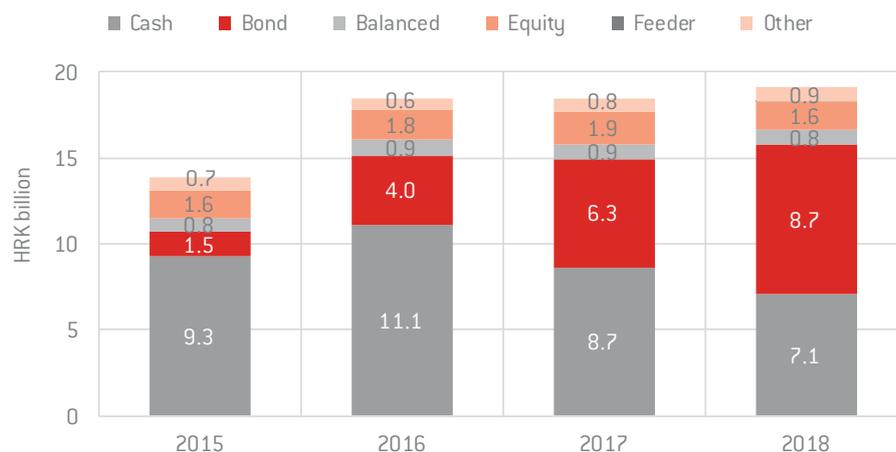
Open-ended investment funds with public offering

Low returns on the domestic and international capital markets and weak investment activity reflected on the representation of certain types of open-ended investment funds with public offering (hereinafter: UCITS), as well as the value and structure of their assets. At the end of 2018, there were 96 UCITS funds and their total assets increased by 3.34% on an annual basis, reaching HRK 19.1bn. In pursuit of higher yields, investors were leaving for the long time most attractive cash funds, without inclining to take on a higher level of risk. As a result, the assets of equity and balanced funds continued to decrease during 2018, while bond funds, considering relatively high yields they generate for the level of risk undertaken, recorded a 38.1% annual increase in net assets and became the dominant type of fund with a 45.5% share in total assets of UCITS. With the entry into force of the Money Market Funds Regulation⁶, most money market funds were required to align their formal form with the investment strategy, which is why most money market funds re-registered in early 2019 and continued to operate as short-term bond funds, further increasing the dominance of bond funds in the domestic capital market.

TYPES OF INVESTMENT FUNDS

There are two types of investment funds in the Republic of Croatia: open-ended investment funds with public offering and alternative investment funds (hereinafter: AIFs). UCITS and AIFs are managed by investment fund management companies. UCITS has no legal personality, and is established by a management company which manages it in its own name and for the account of holders of units in those assets, pursuant to provisions of the Act on Open-Ended Investment Funds with Public Offering (Official Gazette, No 44/16), prospectus and fund rules. UCITS are established for the purpose of raising cash by offering units in the fund through a public offering to all interested investors. Funds collected from investors are invested in transferable securities or other types of liquid financial assets, while observing the principle of risk distribution. AIF is an investment fund established for the purpose of raising capital through a public or private offering, and investing it in various types of assets in line with a defined investment policy and in order to generate returns for investors. In the Republic of Croatia, AIFs may be established as funds with public offering, of an open-ended or a closed-ended type, or as funds with private offering.

Figure 2.3.1 Assets of UCITS according to the type



Source: Hanfa

6 Directive (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds, OJ L 169

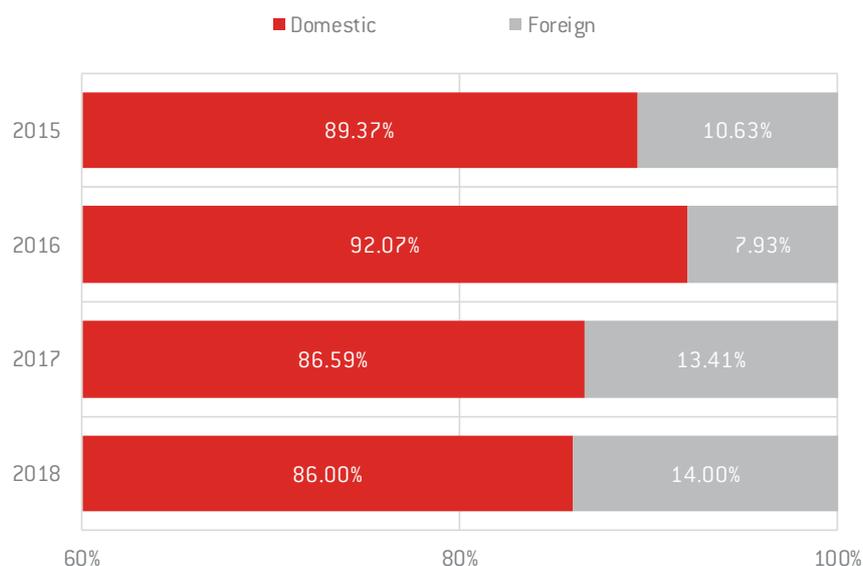
The share of domestic issuers' assets in UCITS funds' portfolios remained at the same level as in the previous year. The reason for the still high share of domestic assets lies mostly in the fact that the assets of cash funds (37.1%) and bond funds (45.5%) accounted for the larger part of UCITS funds' assets (82.6%), and these funds were not exposed to foreign markets to a significant extent, at end-2018. Investments in securities of foreign issuers amounted to only 7.2% of total investments of cash and bond funds. Investments in foreign assets primarily related to investments in bonds, followed by shares, and to a lesser degree, investment funds. Cash funds and bond funds mostly invest in foreign bonds, equity funds mostly invest in foreign shares, while balanced funds and funds classified as other funds, and to a lesser extent equity funds, invest mostly in foreign investment funds.

Figure 2.3.2 Asset structure of UCITS



Source: Hanfa

Figure 2.3.3 Asset structure of UCITS by domicile



Source: Hanfa

Alternative investment funds

Two new open-ended alternative investment funds were established in 2018, one with a public and one with a private offering, while one alternative fund's authorisation was revoked. Compared to the previous year, the net assets of alternative investment funds with public offering decreased (29.9%), while the assets of alternative investment funds with private offering slightly increased (6.1%).

Table 2.3.1 Assets of AIFs according to the type

Alternative investment funds	31/12/2017	Share (%)	31/12/2018	Share (%)	Absolute change	Change (in %)
Public offering	309,779	8.9%	217,144	6.1%	-92,634	-29.9%
open-ended	50,561	1.5%	21,531	0.6%	-29,030	-57.4%
closed-ended	178,605	5.1%	138,107	3.8%	-40,498	-22.7%
closed-ended real estate	80,612	2.3%	57,506	1.6%	-23,107	-28.7%
Private offering	3,177,038	91.1%	3,371,384	93.9%	194,346	6.1%
basic	446,576	12.8%	682,563	19.0%	235,987	52.8%
special	429,551	12.3%	496,162	13.8%	66,611	15.5%
venture capital	19,728	0.6%	2,440	0.1%	-17,288	-87.6%
venture capital - economic cooperation funds	987,464	28.3%	992,767	27.7%	5,303	0.5%
closed-ended	1,293,719	37.1%	1,197,452	33.4%	-96,266	-7.4%
Total	3,486,817	100.0%	3,588,528	100.0%	101,711	2.9%

Source: Hanfa

Fund established under a special act

Net assets of the Fund for Croatian Homeland War Veterans and Members of their Families amounted to HRK 697m on 31 December 2018, a decrease of 11.6% compared to the previous year. The unit price was down by 9.2% compared to the previous year. These falls a consequence of market conditions, i.e. a decrease in share prices in the fund's portfolio.

Management companies

As at 31 December 2018, there were 20 registered companies managing investment funds, i.e. one company stopped working in 2018. Five of these companies managed UCITS only. The same number of companies managed alternative investment funds only.

In 2018, investment fund management companies made a net profit of HRK 48.6m, which was 6.4% less than in the previous year. There was a slight increase in net management results, representing a difference [3%] between management fee income and management expenses compared to the previous year. Management companies are largely financed from own funds (same as in the previous year, capital and reserves make up 83.5% of liabilities), and most of the assets of management companies are invested in financial assets (65.7% of total assets).

MANDATORY AND VOLUNTARY PENSION FUNDS

Mandatory pension fund is a fund established, on the basis of Hanfa's authorisation, by the mandatory pension company and managed by it in the name of the company and for the joint account of the fund's members. A mandatory pension fund may belong to one of the categories A, B or C, which differ with respect to the duration of the fund membership until the retirement of the member, and consequently with respect to investment strategies and risk taking. Category A funds are allowed the highest level of risk taking, followed by category B funds, while category C funds have the most conservative investment strategy. Voluntary pension fund is a fund established, on the basis of Hanfa's authorisation, by the voluntary pension company, mandatory pension company or UCITS management company and managed by any of these companies in its own name and for the joint account of the fund's members. A voluntary pension fund may be of an open-ended type, with its membership being open to any natural person, or of a closed-ended type consisting of natural persons employed with an employer, or members of trade unions, or members of associations of self-employed persons or self-employed persons.

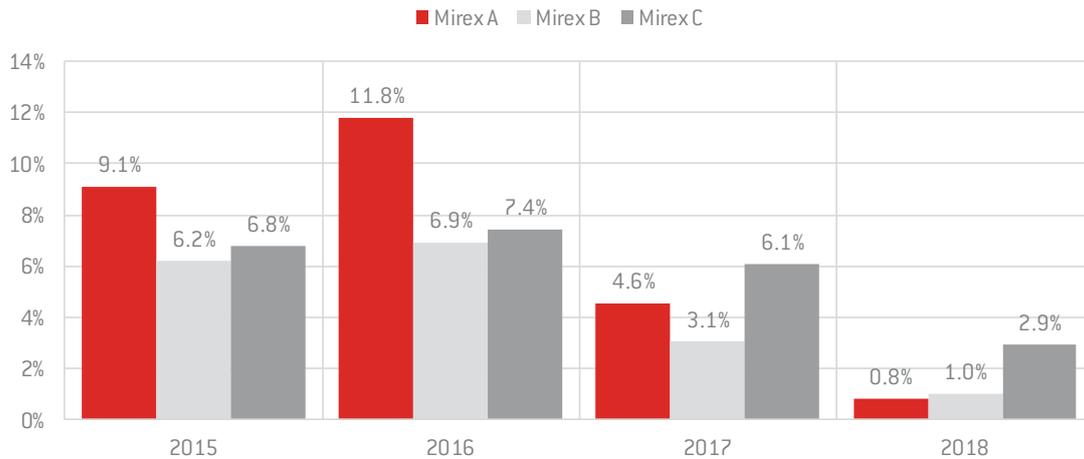
2.4 Pension funds and pension insurance company

Pension funds

The assets of mandatory pension fund continued to grow steadily at an annual rate of 6.7%, primarily through new payments of members (there were 1.94m members at the end of 2018). By the end of 2018, assets of mandatory pension funds stood at HRK 98.1bn which positioned mandatory pension funds as the largest and, with respect to investment potential, the most significant institutions in the financial services sector.

The returns of all categories of mandatory pension funds during 2018 (Mirex A 0.84%, Mirex B 1.02%, Mirex C 2.94%) are determined by the structure of their assets, that is, the decrease in returns on bond investments in the prevailing low interest rate environment and mainly negative returns in the capital markets. Therefore, during 2018, pension funds slightly reduced the relative share of investments in Croatian government bonds, with an increase in time deposits and cash in the account. Nevertheless, a possible future increase in interest rates exposes the bond portfolio of pension funds to revaluation, so pension funds have increased the portion of bonds valued at amortised cost to hedge against interest rate risk.

Figure 2.4.1 Returns of mandatory pension funds



Source: Hanfa

According to data from Regos, in 2018, only 1% of members selected their mandatory pension fund by themselves, while the rest were allocated under the legally prescribed schedule. This indicates the need to better inform current and future members of pension funds about the functioning of pension system, the categories of pension funds and differences between them, and the possibilities to choose a pension company and fund category.

Apart from mandatory pension funds, voluntary pension funds also recorded growth in 2018, due to an increase in assets and membership, but also due to establishment of new funds. The total assets of voluntary pension funds increased in 2018 by 8.3% (to HRK 5.14 billion) while the number of members in open-ended voluntary pension funds increased by 6.7%, and in closed-ended funds by as much as 33.2% due to the establishment and commencement of operations of two new funds. Voluntary pension funds recorded returns ranging between -2.5% and 5.4%.

In 2018, mandatory and voluntary pension funds were managed by five companies that recorded an after-tax profit in the amount of HRK 212m, an increase of 12.7% relative to profit realised in 2017. Income from mandatory and voluntary pension fund management grew by 6.5% at annual level. Total assets of mandatory and voluntary pension companies increased by 3.7% in 2018. They were mostly invested in financial assets (87.2% of total assets). Management companies are largely financed from own funds (capital and reserves make up 91.6% of liabilities),

Pension insurance company

There is only one pension insurance company operating in the Republic of Croatia. As at 31 December 2018, the total assets of the pension insurance company stood at HRK 553.9m, increasing by HRK 55.7m (11.2%) relative to the previous year. This was primarily a result of increased investments, which accounted for 95.4% of total assets and grew by HRK 60.3m in comparison with 2017. Technical provisions dominate the liabilities with a share of 85.3%, amounting to HRK 472.4m at the end of 2018. Capital and reserves reached HRK 38.4m, increasing by HRK 1.1m compared to 2017.

In 2018, the pension insurance company generated pre-tax profit of HRK 5.8m, while after-tax profit amounted to HRK 4.7m, almost equal to the 2017 operating result. Total income reached HRK 266m, which was HRK 30m more than in 2017. The income structure was dominated by income from payments of pension companies and direct lump-sum payments from voluntary pension insurance (74.3%). Total expenses amounted to HRK 261.3m, increasing by HRK 30.1m compared to 2017. The most significant

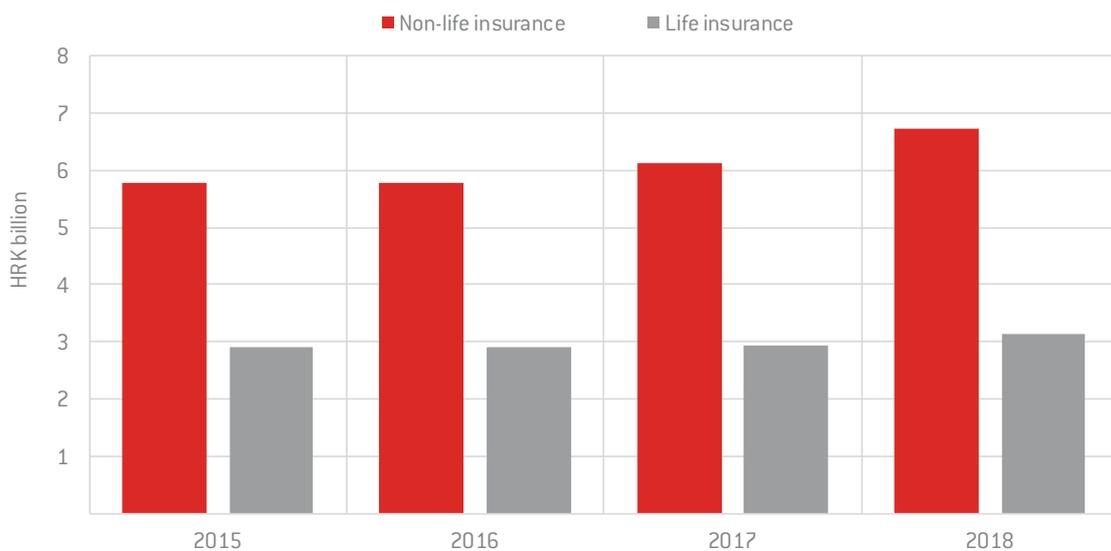
part of the expenses (76.6%) was accounted for by expenses arising from pension insurance contracts, of which HRK 151.4m was made up of payments from pension insurance, and HRK 48.7m of changes in technical provisions.

As at 31 December 2018, the total number of pension contracts reached 10,660, of which 10,317 contracts were related to voluntary pension insurance (pension pillar 3 and direct lump-sum payments), and 343 contracts to mandatory pension insurance (pension pillar 2). The number of contracts fell by 1498 relative to 31 December 2017. As at 31 December 2018, the number of beneficiaries stood at 10,371, of which there were 10,024 voluntary pension insurance beneficiaries and 347 mandatory pension insurance beneficiaries.

2.5 Insurance companies

The process of insurance sector consolidation continued during 2018, so out of a total of 20 insurance companies with registered offices in the Republic of Croatia operating in the beginning of 2018, two companies were merged. The growth of the gross written premium was recorded in both the non-life and life insurance categories, so on the annual level the insurance companies achieved almost HRK 9.9bn of gross written premium, which was 8.8% more than in 2017. The growth of the non-life insurance premium was generated primarily by the growth of the motor vehicle insurance premium and motor vehicle liability insurance premium, which was primarily a consequence of the economic recovery and intensified sales of new vehicles. In addition to these classes of non-life insurance, significant premium growth was also recorded in property insurance and credit insurance. The growth of life insurance premium in 2018 was largely generated by the increase in lump sum premium payments, which, given that bancassurance is a significant sales channel in the insurance market in the Republic of Croatia, was enhanced by a stronger lending activity. The increase in premiums is also contributed by the fact that mature portfolios of companies expire, which is also reflected in the increase of claims settled, and they are restored through lump-sum premiums. In 2018, claims settled reached HRK 5.6bn, decreasing by 8.8% in comparison with 2017.

Figure 2.5.1 Gross written premium



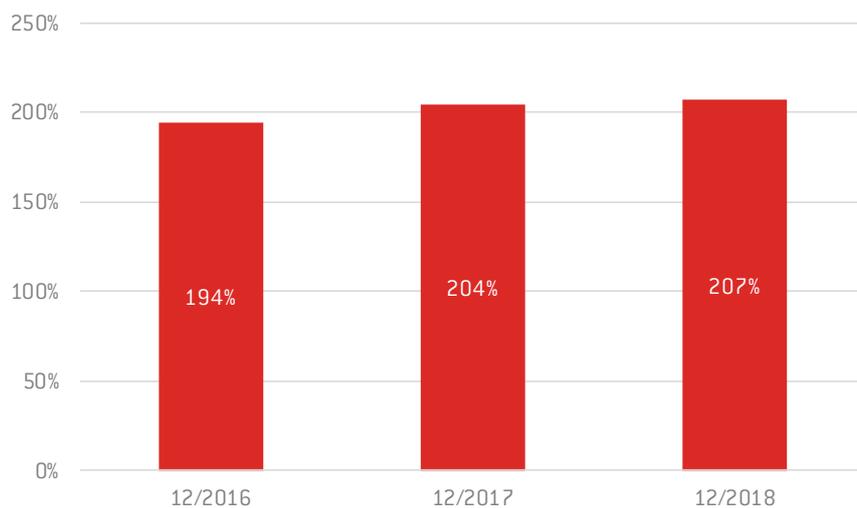
Source: Hanfa

As at 31 December 2018, total assets of insurance companies amounted to HRK 41.9bn, increasing by HRK 1.1bn or 2.7% compared to the previous year. Investments accounted for the largest share in the asset structure, with 79.1%, or HRK 33.2bn. Liabilities were dominated by technical provisions with 64.7% (HRK 27.1bn) and capital and reserves with 23.5% (HRK 9.9bn).

Despite a prolonged period of low interest rates, which placed pressure on the profitability of insurance companies, both insurance categories made a profit in 2018: life insurance in the amount of HRK 183.2m and non-life in the amount of HRK 568.9m. Relatively low returns generated in the market are particularly challenging for companies providing life insurance that seek opportunities to generate adequate returns to cover long-term liabilities on policies with high guaranteed rates concluded in the past. Increasingly successful business operations of non-life insurance companies despite the challenging market environment and competitive pressures are also reflected in the trend of combined ratio decrease⁷. Despite the low interest rate environment, there are no major changes in the structure of investment portfolios of insurers dominated by investments in debt financial instruments, both for life and non-life insurers.

Insurance companies are adequately capitalised with comparatively stable solvency indicators, with the median solvency ratio of insurance companies well above the regulatory minimum for all groups of insurers.

Figure 2.5.2 Solvency ratio median of insurance companies



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

Source: Hanfa

Croatian Insurance Bureau

The Croatian Insurance Bureau (hereinafter: the Bureau), an association of insurance companies, is a non-profit organisation funded by insurance companies as members of the Bureau. Membership of the Bureau is mandatory for insurance companies engaged in activities relating to compulsory traffic insurance, while other insurance and reinsurance companies may join the Bureau on a voluntary basis.

⁷ Combined ratio represents the ratio of total expenditures (expenses related to claims and all operating expenses) and earned premium relevant for a given period.

Financial operations of the Bureau include regular business operations (including taxable activity) and the Guarantee Fund.

According to the balance sheet of the regular business operations⁸, as at 31 December 2018, total assets of the Bureau amounted to HRK 11.6m, while total liabilities stood at HRK 3.7m. Sources of financing amounted to HRK 8m, and were comprised of own funds of the establisher and of the surplus of income over expenses.

Income from regular business operations of the Bureau (other than taxable activity) was largely accounted for by income from members, while expenses were mainly made up by salaries, remuneration and functional expenses. Income from taxable activity of the Bureau included income of the Insurance Education Centre, income from consulting services, income from services provided to leasing companies and income from services provided to insurance agencies, while the expenses comprised expenses relating to the organisation of expert consulting, expenses relating to the organisation of seminars and other expenses.

Pursuant to Article 45(1) of the Act on Compulsory Traffic Insurance⁹, insurance companies conducting compulsory insurance business are obliged to pay contributions to the Bureau for the Guarantee Fund, in proportion to the premium or number of risks recorded in a certain class of compulsory insurance in the current year. The Bureau is obliged to separate assets of the Guarantee Fund from other assets of the Bureau and keep them in a special account. As at 31 December 2018, total assets of the Guarantee Fund amounted to HRK 16.1m, decreasing by 8.6% compared to the previous year.

Croatian Nuclear Insurance and Reinsurance Pool, EIG

There is one insurance or reinsurance pool operating in the Republic of Croatia, established in accordance with Article 351(1) of the Insurance Act – the Croatian Nuclear Insurance and Reinsurance Pool, EIG (hereinafter: CN POOL). As at 31 December 2018, four insurance companies were members of the CN POOL.

As at 31 December 2018, total assets of the CN POOL reached HRK 87.25m, decreasing by 0.7% compared to 2016. The asset structure was dominated by investments (78.2% of the total assets) amounting to HRK 68.7m. The largest liability share (83.9%) was accounted for by technical provisions totalling HRK 73.7m.

In the period from 01 January 2018 to 31 December 2018, the CN POOL generated a profit totalling HRK 52 thousand, increasing by HRK 44.8 thousand relative to the same period of the previous year. The most significant part of the income was the gross written premium in the amount of HRK 17.7m. The largest part of expenses reported by the CN Pool was accounted for by acquisition costs amounting to HRK 8.8m.

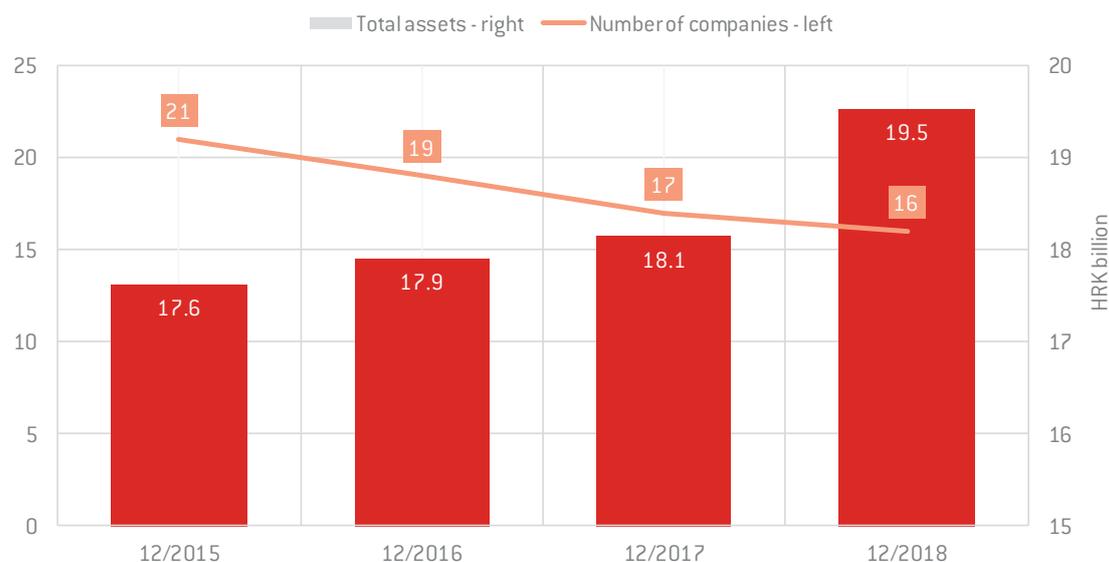
2.6 Leasing companies

As at 31 December 2018, total assets of leasing companies amounted to HRK 19.5m, increasing by 7.6% compared to the previous year. At the same time, initial capital of leasing companies amounted to HRK 553.7m. The main sources of financing for leasing companies continued to be credits and loans from foreign banks and financial institutions. The number of leasing companies decreased by one during 2018, due to liquidation process of a company.

