



# Annual Report

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2023



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**ISSN:** 1846-6362

Those using data from this publication are requested to cite the source.

## FOREWORD

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The year 2023 was indeed a dynamic and challenging year, but also full of opportunities that we successfully seized. The first half of the year was marked by the continuation of challenging market and geopolitical developments that we also faced in 2022, against the backdrop of a fast growth in prices, accompanied by a considerable rise in interest rates. The uncertainty in the financial markets was further amplified by the war in Ukraine and banking turmoil in the US and Switzerland, which exposed vulnerabilities of some business models developed at the time of low or negative interest rates. The European Central Bank continued to pursue a restrictive monetary policy. As a result, inflation declined in the second half of the year, while the stabilisation of energy prices gave an additional boost to positive changes. In such conditions, the annual inflation rate in Croatia declined from 12.7% to 4.5%, paving the way for the recovery of the capital market and the stabilisation of institutional investors' operations. The European economy remained resilient and managed to avoid recession, with a growth of 0.5%. The domestic economy recorded an impressive growth of 3.1%, supported by a record-breaking tourist season, a robust labour market and the low unemployment rate.



One of the most important events in 2023 for us was Croatia's entry into the euro area. The introduction of the euro marked the completion of the two-year preparatory process, which was carried out successfully, without any technical difficulties and, more importantly, without any unwelcome or negative consequences for users of financial services. This is proof that, as a supervisor and as a financial community, we are ready for major changes. The introduction of the new currency resulted in a significant reduction of currency risk and a decrease in credit risk. This was confirmed by all three leading credit rating agencies, which have upgraded Croatia's outlook from stable to positive, whereby Croatia's credit rating reached the highest level ever. The successful reduction of public debt to 63% of GDP, with a favourable maturity and currency structure, also led to a decline

in yields on government bonds, signalling a diminished risk perception of the Croatian economy.

These positive trends also spilled over to the domestic capital market, which saw a record-high growth in value in 2023. The CROBEX stock index ended the year at 2530 points, growing by 28% from the year before. This is the highest value of the stock index in the last ten years, which is the result of investor optimism based on the good corporate performance in both the global and domestic stock markets. The value of the CROBIS bond index edged down from 2022, which is not surprising given the rise in interest rates. A significant novelty in the domestic bond market in 2023 was the successful issuance of the first “national” bonds and treasury bills, in which the Croatian citizens invested a total of EUR 2.3bn. This and all the subsequent issues of government debt securities intended for citizens have shown that there is interest in investing on the domestic capital market and thus a potential for its further development, which will also be supported by the Strategy for domestic capital market development to be prepared by the Ministry of Finance and Hanfa.

Price spikes in foreign and domestic financial markets in 2023 led to an increase in the assets of institutional investors and enabled the recovery of returns in all categories of mandatory and voluntary pension funds. Net assets of mandatory pension funds exceeded EUR 20bn at end-2023. With EUR 1.3bn worth of assets of voluntary pension funds, this is a sizeable capital. Its professional long-term management, with competitive returns for their members, is one of the basic foundations for the development of the domestic capital market and the domestic economy. In order to achieve this, it is necessary to ensure that there are sound and competitive investment opportunities in the market, in particular those that take into account environmental factors as increasingly important determinants of investment strategies and decisions. The new legislative package related to the pension system on which we worked in 2023 in cooperation with the Ministry of Labour, Pension System, Family and Social Policy, will enable greater diversification of pension fund portfolios in the future and thus create an opportunity to generate higher returns. In addition to liberalising and expanding investment opportunities, the legislative changes also allow fund members greater flexibility in choosing and changing pension funds, imposing the obligation to inform members about their options in a timely manner. Greater flexibility in asset management, while preserving the high standards of risk management prioritised by Hanfa in its activities, opens up space, in the long run, for generating higher returns relative to the risks taken, while membership flexibility enables better alignment of investments with citizens’ preferences. To achieve this, both Hanfa and pension companies should continue to invest in increasing financial literacy of pension fund members.

Other segments of the financial services sector also saw a relatively successful, albeit challenging year. The new IFRS 17 and IFRS 19 accounting standards were successfully implemented into operations and processes on the insurance market.

These standards ensure a higher level of transparency of operations and international consistency of financial reporting. Although these are merely accounting standards, these changes promote the accountability of insurance companies through more prudent asset management and a timely presentation of business results. This will in turn lead to a more precise pricing of insurance products, ensuring that the consumers receive a fair value for the premiums they pay. Investment funds also made favourable business results in 2023, recording a 5.7% growth in net assets under management, with investors returning to UCITS, as evident from positive net inflows of funds. The share of target-date funds and funds focused on sustainable investments in this financial services segment continued to trend upwards in 2023. Investment offer was further expanded in 2023 by the return of money market funds after a years-long absence. These developments show the adaptability of the investment fund sector in a challenging period of rising interest rates, which stimulates competition in the savings market.

In the course of 2023, Hanfa actively participated in the process of Croatia's accession to the OECD, our country's strategic foreign policy priority. In 2023, our employees also participated in the work of the negotiating team and provided expert support to competent ministries in the area of financial markets, insurance, private pensions, corporate governance, financial literacy, consumer protection and codes on liberalisation. Although the accession process has not been completed yet, significant progress has been made. The process is expected to be completed by the end of 2025, with the formalisation of membership in 2026. Regardless of the timing of membership formalisation, Croatia's accession to the OECD will be another confirmation of adherence to high economic governance standards and the strength of the financial regulatory framework, with a positive effect on investor confidence in the domestic financial system.