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

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

Figure 2.6.1 Number of leasing companies and their assets



Source: Hanfa

Increased economic activity continued to exert a positive impact on the Croatian leasing market in 2018, leading to a rise in business operations (number and value of newly concluded contracts). The value of newly concluded contracts increased by HRK 1.5bn (20.5%), while the value of active contracts increased by HRK 1.1bn (7.6%) relative to the previous year. Financial leasing recorded an increase in the value of newly concluded contracts of HRK 1.6bn (28%) while operating leasing recorded a decrease of HRK 101.5m (6.4%) compared to 2017. This increase in the number and value of newly concluded contracts was largely caused by the rise in the value of newly concluded contracts for passenger cars (by HRK 1.4bn) due to the intensification of economic activity, seasonal procurement of fleets of vehicles by car rental companies that purchased vehicles for the tourist season, and the entry into force of changes in the taxation of passenger cars purchased by legal entities for commercial purposes (deduction of pre-tax for the purchase of passenger cars) at the beginning of 2018.

As at 31 December 2018, passenger cars recorded the highest value of active contracts by leased assets, reaching HRK 6.9bn or 46.1% of the total value of active contracts, whereas commercial vehicles recorded the value of active contracts amounting to HRK 4.1bn or 27.3% of the total value of active contracts.

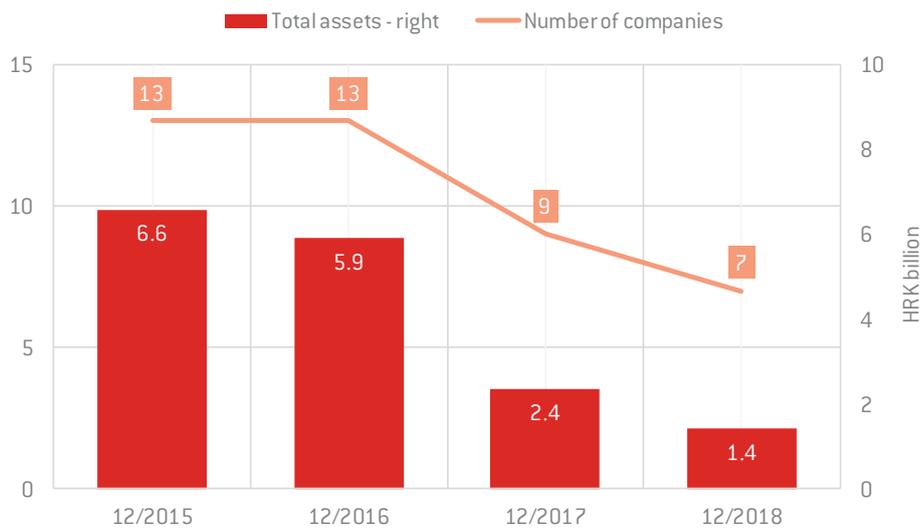
As regards the exposure of leasing companies by activities, at the end of 2018, the largest share (36.8% in the total value of newly concluded contracts) was accounted for by wholesale and retail trade, transportation and storage, accommodation and food service activities. The value of active contracts relating to households rose by 19.8% relative to the end of 2017, with their share amounting to 10.7% of the total value of active contracts as at 31 December 2018.

2.7 Factoring companies

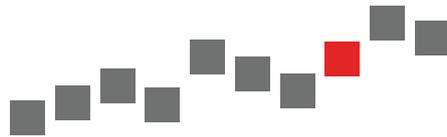
The consolidation of the factoring market continued throughout 2018, with the assets of factoring companies decreasing by 40.6% and standing at HRK 1.4bn at the end of the year. As at 31 December 2018, the capital and reserves amounted to HRK 182.5m. The volume of transactions, as the basic indicator of market activity, amounted to HRK 3.2bn in 2018, decreasing by HRK 2.1bn or 39.7% compared to the same period in 2017. The aforementioned decline in assets and a decrease in the volume of business operations are primarily related to developments connected to business relations with the Agrokori Group

companies during 2017 and 2018, for factoring transactions involving the discounting of bills of exchange. Specifically, the business relations of factoring companies with Agrokor Group companies resulted in significant value adjustments and write-offs of receivables. Therefore, the share of factoring operations including discounting of bills of exchange in the total volume of transactions in 2018 amounted to 15.5%, as opposed to 2017, when it amounted to 35.8% of the total volume of transactions. As at 31 December 2018, the total receivables of factoring companies amounted to HRK 1.04bn, of which HRK 394.3m related to factoring operations, HRK 258.7m related to factoring including discounting bills of exchange, while HRK 388.7m related to reverse factoring. The number of factoring companies as well as their assets is expected to decline further in the coming period.

Figure 2.7.1 Number of factoring companies and their assets



Source: Hanfa



Supervisory activities



3 Supervisory activities

Hanfa verifies, on a continuous basis, whether supervised entities operate in accordance with laws and other regulations, risk management rules, internal by-laws and professional rules, and whether they operate, in general, in a manner that ensures their proper functioning and the implementation of measures and activities aimed at eliminating illegalities and irregularities established. Supervisory examinations, either on-site (carried out at the supervised entity's premises) or off-site, are subject to the General Administrative Procedure Act, unless otherwise provided for. The main objectives of supervision are to verify whether supervised entities' business operations are carried out in accordance with law and to assess the safety and stability of their business operations in order to protect the interests of financial services users and public interest, to contribute to the stability of the financial system and to promote and help maintain confidence in that system.

3.1 Capital market

3.1.1 Supervision of capital market infrastructure

In 2018, Hanfa completed the on-site examination of the ZSE, that started in the last quarter of 2017 and focused on measures and activities the ZSE was obliged to carry out pursuant to the Capital Market Act, for the purpose of establishing whether the ZSE fulfils organisational requirements and requirements relating to the management of risks it is or may be exposed to, especially as regards the new trading system Xetra. Following the examination, Hanfa adopted a decision ordering the ZSE to eliminate illegalities and irregularities established, which the ZSE obeyed within the specified deadline.

In addition, the ZSE was also subject to the off-site examination, performed by collecting and analysing reports on the operation of the regulated market and the MTF, which need to be submitted to Hanfa. Pursuant to the Capital Market Act, the ZSE submits to Hanfa data on its ownership structure (on a monthly basis), monthly reports on the acquisition/disposal of financial instruments by managing persons, monthly report on cancelled transactions, information on the admission of financial instruments to or their removal from trading on the regulated market and admission of financial instruments to or their removal from trading on the MTF, information on current business activities and changes in these activities, information on new market makers, information on volatility interruptions and suspensions of trading, information on changes in the membership and updated member lists and annual financial statements accompanied by external auditor's reports.

Hanfa monitored trading in financial instruments on the regulated market and MTF in real time with respect to prohibitions and requirement laid down by the Capital Market Act. In accordance with the Ordinance on reporting actual or potential infringements of the Market Abuse Regulation¹⁰, the ZSE and investment firms submitted to Hanfa 22 reports relating to suspicions of market abuse and three reports relating to suspicions of insider dealing. Two reports and three complaints relating to market abuse were also received from various natural and legal persons. All reports and complaints are analysed and relevant data and documentation are collected in order to establish whether market abuse has occurred. On the basis of reports received and where it was established that market abuse had occurred, Hanfa adopted decisions ordering the cessation of activities infringing the Capital Market Act as regards market abuse and Regulation (EU) No 596/2014 on market abuse¹¹ and it issued warnings with respect thereto.

¹⁰ Official Gazette, No 60/16

¹¹ Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, OJ L 173

Pursuant to the Capital Market Act, Hanfa is obliged to immediately notify ESMA and other competent authorities of Member States of its decision to temporarily suspend and/or remove from trading financial instruments admitted to trading on the regulated market. Through the ESMA - SARIS interface, in 2018 Hanfa submitted all notifications of suspensions and restorations of trading, including all notifications of the removal from trading of financial instruments. Pursuant to requirements from the Regulation on short selling¹², it also submitted to ESMA, on a quarterly basis, a summary of information on net short positions relating to issued share capital and to issued sovereign debt and on uncovered positions relating to sovereign credit default swaps. Pursuant to the Regulation on short selling and Commission Delegated Regulation (EU) No 918/2012¹³, ESMA received data on duration-adjusted amount of sovereign debt instruments issued by the Republic of Croatia.

During the year, Hanfa carried out ongoing off-site supervision of the Central Depository and Clearing Company (hereinafter: CDCC) by verifying timely submission of information and reports prescribed by the Capital Market Act and by analysing information received (monthly work reports, information on holders of qualifying holdings, annual financial statements and annual report, as well as auditor's report, reports on the acquisition or disposal of financial instruments by members of the CDCC's Management Board, Supervisory Board and employees, notifications of changes in membership and termination of membership, etc.). Off-site supervision was also conducted by monitoring the implementation of EMIR¹⁴ and CSDR¹⁵.

In 2018, Hanfa adopted three partial decisions approving CDCC's Instruction, amendments to CDCC's Rules and amendments to CDCC's Price List.

As CDCC operates the Investor Protection Scheme, Hanfa monitored whether CDCC met its obligations in this respect, which include the preparation and submission of semi-annual and annual financial statements of the Investor Protection Scheme, determination of the amount of claim protected for each client – member of the Investor Protection Scheme, etc.

Hanfa issued a decision approving the 2018 management fee to CDCC, which amounted to HRK 7,351.00 per year per each member of the Investor Protection Scheme.

3.1.2 Supervision of issuers

Hanfa conducted 140 off-site examinations of issuers related to transparency i.e. publication of regulated information, 23 off-site examinations related to the acquisition and/or disposal of issuers' shares by managing persons and 28 off-site examinations related to the acquisition and/or disposal of own shares and other financial instruments of issuers.

Following these examinations, it adopted three decisions issuing warnings to issuers. Two decisions were related to the publication of subannual or annual financial statements, and one decision was related to the internal process management system for publishing regulated and inside information.

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

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

14 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

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

The new Capital Market Act, adopted in 2018, granted power to Hanfa to supervise financial information provided by issuers. Therefore, Hanfa carried out the examination of whether issuers applied the appropriate financial reporting framework consistently, based on which comprehensive and targeted examinations will be conducted in future.

In addition to the obligation to issue subannual and annual financial reports in PDF and XLS format, Hanfa issued two ordinances, namely the Ordinance on the contents and structure of issuers' annual report and on the form and manner of its submission to the Croatian Financial Services Supervisory Agency¹⁶ and 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 Agency¹⁷, in order to prescribe the obligation to submit these reports in the XML format as well.

In the previous year, Hanfa issued the Decision on the manner of and time limits for the submission of the insider list, which issuers are obliged to draw up, update and submit to Hanfa at its request pursuant to the Market Abuse Regulation.

3.2 Investment firms

3.2.1 On-site supervision

In 2018, Hanfa completed five on-site examinations initiated in 2017, that focused on the execution of orders on behalf of clients, management of conflicts of interest, remuneration policies, private offering of financial instruments to clients, agency and underwriting services, portfolio management services, provision of investment services and performance of investment activities, and control functions and management of conflict of interest with respect to custody services.

During the year, Hanfa also completed a targeted on-site examination related to a suspicion of unauthorised provision of investment services. Following the examination, the company received Hanfa's decision establishing unauthorised provision of investment services, after which the operative part of the decision was publicly disclosed.

Two decisions imposing supervisory measures were issued to investment firms, namely a decision containing a warning (and relating to the conclusion of transactions on a trading venue in an inappropriate manner) and a decision ordering a company to eliminate illegalities and irregularities established (and to draw up internal acts formally prescribing activities regarding the monitoring of business activities of a broker and to the order to monitor business activities of a broker in the period defined).

3.2.2 Off-site supervision

An off-site examination of an investment firm was completed during the previous year, and was related to the exceeding of large non-trading book exposures, with respect to the provisions of Regulation (EU) No 575/2013¹⁸.

In 2018, Hanfa published a warning on its website against the trading platform www.fgsmarkets.com and against activities carried out by Denis Strotman (Forex Trading Central) regarding his attempts to induce potential clients to make payments and to trade in contracts for difference (CFDs) without a proper authorisation.

16 Official Gazette, No 114/18

17 Official Gazette, No 114/18

18 Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, OJ L 176/1

In April 2018, Hanfa adopted resolution plans for two investment firms subject to the Act on the Resolution of Credit Institutions and Investment Firms¹⁹. The conclusions of both plans was that, taking into account the size of the firms, services they provide and their interconnection, there was neither public nor justified financial and market interest in placing the firms under resolution, meaning that resolution objectives could be achieved by carrying out bankruptcy proceedings or normal winding up proceedings.

3.3 Pension funds, investment funds and management companies

3.3.1 On-site supervision

In 2018, Hanfa carried out targeted on-site examinations of two pension companies and an alternative investment fund management company (AIFM), focusing on the investment process related to the investment of pension fund assets in financial instruments issued by Agrokor d.d. and its subsidiaries and related companies, and activities related thereto carried out in the best interest of funds and capital market integrity.

Following the on-site examination of an investment fund management company, Hanfa issued a decision ordering the company to improve risk profiles of investment funds it manages and to ensure that procedures, tools and techniques for measuring and managing credit risk are properly documented. The decision also contained an order for the company to draw up adequate reports on the consistency between the current levels of risk incurred by UCITS it manages and the risk profiles agreed for those UCITS, the compliance of each managed UCITS with limits defined or prescribed for that UCITS, the consistency between the current levels of risks and prescribed risk exposure limits, the adequacy and effectiveness of the risk management policies and procedures, and any actual or foreseeable breaches to their limits in order to ensure that prompt and appropriate action can be taken.

3.3.2 Off-site supervision

Regular off-site examinations carried out in 2018 focused on the examination of capital adequacy of pension companies and management companies, analysis of investment fund and pension fund asset investments, operations carried out pursuant to International Financial Reporting Standard 9, examination of the amount of mandatory pension companies' guarantee fund, disclosure of information in annual financial statements in accordance with requirements laid down in STFR²⁰, report on operations of the Central Registry of Insured Persons (Regos), examination of annual financial statements with the emphasis on the remuneration of members of management companies' management and supervisory boards, examination of total cost indicators of UCITS and annual report of the Fund for Croatian Homeland War Veterans.

Furthermore, Hanfa carried out targeted off-site examinations, focusing, among other things, on the valuation of UCITS assets, procedures for the valuation of UCITS assets, examination of terms and conditions under which authorisation to an economic cooperation fund was issued and the true and fair view of the fund's financial statements, charging of management fees by companies managing economic cooperation funds and depositary control functions with respect to examination of investments of fund assets by a management company.

19 Official Gazette, No 19/15 and 16/19

20 Regulation (EU) No 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012, OJ L 332

Due to certain illegalities and irregularities established, six off-site supervisory reports were drawn up. Two management companies received Hanfa's warning: one of them due to its failure to submit financial statements within the prescribed deadline, while the other was ordered to submit corrected reports on net asset valuation (NAV reports) and to correct and apply internal acts relating to the valuation. A management company received Hanfa's declaratory decision establishing illegalities in the Key Investor Information Document (KIID) intended for fund investors. A depositary of UCITS also received Hanfa's declaratory decision establishing illegalities in the process of carrying out depositary control functions with respect to investments of UCITS assets in accordance with the law. An economic cooperation fund had its authorisation to establish and manage AIFs revoked and received Hanfa's declaratory decision establishing illegalities in its annual financial statements.

3.4 Insurance companies

3.4.1 On-site supervision

In 2018, Hanfa carried out five on-site examinations of insurance companies, two of which were targeted and three regular. One examination was started in 2017 and completed in 2018, one examination was started in 2017 and completed in 2019, one examination was started and completed in 2018, while two examinations were started in 2018, continuing into 2019.

The examinations placed emphasis on consumer protection, i.e. on the adequacy of internal procedures and activities that have an impact on the protection of interested parties, including the provision of information before the conclusion and during the term of the contract with a special focus on life insurance. In this respect, the examination covered the entire relevant documentation insurance companies are obliged to deliver to policyholders in order for them to be fully informed of all the facts related to the insurance product they want to purchase. In the cases where certain illegalities and irregularities were established, i.e. where the documentation contained incomplete or incorrect information, Hanfa issued decisions ordering the companies to eliminate these illegalities or irregularities, which the companies obeyed and included all the necessary information in their documentation.

The examination also covered the establishment and valuation of adequate provisions for claims for class 10 (motor vehicle liability insurance), class 08 (insurance against fire and natural disasters) and class 13 (other liability insurance lines), valuation of the best estimate for business line D - life insurance liabilities (30) insurance with profit participation and class 19.01 endowment insurance, governance system with respect to IT security and business continuity, compliance of key functions with legal provisions, adequacy of the organisational structure, investment property and its valuation, loan investment and its valuation, review and assessment of the establishment of technical provisions, claims handling procedure relating to motor vehicle liability insurance policies, in particular with respect to the procedure relating to the issuance of premium receipts and examination of the governance system and its implementation.

As a result of the examination, certain illegalities and irregularities were established, primarily relating to the establishment and verification of the establishment of claim provisions and exposure to the operational risk related to the establishment of adequate technical provisions, valuation of the best estimate and technical provisions, failure to harmonise and implement adequate internal acts and procedures, provision of pre-contractual information to policyholders, inadequacy of the governance system and the establishment of key functions in terms of compliance function, internal audit function, actuarial function and risk management function, business book recording methods and investments and valuation of assets for solvency purposes pursuant to the Insurance Act.

All the illegalities and irregularities resulted from failure to comply with the provisions of the Insurance Act and regulations adopted under this Act, the Commission Delegated Regulation supplementing the Solvency II Directive²¹ and the Guidelines on system of governance²².

In 2018, Hanfa issued four decisions relating to on-site examinations completed in 2017 and 2018. Three of these decisions related to the elimination of illegalities and irregularities, and insurance companies acted in accordance with the operative part of the decisions and deadlines prescribed by them. One decision concerned the termination of an on-site examination in the insurance company that acted in accordance with the decisions ordering the elimination of illegalities and irregularities.

3.4.2 Off-site supervision

During the previous year, Hanfa conducted supervision and verification of all regular supervisory reporting elements that supervised entities were required to submit (financial, statistical and additional reports, audit reports, reports under the Solvency II Directive²³). In addition to obligatory reports, Hanfa requested plenty additional information and documentation (for example, key function reports), which was also thoroughly analysed. Numerous off-site examinations of insurance companies were conducted with the focus on the analysis of financial and supervisory reports, analysis and review of ORSA, SFCR and RSR reports, compliance of investments with relevant regulations, and movements of indicators for types of insurance / insurance risks.

2018 saw five off-site examinations of insurance companies. Majority of them were examinations that had started in previous years, while one was initiated in 2018. As a result of the risk-based prospective approach to supervision, off-site examinations of insurance companies found irregularities and illegalities that were mainly related to the premium deficiency risk management system in the risk class 10.01 - insurance of owners or users of motor vehicles against liability for damage to third parties, and insurance class 03 - insurance of land motor vehicles. One decision was issued ordering the elimination of illegalities and irregularities established during off-site examinations started in previous years.

After the completion of off-site examinations focused on the premium sufficiency in insurance class 03 - insurance of land motor vehicles, Hanfa continued to monitor business indicators in this insurance class. Two companies were given written recommendations aimed at achieving and ensuring premium sufficiency, and enabling permanent fulfilment of all obligations under insurance contracts in this insurance class.

A significant number of Hanfa's activities were focused on qualitative and quantitative reports under the Solvency II Directive. In 2018, Hanfa received RSR, SFCR and ORSA reports, along with annual and quarterly quantitative data. Pursuant to the provisions of the Insurance Act relating to deadlines for submitting information on the annual basis and deadlines for publishing SFCR reports, insurance companies were required to provide these reports. All the companies complied with the requirement to publish SFCR reports on their web sites, since these reports are not intended exclusively for Hanfa, but primarily for the public concerned. In addition, Hanfa requested insurance companies to submit (and received) internal audit reports for 2017, actuarial function reports for 2017, and risk management function report together with the risk catalogue for 2017.

21 Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), OJ L 241

22 EIOPA-BoS-14/253 HR

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

Hanfa has established its own system for the internal assessment of whether submitted reports meet the requirements set out in the Delegated Regulation supplementing the Solvency II Directive and the Guidelines on reporting and public disclosure²⁴. Accordingly, while analysing the reports, Hanfa paid particular attention to whether every piece of quantitative data was substantiated and explained by a suitable qualitative description, especially as regards the SFCR reports that were publicly disclosed. It also verified whether the information provided was relevant, reliable and comprehensible, reflecting the nature, scope and complexity of the insurance company's business operations. After the analysis, Hanfa prepared and sent individual written recommendations, which all the companies should implement when preparing the SFCR and RSR reports for 2018. The recommendations consisted of a general section, describing in more detail what SFCR and RSR reports should contain, and a section addressing some of the shortcomings in 2017 reports, with the aim of increasing the quality of future reporting.

As early as in 2015, Hanfa developed its own system for the internal evaluation of ORSA reports. In 2018, the system was updated and upgraded. Following the analysis of reports submitted, Hanfa held meetings with representatives of all the companies. The purpose of the meetings was an exchange of views, in order for Hanfa to gain a better understanding of ORSA processes, business strategies and business models of the companies. A total of 18 meetings in connection with ORSA reports were held during the year. In addition, all the companies were given individual written recommendations that, like recommendations on SFCR and RSR reports, consisted of a general section and a section addressing some of the shortcomings in 2017 ORSA reports. For the purpose of further upgrading the ORSA process, Hanfa is planning to continue communication and cooperation with the companies as regards this subject matter.

Annual quantitative reporting templates for 2017 were received within the prescribed deadlines and were followed by the validation process. Unlike quarterly quantitative reporting templates, annual reporting templates require much more detail, there is an element of multidimensionality and verifications are more complex. The number of rules for data validation has increased sixfold, and there are many more relations among templates that need to be consistent. While continuously communicating with insurance companies, Hanfa checked the completeness of forms and the consistency and purposefulness of data during the above-mentioned period.

In addition to annual quantitative reporting templates, all quarterly reporting templates of insurance companies were also received within the prescribed deadlines. Validation processes were successfully completed for each quarter and all validated reports were submitted to EIOPA within the prescribed time limits.

Once a year, EIOPA conducts an analysis and delivers a report on the impact of the use of long-term guarantees measures and measures on equity risk on business operations of insurance companies. The 2018 analysis involved all insurance companies pursuing life insurance business (12) and two insurance companies pursuing non-life insurance business, and all of them submitted the data required within the defined deadline. In the course of national validation, Hanfa verified the data submitted and required from companies to send additional data and/or corrections, as needed. After that, the data were submitted to EIOPA, which then carried out central validation and additional analyses. On 18 December 2018, EIOPA published on its website the 2018 Report on long-term guarantees measures, where aggregated data were published for each state that had participated in the collection of data for the LTG Report.

In 2018, Hanfa's employees participated in six colleges of supervisors organised by group supervisors, for each individual company operating in the Republic of Croatia and being a member of the group with its registered office in another Member State. Apart from participation at meetings organised in the Member State in which a group has its registered office, membership of colleges of supervisors also implies Hanfa's on-going cooperation with group supervisors. Such cooperation involves regular reporting on activities carried out by insurance companies operating in the Republic of Croatia, participating in bilateral and

24 EIOPA-BoS-15/109 HR

multilateral teleconferences and dealing with various issues relating to companies that are group members.

During 2018, Hanfa carried out the analysis of financial and supervisory reports of insurance agencies, insurance representation crafts and insurance brokerage companies. It conducted 12 off-site examinations of insurance agencies, insurance representation crafts and insurance brokerage companies, in respect of which administrative procedures were initiated. During the year, Hanfa also received and analysed reports from the Bureau and the CN Pool.

3.5 Leasing companies

3.5.1 On-site supervision

In 2018, Hanfa completed an on-site examination that started in 2017 and focused on leasing operations. The examination was followed by a report that established irregularities in the operational and credit risk management system and irregularities related to operating lease contracts and the manner of calculating value adjustment for receivables. A decision was issued ordering the elimination of these irregularities.

During the year Hanfa also issued a decision establishing that a company eliminated illegalities and irregularities whose elimination had been ordered by a 2017 decision. The illegalities mentioned were related to the credit risk management operations, internal controls and calculation of value adjustment for receivables.

3.5.2 Off-site supervision

During the previous year, Hanfa verified, on an on-going basis, the timeliness and accuracy of reports received against the requirements set out in the Leasing Act²⁵ and accompanying ordinances. It also continuously supervised the submission of data in the Register of Leased Assets and the accuracy of data submitted, and it examined any suspicions of multiple financing. As 2018 saw the entry into force of the ordinance prescribing limits of exposure to certain persons and groups of related persons, Hanfa's supervisory activities involved this area as well.

Pursuant to its legal powers, Hanfa also conducted supervision of other persons suspected of carrying out leasing activities, on the basis of which it initiated administrative supervisory proceedings.

Two reports were drawn up following examinations focusing on the calculation of exchange rate differences under finance lease contracts and statutory reporting to Hanfa. In addition, three decisions were issued – one of them containing a warning to a leasing company due to its failure to comply with statutory reporting provisions, and the other two being decisions on eliminated illegalities and irregularities, determining that the illegalities and irregularities established during examinations had been eliminated.

3.6 Factoring companies

3.6.1 On-site supervision

In 2018, Hanfa issued seven decisions: two decisions ordering factoring companies to eliminate illegalities and irregularities established, two decisions on eliminated illegalities and irregularities and three

25 Official Gazette, No 141/13

decisions suspending on-site examinations. All the decisions were issued after illegalities and irregularities had been established relating to the discounting of bills of exchange of issuers that were companies belonging to the Agrokor Group.

During the previous year, Hanfa also initiated an on-site examination focusing on the compliance of a company with the provisions of the Factoring Act²⁶ as regards its operations, risk management and financial reporting, and an on-site examination verifying the application of the Act on the Prevention of Money Laundering and Terrorist Financing²⁷.

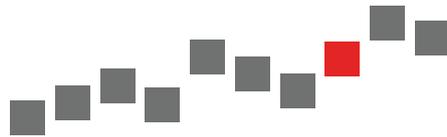
3.6.2 Off-site supervision

Off-site supervisory activities were focused on the maintenance of the regulatory capital level by leasing companies and on portfolio analyses with respect to the exposure to individual persons and groups of related persons.

During the year, Hanfa issued a decision ordering the elimination of illegalities and irregularities and three decisions establishing failure of companies to act in accordance with Hanfa's prior decisions, after which the examinations were terminated. As a result, the companies in question had their authorisations to pursue factoring activities revoked.

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

27 Official Gazette, No 108/17



Normative activities



4 Normative activities

The dynamic and highly harmonised regulatory framework of financial services operations in the EU in the past few years has greatly influenced Hanfa's normative activities. The year 2018 was marked by Hanfa's intense involvement in drafting by-laws in all areas of the financial services sector. Most of the regulatory activities were accompanied by the intensive involvement of Hanfa's representatives in the working groups for drafting laws in the areas of Hanfa's competence, as well as by conducting professional and public consultation with interested stakeholders and drafting by-laws. One particular challenge is the fact that, for a long time, the European legislator has had a tendency to pass regulations through directly applicable regulations rather than directives, which leaves the national legislator limited space to exercise national discretion and proportionality in implementation. Even when EU regulations are adopted in the form of a directive, the text of that directive regularly incorporates the powers of the European Supervisory Authorities and the European Commission to regulate certain implementation issues through technical standards. Therefore, it is extremely important that all interested financial market participants take part in expert working groups in order to ensure optimal implementation and adaptation of this highly complex regulation to the Croatian market.

In 2018, Hanfa's experts participated in expert working groups to draft almost all major laws governing financial services in the Republic of Croatia. The Ministry of Finance's expert working groups completed the process of drafting the new Capital Market Act, the Act Amending the Insurance Act, the Act on Alternative Investment Funds, the Act Amending the Act on the Law on the Prevention of Money Laundering and Terrorist Financing and several acts enforcing the EU regulations covering Hanfa's area of competence. In addition, Hanfa contributed by giving its expert opinions with respect to the Draft Accounting Act. Expert working groups of the Ministry of Labour and Pension System drafted amendments to the Act on Mandatory Pension Insurance, the Act on Voluntary Pension Insurance and the Act on Pension Insurance Companies. Hanfa's experts participated in the expert working group of the Ministry of Justice, working on the Draft Act Amending the Companies Act and the Court Register Act. Within the expert working group of the Ministry of European and Foreign Affairs, Hanfa's representatives participated in the drafting of the Act on International Restrictive Measures.

As part of the implementation of these regulations, in 2018, Hanfa started the process of adjusting the existing and adopting the new by-laws, for whose adoption it is authorised by the above-mentioned legislative acts. Regulatory activities during this period also focused on the implementation of directly applicable EU regulations, as well as ensuring the application of the so-called level 3 regulations, adopted by the European Supervisory Authorities (ESMA, EBA and EIOPA), such as guidelines and questions and answers. In the process of adopting the by-laws, Hanfa is guided by the principles of transparency and cooperation with all interested stakeholders. All Hanfa's by-laws undergo the procedure of professional and public consultation through the e-Consultation application, and all the comments and remarks received during public consultation are duly considered before the adoption of the final draft regulation.

4.1 Capital market

4.1.1 Legislative activities – alignment with MiFID II²⁸ set of regulations

The new Capital Market Act, adopted in July 2018, is the most significant regulation in the field of financial services in 2018, implementing 15 EU directives into the Croatian legal system and ensuring the implementation of nine directly applicable EU regulations, making it the most comprehensive regulation under Hanfa's competence.

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The Capital Market Act introduced numerous changes concerning participants in the capital market. First and foremost, the way in which the exemption from the application of MiFID II applies to large and medium-sized companies trading in commodity derivatives, emission allowances and derivatives relating to emission allowances is changed; such companies must, through the submission of annual reports to Hanfa, prove that it is a "non-core" activity for that person and for the group to which that person belongs, in order to be able to use the exemption from the licensing obligation for the financial instruments trading business. With respect to business operations of investment firms and credit institutions providing investment services, new provisions regarding product management, independent investment consulting, additional incentives, qualifications of employees who inform clients about financial instruments or offer financial instruments should contribute to greater protection of retail investors. Furthermore, it is explicitly defined that the sale of units in funds is considered to be an investment service of receiving and transmitting orders which requires Hanfa's approval, which significantly affects the distribution channels of units in funds and the past sales practices. A new category of capital market participant - market intermediary - is also introduced, allowing smaller market participants to find their "niche" at lower administrative costs and without applying banking capital requirements, with activities being restricted on receiving and transmitting orders and investment consulting with respect to transferable securities and units in investment funds. The Capital Market Act also introduces a completely new trading venue – Organised Trading Facility (OTF), which is a new facility for trading in all non-equity financial instruments (bonds, derivatives, structured products), which differs from the regulated market and the multilateral trading facility (MTF) by a narrower range of products allowed, lower level of transparency and by a different way of combining supply and demand. One of the changes introduced by the Capital Market Act that affect the stock exchange is the reduction in initial capital, which is reduced from HRK 40m to 10m. A completely new regime for the delivery or publication of transaction data is introduced. Provision of data delivery services means the ability to perform operations as "approved publication arrangement" (APA), "consolidated tape provider" (CTP) and "approved reporting mechanism" (ARM). With respect to derivatives trading, new obligations are also introduced for medium and large enterprises as well as for financial entities with significant positions in OTC derivatives so that Hanfa can monitor the potential systemic risks that may arise from such entities' exposure. The part relating to the prospectus has not changed significantly, although the prospectus is now largely regulated by the Prospectus Regulation²⁹, which is a directly applicable regulation which is not transposed into national law. The EUR 5 million threshold for the exemption from the obligation to publish a prospectus remained the same. Out of the new exemptions from the obligation to publish a prospectus, the most important is the one

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

29 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

intended for issuers undergoing financial restructuring in order to facilitate the process of financial restructuring in the course of pre-bankruptcy or bankruptcy proceedings. Another novelty is liability in cases where the prospectus has not been published on time, or when the prospectus has not been published at all despite the obligation to publish it.

The part of the Capital Market Act that transposes the Transparency Directive³⁰ introduces Hanfa's authority to verify whether the financial information required by this Act is compiled in accordance with the relevant financial reporting framework, and to take appropriate measures if this is not the case, giving Hanfa the power to substantially enter the financial reports of issuers on the regulated market. With regard to the implementation of MAR Regulation³¹, the scope of MAR also extends to new platforms (MTF and OTF), to new types of financial instruments, to benchmarks, and to commodity exchanges, if manipulation on commodity exchanges may affect financial instruments traded on trading venues. A regular exchange of information between Hanfa and the State Attorney's Office of the Republic of Croatia is also a novelty, which is regulated by the agreement. An additional new thing is that with the entry into force of the Capital Market Act Hanfa became the competent authority for the spot market of emission allowances, which are now for the first time classified as financial instruments. In addition, the Capital Market Act deals with dematerialised securities, implementation of EMIR and CSDR, and partly with rules on finality of settlement and financial insurance (in terms of regulating the consequences of bankruptcy of participants in the clearing and settlement system). Finally, another significant change brought by the Capital Market Act is a large increase in the range of fines in misdemeanour provisions, as required by EU regulations, which demand high minimum penalties for violations of implemented regulations.

In addition to drafting the Capital Market Act, Hanfa also participated in the preparation of other acts ensuring the implementation of EU regulations, which were adopted in 2018 and are related to the capital market. These are the Act implementing Regulation (EU) 2015/2365 on transparency of securities financing transactions and of reuse³² and the Act implementing Regulation (EU) 2016/1011 on indices used as benchmarks³³, which give Hanfa additional responsibilities and competence.

4.1.2 By-laws

In 2018, Hanfa adopted 14 ordinances and one set of guidelines in the area of capital market. Some of the significant ordinances adopted under the new Capital Market Act are ordinances representing further harmonisation with the relevant EU regulations. In the area of investment services provision to investors, these are: the Ordinance on organisational requirements and conduct of business rules for the provision of investment services and performance of investment activities, and on remuneration policies and criteria for significant investment firms³⁴, the Ordinance on qualifications and staffing requirements for the

30 Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC, 31.12. 2004), as last amended by Directive 2013/50/EU of the European Parliament and of the Council of 22 October 2013 amending Directive 2004/109/EC of the European Parliament and of the Council on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, Directive 2003/71/EC of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading and Commission Directive 2007/14/EC laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC (Text with EEA relevance), OJ L 294

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

32 Official Gazette, No 12/18

33 Official Gazette, No 57/18

34 Official Gazette, No 89/18

provision of investment services³⁵ and Guidelines on distribution channels for investment products, which regulate in more detail the business conduct of investment firms and other investment service providers prescribed by the new provisions of the Capital Market Act with respect to transparency. The Ordinance on the contents and structure of issuers' annual report and on the form and manner of its submission to the Croatian Financial Services Supervisory Agency³⁶ and 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 Agency³⁷ govern the reporting of companies listed on the regulated market. In the segment of abuse prevention, the Decision on the manner and deadlines for the submission of insider lists and the Ordinance on reporting possible or actual violations of the Regulation (EU) No 909/2014 of the European Parliament and of the Council³⁸ shall ensure compliance with EU regulations on market abuse.

4.1.3 Other regulatory activities

During 2018, Hanfa continued with the project of revising and implementing the Code of Corporate Governance for the Issuers on the Regulated Market (hereinafter: the Code) in cooperation with the European Bank for Reconstruction and Development (hereinafter: the EBRD) and the ZSE. The aim of the project is to strengthen the implementation of best practices, optimise the monitoring of companies in the area of corporate governance and increase the level of transparency as an important precondition for the development of the capital market. The most important features of the Code are the emphasis on the composition, tasks and responsibilities of supervisory boards, management boards and supervisory board committees (nomination, audit and remuneration committee), the independence of members of supervisory boards and supervisory board committees as a whole, management of conflict of interest, gender equality in boards, remuneration policy, introduction of the function of general secretary of the company and the function of investor relations, relationship with company shareholders, and social and environmental issues. The adoption of the Code is expected in 2019, with the first reporting under the Code in 2020.

4.2 Investment funds

4.2.1 Legislative activities – Alternative Investment Funds Act entering into force

In March 2018, a new Alternative Investment Funds Act was adopted, which amended the provisions for which the previous practice and experience had shown that there was a need for their more successful or detailed regulation. First and foremost, the changes involve the classification of AIFMs into three classes - small, medium and large AIFMs, based on the criteria for the size of assets managed by the AIFM and the category of investors to which the units of each AIF may be offered. The purpose of introducing these categories is to facilitate and simplify the establishment and operation of small and medium-sized AIFMs, whereby these categories of managers are exempted from a large part of the requirements laid down by this Act and the Commission Delegated Regulation (EU) No 231/2013³⁹ and with which the large AIFMs still have to comply fully. By adopting this act the intention was to ensure a high level of retail

35 Official Gazette, No 82/18

36 Official Gazette, No 114/18

37 Official Gazette, No 114/18

38 Official Gazette, No 47/18

39 Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision, OJ L 83

investor protection by prescribing the strictest requirements for managers of those AIFs whose units are intended for that investor category. The provisions relating to licensing procedures were also amended, simplifying the procedures in question, with a view to a more cost-effective and expedient conduct and to relieve Hanfa's supervised entities.

This Act additionally regulates the security and stability of business operations of AIF management companies and AIFs themselves in order to further develop their business, as well as to strengthen the protection of investors in such funds, thereby promoting confidence in the capital market and thus the stability of the financial system in the Republic of Croatia.

4.2.2 Act implementing the Money Market Funds Regulation

This Act, adopted at the end of December 2018, allows for the direct implementation of the Money Market Funds Regulation⁴⁰ in a way that it determines the procedure for issuing authorisations for the establishment and management of cash funds, the scope of work and powers of the competent authority, as well as misdemeanours for acting contrary to that Regulation, and the amount of fines for certain offences by legal and natural persons to which this Regulation applies.

The Money Market Funds Regulation establishes uniform rules for the operation of money market funds in order to preserve the integrity and stability of the internal market and prevent the infestation of short-term financing market, which would threaten the stability of the EU financial market. Uniform EU-wide rules are needed to ensure that money market funds can meet investor payout requirements, especially in times of market stress, to ensure that such funds can handle significant and sudden numerous investors' payout requirements, and in order to ensure smooth functioning of the short-term financing market for financial institutions, corporate issuers of short-term debt financial instruments and governments. In addition, such rules are necessary to ensure equal treatment of investors in the money market fund and to avoid the recipients of late payments being disadvantaged if the payments are suspended or if the fund is liquidated.

4.2.3 By-laws

In the area of investment funds, two amendments to ordinances were adopted in 2018, the Ordinance amending the Ordinance on determining the net asset value of UCITS and the price of UCITS units⁴¹ and the Ordinance on determination of the net asset value and unit price of alternative investment funds⁴².

4.3 Pension system and pension funds

4.3.1 Legislative activities – further improvement of regulation on pension funds

The set of pension laws adopted by the Croatian Parliament at the end of 2018 is of great importance for the Croatian pension system, especially for citizens as members of mandatory pension funds, as it introduced some truly important innovations and steps forward precisely towards further sustainability of the system itself. It is already known that pension companies are now able to make some new types of investments (infrastructure projects, increase in the limit of investment in shares, investments in the so-called start-ups), which also affect the development of the Croatian economy. However, the amend-

40 Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds, OJ L 169

41 Official Gazette, No 114/2018

42 Official Gazette, No 114/2018

ments to the Mandatory Pension Funds Act reduced the fees charged by pension companies and, for example, as regards mandatory pension companies, it is stipulated that a certain excess of the collected fees should be allocated to pension funds – i.e. to citizens. Another novelty is a different allocation of insured persons who did not choose a mandatory pension fund by themselves. In the past, all pension companies would receive an equal number of insured persons, but now the criterion of the highest return has been added, taking into account the risk factors in order to increase competition between pension companies. All these novelties without a doubt affect the sustainability of the existing pension system. Moreover, the idea was to reduce the costs of the pension system as a whole and to strengthen the competition between pension companies and the market structure. This set of pension laws should encourage diversity among pension companies particularly in the segment of investment policy, in order to achieve better returns and a stronger market position, which ultimately affects the competition between pension companies. Pension companies should also be encouraged to create their own, unique investment strategies, which should ultimately lead to risk diversification throughout the system.

In addition to changes in regulations in the field of mandatory pension insurance, the year 2018 was also marked by changes in regulations concerning the so-called third pillar - voluntary pension savings, which was additionally promoted to potential members by amendments to the Voluntary Pension Funds Act, especially in the segment of regulation of fees paid by voluntary pension companies. The amendments to the regulation abolished the entry fee for voluntary pension funds, while the management fee and the exit fee were limited. In addition, users are given greater choice as regards the disbursement of funds – this can now be done by a pension insurance company, a pension company and an insurance company, which should ultimately increase competition in this segment as well. Moreover, users are now allowed to withdraw a maximum of 30% of the amount they have saved at one time, while this amount was previously limited to HRK 10,000 only.

4.3.2 By-laws

With respect to regulating pension funds, five ordinances were adopted in 2018, amending ordinances governing business operations of mandatory and voluntary pension funds: Ordinance amending the Ordinance on determining the net asset value and the value of accounting units of mandatory pension funds⁴³, Ordinance amending the Ordinance on the treatment of mandatory pension funds' members by the Central Register of Insured Persons and pension companies⁴⁴, Ordinance amending the Ordinance on annual, semi-annual and other reports of voluntary pension funds⁴⁵, Ordinance amending the Ordinance on the conditions for performing the function a member of the management and supervisory board of a voluntary pension company⁴⁶ and Ordinance amending the Ordinance on issuing authorisation to and on acquisition of a qualifying holding in a voluntary pension company⁴⁷.

4.4 Pension insurance companies

4.4.1 Legislative activities – two amendments to the Act on Pension Insurance Companies

In 2018, two amendments to the Act on Pension Insurance Companies⁴⁸ were adopted.

43 Official Gazette, No 114/2018

44 Official Gazette, No 86/18

45 Official Gazette, No 114/2018

46 Official Gazette, No 51/18

47 Official Gazette, No 51/18

48 Official Gazette, No 29/2018 and 115/2018

The first amendment to the Act Amending the Act on Pension Insurance Companies, from March 2018, established a regulatory framework for the compliance with the Recommendation 23 (Regulation and supervision of financial institutions) – the legislative framework for credit and financial institutions, from the Report on the 4th round of evaluation of the Republic of Croatia by the Council of Europe's MONEYVAL committee in relation to the implementation of measures for the prevention of money laundering and terrorist financing, enabling Hanfa to collect data in the procedures for issuing approvals for acquiring qualifying holdings and issuing approvals for performing the function of a member of the management board in financial institutions, in order to prevent that associates of persons convicted for criminal offences become the acquirers of qualifying holdings in financial institutions or members of the management boards in financial institutions. Furthermore, the Act transposes the Directive (EU) 2014/50⁴⁹, which regulates the rights of workers in connection with supplementary pensions when migrating from one Member State to another. This facilitates the exercise of workers' rights to freedom of movement and further facilitates mobility by improving the system of acquiring and maintaining the supplementary pension entitlement of workers leaving for work in another Member State.

Other amendments of the Act Amending the Act on Pension Insurance Companies from December 2018 improved the system of individual capitalised pension savings in order to improve the operations of entities in the capitalised system, for the benefit of all members of pension funds, which should ultimately result in an increase in the amount of pensions of pension fund members and adjustment with other regulations passed. Furthermore, the implementation of the Directive (EU) 2016/2341⁵⁰ additionally regulates the supervision of cross-border operations of pension companies, as well as protection of pension beneficiaries in case of cross-border provision of services. The amendments have introduced a significant improvement of the management system by prescribing the requirements regarding fitness and propriety of key function holders in a pension insurance company. Moreover, additional obligations are prescribed regarding the assessment and risk management by the pension insurance company, as well as additional information that it must provide to prospective members to enable them to make an informed decision regarding the pension schemes offered. Other significant amendments include the prescribing of the minimum capital of HRK 23.1m for the pension insurance company, enabling the payment of pensions under the third pillar to life insurance companies, reducing performance rewards from 25% to 10%, thus reducing the overall administrative costs and semi-annual adjustment of second-pillar payments in accordance with the rate of change in the consumer price index. Finally, investment opportunities in infrastructure projects in the territory of the Republic of Croatia are expanded, given that infrastructure projects are recognised as a separate asset class in aspects such as exposure to various risk factors, frequency of valuation, longer-term investment horizons and their illiquidity.

4.4.2 By-laws

The year 2018 saw the adoption of the Ordinance amending the Ordinance on the requirements for membership in management and supervisory boards of pension insurance companies⁵¹ and the Ordinance on the requirements for issuing authorisation and for acquisition of a qualifying holding⁵². These further elaborate the conditions for members of the management board and supervisory board of a pension insurance company and acquirers of a qualifying holding in a pension insurance company, and in particular the conditions regarding the associates of these persons.

49 Directive 2014/50/EU of the European Parliament and of the Council of 16 April 2014 on minimum requirements for enhancing worker mobility between Member States by improving the acquisition and preservation of supplementary pension rights, OJ L 128

50 Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs), OJ L 354

51 Official Gazette, No 48/18

52 Official Gazette, No 48/18

4.5 Insurance market

4.5.1 Legislative activities – alignment with the Insurance Distribution Directive

The Act Amending the Insurance Act⁵³, which entered into force in December 2018, lays down new rules for conducting insurance and reinsurance distribution activities in the territory of the Republic of Croatia and cross-border, implementing the Insurance Distribution Directive. A new term “distribution of insurance” is introduced, denoting the activity of proposing and concluding insurance contracts, consulting on insurance contracts or performing other preparatory actions for the conclusion of insurance contracts, or activity of concluding such contracts, or providing assistance in managing such contracts and their execution, especially in the case of processing damage claims. The former insurance and reinsurance brokerage companies have become insurance and/or reinsurance brokerage services companies, in accordance with the terminology used in everyday practice. An important new thing is the introduction of the Insurance Product Information Document, which insurance distributors must give to consumers before concluding a non-life insurance contract in order to enable them to make an informed decision.

In addition to the amendments introduced in order to transpose the Insurance Distribution Directive, amendments have been made to other provisions of the Insurance Act, as regards the definition of reinsurance, the possibility of informing and exchanging information with other authorities on the suitability of the proposed acquirers of a qualifying holding, obligations of board members to notify Hanfa on the cessation of the function of a member of management or supervisory board, technical provisions in insurance where the policyholder bears the investment risk, and the possibility of consulting with the ESRB with regard to adopting a decision extending the deadline for taking action to eliminate non-compliance with the Solvency Capital Requirement. The Act Amending the Insurance Act also contains provisions defining the freedom to provide services in the territory of another Member State, as well as the freedom of establishment, that is, through the establishment of a branch or a permanent presence in the territory of another Member State, and the role of Hanfa in supervising business operations. In order to implement the Regulation (EU) No 537/2014⁵⁴ the provisions and changes in the framework for auditing the annual financial statements, which are regulated by the new Audit Act⁵⁵, have been adjusted terminologically. Finally, the protection of information under agreements with third countries and the Swiss Confederation is now regulated more clearly.