During the year, we monitored the legality, regularity and financial stability of the operations of institutional investors, capital market, insurance companies and leasing and factoring companies, by carrying out more than thirty on-site inspections, some of which were directed exclusively towards the way financial institutions do business with consumers. We also intensified our educational activities, which directly and indirectly involved almost 6,500 citizens. Given the widespread digitalisation in the financial services sector, financial products are becoming increasingly complex, less transparent and often riskier, albeit more accessible to consumers. Against this backdrop, there is a growing urge to strengthen financial literacy, that is, to increase the understanding of financial concepts and encourage responsible financial behaviour, especially with regard to digital finance. In cooperation with the CNB, in 2023 we also conducted a national financial literacy survey based on the OECD/INFE methodology, which has shown that in the field of digital financial literacy Croatia is below the average of OECD countries. This suggests that it is necessary to further intensify educational activities, especially those in digital format and geared towards the digital finance

segment, in order to enable consumers to better understand complex financial products and to manage their finances more safely in a dynamic digital environment.

The successful introduction of the euro, the stabilisation of inflation as well as the recovery and growth of the capital market as well as the profitability of institutional investors are just some of the positive trends that confirm the strength of our financial system. However, looking ahead, we face major challenges, especially in the context of digitalisation and the need to develop sustainable financing. Our financial markets must continue to adapt to the ever-increasing pace of change and the growing complexity of financial products. As regulators and as a financial community, it is of utmost importance that we work together on developing sustainable financing by improving non-financial reporting across the board, in order to ensure transparency and foster investment confidence in green financial products. In addition, we must strive to bring the risks arising from cryptomarkets into the regulated sphere, which would reduce the risk of fraud and ensure a safer financial environment for all participants, for which we became responsible with the entry into force of the new legislation on crypto-assets. By continuously investing in education, adapting the legislative framework and adopting best practices from the OECD, Croatia has the opportunity to further strengthen its financial sector, increase investor confidence and stimulate steady economic growth. These steps are crucial to achieving the long-term sustainability of our financial system in the coming, very likely still, challenging period.



**Ante Žigman**  
President of Hanfa Board



**Members of Hanfa Board** (from left to right):

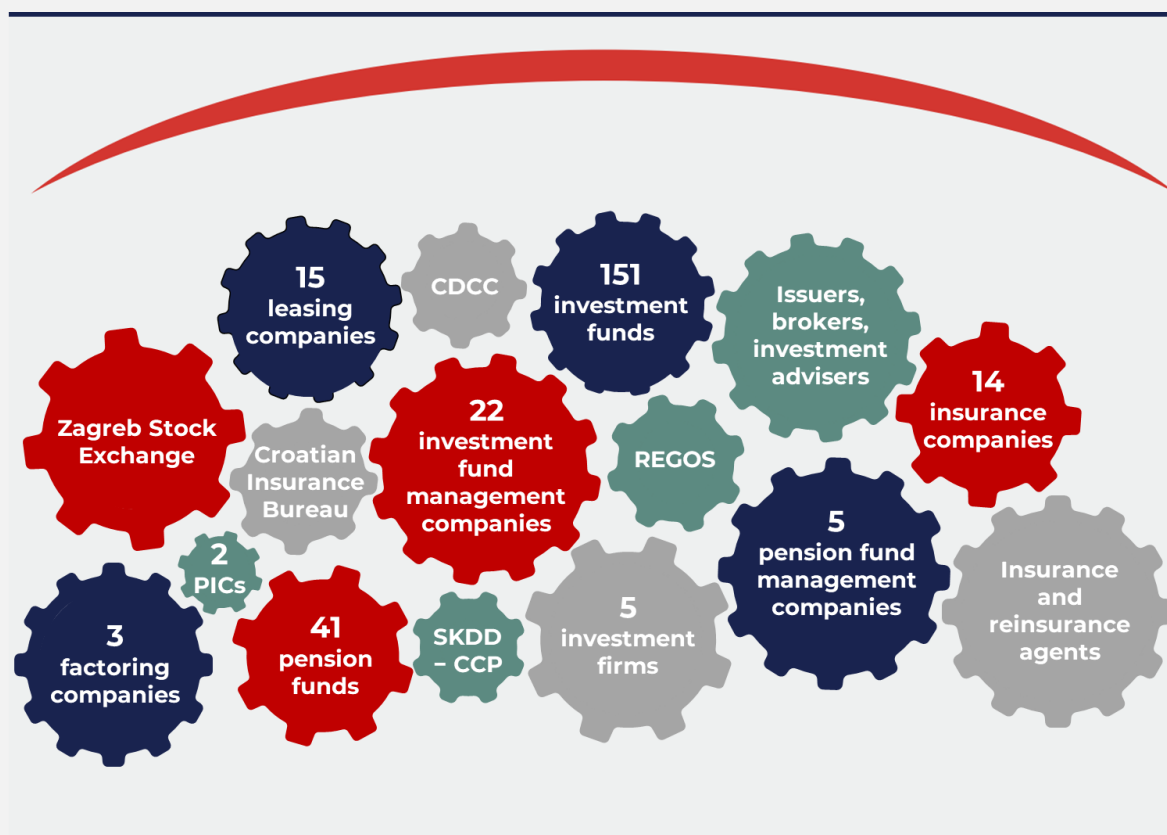
Antun Palarić, Anamarija Staničić, Ante Žigman (Board President),  
Jurica Jednačak and Tomislav Ridzak