Just like in the case of the Capital Market Act, particular attention is given to professional requirements that insurance and reinsurance distributors and employees of insurance and reinsurance companies carrying out such operations must fulfil in order to carry out their tasks properly. In terms of expertise, three basic areas are distinguished and defined - non-life insurance, life insurance and insurance-based investment products. A significant novelty is the introduction of at least 15 hours of professional training, which include knowledge of the terms of the policies offered, the law in the area of insurance products distribution, and the resolution of complaints and claims through the standards of business ethics to the knowledge of tax laws and savings products. In case the annual training obligation is not fulfilled, Hanfa has the authority to remove the distributor from the register. The cross-selling has been regulated in such a way that when an insurance product is offered together with an additional non-insurance product or service, as part of a package or contract, insurance distributors must inform consumers whether it is possible to separately purchase these different elements and, if it is, give them an adequate description of the contract or package elements, as well as separate evidence of the costs and fees for each element. Customers should be able to purchase the goods or services separately. The Act Amending the Insurance

53 Official Gazette, No 112/18

54 Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, OJ L 158

55 Official Gazette, No 127/17

Act introduces rules with regard to product management. Insurance products producers are required to maintain, keep and verify the approval process for each insurance product or the process of substantially adapting existing insurance products before they are placed on the market or distributed to customers. Insurance companies are obliged to regularly review the insurance products they offer or sell, taking into account any event that could significantly affect the potential risk to the identified target market, in order to at least assess whether the product is still adapted to the needs of the identified target market and whether the planned distribution strategy remains appropriate. Insurance-based investment products should be singled out as a particularly sensitive and most intensively developing area. Due to their complexity and close connection with other complex financial instruments, the distribution of this type of product will require special education and a higher level of understanding of the functioning of various markets, especially capital markets. Sellers of such insurance products must take into account the financial knowledge and experience of consumers, their risk preference as well as their general economic capabilities. Given the objective complexity of such products, the criteria for their selling are stricter and require a greater commitment of intermediaries to clients. The information should be clear and tailored to the customers' educational and risk profile in order to give them a satisfactory possibility of choice. Finally, the Act Amending the Insurance Act explicitly requests that all costs and fees associated with the sale of such products are specified, and in particular the costs of consulting the customers.

4.5.2 By-laws

In 2018, Hanfa adopted amendments to the Ordinance amending the Ordinance on the structure and contents of financial statements and additional reports of insurance companies and/or reinsurance companies⁵⁶, which introduced amendments in the part regarding additional reports of insurance companies and/or reinsurance companies and in the part regarding deadlines for the submission of monthly additional reports of the insurance companies and/or reinsurance companies.

4.5.3 Other regulatory activities

In 2018, the following legislation entered into force:

- Commission Implementing Regulation (EU) 2018/165⁵⁷ defining technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 31 March until 30 March 2018 in accordance with the Solvency II Directive.
- Directive (EU) 2018/411⁵⁸, amending the IDD in such a way that it establishes that Member States shall, by 1 July 2018, adopt and publish acts, regulations and administrative provisions necessary to comply with this Directive and shall forthwith inform the Commission thereof. In addition, this Directive establishes that the Directive on Insurance Mediation⁵⁹ should be repealed with effect from 1 October 2018.

56 Official Gazette, No 96/18

57 Commission Implementing Regulation (EU) 2018/165 of 31 January 2018 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 31 March until 30 March 2018 in accordance with Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance, OJ L 31

58 Directive (EU) 2018/411 of the European Parliament and of the Council of 14 March 2018 amending Directive (EU) 2016/97 as regards the date of application of Member States' transposition measures, OJ L 76

59 Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation, OJ L 9

4.6 Leasing and factoring market

4.6.1 By-laws

In 2018, Hanfa adopted the following ordinances for leasing and factoring activities, which prescribe and strengthen management systems in leasing and factoring companies: The Ordinance on organisational requirements for leasing companies⁶⁰, which stipulates the organisational requirements and manner of performing internal audit activities in leasing companies, as well as the Ordinance on criteria for and manner of leasing companies' risks management⁶¹ and the Ordinance on criteria for and manner of factoring companies' risks management⁶², which prescribe strategies, policies, procedures and measures for risk management, risk measurement techniques, risk monitoring and reporting and division of responsibilities in connection with risk management in leasing and/or factoring companies.

4.7 Other

4.7.1 Legislative activities

In December 2018, the Act implementing the Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs)⁶³ was adopted. This is a cross-sectoral regulation applicable to all Hanfa's supervised entities involved in the issuance and distribution of investment products, i.e. packaged retail investment products and insurance-based investment products. The objectives of the PRIIPs Regulation⁶⁴ are to ensure the provision of necessary information to retail investors for investments where the amount repayable to the retail investor is subject to fluctuation because of exposure to reference values, or subject to the performance of one or more assets which are not directly purchased by the retail investor, laying down of common standards for the drafting of the key information document, in order to ensure that it is comprehensible to retail investors, prescribing the responsibilities of issuers of such products for the accuracy of the key information document, provision of the key information document in good time before any transaction is concluded, and market monitoring for insurance-based investment products. The Act gives Hanfa the competence to carry out supervision, to impose supervisory measures, to file charges as well as to co-operate with other competent bodies.

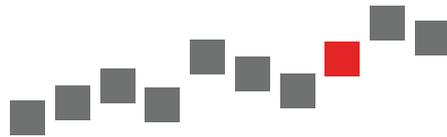
60 Official Gazette, No 86/18

61 Official Gazette, No 86/18

62 Official Gazette, No 86/18

63 Official Gazette, No 112/18

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



Licensing and training



5 Licensing and training

Hanfa carries out licensing procedures pursuant to relevant regulations, which involves the initial assessment of adequate professional qualifications, knowledge and experience needed to manage activities of supervised entities with due skill, care and diligence and the initial assessment of competence, good repute, integrity and suitability requirements relating to persons that effectively govern or have other key functions in supervised entities. While assessing candidates performing key functions in entities compliant with authorisations lying within Hanfa's competence, Hanfa not only assesses formal requirements, but also analyses the conduct of candidates in their previous professional work. Based on all available information, Hanfa adopts a final decision on whether it can be correctly concluded that candidates will perform functions they have been appointed to in a sound and honest manner. Licensing procedures serve to reach the primary objective, namely to promote the legality and stability of business operations of supervised entities and the overall financial system, by ensuring that responsible persons have adequate knowledge and expertise needed to perform particular functions and that they are suitable as regards their personal and professional integrity.

5.1 Licensing

The overview of authorisations, approvals and prior approvals given, authorisations and approvals revoked and other licensing activities carried out in 2018 is given below by type of industry.

5.1.1 Capital market

Following applications received, a total of 33 authorisations, approvals and prior approvals were issued in accordance with the Capital Market Act. Authorisations to carry out brokerage and investment advisory activities were issued by Hanfa until the entry into force of the new Capital Market Act⁶⁵, after which Hanfa no longer issues these authorisations, but only organises examinations for brokers and investment advisors.

Table 5.1.1 Authorisations and approvals - capital market

Authorisations issued	2016	2017	2018
Authorisations issued - brokers	4	2	4
Authorisations issued - investment advisors	13	114	21
Authorisations issued - tied agents	0	1	0
Authorisations issued - investment firms	0	0	0
Approvals issued to board members	4	3	4
Prior approvals issued to credit institutions ⁶⁶	2	0	3

Source: Hanfa

In 2018, Hanfa also issued an approval to acquire a qualifying holding⁶⁷ in an investment firm and an approval to an investment firm to perform non-core activities.

65 Brokers and investment advisors submitted their applications for authorisation after having passed the examination in accordance with subordinate legislation until the entry into force of the new Capital Market Act.

66 A credit institution with its registered office in the Republic of Croatia may provide investment services and perform investment activities and related ancillary services if it has obtained authorisation by the Croatian National Bank and Hanfa's prior approval.

67 A qualifying holding is a direct or indirect holding in entities within Hanfa's competence, which makes it possible to exercise a significant influence over the management of the company. Therefore, laws falling within Hanfa's competence lay down a requirement to obtain Hanfa's prior approval or consent in the case of a change of holders of qualifying holdings.

Termination of authorisations for brokers, investment advisors and tied agents was entered into respective registers after these persons ceased to fulfil legal requirements (termination of employment for brokers and investment advisors and breaking of a contract signed with the investment firm for tied agents).

Table 5.1.2 Termination of authorisations - capital market

Termination of authorisations	2016	2017	2018
Brokers	7	7	3
Investment advisors	6	11	5
Tied agents	1	0	0

Source: Hanfa

In 2018, Hanfa approved six applications for the approval of prospectuses. Out of the six approved prospectuses, two were related to the public offering and admission of shares to the regulated market, one was related to the public offering and admission of bonds to the regulated market, and three were related to the admission of shares to the regulated market. In 2018, there were two more prospectuses approved than in 2017. The amount of approximately HRK 550m was collected on the capital market via prospectuses in connection with the public offering, which was a decrease compared to 2017, when the amount collected reached HRK 1.1bn.

In addition to prospectuses approved, Hanfa received a total of 14 notifications relating to prospectuses and 44 notifications relating to supplements to prospectuses from competent authorities in other Member States. Such prospectuses and supplements to prospectuses have the same effect as those approved by Hanfa. Notified prospectuses were mainly related to the issuance of structured securities of credit institutions. The notifications were received from regulators in Luxembourg (40), Austria (10) and Ireland (8).

The Capital Market Act sets out cases where persons proposing to offer securities to the public or list them for trading on a regulated market are not obliged to publish a prospectus. In accordance with this, Hanfa received 48 notifications of the exemption from the obligation to publish a prospectus pursuant to Article 412 of the Capital Market Act, which lays down the obligation to inform Hanfa of the intention to make use of the exemption from the obligation to publish a prospectus relating to the issuance (public offering) and admission to trading of securities. The majority of the notifications were related to exemptions from the obligation to publish a prospectus when issuing securities referred to in Article 409 of the Capital Market Act and three notifications were related to exemptions from the obligation to publish a prospectus when securities are admitted to trading on a regulated market referred to in Article 410 of that Act. The exemptions relating to the issuance of securities were most often used in the following cases: an offer of securities addressed to fewer than 150 natural or legal persons per Member State other than qualified investors (24), an offer of securities addressed solely to qualified investors (13), an offer of securities to existing or former board members or employees by their employer or by an affiliated undertaking (10) and other cases (7).⁶⁸

Notifications of the exemption from the obligation to publish a prospectus relating to the issuance of securities included applications for admission to trading of shares representing, over a period of 12 months, less than 20% of the number of shares already admitted to trading on the same regulated market. The notifications received concerned shares (31), structured products (12) and bonds (5).

OBLIGATION TO PUBLISH A TAKEOVER BID

The Act on the Takeover of Joint-Stock Companies lays down the obligation to publish a takeover bid when a natural or legal person acquires shares and exceeds the control threshold of 25% of shares carrying voting rights in the offeree company. An offeree company is a company whose shares are admitted to trading on the regulated market in the Republic of Croatia.

⁶⁸ Notifications of the exemption from the obligation to publish a prospectus may include several exemptions; therefore, the number of exemptions used is higher than the number of notifications received.

Six takeover bids were approved. A total of ca HRK 811m was paid for the deposited shares based on takeover bids, an amount significantly higher than in 2017, when the amount reaching only HRK 18.2m was paid on the basis of one approved bid.

Hanfa received eight notifications on the use of exemption to publish a takeover bid. They were related to cases where the transfer of shares of the offeree company did not cause a change of the person who exercises control of the offeree company or where shares were acquired through a transfer for the purpose of restructuring within a concern (five notifications) and to cases where decisions adopted by the general meeting pursuant to Article 14 paragraph 1 point 3 of the Act on the Takeover of Joint-Stock Companies⁶⁹ approved the acquisition of shares without the obligation to publish a takeover bid (three notifications).

5.1.2 Investment fund management companies and investment funds

In 2018, Hanfa adopted 85 decisions related to the licensing of investment fund management companies and investment funds and their depositaries, as shown in Table 5.1.3.

Table 5.1.3 Licensing procedures related to business operations of investment fund management companies and investment funds

Type of procedure	2016	2017	2018
Authorisation for UCITS management companies and authorisations for AIFMs	0	1	0
Authorisation for small AIFMs	2	0	1
Authorisation for medium-sized AIFMs (change of category of the existing AIFMs)	0	0	3
Revocation of the decision on the issuance of authorisation to AIFMs (change of category to medium-sized AIFMs)	0	0	1
Termination of authorisation for the establishment and operation of AIFs	1	0	1
Termination of authorisation to manage portfolios	0	0	1
Revocation of authorisation issued to AIFMs to establish and operate AIFs	0	0	1
Revocation of authorisation for the establishment and operation of AIFs	0	0	1
Approval for the establishment and operation of UCITS	11	9	5
Approval for the establishment and operation of AIFs	0	9	2
Approval for offering units of AIFs to retail investors in the Republic of Croatia	0	0	1
Approval/consent for the selection of the depositary bank	11	18	6
Approval/consent for the change of the depositary bank	3	1	13
Approval/consent for the conclusion of the agreement with the depositary bank	3	0	4
Liquidation of funds	1	0	2
Approval for the inclusion of UCITS into the umbrella fund	0	2	0
Approval for the inclusion of AIFs into the umbrella fund	0	2	0
Approval/consent for the merger of funds	2	3	3
Approval for exemptions from the investment restrictions referred to in Article 256 of the AOEIF	8	7	6
Approval/consent to carry out the function of a management board member	17	16	11
Approval of the prospectus and amendments to the prospectus	14	11	10
Approval/consent of the rules of the fund and of their amendments	18	19	6
Approval for delegating tasks to a third party	1	1	2
Approval for the acquisition of a qualifying holding in the management company	1	4	1
Approval for the company's status change (merger)	0	1	0
Approval for the exemption from the provisions of Article 53(2)(3) of the AOEIF	0	1	0
Approval/consent for the delegation of fund management tasks	3	2	4
Approval for the extension of authorisation issued to UCITS management companies	0	1	0

Source: Hanfa

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

5.1.3 Pension companies and pension funds

A total of 31 decisions were adopted as regards the licensing of pension companies and pension funds and their depositaries, as shown in Table 5.1.4.

Table 5.1.4 Licensing procedures related to business operations of pensions companies and pension funds

Type of procedure	2016	2017	2018
Approval for the appointment of a management board member of a mandatory/voluntary pension company	4	9	5
Approval for the appointment of a supervisory board member of a mandatory pension company	5	8	2
Approval for the establishment and operation of a mandatory pension fund	1	3	2
Approval for the selection and change of the depositary	1	3	2
Approval of the statute/amendments to the statute of a mandatory pension fund	0	6	12
Approval of the statute/amendments to the statute of a voluntary pension fund	1	3	2
Approval for the prospectus and significant amendments to the prospectus of a voluntary pension fund	1	3	2
Extension of authorisation of the pension company (for the establishment and operation of voluntary pensions funds)	0	0	1
Approval for the pension company's status change (merger)	0	0	2
Approval for the increase in the initial capital of the pension company	0	0	1
Approval for the delegation of tasks to a third party	2	0	0

Source: Hanfa

5.1.4 Pension insurance companies

In 2018, there were no licensing procedures related to pension insurance companies.

5.1.5 Insurance market

As regards the insurance market, a total of 14 authorisations were issued on the basis of applications received, as shown in Table 5.1.5.

Table 5.1.5 Licensing procedures related to the insurance market

Authorisations/approvals issued	2016	2017	2018
Authorisation to perform the function of an insurance company management board member	15	22	5
Approval for the acquisition of a qualifying holding in the management company	2	6	1
Approval issued to the insurance company to acquire another insurance company	2	2	2
Authorisation issued to the insurance company to pursue reinsurance business	1	0	1
Certificate and authorisation to perform duties of a certified actuary	10	3	5

Source: Hanfa

Hanfa also issued 82 authorisations to pursue insurance representation and brokerage business, which is similar to the number of authorisations issued in 2017. A total of 32 decisions were issued revoking authorisations/approvals to pursue insurance representation business.

Table 5.1.6 Authorisations to pursue insurance representation and brokerage business

Authorisations/approvals issued	2016	2017	2018
Authorisation issued to the insurance representation craft to pursue insurance representation business	107	61	60
Authorisation issued to the insurance agency to pursue insurance representation business	47	19	19
Authorisation issued to the insurance and reinsurance brokerage company to pursue insurance and reinsurance brokerage business	1	4	2
Authorisation issued to the insurance agency to pursue insurance representation business at the vehicle roadworthiness test garage	6	0	1

Source: Hanfa

Table 5.1.7 Termination and revocation of authorisations/approvals to pursue insurance representation and brokerage business

Termination/revocation	2016	2017	2018
Insurance representation craft	7	29	24
Insurance agency	8	28	7
Insurance and reinsurance brokerage company	2	1	0
Natural person (revocation of authorisation to pursue insurance representation business)	0	1	1
Credit institution	2	0	0
Insurance agency (authorisation to pursue insurance representation business at the vehicle roadworthiness test garage)	0	0	0
Insurance representation craft (authorisation to pursue insurance representation business at the vehicle roadworthiness test garage)	1	0	0

Source: Hanfa

5.1.6 Leasing companies

There were 18 decisions adopted as regards the licensing of leasing companies. The majority of them related to the issuance of approval to perform the function of a leasing company management board member.

Table 5.1.8 Authorisations and approvals issued to leasing companies

Authorisations/approvals issued	2016	2017	2018
Approval to acquire a qualifying holding in a leasing company	6	14	3
Approval to acquire qualifying holdings in another leasing company	0	0	0
Authorisation to perform the function of a leasing company management board member	18	8	14
Authorisation issued to the leasing company	0	0	0
Approval for merger	0	1	1

Source: Hanfa

5.1.7 Factoring companies

During the previous year, factoring companies were engaged in the process of aligning their business operations with the new Factoring Act⁷⁰. The majority of them fulfilled the requirements for the issuance of authorisation and approval for the acquisition of qualifying holdings and management board members

⁷⁰ Official Gazette, No 94/14 and 41/16

in 2017, while the remaining companies completed their alignment process in 2018. However, some factoring companies ceased to operate as a result of business decisions made by their owners to merge them with the parent company or as a result of decisions made by the owners to carry out winding-up proceedings following business problems they faced.

Table 5.1.9 Licensing procedures related to the factoring market

Authorisations/approvals issued	2016	2017	2018
Approval to acquire a qualifying holding in a factoring company	6	10	6
Approval to acquire qualifying holdings in another factoring company	0	0	0
Authorisation to perform the function of a factoring company management board member	18	18	3
Authorisation issued to the factoring company	0	7	1
Approval for merger	0	0	1
Termination of authorisation issued to the factoring company	0	1	3

Source: Hanfa

5.2 Examinations and training

5.2.1 Examinations for brokers, investment advisors and certified pension insurance company managers

Pursuant to the Ordinance on the professional training and examinations taken by candidates for certified pension fund managers, certified pension insurance company managers, brokers and investment advisors⁷¹, in 2018 Hanfa organised a professional training and examination cycle for certified pension fund managers, certified pension insurance company managers, brokers and investment advisors.

Two examination terms were organised for brokers, investment advisors and certified pension insurance company managers respectively.

Table 5.2.1 Examination results

		First examination term		Second examination term	
Brokers	Candidates who applied	6		8	
	Candidates who took the examination	6		7	
	Passed	4	67%	5	71%
	Failed	2	33%	2	29%
Investment advisors	Candidates who applied	144		97	
	Candidates who took the examination	142		96	
	Passed	34	24%	35	36%
	Failed	108	76%	61	64%
Certified pension insurance company managers	Candidates who applied	2		1	
	Candidates who took the examination	2		1	
	Passed	2	100%	0	0%
	Failed	0	0%	1	100%

Source: Hanfa

71 Official Gazette, No 133/15

5.2.2 Examinations for insurance and/or reinsurance agents and brokers

In 2018, five examination terms were organised for insurance agents and insurance and/or reinsurance brokers. The examinations were held in accordance with the Ordinance on the requirements for professional training and examination of professional knowledge required to obtain authorisation to carry out insurance representation or insurance and reinsurance brokerage business⁷².

Table 5.2.2 Examination results

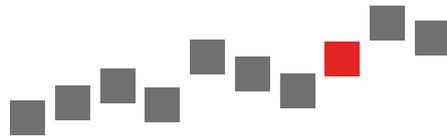
		First examination term		Second examination term		Third examination term		Fourth examination term		Fifth examination term	
Insurance agents	Candidates who applied	131		197		108		218		119	
	Candidates who took the examination	119		178		100		205		95	
	Passed	107	90%	154	87%	72	72%	155	76%	78	82%
	Failed	12	10%	24	13%	28	28%	50	24%	17	18%
Insurance and/or reinsurance brokers	Candidates who applied	4		2		1		7		5	
	Candidates who took the examination	4		2		1		7		5	
	Passed	2	50%	2	100%	0	0%	7	100%	5	100%
	Failed	2	50%	0	0%	1	100%	0	0%	0	0%

Source: Hanfa

5.2.3 Training organised in cooperation with Zagreb Stock Exchange and Central Depository and Clearing Company

In June 2018, Hanfa organised, for the ninth time, training for issuers in cooperation with the ZSE and CDCC. The training placed emphasis on the revision of Hanfa and ZSE's common Code of Corporate Governance, supported by the European Bank for Reconstruction and Development. It also provided an overview of the supervision of financial information of issuers, Hanfa's new task laid down in the new Capital Market Act, and of the single electronic reporting format for the preparation of issuers' annual financial statements for reporting periods beginning on 1 January 2020.

⁷² Official Gazette, No 16/16



Consumer protection and improvement of financial literacy



6 Consumer protection and improvement of financial literacy

Building confidence among financial market participants and informing consumers are the principles that guide Hanfa, as the supervisor of the financial services sector, in achieving its goals. Hanfa attaches great importance to monitoring the protection of consumers (users of financial services) and activities aimed at raising the level of financial literacy of service users and the general public. This includes Hanfa's stand-alone activities and cooperation with other stakeholders in the area of financial literacy improvement, as well as work on customer complaints and their analysis. Intensification of activities related to increasing the level of financial literacy through an even stronger engagement in cooperation with educational institutions, updating the content on its website and strengthening inter-institutional cooperation with other stakeholders in this field are planned in the future.

6.1 Raising the level of financial literacy

Hanfa is continuously undertaking activities aimed at informing the public about the functioning of the financial system and enabling the users of financial services to obtain the necessary information in a timely manner. The activities during the year were primarily aimed at the development of awareness of risks related to investments in financial instruments and of rights and obligations of supervised entities and users of their services.

In order to foster cooperation with stakeholders in the area of financial literacy improvement, in early 2018, Hanfa issued an invitation to interested educational institutions and organisations operating in connection with educational institutions (secondary schools, high schools and colleges, universities, faculties, student associations, etc.) and other interested stakeholders (such as consumer protection organisations, legal counselling organisations, organisations dealing with financial literacy and consumer informing, etc.) to submit proposals for establishing or continuing cooperation. Lectures and workshops were held for hundreds of pupils and students, thus presenting the work of Hanfa and topics within its competence.

The Ministry of Finance, the coordinator of activities in the area of consumer financial literacy, initiated the conclusion of the Agreement on cooperation in improving the financial literacy of consumers in the Republic of Croatia. The Agreement was signed in 2018, by Hanfa along with 15 other institutions - representatives of public bodies, non-governmental organisations and financial institutions.

Hanfa also cooperated with other state institutions in the area of consumer protection and financial literacy in 2018 (membership in the National Consumer Protection Council, cooperation with the Ministry of Economy, Entrepreneurship and Crafts, membership in 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) and participated in the implementation of the project of the Croatian Chamber of Economy and the City Office for Education, Culture and Sports of the City of Zagreb called "The more we know, the better we understand". The project, held for the second consecutive year, is intended for teachers and pupils of five secondary schools in Zagreb, with 200 pupils and about 240 teachers participating. It encompassed seven thematic units with lectures on banking products and services, personal finances, insurance as an investment in our future, investment and pension funds, capital market and importance of financial literacy for young people.

6.2 Hanfa website as a source of useful information related to finance

In order to protect investors, particular attention is paid to the publication of press releases and warnings on various risky types of investments and financial transactions, such as warnings regarding certain products and services (virtual currencies, life insurance where the policyholder bears the investment risk, and features of the Regulation on key information documents for **packaged retail and insurance-based investment products**), as well as regarding activities of certain entities in the Republic of Croatia. On its website Hanfa also published the warnings by the European Securities and Markets Authority (ESMA) and the International Organisation of Securities Commissions (IOSCO), educational texts, Q&A, publications, manuals, data on supervised entities' business performance, and other relevant announcements and news containing information and statements under Hanfa's scope of activities. During 2018, initial preparations were made to conceptualise and define the process of producing new publications with content that would be interesting to the general and professional public. They will be published on Hanfa website, and the publication is scheduled for 2019.

EUROPEAN AND WORLD MONEY WEEK 2018

During the celebration of the European and World Money Week in March 2018, a student debate was held at the Faculty of Economics in Osijek, where students of that faculty and of Faculty of Economics in Zagreb, with the help from a mentor from Hanfa, debated on the topic "Mediation in insurance". On the same day, Hanfa's representative participated in a media round table organised by the daily paper "24 sata" and the Croatian Banking Association, and on that occasion presented the activities and efforts that Hanfa is making with the aim of increasing the financial literacy. After earlier visits to Zagreb's secondary schools within the project of the Croatian Chamber of Economy "Financial Literacy", during the Money Week, Hanfa was also involved in the activities of county chambers, which educated secondary school students in Slavonski Brod, Osijek, Sisak, Zadar, Karlovac and Rijeka. On that occasion, through interactive lectures students were introduced to the concept of Hanfa, its main activities and the importance of financial literacy. Representatives of banks, insurance companies and investment fund management companies also participated in the lectures, presenting basic concepts in their respective fields. The lectures were attended by more than 300 pupils. One lecture was given to about 150 students at the Faculty of Economics in Zagreb, with the support of the dean and many other distinguished lecturers. At the round table "Financial literacy of young people" held at the Croatian Chamber of Economy, the participants presented their experience in the implementation of activities in the area of financial literacy, emphasizing the need to continue successful cooperation in carrying out educational activities with the aim of raising the financial literacy of citizens, especially young people. During that week, apart from the central event at the Ministry of Science and Education, Hanfa also participated in the celebration of the Consumer Rights Week organised by the Ministry of Economy, Entrepreneurship and Crafts, whose main event was held in Zagreb on 15 March 2018.

6.3 Consumer protection

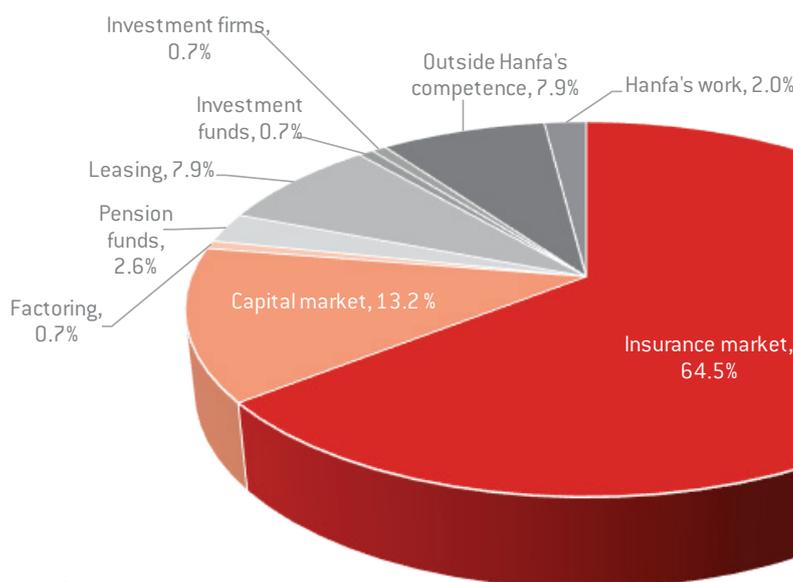
Hanfa receives consumer complaints and encourages communication with financial service users, including the receipt of information regarding suspected misconduct by Hanfa's supervised entities. In 2018, Hanfa received 152 complaints. For complaints found to be within Hanfa's competence and scope of action, Hanfa normally requests documentation and statements from entities against which the complaint is filed and, if necessary, it initiates supervision through administrative proceedings. Complaints that are not within Hanfa's competence are forwarded to other competent institutions, and senders of the complaints are notified about it. Hanfa provided prompt replies to all the complaints falling within its area of competence within 30 days after the reception of the complaints, at the latest. Depending on specificities of each case, the replies included information on the course of action taken or on the result of such action.

Table 6.3.1 Number of complaints received in 2016, 2017 and 2018 by submitters

Type of complaint	Number of complaints received in 2016	Number of complaints received in 2017	Number of complaints received in 2018
Natural persons	111	147	115
Legal persons	19	24	21
Anonymous	6	15	16
Total	136	186	152

Source: Hanfa

Figure 6.3.1 Number of complaints received in 2018 by submitters



Source: Hanfa

For regulatory authorities, acting on complaints can be a useful indicator for supervisory activities, and in a few cases, following Hanfa's reaction on certain allegations in complaints, some deficiencies were found in the actions of supervised entities. However, in many cases, the claims against insurance companies' actions were not in connection with Hanfa's competence and scope of action, instead they related, for example, to the possibility of termination of insurance contracts and the justification and amount of claims, i.e. topics under the Civil Obligations Act. This confirms the need to undertake additional activities related to raising the level of financial literacy of users of financial services, i.e. the general public, so they can be aware of their rights and obligations arising from contractual relations and of the competence of individual state institutions.

This is precisely why in 2018, Hanfa undertook a number of various preparatory actions with the intention to influence the increase of the level of financial literacy and better provision of information about financial services to the general public, in the coming years. As part of the restructuring of Hanfa's internal organisational structure, a new organisational unit (Consumer Protection Monitoring and Education Department within the Systemic Risks and Consumer Protection Division) was established to improve the consumer protection monitoring process. Hanfa initiated activities to further inform the users of services of its supervised entities about the business operations of these entities and to clarify data from the financial services market. Preparations were done to work on new Hanfa's publications and to present certain data through a standard presentation format; the realisation of these projects is expected in the first half of 2019.

Consumer protection activities included work within ESMA's Financial Innovation Standing Committee and the Committee on Consumer Protection and Financial Innovation of the European Insurance and Occupational Pensions Authority (EIOPA), by following the work of committees, participating in research, reporting on complaints and exchanging experience with other Member States with respect to consumer protection issues.

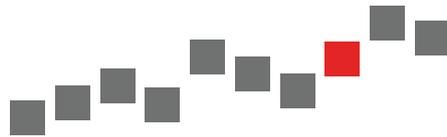
6.4 Access to information

In 2018, Hanfa continued meeting its obligations laid down by the Act on the Right to Access Information⁷³, such as handling requests for access to information from domestic and foreign natural and legal persons, regularly and transparently publishing relevant information from Hanfa's scope of work, as well as conducting consultations with the interested public on draft regulations within its competence via the e-Consultation system.

In 2018, Hanfa received and handled eight requests for access to information. Out of the total number of requests received, four were resolved in such a way that submitters were granted access to the information requested, while with respect to three requests, a notice was issued in accordance with Article 23(2) of the Act on the Right to Access Information, in which submitters were notified that the request was not considered the request of the information access, and they were instructed on how to obtain what they needed. One request was transmitted within the prescribed period to a public authority, for which Hanfa was aware that it had the requested information.

On its website, Hanfa published information on consultations with the public concerned in connection with subordinate acts under Hanfa's competence and calls for comments on their content on the central government portal for public consultations with the public concerned (e-consultations). It also published laws, subordinate regulations and their consolidated versions.

⁷³ Official Gazette, No 25/13 and 85/15



International cooperation



7 International cooperation

International organisations in whose work Hanfa participates

Europe	World
<p>The European System of Financial Supervision (ESFS) is a combination of micro-prudential and macro-prudential supervisory authorities set up by the European institutions to ensure comprehensive and consistent supervision of the financial system in the EU.</p> <p>The micro-prudential system of financial institutions supervision at the European level consists of three supervisory authorities - ESMA (European Securities and Markets Authority), EIOPA (European Insurance and Occupational Pensions Authority) and EBA (European Banking Authority). Their common goal is to ensure the integrity, transparency, efficiency and orderly functioning of financial markets. EBA implements it with respect to prudential regulation and supervision of the European banking sector, ESMA with respect to financial markets and consumer protection, and EIOPA with regard to insurers and occupational pension beneficiaries.</p> <p>The ESRB (European Systemic Risk Board) is responsible for macro-prudential oversight of the financial system at the European level and its primary objective is to prevent and mitigate systemic risk to the EU financial stability, in order to avoid periods of large-scale financial disruption. It contributes to the smooth functioning of the internal market and thereby ensures a sustainable contribution of the financial sector to economic growth.</p> <p>These supervisory authorities, together with the national regulatory authorities of each EU Member State, exchange information through working groups and committees and work on the harmonisation and consistent application of financial supervision in the EU, as well as the assessment of risks and vulnerabilities in the financial sector, with a view to safeguarding financial stability and promoting confidence in the financial system as a whole, as well as ensuring sufficient consumer protection.</p> <p>Hanfa is the member of ESMA, EIOPA and ESRB, and it participates in the work of EBA through cooperation with the Croatian National Bank.</p>	<p>IAIS (International Association of Insurance Supervisors) is a voluntary membership organisation of insurance supervisors and regulators from more than 200 jurisdictions. It is the international standard-setting body responsible for developing and assisting in the implementation of principles, standards and other supporting material for the supervision of the insurance sector. The IAIS mission 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. Hanfa joined IAIS in 2018.</p> <p>IOPS (International Organisation of Pension Supervisors) is the international organisation whose major goal is to improve the quality and effectiveness of the supervision of private pension systems throughout the world, thereby enhancing their development and operational efficiency, and allowing for the provision of a secure source of retirement income in as many countries as possible. IOPS currently has 87 members and observers representing supervisory bodies from 77 jurisdictions and territories worldwide, covering all levels of economic development and bringing together all types of pension or supervisory systems. The organisation cooperates closely with other international organisations involved in pension supervision policy development and dialogue, including the OECD, the World Bank, the International Social Security Association (ISSA), IAIS and the International Monetary fund. Hanfa is expected to join IAIS in 2019.</p> <p>IOSCO (International Organisation of Securities Commissions) brings together more than 115 national capital market supervisors. IOSCO develops, implements and promotes adherence to internationally recognised standards for capital market regulation. It seeks to strengthen cooperation between regulators, particularly in terms of law enforcement and information exchange, for example, in connection with market abuse. It aspires to enhance investor protection and the integrity of financial markets. Hanfa is the member of the IOSCO European Regional Committee and the Emerging Markets Committee.</p>

During the year, international activities focused primarily on the work of ESMA and EIOPA, where Hanfa's employees continued to intensively participate in a large number of committees, working groups, sub-groups and networks. Another focus of international activities was on joining the International Association of Insurance Supervisors (IAIS) and the International Organisation of Pension Supervisors (IOPS). The activities also included the planning and implementation of projects approved and funded by the European Commission, while twinning projects started in Montenegro and Serbia. Bilateral cooperation continued, including the exchange of information with other supervisory authorities and study visits.

7.1 Participation in the work of supervisory authorities and organisations

7.1.1 ESMA - European Securities and Markets Authority

High-intensity activities during the year focused on following ESMA's work and the involvement of Hanfa's staff in the work of 13 ESMA committees, six working groups, four networks and one sub-group. In addition, the President of the Board of Hanfa or his alternate attended seven meetings of ESMA Board of Supervisors.

During the year, ESMA's work focused on the convergence of supervisory practices and the improvement of cooperation between regulators, especially with regard to preparations for Brexit, implementation of MiFID2/MiFIR regulations and joint IT projects. Work was done on risk assessment for investors, markets and financial stability, which included data processing, analysis, financial innovation monitoring and more. The work on the so-called Single Rulebook was in its final phase, which involved participating in the drafting of legislative proposals related to securitisation, the so-called post-trading, prospectus and the like. In addition, efforts were made with respect to direct supervision of credit rating agencies, trade repositories, and third country entities (CCP and CSD).

7.1.2 EIOPA - European Insurance and Occupational Pensions Authority

Participation of the President of Hanfa Board or his alternate at six meetings of the EIOPA Board of Supervisors, and involvement of Hanfa employees in the work of nine EIOPA expert networks and two committees where they exchanged experience and supervisory practices, provided relevant information and coordinated the work of Hanfa with other supervisory authorities of Member States also called for significant engagement by Hanfa.

The President of Hanfa Board Ante Žigman was elected member of the EIOPA Mediation Panel, whose role is to mediate disputes between national competent authorities in an impartial manner.

EIOPA's work throughout the year focused on the achievement of the following goals: strengthening consumer protection, strengthening supervisory convergence and developing supervision in an evolving environment, preserving financial stability, preparing for Brexit, and cross-cutting topics InsurTech and sustainable financing.

In 2018, the EIOPA Board of Supervisors issued more than 50 decisions and conducted as many discussions, mainly related to approving multiple public consultation documents, guidelines and recommendations, adopting technical and implementing standards, analysing trends, risks and vulnerabilities of the financial sector, regulating the common market and, in this light, the convergence of supervisory practices, future trends and impacts on consumers and the financial stability of the insurance sector in the EU. Hanfa also participated in around fifteen survey and data gathering projects conducted by EIOPA related to business operations of insurance companies, as well as to the supervision of the insurance market in the Republic of Croatia by Hanfa.

7.1.3 EBA - European Banking Authority

Hanfa's employees participate in the preparation of materials and the provision of information needed to make decisions and statements related to the operations of investment firms for meetings of the EBA's Board of Supervisors. Throughout the year, together with the Croatian National Bank Hanfa participated in the collection of data related to the preparation of EBA analyses related to the audit of prudential requirements for investment firms under the CRD IV Directive⁷⁴ and the CRR Regulation⁷⁵ i.e. other reporting related to the requirements of the BRRD Directive, as well as the collection of information on investment firms related to Brexit preparations.

In cooperation with the Croatian National Bank, the EBA Guidelines for the assessment of suitability of members of the management board and key function holders were adopted. They are of concern to both Croatian National Bank and Hanfa.

7.1.4 ESRB - European Systemic Risk Board

Throughout 2018, ESRB continued to closely monitor the sources of systemic risks in the European financial system and economy and the development of macro-prudential policies. Some important topics of the Board included the design of adverse macro-financial scenarios for EIOPA and ESMA stress testing, the extension of the macro-prudential framework for [re]insurance, the impact of central counterparty's (CCP) interoperability on financial stability, the assessment of the impact of recommendations for systemic risk reduction of monetary funds, warnings regarding residential and commercial real estate markets, and the impact of climate change on financial stability.

In 2018, the President of the Board of Hanfa or his alternate attended four meetings of the General Committee, while Hanfa employees participated in two meetings of the ESRB Advisory Technical Committee.

7.1.5 IAIS - International Association of Insurance Supervisors

In June 2018, Hanfa became a temporary member and in November 2018 a full member of the IAIS, as a member of the CEET region (Central and Eastern Europe and Transcaucasia). Members of the CEET region selected the president of Hanfa Board to be their representative in the IAIS Executive Committee. As Hanfa has only just begun its membership, the participation in the work of the association included getting to know its structure and operation and the main activities identified as priorities by the IAIS for the current and upcoming period. Through its involvement in the work of the IAIS, Hanfa aims to contribute to the development and implementation of the principles and standards of insurance sector supervision in order to ultimately contribute to the achievement of IAIS missions that target the insurance industry, the insurance market, insured persons and global financial stability.

7.1.6 IOPS - International Organisation of Pension Supervisors

During the year, Hanfa's international activities also focused on joining the IOPS, the realisation of which is expected in 2019. Hanfa has recognised the importance of this international organisation and will use its membership to improve its own supervisory practices and international cooperation and exchange of information with other pension system regulators.

⁷⁴ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, OJ L 176 and Regulation (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, OJ L 176

⁷⁵ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, OJ L 176

7.1.7 IOSCO - International Organisation of Securities Commissions

The President of Hanfa Board participated in the IOSCO annual conference. Throughout the year, Hanfa exchanged data on capital market supervision with other competent authorities, also members of IOSCO.

7.2 Prevention of money laundering and terrorist financing and international restrictive measures

The New Act on the Prevention of Money Laundering and Terrorist Financing⁷⁶ came into force on 1 January 2018. The year 2018 also saw the adoption of the Ordinance on the procedure of assessing the risk of money laundering and terrorist financing and the manner of carrying out simplified and enhanced customer due diligence measures⁷⁷, which repealed the Guidelines for the implementation of the Act on the Prevention of Money Laundering and Terrorist Financing for entities within the competence of Hanfa of 26 January 2015.

As a participant in the system for the prevention of money laundering and terrorist financing, via the internal Committee for the Prevention of Money Laundering and Terrorist Financing, Hanfa participated in drawing up guidelines and responded to questions of supervised entities in the area of the prevention of money laundering and terrorist financing, it organised training for representatives of supervised entities and undertook other activities related to the prevention of money laundering and terrorist financing. Supervisory activities in the area of money laundering and terrorist financing focused on factoring companies.

Given the obligation of supervisory authorities to exchange data and information related to supervisory procedures, Hanfa continued to report to the Anti-Money Laundering Office at the Ministry of Finance. At the Croatian Chamber of Economy, several Hanfa employees held training sessions for representatives of supervised entities, where they gave responses to queries from associations of supervised entities at the Croatian Chamber of Economy.

Furthermore, together with the Ministry of Finance, Ministry of Foreign and European Affairs, Anti-Money Laundering Office and the Croatian National Bank, Hanfa intensively participated in the working group on the preparation of amendments to the Act on the Prevention of Money Laundering and Terrorist Financing, and amendments to the Act on International Restrictive Measures.

Hanfa continued to actively participate in the work of Inter-Institutional Working Group on the Prevention of Money Laundering and Terrorist Financing, presided by the Anti-Money Laundering Office. This group was mostly concerned with drafting the amendments to the Act on the Prevention of Money Laundering and Terrorist Financing and cooperation between the members of the group. As part of inter-institutional cooperation, Hanfa provided answers, data and opinions with respect to guidelines of other supervisory authorities drawn up following inquiries from entities obliged to implement changes related to the prevention of money laundering and terrorist financing.

In addition, Hanfa is taking part in the work on the National Risk Assessment.

7.3 Technical international cooperation and exchange of information

In April 2018, Hanfa started with the implementation of a two-year twinning project in the field of financial services in Montenegro in cooperation with the German Central Bank and German Financial Services Regulator (Bundesbank and BaFin), the Central Bank of the Netherlands (DNB) and the Croatian National

⁷⁶ Official Gazette, No 108/17

⁷⁷ Official Gazette, No 108/17

Bank. The project involves technical assistance in aligning legislation and strengthening the administrative capacity of institutions of the EU candidate countries, and consists of three components: banking, insurance and capital market. Hanfa and BaFin provide technical assistance to the Capital Market Commission of Montenegro in the area of capital markets and investment and pension funds, while together with the DNB, they provide technical assistance to the Insurance Supervision Agency in the area of insurance. As part of the project, experts from Hanfa provided consultations during the year regarding the preparation of the Draft Insurance Act and the Draft Act on Open-Ended Investment Funds with Public Offering, as well as a series of by-laws governing the capital market. A workshop for investment firms and banks in relation to the adaptation to the MiFID II regime was held in Podgorica.

A twinning project for the National Bank of Serbia started, with the consortium comprising the central banks of Germany, Croatia and Romania, and Hanfa participating in providing technical assistance in the area of insurance. Most Hanfa's activities in connection with this project will take place in 2019.

In addition to technical cooperation within twinning projects, Hanfa also cooperates and provides technical assistance on a bilateral basis. Two study visits were organised for colleagues from the Albanian financial services supervisory authority, presenting experiences with EU membership and legislative harmonisation, as well as various aspects of the regulatory framework and supervision of investment funds.

7.4 Enhancing Hanfa's capacity via Structural Reform Support Programme

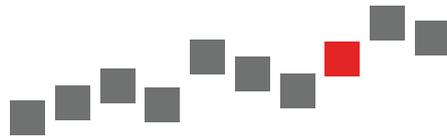
In December 2018, Hanfa started implementing the project "Integration and improvement of risk-based supervision". The project was approved by the European Commission under SSRP, as part of 2017 SSRP cycle. The aim of the project is to improve and increase the efficiency of the overall supervision process of the financial services sector by enhancing risk-based supervision at the cross-sectoral and systemic levels, as well as to strengthen Hanfa's capacity to carry out supervision.

SRSP

Structural Reform Support Programme (SSRP) is an EU programme established by the European Commission in 2015. The SSRP, through technical assistance, supports all Member States in building more effective institutions, stronger administrative frameworks and efficient public administrations. The implementation of the Programme is coordinated by the Structural Reform Support Service of the European Commission.

The project titled "Establishing Supervision of Issuers' Financial Statements" is another Hanfa's project that was approved. It is related to the new supervisory authorities of Hanfa as defined by the Capital Market Act. This project will ensure technical assistance to Hanfa in implementing the supervision of issuers' financial statements, insight into various practices of the European Supervisory Authorities and the training of Hanfa's employees. The project includes study visits to European Supervisory Authorities, and its first activities should commence in the first half of 2019.

Hanfa continued applying for technical assistance via the SSRP, and in the 2019 SSRP cycle the project titled "The improvement of risk-based supervision for insurance sector" was approved. This project is a kind of continuation and addition to the above-mentioned project "Integration and improvement of risk-based supervision". The implementation of this project will improve risk-based supervision of the insurance industry through the more efficient use of existing supervisory tools as well as the introduction of new ones. Given the market circumstances and changes in the European and national legislation, with the implementation of these two projects in connection with the risk-based supervision, Hanfa will improve risk management and increase the efficiency of the sector-wide supervision. The project commenced at the beginning of 2019.



Judicial proceedings



8 Judicial proceedings

Hanfa takes part in judicial proceedings on a regular basis, both as the authorised plaintiff in misdemeanour proceedings related to its public authority and as the defendant in administrative disputes upon lawsuits filed against any of its administrative acts. In the event of a criminal offence that is prosecuted *ex officio*, Hanfa files criminal charges to the State Attorney's Office in accordance with criminal procedure regulations. The provisions of the General Administrative Procedure Act apply to cases handled by Hanfa within the framework of its competence, unless otherwise provided by law. Acts issued by Hanfa are final and administrative disputes may be initiated against them, therefore making Hanfa a party in such disputes. In line with its statutory powers, Hanfa, as the authorised plaintiff, brings indictments to the Zagreb Municipal Misdemeanour Court (as the court having territorial and substantive jurisdiction) and to the Financial Inspectorate of the Republic of Croatia. Hanfa's employees actively participate in the misdemeanour proceedings by attending hearings, making reports and taking all other actions falling within Hanfa's competence. Pursuant to the Misdemeanour Act, Hanfa is also authorised to publish final and non-final rulings in cases defined by special regulations (in 2108, it published rulings on misdemeanours committed pursuant to the Capital Market Act) or laid down in relevant EU regulations. As opposed to published anonymised rulings and in accordance with relevant regulations, these publications make it clear they are non-final rulings and provide information on the type and characteristics of the violation and on the identity of the perpetrator.

8.1 Misdemeanour proceedings

Following illegalities established during supervisory procedures and in accordance with Hanfa's powers, Hanfa brought 16 indictments to the Zagreb Municipal Misdemeanour Court and Financial Inspectorate.

Table 8.1.1 Indictments brought in 2018

Area	Act	Number of indictments
Investment and pension funds	Act on Open-Ended Investment Funds with Public Offering	3
	Alternative Investment Funds Act	1
	Mandatory Pension Funds Act	1
Capital market	Capital Market Act	7
Insurance market	Insurance Act	3
	Act on the Prevention of Money Laundering and Terrorist Financing	1
Total indictments brought in 2018		16

Source: Hanfa

Since its establishment on 1 January 2006 until 31 December 2018, Hanfa brought 484 indictments serving as a basis for initiating misdemeanour proceedings.

Table 8.1.2 Indictments brought in the 2006-2018 period

Year	Indictments	Final judgement	Discontinuance*	Expiration of statute of limitations	Ongoing
2006	75	33	15	27	0
2007	72	15	13	44	0
2008	65	14	6	45	0
2009	49	13	1	34	1
2010	52	15	2	35	0
2011	33	15	1	17	0
2012	27	9	1	15	2
2013	30	14	1	11	4
2014	17	7	0	6	4
2015	17	6	0	2	9
2016	11	3	0	1	7
2017	20	9	0	0	11
2018	16	3	0	0	13
Total	484	156	40	237	41

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

Source: Hanfa

The possibility for the authorised plaintiff and defendant to negotiate the terms and conditions for the admission of guilt and the sanction and measures to be imposed was used as an alternative dispute resolution and resulted in 22 acquittals in the period from 2014 to 2018.