# **HANFA IN FIGURES**

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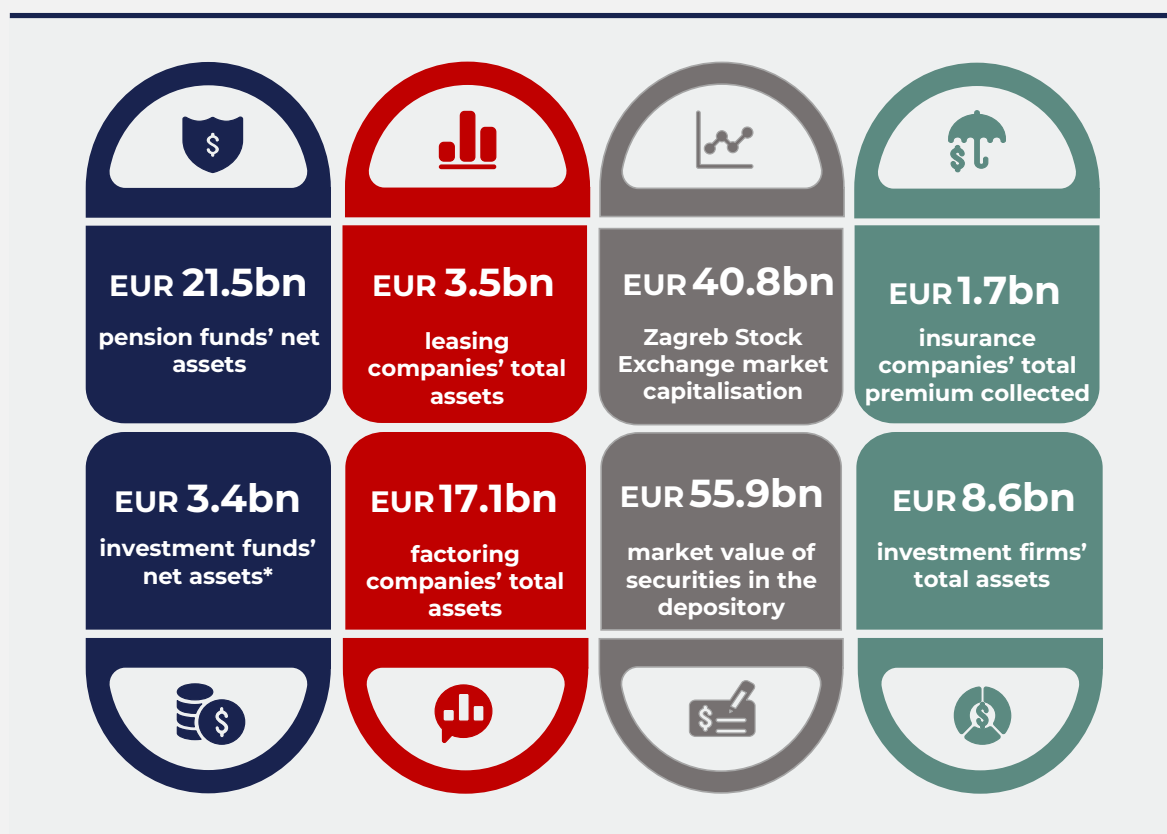
# 1 HANFA IN FIGURES