8.1.1 Capital market

Following misdemeanours established during examinations in the area of capital market, Hanfa brought seven indictments against perpetrators of misdemeanours for violating provisions of the Capital Market Act.

Four indictments were brought against legal entities and responsible persons in the legal entities due to their failure to publish, within the prescribed deadline, the issuer's annual and quarterly and audit reports, due to their failure to ensure the annual and quarterly reports are available to the public and to deliver them to Hanfa and due to their failure to provide Hanfa with proof that they have met their obligation to publish the reports. An indictment was brought against a legal entity and the responsible person in the legal entity due to their failure to submit the application to admit to trading on the official market shares of the same class as the shares already admitted to trading on the official market, during a new public offering of those shares. An indictment was also brought against a legal person and the responsible person in the legal person due to their failure to inform the public of inside information relating to the issuer in line with the prescribed manner and defined requirements. One indictment was related to the initiation of misdemeanour proceedings against a natural person due to their failure to submit, within the prescribed deadline, notifications on the fall below the threshold of voting rights in the share issuer to addressees defined by law. By 31 December 2018 three final rulings were issued with respect to these cases.

8.1.2 Investment and pension funds

Five indictments were brought against perpetrators of misdemeanours for violating legal provisions in the area of investments and pension funds.

Indictments that resulted in misdemeanour proceedings against investment fund management companies and their responsible persons were related to (1) their failure to act in line with investment limitations relating to assets of the open-ended investment fund with public offering, (2) failure to ensure capital adequacy of the alternative investment fund management company and (3) illegal activities taken for the company managing open-ended investment funds with public offering, failure to set up a comprehensive and effective risk management system for UCITS and determination of UCITS asset value contrary to legal provisions. Misdemeanour proceedings were also initiated against depositaries and responsible persons who failed to carry out control procedures for UCITS in line with legal provisions. Misdemeanour proceedings initiated against a pension company and its responsible persons were connected to their failure to obey investment limitations related to mandatory pension fund assets and failure to set up a comprehensive and effective risk management system for this company and funds it manages.

8.1.3 Insurance market

Out of four indictments relating to the insurance market three were brought against insurance companies and their responsible persons due to their failure to comply with legal provisions on the provision of information to policyholders while concluding insurance contracts. An indictment was connected with the prevention of money laundering and was brought against an insurance company and its responsible persons due to their acceptance of payments exceeding HRK 75,000.00 and HRK 105,000.00.

8.2 Administrative disputes

In 2018, three administrative disputes were initiated against Hanfa's decisions following complaints filed with the Zagreb Administrative Court. Pursuant to the Administrative Disputes Act⁷⁸, Hanfa provided responses and submitted files requested based on which the complaints had been filed. In proceedings initiated following these complaints and complaints filed in previous years, Hanfa's employees presented reports and attended hearings before the Zagreb Administrative Court, as the court with territorial jurisdiction in line with the plaintiff's residence. The administrative disputes were related to administrative decisions resulting from supervisory examinations initiated ex officio in the area of insurance market and investment funds and are still outstanding.

8.3 Criminal charges

Within the framework of its regular business activities in 2018, Hanfa established that there were grounds for suspicion that criminal offences had been committed and filed a criminal charge against four natural persons. The criminal offences were related to misappropriation, abuse of trust in business dealings and forging of official or business documents, as described in and punishable under the Criminal Code.

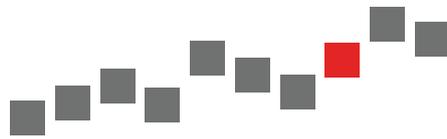
Since its establishment on 1 January 2006 until 31 December 2018, Hanfa filed a total of 49 criminal charges to the State Attorney's Office.

⁷⁸ Official Gazette, No 20/10, 143/12, 94/16 and 29/17

8.4 Debt recovery actions

The Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency in 2017⁷⁹ defines entities liable to fees and the amount of fees they are obliged to pay to Hanfa. For the purpose of recovering debts arising from failure to pay the fees, Hanfa initiated three execution proceedings in 2018 against its supervised entities, which resulted in writs of execution. One of the writs of execution became final, however, in the meantime the debtor became subject to bankruptcy proceedings, after which Hanfa, as a creditor, lodged its claim against the bankruptcy estate. The bankruptcy proceedings are still under way, with Hanfa actively participating in hearings and creditors' meetings. As regards the other two proceedings, the debtors filed complaints against the writs of execution, after which the proceedings were continued in lawsuits pursued as following a complaint against a payment order. The proceedings are under way, pursued at the Commercial Court of Zagreb as the court having jurisdiction according to the establishment of the debtor, i.e. defendant.

⁷⁹ Official Gazette, No 121/16



Hanfa's business operations

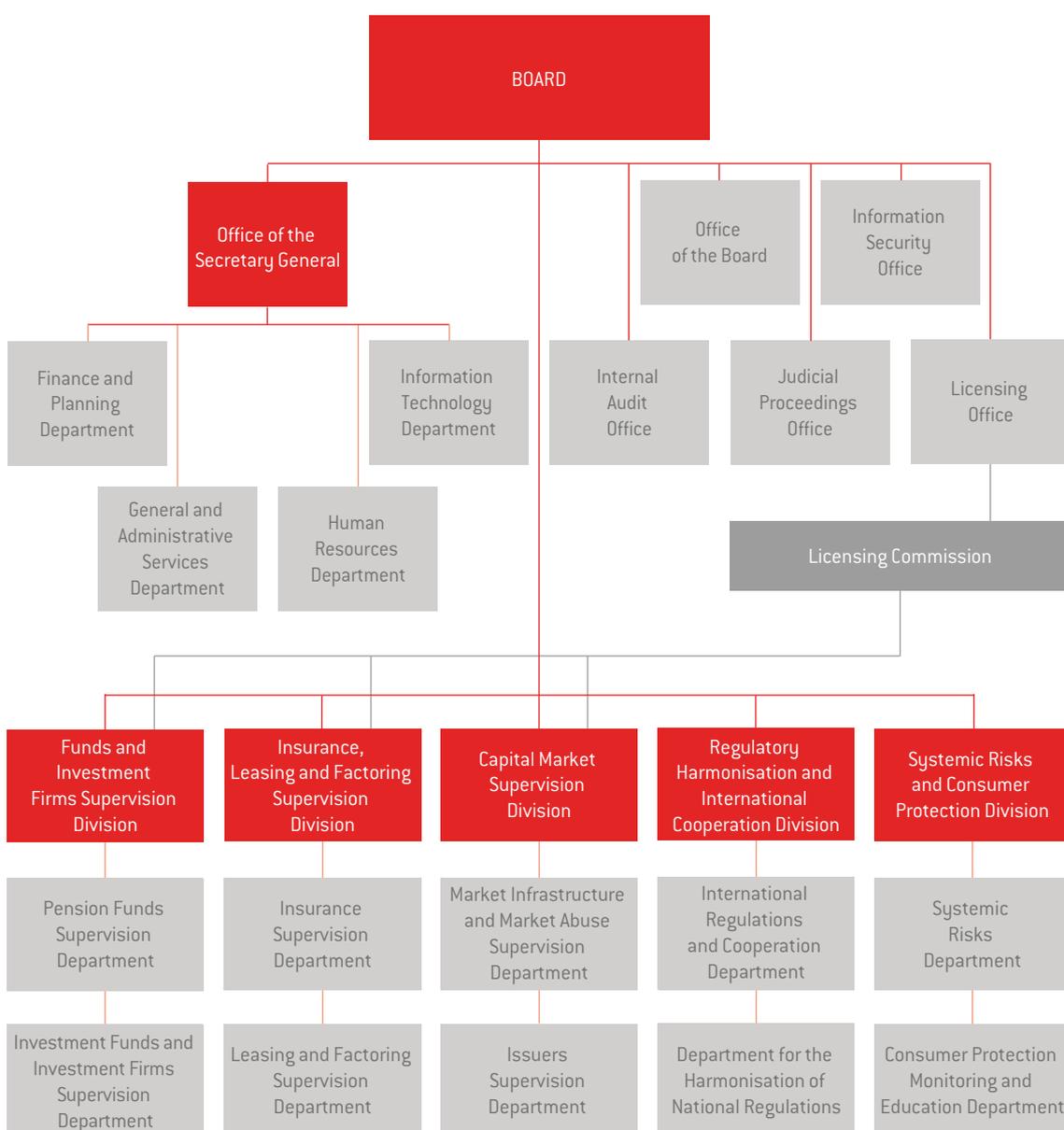


9 Hanfa's business operations

9.1 Internal structure and human resources

Hanfa is governed by the Board consisting of five members, one of whom is the President. From 2 February 2018, members of the Board are: Ante Žigman (President), Antun Palarić, Tomislav Ridzak, Ilijana Jeleč and Jurica Jednačak.

Figure 9.1.1 Internal structure



Source: Hanfa

In 2018, the Board issued 1.056 decisions on 66 meetings, 48 of them being regular and 18 being emergency meetings.

Vesna Kadić Komadina is Hanfa's Secretary General.

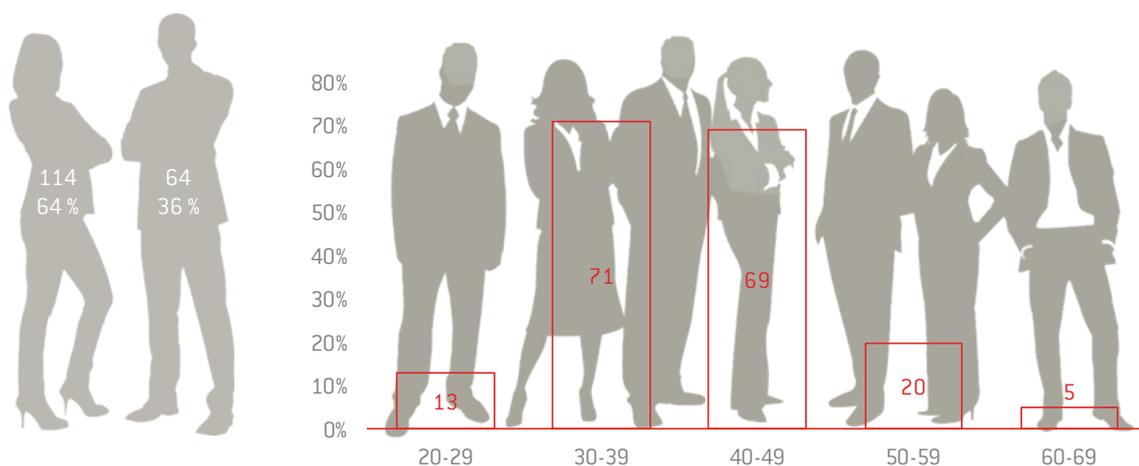
Members of Hanfa Council, an advisory body giving opinions and expert and scientific advice in order to develop supervisory practice, as at 31 December 2018, were: Damir Vandelić (President of the Council), representative of the Insurers Association at the Croatian Chamber of Economy, Ante Žigman, Hanfa Board President, Eugen Paić-Karega, representative of the Association of Leasing Companies at the Croatian Chamber of Economy, Ivana Gažić, representative of the Association of operation and brokerage in financial markets at the Croatian Chamber of Economy, Josip Glavaš, representative of the Association of Investment Funds Management Companies at the Croatian Chamber of Economy, Kristijan Buk, representative of the Association of pension companies and pension insurance companies at the Croatian Chamber of Economy, Ivana Ravlić Ivanović, Head of Financial System Division at the Ministry of Finance, Head of Financial Markets, Funds, Services and Instruments Department within the Financial System Sector of the Ministry of Finance, and Novka Simić, Senior Advisor - Specialist in the Sector for European Union and International Financial Relations of the Ministry of Finance. In 2018, the Council held four meetings.

The internal structure, which was reorganised in November 2018 with the aim of increasing the flexibility and efficiency of the structure itself, arranged Hanfa's business operations into five divisions and six offices.

On 31 December 2018, there were 178 employees in Hanfa, 9% more than on 31 December 2017. The increase in the number of employees was primarily due to increasing business needs and to a lesser extent in order to replace the temporarily absent employees (maternity and parental leave, seconded employees).

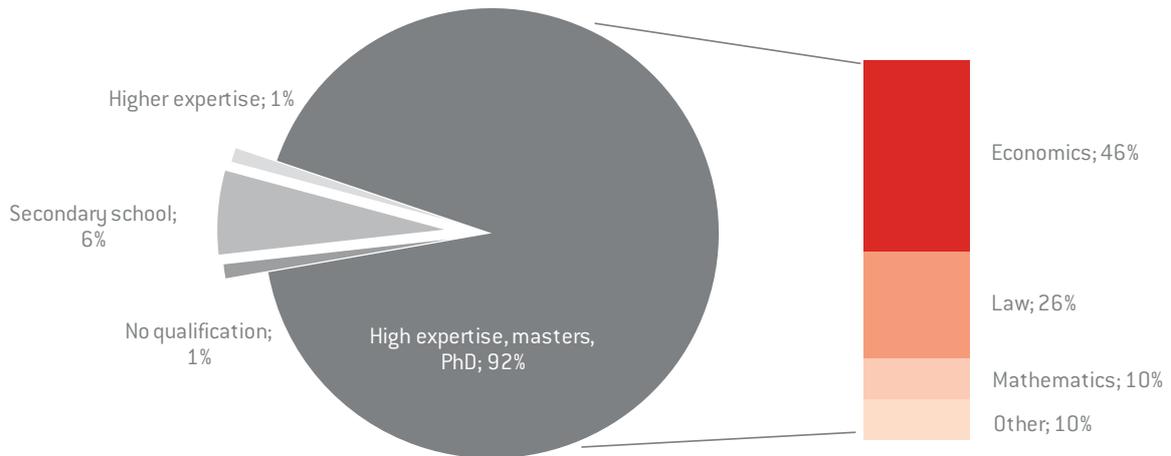
The average age of employees is 41 years, and more than 90% of employees have a university degree. Hanfa continuously invests significant amounts of its funds in the professional training of all its employees, so in 2018, 75% of employees participated in at least one professional training session.

Figure 9.1.2 Employee structure by gender and age



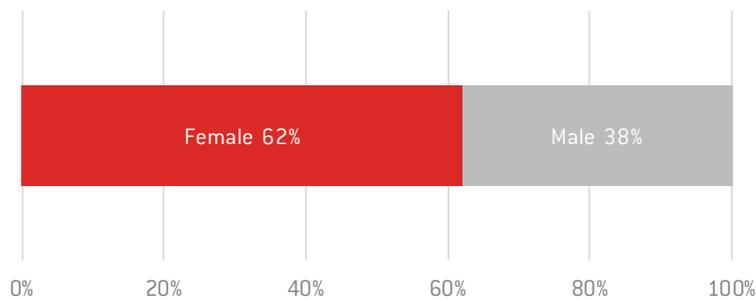
Source: Hanfa

Figure 9.1.3 Employee structure per professional qualifications



Source: Hanfa

Figure 9.1.4 Structure of employees in managerial positions



Source: Hanfa

9.2 Internal audit of business operations

Internal audit is carried out according to a plan drawn up on the basis of the requirements of the financial management and control systems and the requirements of Hanfa's business operations, in accordance with the importance of business processes, risks and other parameters.

During 2018, the Internal Audit Office conducted internal audits in the area of compliance management, planning and financial reporting, licensing, off-site and on-site supervision of investment firms, investment funds and pension funds, office operations, business processes of payroll and managing documentation and information assets in accordance with ISO 20000. With its recommendations, it contributes to improving the quality of business processes and increasing business efficiency.

9.3 Information security in Hanfa

In light of the increasing cyber risks, particular attention is given to information security of business operations. The Information Security Office is responsible for managing the information security of Hanfa, monitoring the information systems supervised entities and protecting the personal data processed in

Hanfa. During 2018, the Office conducted a security briefing of all Hanfa employees with access to classified information. He also participated in the drafting of the Act on the Cyber Security of Key Service Operators and Digital Services Providers⁸⁰ and the Regulation on Cyber Security of Key Services Operators⁸¹, and carried out the process of initial identification of key service operators in the financial market infrastructure sector. The Office also participated in the preparation of Hanfa for the entry into force of the General Data Protection Regulation⁸², and after the entry into force of the Regulation, it took over the duties of data protection officer. Within the framework of the above-mentioned tasks, the Ordinance on the protection of personal data was made and the initial records of the processing of personal data in Hanfa were carried out.

9.4 Hanfa's financial operations

In its accounting and financial operations Hanfa applies the provisions of the Act on Financial Operations and Accounting of Non-Profit Organisations⁸³ and the provisions of subordinate regulations adopted under this Act.

As at 31 December 2018, Hanfa's total assets amounted to HRK 33.4m.

Table 9.4.1 Hanfa's abbreviated balance sheet as at 31/12/2018 (in HRK thousand)

Assets	33,390	Share in assets
Non-financial assets	9,797	29.3%
Financial assets	23,593	70.7%
Liabilities	33,390	Share in liabilities
Liabilities	8,702	26.1%
Own sources	24,688	73.9%

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

Source: Hanfa

In 2018, Pursuant to Article 20 of the Act on Hanfa⁸⁴, Hanfa financed its activities from fees from assets and revenue of supervised entities and fees for services provided. The calculation and amount of fees and the manner of charging fees from assets and income of supervised entities charged by Hanfa in 2018 are defined by the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency in 2018⁸⁵, while the type and amount of fees for the provision of services falling within Hanfa's competence in 2018 are defined by the Ordinance on the type and amount of fees paid to the Croatian Financial Services Supervisory Agency⁸⁶.

In 2018, total income reached HRK 63.6m, increasing by 18.2% in comparison with 2017. Total expenses reached HRK 58.7m, rising by 22.3% in comparison to 2017.

80 Official Gazette, No 64/18

81 Official Gazette, No 68/18

82 Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC, OJ L 119

83 Official Gazette, No 121/14

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

85 Official Gazette, No 128/17, 51/18 and 91/18

86 Official Gazette, No 128/17, 51/18 and 91/18

Table 9.4.2 Hanfa's aggregate income and expenditure account for 2018 (in HRK thousand)

Income		63,585
Income received under special regulations		62,760
Income generated under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2018		57,018
Income generated under Ordinance on the type and amount of fees and administrative charges paid to Hanfa		5,619
Other income received under special regulations		123
Income from assets		61
Income from donations (EU funds)		256
Other income		508
Expenditure		58,660
Employee expenses		37,742
Material expenditure		18,250
Costs for employees		2,422
Costs for external staff		84
Expenditure on services		8,829
Expenses on materials and energy		1,031
Other material expenditure		5,884
Depreciation expenditure		2,106
Financial expenditure		100
Other expenses		462

Note: A detailed statement of Hanfa's income and expenditure is provided on its website.

Source: Hanfa

9.4.1 Income

Out of the total income, HRK 62.8m (98.7%) was accounted for by income received under special regulations. The largest part of income received under special regulations (90.9%) consisted of income received under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2017, while 9% of total income was received under the provisions of the Ordinance on the type and amount of fees and administrative charges paid to Hanfa. The following is the representation of income realised under both Ordinances.

Table 9.4.1.1 Income from fees in 2018 (in HRK thousand)

Income generated under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2018	Amount (in HRK thousand)	Share in total income (in %)
Income from pension companies	32,423	56.9
Income from insurance companies	6,913	12.1
Income from investment fund management companies	6,542	11.5
Income from leasing companies	3,857	6.8
Income from credit institutions	3,733	6.5
Income from the Central Depository and Clearing Company	1,549	2.7
Income from factoring companies	533	0.9
Income from insurance brokers and agents	523	0.9
Income from the Zagreb Stock Exchange	431	0.8
Income from companies managing funds established under special regulations	239	0.4
Income from pension insurance companies	147	0.3
Income from investment firms	128	0.2
Total	57,018	100.0

Income generated under the Ordinance on the type and amount of fees and administrative charges paid to Hanfa	Amount (in HRK thousand)	Share in total income (in %)
Income generated under the Act on the Takeover of Joint-Stock Companies	2,102	37.4
Income generated under the Insurance Act	1,424	25.3
Income generated under the Capital Market Act	885	15.8
Income generated under the Act on Open-Ended Investment Funds with Public Offering	362	6.4
Income generated under the Alternative Investment Funds Act	155	2.8
Income generated under the Leasing Act	131	2.3
Income generated under the Mandatory Pension Funds Act	120	2.1
Income generated under the Factoring Act	71	1.3
Income generated under the Voluntary Pension Funds Act	42	0.7
Income generated under the Pension Insurance Companies Act	32	0.6
Income from maintaining the Register of Leased Assets	135	2.4
Income from fees charged for the training organised for brokers, investment advisors, certified pension fund managers, certified pension insurance company managers	120	2.1
Income generated under the Act on Hanfa (issuance of opinions and copies)	40	0.7
Total	5,619	100.0

Source: Hanfa

The largest share in income from supervised entities, which is calculated in relation to the value of their total assets and income, was accounted for by the income from pension fund management companies, which amounted to HRK 32.4 million. Compared to 2017, income from these entities increased by HRK 5.5m (20.4%). In 2018, there was also an increase in income from insurance companies and investment fund management companies in the amount of HRK 2.9m compared to the previous year, and their share in the total income received from supervised entities stood at 23.6%.

In 2018, Hanfa generated the largest amount of income from services provided under the provisions of the Act on the Takeover of Joint-Stock Companies, due to takeover fees paid, and under the Insurance Act, based on the examination of professional knowledge and the issuance of authorisations and licenses for insurance representation and brokerage business.

9.4.2 Expenditure

In 2018, the largest share in the expenditure was accounted for by employee expenses, which amounted to HRK 37.7m (64.3%), increasing by 20.9% relative to 2017. The average number of employees in 2018 at the end of the reporting period was 171, up 7.5% from 2017, when the average number of employees was 159. The increase in expenses for employees was also affected by the increase in the salary base in mid-2017, which was fully reflected in 2018, as well as the payment of salaries to former members of the Board of Hanfa during 2018, i.e. at the end of their term of office, in accordance with the provisions of the Act on Hanfa.

Material expenses made up another significant item in Hanfa's total expenditure, making up 31.1% of total expenditure. Compared to 2017, material expenses increased by HRK 3.4m (23%), mainly due to an increase in service expenses due to Hanfa's relocation to a new business location in the amount of HRK 2.1m. In addition to expenses for services, there was an increase in other material expenses because of increased amounts of mandatory membership fees in the European Supervisory Authorities, i.e. ESMA (membership fee increased by HRK 246.8 thousand) and EIOPA (membership fee increased by HRK 101.3 thousand). In 2018, there were also expenses for new international membership fees (IOPS, IAIS, IIF) in the amount of HRK 125.6 thousand.

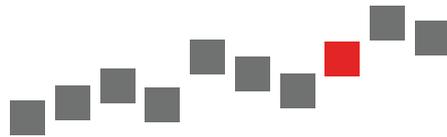
Depreciation costs amounted to HRK 2.1m, an increase of 19.5% compared to 2017, due to the newly introduced IT systems and applications as intangible assets at the end of 2017, and the acquisition of new tangible fixed assets in 2018.

On the basis of reported data on total revenues and expenditures, in 2018 Hanfa recorded surplus income over expenditure in the amount of HRK 4.9m, which was transferred into the state budget of the Republic of Croatia, pursuant to the provisions of the Act on Hanfa.

In accordance with the Act on Financial Operations and Accounting of Non-Profit Organisations, an external audit of Hanfa's 2018 financial statements was carried out, and the Independent Auditor's Report was published on Hanfa's website.

In 2018, On the grounds of a self-assessment of financial management and control systems, carried out pursuant to the Fiscal Responsibility Act⁸⁷, Hanfa prepared the 2017 Statement of Fiscal Responsibility and sent it to the Croatian Parliament. By issuing the Statement, the Secretary General, in charge of Hanfa's financial and accounting affairs, confirmed a legitimate, intended and purposeful use of resources and effective and efficient functioning of financial management and control system, within the financial limits determined by the financial plan.

87 Official Gazette, No 111/18



Statistical overview of industries



10 Statistical overview of industries

Investment funds

Open-ended investment funds with public offering – UCITS

Investment funds - UCITS					
	2014	2015	2016	2017	2018
Number of funds	82	82	86	91	96
Net assets of funds, in HRK thousand	12,981,415	13,857,695	18,440,776	18,499,606	19,117,229

Issuance and redemption of units in UCITS, in HRK thousand					
	2014	2015	2016	2017	2018
Issuance of units	20,560,948	23,669,357	22,139,754	18,108,512	11,496,927
Redemption of units	19,879,690	22,947,028	17,930,220	18,219,022	10,811,532

Asset structure of equity UCITS per asset type, in HRK thousand					
	2014	2015	2016	2017	2018
Cash	155,586	117,648	188,563	187,921	155,063
Shares	1,456,584	1,445,965	1,568,137	1,640,305	1,356,601
Bonds	7,198	6,044	11,801	20,305	26,685
IF	74,457	54,527	36,828	58,850	61,403
MMIs	245	-	-	-	-
Deposits	5,854	7,193	6,697	2,732	3,205

Asset structure of balanced UCITS per asset type, in HRK thousand					
	2014	2015	2016	2017	2018
Cash	36,753	30,529	114,196	70,187	94,989
Shares	278,191	274,640	254,959	309,063	257,702
Bonds	296,337	342,711	301,746	379,825	390,711
IF	113,221	126,465	117,048	127,699	113,760
MMIs	18,990	17,402	26,238	-	-
Deposits	7,001	15,843	49,514	7,664	27,948

Asset structure of bond UCITS per asset type, in HRK thousand					
	2014	2015	2016	2017	2018
Cash	28,732	112,486	802,896	829,976	991,665
Shares	896	-	-	-	-
Bonds	850,761	1,276,443	3,020,783	4,982,146	7,491,015
IF	4,662	11,007	22,021	53,664	37,221
MMIs	40,376	31,125	342,403	458,012	474,855
Deposits	21,270	45,610	110,150	80,003	291,476

Asset structure of cash UCITS per asset type, in HRK thousand					
	2014	2015	2016	2017	2018
Cash	559,277	685,228	1,250,622	1,144,437	1,561,461
Shares	-	3	-	-	-
Bonds	1,045,197	1,073,291	2,552,431	1,173,673	1,949,331
IF	62,147	33,253	41,214	49,792	21,411
MMIs	3,967,222	3,258,507	4,405,600	3,586,937	1,466,158
Deposits	3,662,147	4,296,871	3,706,160	2,800,701	2,421,975

Asset structure of other UCITS per asset type, in HRK thousand					
	2014	2015	2016	2017	2018
Cash	171,936	62,300	54,533	92,020	39,281
Shares	19,025	7,841	26,649	46,346	17,670
Bonds	171,440	268,953	303,960	402,083	568,729
IF	33,626	159,801	161,661	201,057	189,580
MMIs	598	101,884	56,603	-	-
Deposits	36,882	87,097	36,226	41,715	67,835

Alternative investment funds – AIF

Investment funds - AIF					
	2014	2015	2016	2017	2018
Number of funds	28	28	31	38	34
Net assets of funds, in HRK thousand	2,594,754	2,891,069	3,235,903	3,486,817	3,588,528

Note: last available data for 1H 2018 used for Net assets of funds in 2018

Investment firms

Investment firms					
	2014	2015	2016	2017	2018
Number of firms	8	8	8	7	7
Portfolio management, in HRK thousand	21,274	32,236	30,158	29,169	27,934
Custody of financial instruments, in HRK thousand	280,908	412,357	646,154	691,026	677,305

Pension funds

Mandatory pension funds

Mandatory pension funds					
	2014	2015	2016	2017	2018
Number of funds	12	12	12	12	12
Number of fund members	1,705,720	1,731,181	1,784,169	1,844,272	1,936,261
Category A	4,827	5,094	5,369	5,874	6,273
Category B	1,685,594	1,707,104	1,755,823	1,810,704	1,896,361
Category C	15,299	18,983	22,977	27,694	33,627
Net assets of funds, in HRK thousand	66,281,554	74,004,667	84,179,365	91,924,545	98,126,194
Total contributions (HRK thousand)	50,849,573	56,009,813	61,348,342	67,011,806	73,191,233
Total payments (HRK thousand)	-4,384,839	-6,000,282	-6,522,907	-7,143,223	-8,143,581

Mirex values					
	2014	2015	2016	2017	2018
Mirex A	104.6047	114.1401	127.6029	133.4406	134.5603
Mirex B	205.7149	218.4458	233.6123	240.7514	243.1975
Mirex C	102.9448	109.9284	118.0951	125.2802	128.9641

Asset structure of category A MPFs per asset type, in HRK thousand					
	2014	2015	2016	2017	2018
Cash	5,051	6,469	19,273	31,596	33,699
Shares	70,562	150,211	221,299	214,033	222,283
Bonds	235,760	223,241	255,773	308,956	332,626
IF	27,003	35,435	11,901	37,767	54,301
MMIs	14,994	-	-	-	-
Deposits	-	7,200	-	307	13,000

Asset structure of category B MPFs per asset type, in HRK thousand					
	2014	2015	2016	2017	2018
Cash	1,042,115	562,110	1,792,551	2,040,812	3,095,922
Shares	12,141,136	13,875,977	16,223,498	15,177,046	15,500,483
Bonds	46,868,793	52,801,140	58,741,529	64,105,360	65,269,705
IF	3,625,426	4,398,076	3,442,194	5,252,268	6,040,680
MMIs	1,311	-	-	199,512	1,249,715
Deposits	1,291,830	668,049	616,071	1,195,812	1,811,324

Asset structure of category C MPFs per asset type, in HRK thousand					
	2014	2015	2016	2017	2018
Cash	35,787	15,168	73,052	128,031	184,826
Shares	-	-	-	-	-
Bonds	1,418,987	2,177,674	2,896,107	3,809,899	4,388,270
IF	6,405	3,004	46,266	-	69,079
MMIs	131,372	44,553	44,739	-	39,996
Deposits	15,000	42,051	-	30,467	169,001

Open-ended voluntary pension funds

Open-ended voluntary pension funds					
	2014	2015	2016	2017	2018
Number of funds	6	6	6	8	8
Number of fund members	220,527	236,975	257,075	285,822	305,145
Net assets of funds, in HRK thousand	2,651,987	3,044,842	3,548,401	3,895,569	4,231,346
Total contributions (HRK thousand)	452,337	518,678	572,383	631,890	700,053
Total payments (HRK thousand)	- 145,805	- 182,691	- 215,521	- 250,001	- 306,799

Annual returns of OVPFs					
	2014	2015	2016	2017	2018
AZ Benefit OVPF	10.66%	5.04%	7.65%	3.80%	-0.07%
AZ Profit OVPF	8.72%	6.65%	5.13%	-3.37%	-2.53%
Croatia osiguranje OVPF	8.57%	2.07%	5.56%	2.10%	-1.52%
Croatia osiguranje 1000 A OVPF					5.23%
Croatia osiguranje 1000 C OVPF					2.45%
Erste Plavi Expert OVPF	9.36%	6.88%	11.13%	4.31%	-2.09%
Erste Plavi Protect OVPF	8.18%	3.85%	6.62%	3.51%	5.40%
Raiffeisen OVPF	13.19%	6.53%	6.68%	3.19%	1.61%

Asset structure of OVPFs per asset type, in HRK thousand					
	2014	2015	2016	2017	2018
Cash	61,067	126,693	420,911	236,344	401,078
Shares	526,970	751,869	951,369	877,886	910,732
Bonds	1,908,750	2,070,334	2,134,504	2,537,236	2,675,416
IF	109,745	108,372	93,483	249,754	264,014
MMIs	-	-	-	-	-
Deposits	60,354	36,507	-	13,529	-

Closed-ended voluntary pension funds

Closed-ended voluntary pension funds					
	2014	2015	2016	2017	2018
Number of funds	16	17	18	19	21
Number of fund members	23,927	28,778	29,237	30,387	40,482
Net assets of funds, in HRK thousand	596,188	681,211	777,088	849,556	908,054
Total contributions (HRK thousand)	452,337	518,678	572,383	631,890	700,053
Total payments (HRK thousand)	- 145,805	- 182,691	- 215,521	- 250,001	- 306,799

Asset structure of CVPFs per asset type, in HRK thousand					
	2014	2015	2016	2017	2018
Cash	32,003	55,289	76,726	60,718	108,159
Shares	114,927	161,383	193,757	193,817	212,670
Bonds	416,586	434,434	456,569	534,282	533,800
IF	25,805	29,271	42,667	60,449	58,831
MMIs	-	-	-	-	-
Deposits	8,014	2,650	-	2,041	-

Insurance companies

Gross written premium per insurance classes

Insurance					
	2014	2015	2016	2017	2018
Number of insurance and reinsurance companies	27	24	22	20	18
Gross written premiums, in HRK thousand	8,644,379	8,694,393	8,672,628	8,901,208	9,855,630
Claims settled, gross amounts, in HRK thousand	4,411,555	4,588,383	4,723,352	5,106,300	5,553,116

Gross written premium by insurance classes

in HRK thousand

Code	Insurance class	2017	Share (%)	2018	Share (%)	Change (%)
01	Personal accident insurance	455,823	5.0	483,664	4.9	6.11
02	Health insurance	487,840	5.4	519,962	5.3	6.58
03	Insurance of land motor vehicles	883,957	9.8	1,049,308	10.6	18.71
04	Insurance of railway rolling stock	7,973	0.1	6,959	0.1	-12.71
05	Insurance of aircraft	10,136	0.1	9,585	0.1	-5.44
06	Insurance of vessels	148,707	1.6	148,726	1.5	0.01
07	Insurance of goods in transit	32,464	0.4	31,769	0.3	-2.14
08	Insurance against fire and natural disasters	622,887	6.9	652,014	6.6	4.68
09	Other property insurance lines	591,766	6.5	691,651	7.0	16.88
10	Motor vehicle liability insurance	2,049,320	22.6	2,178,911	22.1	6.32
11	Aircraft liability insurance	5,310	0.1	4,857	0.0	-8.55
12	Insurance against liability arising out of the use of vessels	38,424	0.4	39,139	0.4	1.86
13	Other liability insurance lines	372,132	4.1	413,749	4.2	11.18
14	Credit insurance	194,350	2.1	260,347	2.6	33.96
15	Suretyship insurance	7,277	0.1	9,255	0.1	27.18
16	Insurance against miscellaneous financial losses	113,735	1.3	125,918	1.3	10.71
17	Legal expenses insurance	4,651	0.1	5,425	0.1	16.65
18	Travel insurance	95,436	1.1	96,599	1.0	1.22
19	Life insurance	2,219,640	24.5	2,532,510	25.7	14.10
20	Annuity insurance	28,621	0.3	16,443	0.2	-42.55
21	Supplementary insurance linked with life insurance	135,282	1.5	132,035	1.3	-2.40
22	Marriage and birth insurance	5,079	0.1	4,688	0.0	-7.71
23	Life or annuity insurance where the investment risk is borne by the policyholder	551,592	6.1	448,516	4.5	-18.69
24	Tontines	0	0.0	0	0.0	-
25	Insurance with paid-up sum assured	0	0.0	0	0.0	-
Total non-life insurance (classes 01 – 18)		6,122,186	67.6	6,727,838	68.2	9.89
Total life insurance (classes 19 – 25)		2,940,214	32.4	3,134,191	31.8	6.60
Total (classes 01 – 25)		9,062,401	100.0	9,862,029	100.0	8.82

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

Leasing companies

Leasing companies	31/12/2014	31/12/2015	31/12/2016	31/12/2017	31/12/2018
Number of leasing companies	23	21	19	17	16
Assets of leasing companies in HRK thousand	17,863,501	17,626,251	17,904,585	18,149,656	19,526,659

Number of newly concluded contracts (from 1 January to)

Operating lease	17,308	17,798	19,428	22,388	20,483
Finance lease	17,501	18,565	25,256	30,696	41,223
TOTAL	34,809	36,363	44,684	53,084	61,706

Value of newly concluded contracts in HRK thousand (from 1 January to)

Operating lease	1,868,046	1,504,247	1,744,661	1,595,112	1,493,608
Finance lease	3,375,383	3,625,340	4,763,030	5,717,928	7,320,667
TOTAL	5,243,429	5,129,588	6,507,691	7,313,041	8,814,275

Number of active contracts

Operating lease	50,736	50,998	46,979	44,486	43,426
Finance lease	58,126	60,112	65,466	76,057	90,457
Loans	1,789	1,210	755	238	205
TOTAL	110,651	112,320	113,200	120,781	134,088

Value of active contracts in HRK thousand

Operating lease	3,757,482	3,356,963	3,201,019	2,928,944	2,523,613
Finance lease	10,419,586	10,308,096	10,803,204	10,949,997	12,425,489
Loans	121,359	75,793	43,018	23,842	15,263
TOTAL	14,298,426	13,740,852	14,047,241	13,902,783	14,964,365

Factoring companies

Factoring companies	31/12/2014	31/12/2015	31/12/2016	31/12/2017	31/12/2018
Number of factoring companies	16	13	13	6	7
Assets of factoring companies in HRK thousand	7,827,862	6,587,220	5,900,059	2,352,743	1,397,891

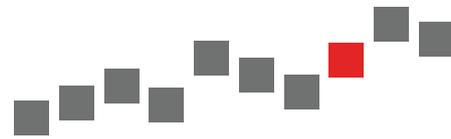
Transaction volume in HRK thousand (from 1 January to)

Factoring				2,394,857	1,721,668
Factoring including discounting of bills of exchange				1,914,769	500,620
Reverse factoring				1,036,558	1,004,048
Total				5,346,184	3,226,337

Receivables (in HRK thousand)

Factoring				720,577	394,346
Factoring including discounting of bills of exchange				1,383,402	258,730
Reverse factoring				414,747	388,689
Total				2,518,726	1,041,765

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



Appendices



11 Appendices

Appendix 1: List of ordinances adopted in 2018

Ordinances adopted under the Act on Hanfa

- 1 Ordinance on the calculation, level and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2019 (Official Gazette, No 112/18)
- 2 Ordinance amending the Ordinance on the calculation, level and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2018 (Official Gazette, No 91/2018)
- 3 Ordinance amending the Ordinance on the calculation, level and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2018 (Official Gazette, No 51/2018)

Ordinances adopted under the Factoring Act

- 1 Ordinance on criteria for and manner of factoring companies' risks management (Official Gazette, No 86/18)

Ordinances adopted under the Leasing Act

- 1 Ordinance on organisational requirements for leasing companies (Official Gazette, No 86/18)
- 2 Ordinance on criteria for and manner of leasing companies' risks management (Official Gazette, No 86/18)
- 3 Ordinance amending the Ordinance on the content and form of lease agreements and on the methodology for the calculation of the effective interest rate (Official Gazette, No 86/18)

Ordinances adopted under the Mandatory Pension Funds Act

- 1 Ordinance amending the Ordinance on determining the net asset value and the value of accounting units of mandatory pension funds (Official Gazette, No 114/2018)
- 2 Ordinance amending the Ordinance on the treatment of mandatory pension funds' members by the Central Register of Insured Persons and pension companies (Official Gazette, No 86/18)

Ordinances adopted under the Voluntary Pension Funds Act

- 1 Ordinance amending the Ordinance on annual, semi-annual and other reports of voluntary pension funds (Official Gazette, No 114/2018)
- 2 Ordinance amending the Ordinance on the conditions for performing the function a member of the management and supervisory board of a voluntary pension company (Official Gazette, No 51/18)
- 3 Ordinance amending the Ordinance on issuing authorisation to and on acquisition of a qualifying holding in a voluntary pension company (Official Gazette, No 51/18)

Ordinances adopted under the Capital Market Act

- 1 Ordinance on investment firms' recovery plans (Official Gazette, No 110/2018)
- 2 Ordinance on investment firms' risk, capital adequacy and liquidity management (Official Gazette, No 110/2018)

- 3 Ordinance on issuing work authorisation to investment firms, market participants, third-country branches, register of persons authorised to perform services and activities under the Capital Market Act and status changes of investment firms (Official Gazette, No 96/18)
- 4 Ordinance on issuing approval and criteria for suitability assessment of management board members, key function holders and holders of a qualifying holding in an investment firm (Official Gazette, No 96/18)
- 5 Ordinance on organisational requirements and conduct of business rules for the provision of investment services and performance of investment activities, and on remuneration policies and criteria for significant investment firms (Official Gazette, No 89/18)
- 6 Ordinance on qualifications and staffing requirements for the provision of investment services (Official Gazette, No 82/18)
- 7 Ordinance on the content of audit in investment firms (Official Gazette, No 83/18) 8. Ordinance on the structure and contents of annual financial statements of investment firms (Official Gazette, No 83/18)

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

- 1 Ordinance amending the Ordinance on determining the net asset value of UCITS and the price of UCITS units (Official Gazette, No 114/2018)

Ordinances adopted under the Alternative Investment Funds Act

- 1 Ordinance on determination of the net asset value and unit price of alternative investment funds (Official Gazette, No 114/2018)

Ordinances adopted under the Insurance Act

- 1 Ordinance amending the Ordinance on the structure and contents of financial statements and additional reports of insurance companies and/or reinsurance companies (Official Gazette, No 96/18)

Ordinances adopted under the Act on Pension Insurance Companies

- 1 Ordinance amending the Ordinance on the requirements for membership in management and supervisory boards of pension insurance companies (Official Gazette, No 48/18)

Appendix 2: Participation of Hanfa employees in committees of European and global supervisory authorities

ESMA

During 2018, Hanfa participated in the following ESMA committees, working groups and subgroups and networks:

- 1 Supervisory Convergence Standing Committee (SCSC)
- 2 Corporate Finance Standing Committee (CFSC)
- 3 Corporate Reporting Standing Committee (CRSC)
- 4 Market Integrity Standing Committee (MISC)
- 5 Financial Innovation Standing Committee (FISC)
- 6 Investment Management Standing Committee (IMSC)
- 7 Investor Protection & Intermediaries Standing Committee (IPISC)
- 8 Post Trading Standing Committee (PTSC)
- 9 Secondary Markets Standing Committee (SMSC)
- 10 Data Standing Committee (DSC)
- 11 Committee for Economic and Markets Analysis (CEMA)
- 12 CEMA EMIR Task Force
- 13 CEMA AIFMD Task Force
- 14 Credit Rating Agencies Technical Committee (CRATC)
- 15 ICO / Virtual Currencies Task Force – (FISC ICO/VC)
- 16 Commodity Derivatives Task Force (CDTF)
- 17 Subgroup on accounting by financial institutions (EECS)
- 18 IT Governance and Management Group (ITMG)
- 19 Corporate Governance Working Group (CFSC-CG-WG)
- 20 European Single Electronic Format Working Group (CRSC-ESEF-WG)
- 21 Translation Network (TN)
- 22 Legal Network (LN)
- 23 Supervision Coordination Network (SCN)
- 24 Takeover Bids Network (TBN)

EIOPA

During 2018, Hanfa participated in the following EIOPA committees and networks:

- 1 IT and Data Committee
- 2 Committee on Consumer Protection and Financial Innovation It is an independent supervisory authority of the European Union and is part of the European System of Financial Supervisors (ESFS).
- 3 Network of Quality Checks for Translation
- 4 Expert Network – Quantitative Requirement (ENW1)
- 5 Expert Network – Risk Management (ENW2)
- 6 Expert Network – Information (ENW3)

- 7 Expert Network – Internal Models (ENW4)
- 8 Expert Network – Financial Stability (ENW5)
- 9 Expert Network – Accounting and Auditing (ENW6)
- 10 Expert Network – Pensions (ENW7)
- 11 International Relations Network (IRN)

ESRB

During 2018, Hanfa participated in the following ESRB committees:

- 1 General Board
- 2 Advisory Technical Committee

IAIS

During 2018, Hanfa participated in the following IAIS committee:

- 1 Executive Committee

IOSCO

During 2018, Hanfa participated in the following IOSCO committees and groups:

- 1 Presidents Committee
- 2 Growth and Emerging Markets Committee
- 3 European Regional Committee
- 4 MMoU Monitoring Group

Appendix 3: Hanfa's financial statements

Hanfa's balance sheet as at 31/12/2018 (in HRK)

Account from the Chart of Accounts	Item	ADP	As at 1 January	As at 31 December	Index [5/4]
1	2	3	4	5	6
ASSETS					
	ASSETS (ADP 002+074)	001	31,795,220	33,389,536	105.0
0	Non-financial assets (ADP 003+018+047+051+055+064)	002	6,546,320	9,796,455	149.6
01	Non-produced fixed assets (ADP 004+008-017)	003	264,075	1,449,570	548.9
011	Tangible assets - natural resources (ADP 005 to 007)	004	0	0	-
0111	Land	005	0	0	-
0112	Mineral resources	006	0	0	-
0113	Other tangible assets (natural resources)	007	0	0	-
012	Intangible assets (ADP 009 to 016)	008	1,945,529	3,316,736	170.5
0121	Patents	009	0	0	-
0122	Concessions	010	0	0	-
0123	Licences	011	1,723,221	2,227,756	129.3
0124	Other rights	012	164,241	1,088,980	663.0
0125	Goodwill	013	0	0	-
0126	Formation expenses	014	0	0	-
0127	Research and development	015	0	0	-
0128	Other intangible assets	016	58,067	0	0.0
019	Value adjustment for non-produced fixed assets	017	1,681,454	1,867,166	111.0
02	Produced fixed assets (ADP 019 019+023+031+034+039+042-046)	018	6,256,161	7,444,205	119.0
021	Buildings (ADP 020 to 022)	019	3,564,810	3,564,810	100.0
0211	Houses	020	0	0	-
0212	Commercial buildings	021	3,450,670	3,450,670	100.0
0213	Other buildings	022	114,140	114,140	100.0
022	Plant and equipment	023	7,055,406	8,546,366	121.1
0221	Office equipment and furniture	024	6,128,141	7,603,805	124.1
0222	Telecommunications equipment	025	64,427	228,188	354.2
0223	Maintenance and security equipment	026	734,910	576,963	78.5
0224	Medical and laboratory equipment	027	0	0	-
0225	Instruments and machines	028	30,123	30,123	100.0
0226	Sports and musical equipment	029	0	0	-
0227	Machines and equipment for other purposes	030	97,805	107,287	109.7
023	Means of transportation (ADP 032+033)	031	893,764	1,054,324	118.0
0231	Means of road transportation	032	893,764	1,054,324	118.0
0232	Other means of transportation	033	0	0	-
024	Books, artwork and other exhibits (ADP 035 to 038)	034	167,044	158,301	94.8
0241	Library books	035	0	0	-
0242	Work of arts (in galleries, museums etc.)	036	167,044	158,301	94.8

Account from the Chart of Accounts	Item	ADP	As at 1 January	As at 31 December	Index [5/4]
1	2	3	4	5	6
0243	Museum exhibits and objects of natural rarities	037	0	0	-
0244	Other exhibits	038	0	0	-
025	Growing crops and live stock (ADP 040+041)	039	0	0	-
0251	Growing crops	040	0	0	-
0252	Live stock	041	0	0	-
026	Intangible produced assets (ADP 043 to 045)	042	3,608,429	4,234,616	117.4
0261	Software investments	043	3,608,429	4,234,616	117.4
0262	Works of art, literary and scientific works	044	0	0	-
0263	Other intangible produced assets	045	0	0	-
029	Value adjustment for produced fixed assets	046	9,033,292	10,114,212	112.0
03	Precious metals and other valuables (ADP 048)	047	0	0	-
031	Precious metals and other valuables (ADP 049+050)	048	0	0	-
0311	Precious metals and precious stones	049	0	0	-
0312	Archived books, works of art and similar valuables	050	0	0	-
04	Small inventory (ADP 052+053-054)	051	0	0	-
041	Small inventory on stock	052	0	0	-
042	Small inventory in use	053	309,896	245,948	79.4
049	Value adjustment for small inventory	054	309,896	245,948	79.4
05	Non-financial assets - work in progress (ADP 056 to 059+062+063)	055	0	876,399	-
051	Buildings - work in progress	056	0	0	-
052	Plant and equipment - work in progress	057	0	876,399	-
053	Means of transportation - work in progress	058	0	0	-
054	Growing crops and livestock - work in progress (ADP 060+061)	059	0	0	-
0541	Growing crops - work in progress	060	0	0	-
0542	Live stock - work in progress	061	0	0	-
055	Other intangible produced assets - work in progress	062	0	0	-
056	Other intangible assets - work in progress	063	0	0	-
06	Produced current assets (ADP 065+070+073)	064	26,084	26,281	100.8
061	Inventories for the pursuit of activities (ADP 066 to 069)	065	26,084	26,281	100.8
0611	Inventories for redistribution	066	0	0	-
0612	Materials inventory for regular needs	067	26,084	26,281	100.8
0613	Spare parts inventory	068	0	0	-
0614	Materials inventory for special needs	069	0	0	-
062	Production and products	070	0	0	-
0621	Production in progress	071	0	0	-
0622	Finished goods	072	0	0	-
063	Goods for resale	073	0	0	-
1	Financial assets (ADP 075+083+100+105+125+133+142)	074	25,248,900	23,593,081	93.4
11	Cash at bank and in hand	075	7,501,766	21,961,299	292.7
111	Cash at bank (ADP 077 to 079)	076	7,499,316	21,951,970	292.7
1111	Cash in the account with domestic commercial banks	077	7,499,316	21,951,970	292.7