**Figure 1** Supervised entities



**Source:** Hanfa

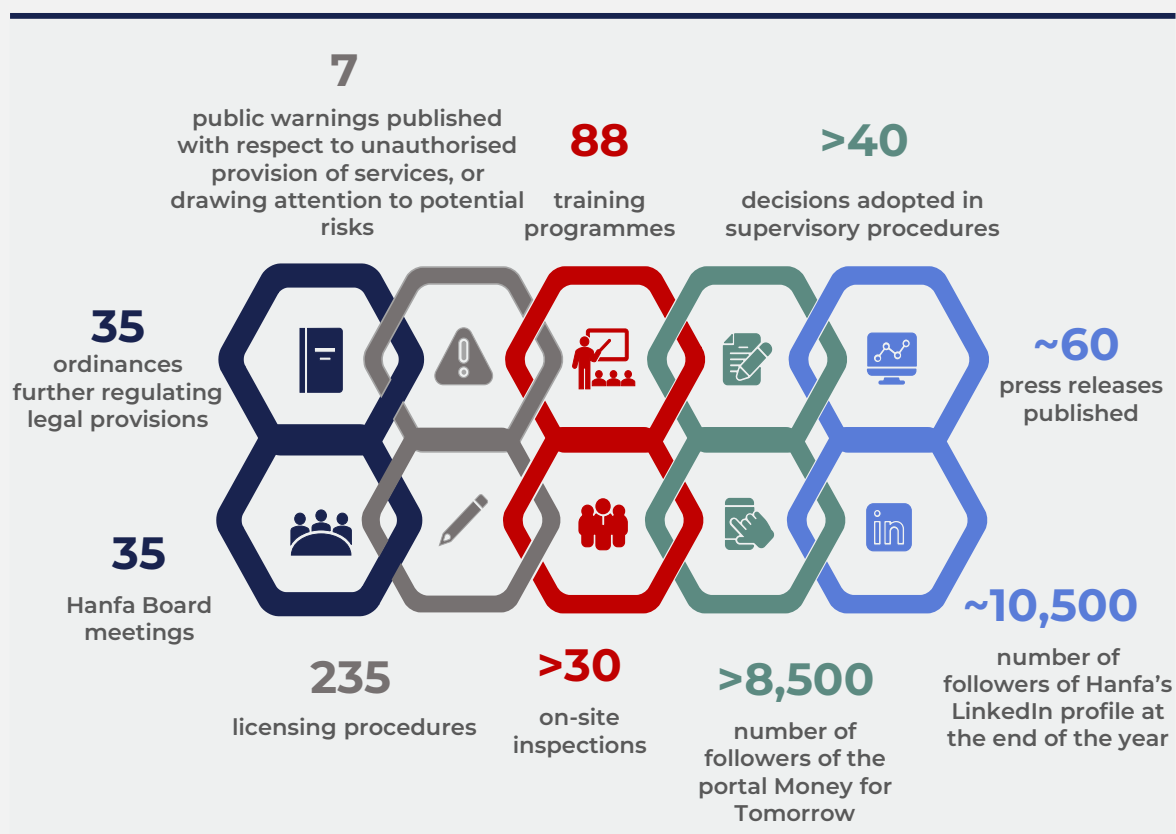
Figure 2 Financial overview



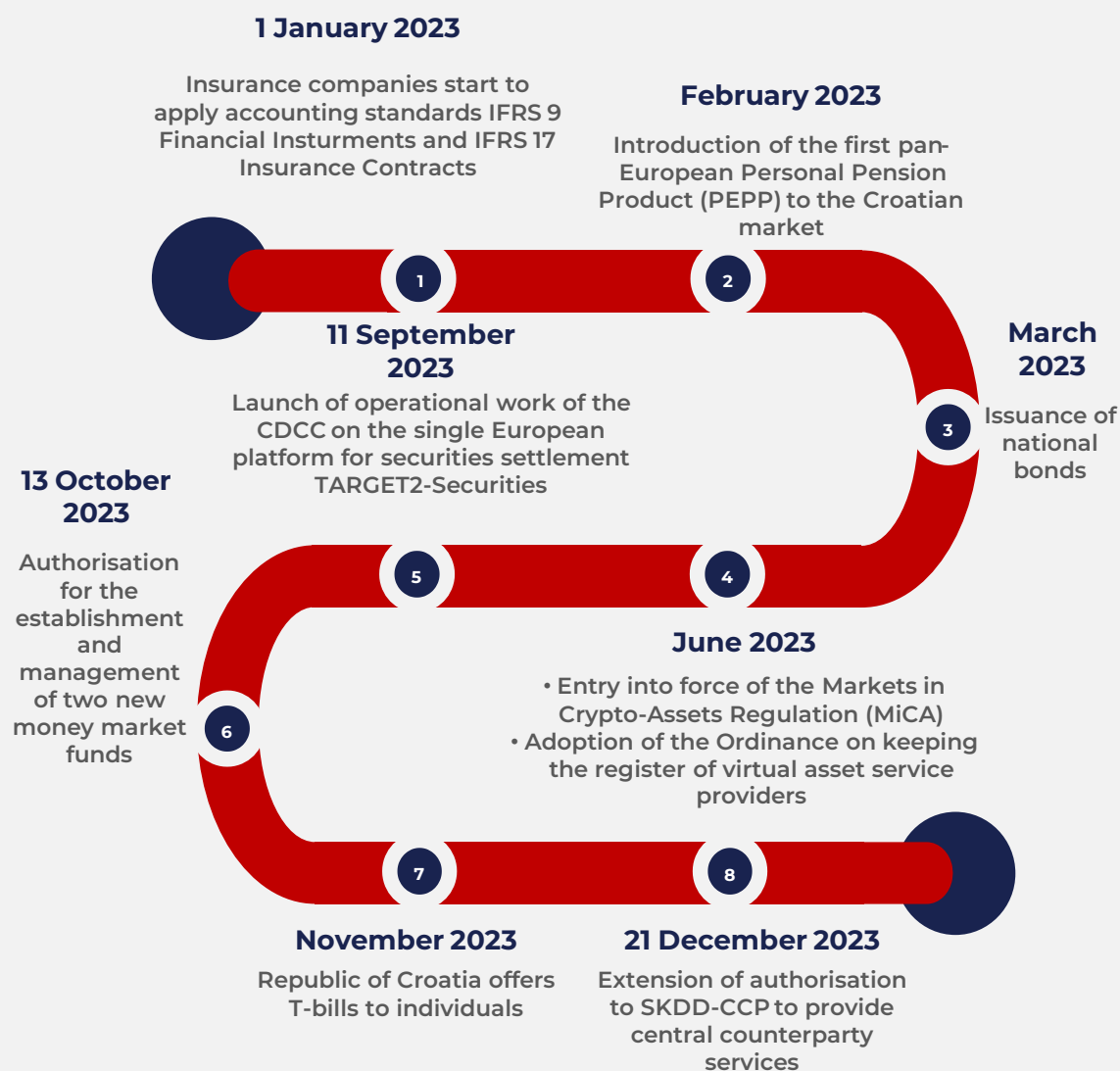
**Note:** \*unrevised data as at 31 December 2023