Account from the Chart of Accounts	Item	ADP	As at 1 January	As at 31 December	Index [5/4]
1	2	3	4	5	6
1112	Cash in the account with foreign commercial banks	078	0	0	-
1113	Interim account	079	0	0	-
112	Cash reserved	080	0	0	-
113	Cash in hand	081	2,450	9,329	380.8
114	Securities in hand	082	0	0	-
12	Deposits, guarantee deposits, employee receivables and receivables for prepaid taxes, and other (ADP 084+087+088+089+095)	083	17,097,724	669,687	3.9
121	Deposits with banks and other financial institutions (ADP 085+086)	084	17,000,000	0	0.0
1211	Deposits with domestic banks and other financial institutions	085	17,000,000	0	0.0
1212	Deposits with foreign banks and other financial institutions	086	0	0	-
122	Guarantee deposits	087	0	603,502	-
123	Employee receivables	088	2,074	12,692	612.0
124	Receivables for prepaid taxes and contributions (ADP 090 to 094)	089	0	0	-
1241	Receivables for prepaid taxes	090	0	0	-
1242	Value-added tax receivables	091	0	0	-
1243	Receivables for prepaid duties and customs duties	092	0	0	-
1244	Receivables for prepaid other taxes	093	0	0	-
1245	Receivables for prepaid contributions	094	0	0	-
129	Other receivables (ADP 096 to 099)	095	95,650	53,493	55.9
1291	Receivables for refundable benefits	096	7,305	18,514	253.4
1292	Receivables for damages	097	0	0	-
1293	Receivables for advance payments	098	24,238	10,378	42.8
1294	Other receivables	099	64,107	24,601	38.4
13	Loans (ADP101+102+103-104)	100	0	0	-
131	Loans to citizens and households	101	0	0	-
132	Loans to legal entities engaged in entrepreneurial activity	102	0	0	-
133	Loans to other entities	103	0	0	-
139	Impairment of loan receivables	104	0	0	-
14	Securities (ADP 106 +109+112+115+118+121-124)	105	0	0	-
141	Cheques (ADP 107+108)	106	0	0	-
1411	Cheques – domestic	107	0	0	-
1412	Cheques – foreign	108	0	0	-
142	Commercial papers and treasury bills (ADP 110+111)	109	0	0	-
1421	Commercial papers and treasury bills – domestic	110	0	0	-
1422	Commercial papers and treasury bills – foreign	111	0	0	-
143	Bills of exchange (ADP 113+114)	112	0	0	-
1431	Bills of exchange – domestic	113	0	0	-
1432	Bills of exchange – foreign	114	0	0	-

Account from the Chart of Accounts	Item	ADP	As at 1 January	As at 31 December	Index [5/4]
1	2	3	4	5	6
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 of 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 of shares and participations in equity	132	0	0	-
16	Income receivables (ADP 134 to 137+140-141)	133	93,290	0	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	93,290	0	0.0
1641	Receivables for income from financial assets	138	93,290	0	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	556,120	962,095	173.0
191	Prepayments	143	554,718	959,995	173.1
192	Accrued income	144	1,402	2,100	149.8
LIABILITIES AND OWN SOURCES					
	Liabilities and own sources (ADP 146+195)	145	31,795,221	33,389,536	105.0
2	Liabilities (ADP 147+174+182+190)	146	6,153,389	8,701,699	141.4
24	Liabilities for expenditures (ADP 148+156+164+168+169+170)	147	5,097,942	7,635,735	149.8
241	Liabilities for employees (ADP 149 to 155)	148	4,005,475	4,966,477	124.0
2411	Liabilities for salaries - net	149	1,341,165	1,536,763	114.6
2412	Liabilities for salary compensations - net	150	185,259	192,785	104.1
2413	Liabilities for salaries in kind – net	151	0	0	-
2414	Liabilities for tax and surtax on salaries	152	300,630	351,009	116.8
2415	Liabilities for contributions from salaries	153	456,077	527,657	115.7

Account from the Chart of Accounts	Item	ADP	As at 1 January	As at 31 December	Index [5/4]
1	2	3	4	5	6
2416	Liabilities for contributions on salaries	154	363,884	415,122	114.1
2417	Other liabilities for employees	155	1,358,460	1,943,141	143.0
242	Liabilities for material expenses (ADP 157 to 163)	156	1,026,413	2,580,558	251.4
2421	Costs for employees	157	60,291	73,197	121.4
2422	Remuneration for members of representative and executive bodies, committees etc.	158	0	0	-
2423	Remuneration for volunteers	159	0	0	-
2424	Costs for external staff	160	0	0	-
2425	Liabilities towards domestic suppliers	161	772,486	2,010,292	260.2
2426	Liabilities towards foreign suppliers	162	193,636	497,069	256.7
2429	Other liabilities for financing operating expenses	163	0	0	-
244	Liabilities for financial expenses (ADP 165 to 167)	164	6,909	0	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	6,909	0	0.0
245	Liabilities for financial aid funds collected	168	0	0	-
246	Liabilities for penalties and damages	169	11,245	0	0.0
249	Other liabilities (ADP 171 to 173)	170	47,900	88,700	185.2
2491	Liabilities for taxes	171	0	0	-
2492	Liabilities for value-added tax	172	4,716	9,069	192.3
2493	Liabilities for prepayments, deposits, caution money received and other liabilities	173	43,184	79,631	184.4
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 of liabilities for securities	181	0	0	-
26	Liabilities for credits and loans (ADP 183+186-189)	182	0	0	-
261	Liabilities for bank credits and credits from other creditors (ADP 184+185)	183	0	0	-
2611	Liabilities for domestic credits	184	0	0	-
2612	Liabilities for foreign credits	185	0	0	-
262	Liabilities for commodity and other loans (ADP 187+188)	186	0	0	-
2621	Liabilities for domestic loans	187	0	0	-
2622	Liabilities for foreign loans	188	0	0	-
269	Value adjustment for liabilities for credits and loans	189	0	0	-
29	Accrued expenses and deferred income	190	1,055,447	1,065,964	101.0
291	Accrued expenses	191	139,355	202,962	145.6
292	Deferred income (ADP 193+194)	192	916,092	863,002	94.2
2921	Accrued income	193	84,810	327,070	385.7
2922	Deferred income	194	831,282	535,932	64.5

Account from the Chart of Accounts	Item	ADP	As at 1 January	As at 31 December	Index [5/4]
1	2	3	4	5	6
5	Own sources (ADP 196+199-200)	195	25,641,832	24,687,837	96.3
51	Own sources (ADP 197+198)	196	2,415,199	2,366,359	98.0
511	Own sources	197	2,415,199	2,366,359	98.0
512	Revaluation reserves	198	0	0	-
5221	Excess of income	199	23,226,633	22,321,478	96.1
5222	Lack of income	200	0	0	-
OFF-BALANCE SHEET ITEMS					
61	Off-balance sheet items – assets	201	0	0	-
62	Off-balance sheet items – liabilities	202	0	0	-

Statement of Hanfa's income and expenditure for the period from 1/1/2018 to 31/12/2018 (in HRK)

Account from the Chart of Accounts	Item	ADP	Realised in the previous year	Realised in the reporting period	Index [5/4]
1	2	3	4	5	6
INCOME					
3	Income (ADP 002 +005+008+011+024+040+049)	001	53,788,508	63,584,762	118.2
31	Income from the sale of goods and provision of services	002	0	0	-
3111	Income from the sale of goods	003	0	0	-
3112	Income from the provision of services	004	0	0	-
32	Income from membership fees and membership contributions	005	0	0	-
3211	Membership fees	006	0	0	-
3212	Membership contributions	007	0	0	-
33	Income under special regulations (ADP 009+010)	008	52,824,301	62,760,430	118.8
3311	Income under special regulations from the state budget	009	0	0	-
3312	Income under special regulations from other sources	010	52,824,301	62,760,430	118.8
34	Income from assets (ADP 012+021)	011	186,899	60,870	32.6
341	Income from financial assets (ADP 013 to 020)	012	186,899	60,870	32.6
3411	Interest income from loans granted	013	0	0	-
3412	Income from interest on securities	014	0	0	-
3413	Interest on time deposits and demand deposits	015	166,968	54,703	32.8
3414	Income from default interest	016	0	1,504	-
3415	Income from positive exchange rate differences	017	19,931	4,663	23.4
3416	Dividend income	018	0	0	-
3417	Income from profits of companies, banks and other financial institutions under special regulations	019	0	0	-
3418	Other income from financial assets	020	0	0	-
342	Income from non-financial assets (ADP 022+023)	021	0	0	-
3421	Income from leases and rents	022	0	0	-
3422	Other income from non-financial assets	023	0	0	-

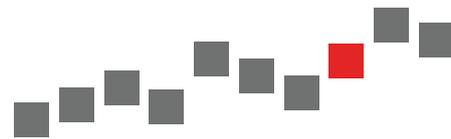
Account from the Chart of Accounts	Item	ADP	Realised in the previous year	Realised in the reporting period	Index (5/4)
1	2	3	4	5	6
35	Income from donations (ADP 025+030+033+036+037)	024	255,725	255,725	100.0
351	Income from donations from the budget (ADP 026 to 029)	025	255,725	255,725	100.0
3511	Income from donations from the state budget	026	255,725	255,725	100.0
3512	Income from donations from bodies of local and regional self-government	027	0	0	-
3513	Income from donations from the state budget for EU projects	028	0	0	-
3514	Income from donations from bodies of local and regional self-government for EU projects	029	0	0	-
352	Income from foreign governments and international organisations (ADP 031+032)	030	0	0	-
3521	Income from foreign governments and international organisations	031	0	0	-
3522	Income from EU institutions and bodies	032	0	0	-
353	Income from companies and other legal persons (ADP 034+035)	033	0	0	-
3531	Income from companies and other legal persons	034	0	0	-
3532	Income from companies and other legal persons for EU projects	035	0	0	-
354	Income from citizens and households	036	0	0	-
355	Other income from donations (ADP 038+039)	037	0	0	-
3551	Other income from donations	038	0	0	-
3552	Other income from donations for EU projects	039	0	0	-
36	Other income (ADP 041+044+045)	040	521,583	507,737	97.3
361	Income from damages and refunds (ADP 042+043)	041	325,583	397,922	122.2
3611	Income from damages	042	0	10,727	-
3612	Income from refunds	043	325,583	387,195	118.9
362	Income from the sale of fixed assets	044	62,500	0	0.0
363	Other income (ADP 046 to 048)	045	133,500	109,815	82.3
3631	Liability write-off	046	22,666	0	0.0
3632	Receivables written off	047	0	0	-
3633	Other income	048	110,834	109,815	99.1
37	Income from related non-profit organisations (ADP 050 to 053)	049	0	0	-
3711	Current income from related non-profit organisations	050	0	0	-
3712	Capital income from related non-profit organisations	051	0	0	-
3713	Current income from related non-profit organisations for EU projects	052	0	0	-
3714	Capital income from related non-profit organisations for EU projects	053	0	0	-
EXPENSES					
4	EXPENSES (ADP 055 +067+108+109+120+128+139)	054	47,958,557	58,659,966	122.3
41	Employee expenses (ADP 056+061+062)	055	31,225,602	37,741,886	120.9
411	Salaries (ADP 057 to 060)	056	25,217,509	27,981,215	111.0
4111	Salaries for regular work	057	25,130,241	27,797,163	110.6

Account from the Chart of Accounts	Item	ADP	Realised in the previous year	Realised in the reporting period	Index (5/4)
1	2	3	4	5	6
4112	Salaries in kind	058	87,268	184,052	210.9
4113	Salaries for overtime work	059	0	0	-
4114	Salaries for extraordinary working conditions	060	0	0	-
412	Other employee expenses	061	1,927,393	5,258,781	272.8
413	Contributions on salaries (ADP 063 to 066)	062	4,080,700	4,501,890	110.3
4131	Contributions for health insurance	063	3,677,375	4,057,473	110.3
4132	Employment contributions	064	403,325	444,417	110.2
4133	Pension insurance contributions paid by the employer	065	0	0	-
4134	Special contributions for stimulating employment of people with disabilities	066	0	0	-
42	Material expenses (ADP 068+072+077+082+087+097+102)	067	14,838,431	18,249,908	123.0
421	Employees' costs (ADP 069 to 071)	068	2,120,852	2,422,351	114.2
4211	Business trips	069	658,719	973,371	147.8
4212	Travel, field and separate maintenance allowance	070	714,660	804,712	112.6
4213	Employees' professional training	071	747,473	644,268	86.2
422	Remuneration for members of representative and executive bodies, committees etc. (ADP 073 to 076)	072	0	73,087	-
4221	Remuneration for regular activities	073	0	73,087	-
4222	Business travel costs	074	0	0	-
4223	Other costs	075	0	0	-
4224	Other remuneration	076	0	0	-
423	Remuneration to volunteers (ADP 078 to 081)	077	0	0	-
4231	Remuneration for regular operations	078	0	0	-
4232	Business travel costs	079	0	0	-
4233	Other costs	080	0	0	-
4234	Other remuneration	081	0	0	-
424	Remuneration to external staff (ADP 083 to 086)	082	0	10,642	-
4241	Remuneration for regular activities	083	0	0	-
4242	Business travel costs	084	0	10,642	-
4243	Other costs	085	0	0	-
4244	Other remuneration	086	0	0	-
425	Expenses for services (ADP 088 to 096)	087	6,768,432	8,829,347	130.4
4251	Telephone, postal and transport services	088	196,770	513,723	261.1
4252	Daily and investment maintenance services	089	1,569,802	2,344,762	149.4
4253	Promotional and information services	090	54,000	85,563	158.5
4254	Public utility services	091	604,856	785,362	129.8
4255	Leases and rents	092	2,105,638	2,349,333	111.6
4256	Health care and veterinary services	093	124,550	17,810	14.3
4257	Intellectual and personal services	094	744,220	1,079,293	145.0
4258	IT services	095	206,875	417,218	201.7
4259	Other services	096	1,161,721	1,236,283	106.4

Account from the Chart of Accounts	Item	ADP	Realised in the previous year	Realised in the reporting period	Index (5/4)
1	2	3	4	5	6
426	Expenses for material and energy (ADP 098 to 101)	097	729,508	1,030,943	141.3
4261	Stationery and other material expenses	098	322,963	445,839	138.0
4262	Raw materials and consumables	099	0	0	-
4263	Energy	100	377,584	462,300	122.4
4264	Small inventory and car tires	101	28,961	122,804	424.0
429	Other material expenses (ADP 103 to 107)	102	5,219,639	5,883,538	112.7
4291	Insurance premiums	103	59,445	57,433	96.6
4292	Representation	104	95,685	285,655	298.5
4293	Membership fees	105	5,064,359	5,540,370	109.4
4294	Participation fees	106	0	0	-
4295	Other material expenditure	107	150	80	53.3
43	Depreciation expenditure	108	1,762,378	2,105,985	119.5
44	Financial expenses (ADP 110+111+115)	109	58,871	100,002	169.9
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	58,871	100,002	169.9
4431	Banking and payment system services	116	42,201	55,067	130.5
4432	Negative exchange rate differences and currency clause	117	16,670	43,471	260.8
4433	Default interest	118	0	12	-
4434	Other material expenditure	119	0	1,452	-
45	Donations (ADP 121+125)	120	0	0	-
451	Current donations (ADP 122 to 124)	121	0	0	-
4511	Current donations	122	0	0	-
4512	Scholarships	123	0	0	-
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	73,275	462,185	630.8
461	Fines, penalties and indemnities (ADP 130 to 133)	129	11,245	0	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	11,245	0	0.0
4614	Agreed fines and other compensations for damage	133	0	0	-
462	Other financial expenses (ADP 135 to 138)	134	62,030	462,185	745.1
4621	Net book value and other expenses for retired and disposed fixed assets	135	137	10,657	7,778.8

Account from the Chart of Accounts	Item	ADP	Realised in the previous year	Realised in the reporting period	Index (5/4)
1	2	3	4	5	6
4622	Receivables written off	136	0	0	-
4623	Expenses for other tax levies	137	3,379	3,316	98.1
4624	Other expenses	138	58,514	448,212	766.0
47	Expenses for the funding of related non-profit organisations (ADP 140 to 143)	139	0	0	-
4711	Current expenses for the funding of related non-profit organisations	140	0	0	-
4712	Capital expenses for the funding of related non-profit organisations	141	0	0	-
4713	Current expenses for the funding of related non-profit organisations for EU projects	142	0	0	-
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	47,958,557	58,659,966	122.3
	EXCESS OF INCOME (ADP 001-148)	149	5,829,951	4,924,796	84.5
	DEFICIENCY OF INCOME (ADP 148-001)	150	0	0	-
5221	Excess of income – transferred	151	17,396,682	17,396,682	100.0
5222	Deficiency of income – transferred	152	0	0	-
	Income tax liabilities	153	0	0	-
	Surplus income available in the following period (ADP 149+151-150-152-153)	154	23,226,633	22,321,478	96.1
	Deficit of income for the coverage in the following period (AOP 150+152-149-151+153)	155	0	0	-
ADDITIONAL DATA					
11	Cash at the beginning of the year	156	8,328,146	7,501,765	90.1
11-payables	Total inflows of cash at bank and in hand	157	73,622,132	117,375,955	159.4
11-receivables	Total outflows of cash at bank and in hand	158	74,448,513	102,916,422	138.2
11	Cash at the end of the period (ADP 156+157-158)	159	7,501,765	21,961,298	292.7
	Average number of employees at the end of the reporting period (whole number)	160	159	171	107.5
	Average number of employees' working hours (whole number)	161	146	153	104.8
	Number of volunteers	162	0	0	-
	Number of volunteered hours	163	0	0	-

Value of realised investments in new fixed assets		ADP	Realised value		Index (5/4)
			in the same period last year	in the reporting period	
051	Buildings - work in progress	164	0	0	-
052	Plant and equipment - work in progress	165	227,473	876,399	385.3
053	Means of transportation - work in progress	166	208,442	0	0.0
054	Growing crops and livestock - work in progress (ADP)	167	0	0	-
055	Other intangible produced assets - work in progress	168	594,784	0	0.0
056	Other intangible assets - work in progress	169	28,961	0	0.0
Item		ADP	As at 1 January	At the end of the reporting period	Index (5/4)
	Inventories	170	26,084	26,281	100.8
	Control sum (ADP 160 to 170)	171	1,086,049	903,004	83.1

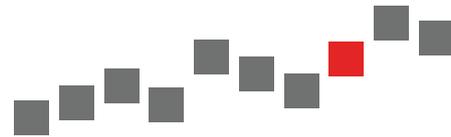


List of tables



12 List of tables

Table 2.3.1	Assets of AIFs according to the type	21
Table 5.1.1	Authorisations and approvals - capital market	51
Table 5.1.2	Termination of authorisations - capital market	52
Table 5.1.3	Licensing procedures related to business operations of investment fund management companies and investment funds	53
Table 5.1.4	Licensing procedures related to business operations of pensions companies and pension funds	54
Table 5.1.5	Licensing procedures related to the insurance market	54
Table 5.1.6	Authorisations to pursue insurance representation and brokerage business	55
Table 5.1.7	Termination and revocation of authorisations/approvals to pursue insurance representation and brokerage business	55
Table 5.1.8	Authorisations and approvals issued to leasing companies	55
Table 5.1.9	Licensing procedures related to the factoring market	56
Table 5.2.1	Examination results	56
Table 5.2.2	Examination results	57
Table 6.3.1	Number of complaints received in 2016, 2017 and 2018 by submitters	61
Table 8.1.1	Indictments brought in 2018	70
Table 8.1.2	Indictments brought in the 2006-2018 period	71
Table 9.4.1	Hanfa's abbreviated balance sheet as at 31/12/2018 (in HRK thousand)	78
Table 9.4.2	Hanfa's aggregate income and expenditure account for 2018 (in HRK thousand)	79
Table 9.4.1.1	Income from fees in 2018 (in HRK thousand)	79

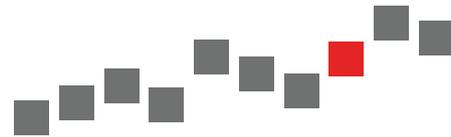


List of figures



13 List of figures

Figure 2.1.1	Total turnover and market capitalisation	16
Figure 2.1.2	Changes in values of ZSE indices	16
Figure 2.2.1	Income of investment firms per activities	17
Figure 2.2.2	Investment firms' capital adequacy	18
Figure 2.2.3	Value of assets managed by legal entities authorised to provide portfolio management investment services	18
Figure 2.3.1	Assets of UCITS per types	19
Figure 2.3.2	Asset structure of UCITS	20
Figure 2.3.3	Asset structure of UCITS by domicile	21
Figure 2.4.1	Returns of mandatory pension funds	23
Figure 2.5.1	Gross written premium	24
Figure 2.5.2	Solvency ratio median of insurance companies	25
Figure 2.6.1	Number of leasing companies and their assets	27
Figure 2.7.1	Number of factoring companies and their assets	28
Figure 6.3.1	Complaints in 2018 by area	61
Figure 9.1.1	Internal structure	75
Figure 9.1.2	Employee structure by gender and age	76
Figure 9.1.3	Employee structure per professional qualifications	77
Figure 9.1.4	Structure of employees in managerial positions	77



Abbreviations



14 Abbreviations

AIF	– Alternative Investment Fund
AIFM	– alternative investment fund management company
AOEIF	– Act on Open-Ended Investment Funds with Public Offering
BaFin	– German Financial Services Regulator (Ger.: Bundesanstalt für Finanzdienstleistungsaufsicht)
bn	– billion
Bundesbank	– German Central Bank
Bureau	– Croatian Insurance Bureau
CCP	– central counterparty
CDCC	– Central Depository and Clearing Company
CEET	– Central and Eastern Europe and Transcaucasia
CFD	– contract for difference
CN POOL	– Croatian Nuclear Insurance and Reinsurance Pool, IIG
CSD	– Central Securities Depository
CSDR	– Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012, OJ L 257
CVPF	– closed-ended voluntary pension fund
DNB	– Central Bank of the Netherlands (Dutch: De Nederlandsche Bank)
EBA	– European Banking Authority
EBRD	– European Bank for Reconstruction and Development
EIOPA	– European Insurance and Occupational Pensions Authority
EMIR	– 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
ESFS	– European System of Financial Supervision
ESMA	– European Securities and Markets Authority
ESRB	– European Systemic Risk Board
EU	– European Union
Hanfa	– Croatian Financial Services Supervisory Agency
HRK	– Croatian kuna
IAIS	– International Association of Insurance Supervisors
IDD	– Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution, OJ L 26

IF	– investment fund
IIF	– Institute of International Finance
IOPS	– International Organisation of Pension Supervisors
IOSCO	– International Organisation of Securities Commissions
ISSA	– International Social Security Association
KIID	– Key Investor Information Document
LTG	– long-term guarantees
MCR	– Minimum Capital Requirement
MiFID II	– Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, OJ L 173
MiFIR	– Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012, OJ L 173
m	– million
MMIs	– money market instruments
MPF	– mandatory pension fund
MTF	– multilateral trading facility
NAV	– net asset value
OECD	– Organisation for Economic Cooperation and Development
ORSA	– Own Risk and Solvency Assessment
OVPF	– open-ended voluntary pension fund
Regos	– Central Registry of Affiliates
RSR	– regular supervisory report
SFCR	– Solvency and Financial Condition Report
SRSP	– Structural Reform Support Programme
SCR	– Solvency Capital Requirement
UCITS	– undertakings for collective investments in transferrable securities
ZSE	– Zagreb Stock Exchange