**Source:** Hanfa

Figure 3 Hanfa's activities



Source: Hanfa

**Figure 4** Important dates

Source: Hanfa

# TRENDS IN THE FINANCIAL SERVICES SECTOR

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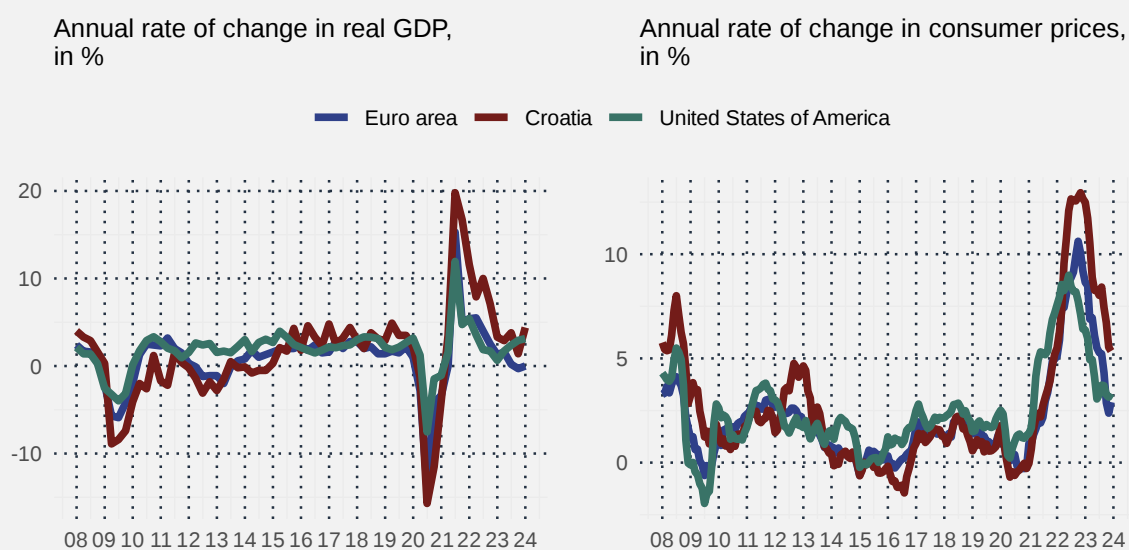
## 2 TRENDS IN THE FINANCIAL SERVICES SECTOR

Despite the persisting global uncertainties caused by elevated geopolitical risks and monetary tightening, the domestic economy showed significant resilience in 2023 relative to other euro area countries. The slowdown in the inflation rate, the growth of foreign and domestic demand and a robust labour market were among the main factors behind the solid growth of the domestic economy and the improvement of public finance indicators. The expected decline in interest rates on global financial markets and positive indicators of the domestic economy also impacted the domestic capital market, with CROBEX growing by a record-high of 28%, reaching its highest level in the past ten years. The assets of the financial services sector increased by 9% and stood at EUR 34.1m at end-2023.

### 2.1 Macroeconomic developments and capital market

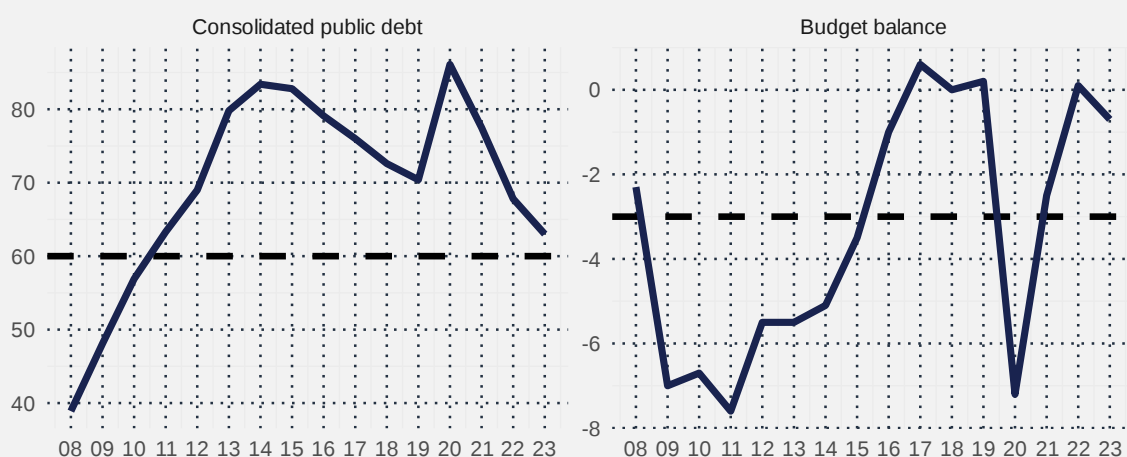
The euro area economy continued its upward path in 2023, albeit with a significant slowdown caused by elevated macroeconomic uncertainties. Euro area annual GDP growth thus stood at 0.4% in real terms, down by 3 p.p. from the previous year. Macroeconomic uncertainties in terms of persistent inflationary developments, the continued rise in interest rates, banking turmoil on both sides of the Atlantic, the outbreak of the conflict in the Middle East and the continuing war in Ukraine marked the economic and political environment in 2023. Having peaked at the end of 2022, inflation slowed down in the course of 2023, with the annual inflation rate of the domestic economy standing at 4.5% at the end of 2023 (down by 8.6 p.p. from the end of 2022). Although inflation moderated, it still remained relatively elevated relative to other euro area countries, which recorded a price increase of 5.4% in 2023. Against the backdrop of adverse external circumstances, the growth of the domestic economy moderated by 4 p.p. from the year before. However, with real growth of 3.1%, it still remained more pronounced than in other euro area countries (Figure 2.1). The growth of personal consumption, spurred by the rise in real wages of 9.0% and a low unemployment rate of 6.4% at the end of the year, supported economic activity in 2023, which was further stimulated by an increase in gross investments linked to the absorption of EU funds and net exports driven by strong foreign demand for services, especially in the tourism sector. Thus, Croatia witnessed the second highest growth among euro area countries in 2023, after Malta.

Figure 2.1 Annual rates of change in real GDP and inflation



Sources: Eurostat, St. Louis Fed

Figure 2.2 Indicators of general government debt and finance situation, in % of nominal GDP



Note: The highlighted lines indicate public debt and budget balance levels defined in the convergence criteria under the Maastricht Treaty.

Source: Eurostat

In 2023, Croatia managed to maintain a stable fiscal policy owing to a combination of economic growth and price increases, which had a positive effect on the revenue side of the budget. Despite a strong revenue inflow (an increase of 17.4%), government expenditures grew at a higher rate (19.4%), leading to a general government budget deficit of EUR 528.5m (0.7% of GDP), after last year's surplus of 0.1% of GDP. Consequently,

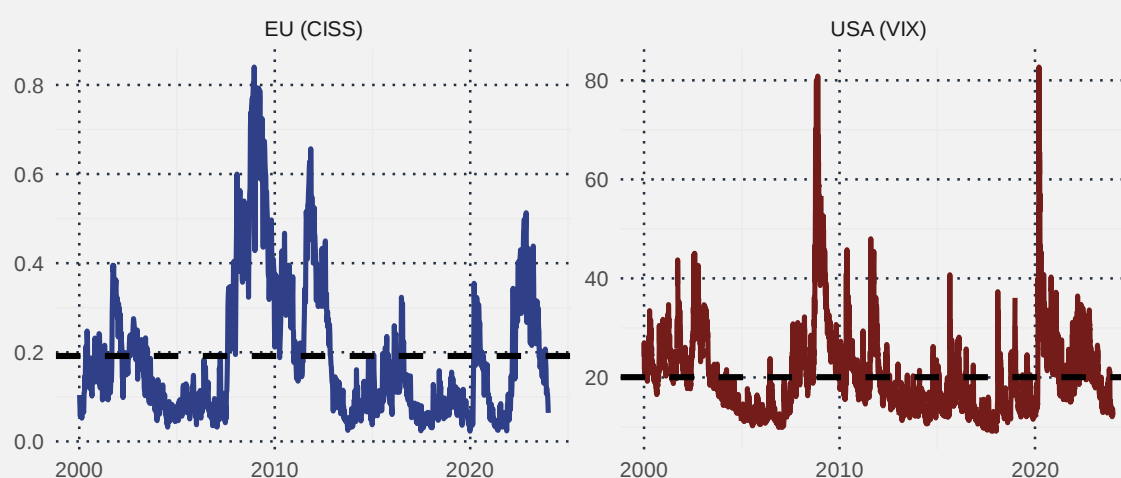
### Budget balance

*Budget balance is the difference between government revenues and government expenditures. A positive balance means excess revenues over expenditures or a surplus, while a negative balance means a shortfall in funds or a deficit.*

general government debt rose by 4% in nominal terms. However, relative indebtedness decreased by 4.8 p.p. on the back of the growth in economic activity; thus, public debt-to-GDP ratio stood at 63.0% at end-2023 (Figure 2.2). Owing to Croatia's accession to the euro area and a reduction in currency risk, the upgrade of Croatia's investment rating outlook from stable to positive<sup>1</sup> and bringing of the public debt level close to the Maastricht criterion of 60% of GDP, yields on government bonds declined, even in an environment of rising interest rates. Yields on government bonds of the Republic of Croatia stood at 3.3% at end-2023, edging down by 0.3. p.p. from the levels recorded at the beginning of the year.

The level of systemic stress in financial markets fell in the course of 2023, despite increased geopolitical risks, elevated interest rates and the inflation rate that was above the 2% target. Investors' adaptation to the uncertain environment and escape from global recession increased the outlook for interest rate cuts in the short term and spurred market players' optimism, which further reduced volatility in financial markets in 2023 (Figure 2.3). The banking sector turmoil in March had a limited impact on systemic stress in the financial system, which recorded values below the long-term average in 2023. This, combined with investor optimism, contributed to the positive performance of various classes of financial assets, which was also reflected in valuations in the domestic capital market.

Figure 2.3 EU and US financial market volatility indices



Note: Horizontal dotted lines denote the average of the values shown.  
Sources: ECB, St. Louis Fed

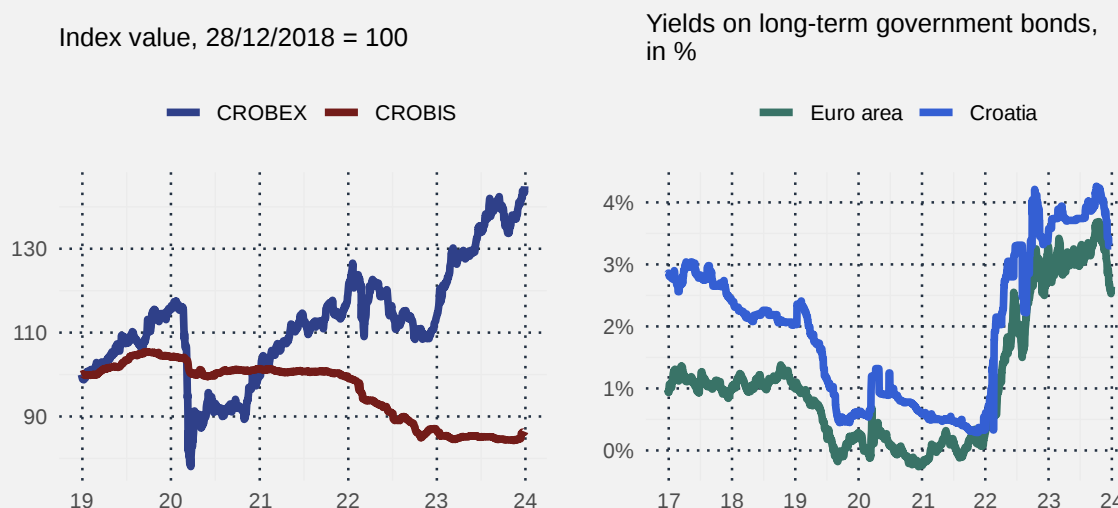
Following last year's correction of 4.8%, the CROBEX stock index saw a strong recovery of 28% in 2023 and reached its highest value (2530 points) in the last ten years at end-2023 (Figure 2.4). CROBIS ended the year at 95.9 points, edging down by 0.8%, which improved the outlook for the domestic bond market in 2023, after an unfavourable 2022 when the value of CROBIS went down by 12.6%. These developments resulted from the stabilisation of yields on government bonds of the Republic of Croatia,

<sup>1</sup> In 2023, all three leading credit rating agencies (S&P, Fitch and Moody's) upgraded Croatia's outlook from stable to positive, whereby Croatia's credit rating reached the highest level ever.

underpinned by Croatia's accession to the euro area at the beginning of the year and the upgrade of Croatia's credit rating.

Trading in the domestic market was subdued in 2023 (-5.3% year-on-year), bringing the total turnover to EUR 371.8m at end-2023 (Figure 2.5). The most traded securities were stocks with a turnover of EUR 304.8m, down by 16.7% year-on-year. The bond market recorded a turnover of EUR 50.9m, which is a considerable increase of 206.7% from 2022. Exchange trading funds (ETFs) also recorded an increase in turnover, which stood at EUR 16.1m (up by 58.4% on an annual basis). The domestic capital market still suffers from structural shortcomings such as insufficient liquidity and high trading concentration, which is reflected in the fact that more than a half of the total stock turnover in 2023 was accounted for by five stocks.

**Figure 2.4 Movements in the ZSE stock and bond index and in yields on long-term government bonds**



Sources: Eurostat, Zagreb Stock Exchange

At the end of 2023, there were 87 stocks listed on the Zagreb Stock Exchange, five stocks less than in the year before, which continued the years-long downward trend in listed issues. All five stocks were removed from trading on the Regular Market, with its market capitalisation standing at EUR 275.3m at the end of 2022 (0.8% of total market capitalisation at end-2022). There were no new stock listings in 2023. However, owing to the increase in valuation, the market capitalisation of stocks reached EUR 22.9bn at the end of 2023, increasing by 27.2% from end-2022.

#### **Market capitalisation**

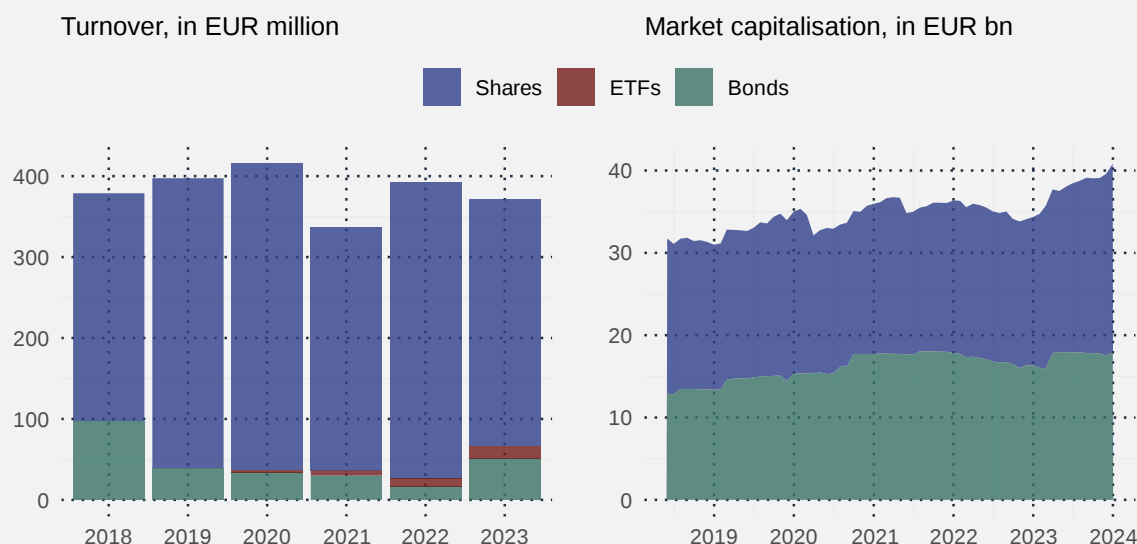
*Market capitalisation represents the market value of stocks of a company other than treasury stocks. It is calculated by multiplying the total number of stocks (minus the number of treasury stocks) by the current market price.*

In late 2023, a total of 38 bond issues with market capitalisation of EUR 17.9bn were listed on the bond market, which is an increase of 9.5% from the year before. Two corporate bonds and one government bond were removed from trading on the Official Market, while two corporate bonds and two government bonds were admitted to

trading. In 2023, the bond market recorded for the first time an issue of debt securities primarily intended for natural persons, thus making a significant step towards the diversification of investor groups. The first “national” two-year bond, issued in March 2023, with a nominal worth of EUR 1.85bn and a yield of 3.65%, was subscribed by more than 43 thousand citizens, who invested more than EUR 1.3bn. The end of the year saw the issuance of the first ever “national” treasury bills, with an annual yield of 3.75%. A total of EUR 1.1bn was invested, with EUR 1bn subscribed by 36,643 individuals<sup>2</sup>. In addition, a new 10-year government bond was issued in late November, nominally worth EUR 1.25bn and bearing a yield of 3.75%, for the purpose of refinancing bond liabilities nominally worth EUR 1.5bn.

The ETF market also witnessed new listings. The third equity ETF, which tracks the movements of the Romanian BET-TR index, and the first money market ETF, which replicates the developments in the euro area money market, were listed, which improved liquidity in the domestic market. The market capitalisation of ETFs thus increased by 215.2% in 2023, reaching EUR 23.6m at the end of the year.

Figure 2.5 Turnover and market capitalisation on the ZSE



Source: Zagreb Stock Exchange

## 2.2 Investment services

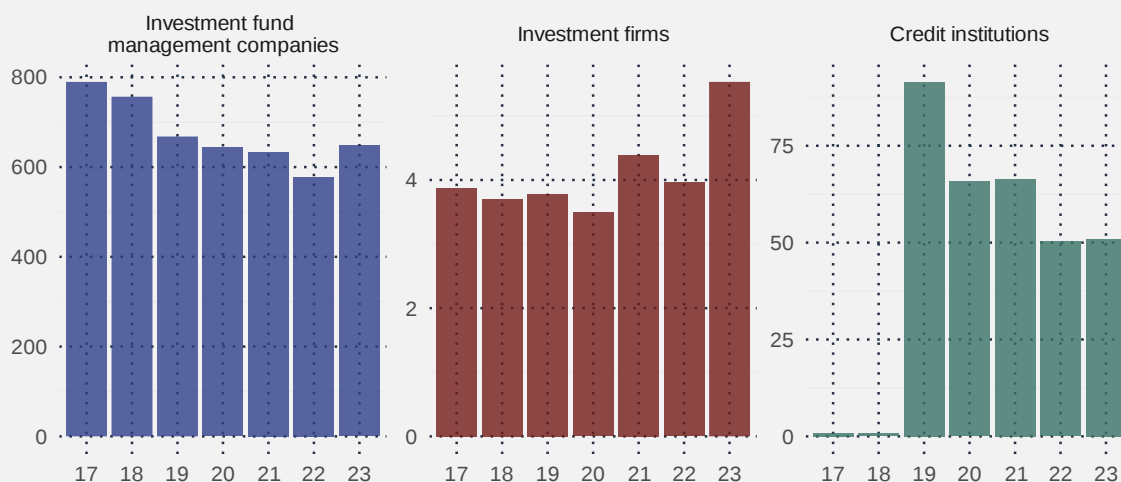
### 2.2.1 Investment services providers

At the end of 2023, investment services in the Republic of Croatia were provided by 22 financial institutions, of which there were six fund management companies, five investment firms and 11 credit institutions, one credit institution less than in the year before. The recovery of investment optimism in the context of abating inflation and the consequent expected decrease in interest rates led to a recovery in the value of assets

<sup>2</sup> Both issues envisaged two rounds of subscription, with the first round intended for retail investors, and the second round intended for institutional investors.

managed by investment services providers in all segments of the sector (Figure 2.6). The total value of investment services providers' assets under management reached EUR 704.7m at end-2023 (an increase of 11.5% on an annual basis), compensating for the fall in the value recorded in 2022. In 2023, assets managed by investment fund management companies increased by 10.9%, assets managed by credit institutions increased by 1.4%, while assets managed by investment firms went up by 28.4% from the end of the previous year<sup>3</sup>.

**Figure 2.6 Value of investment services providers' assets under management**  
In EUR million



Source: Hanfa

Investment services providers recorded a net income of EUR 165.2m in 2023, which is a decrease of 41.1% on an annual level. Credit institutions accounted for 96.9% (EUR 160.0m), investment firms accounted for 2.5% (EUR 4.2m), while investment fund management companies accounted for 0.6% (EUR 1.0m) of total net income. The most significant income item of credit institutions, which contributed most to the decline in revenues in 2023 (Figure 2.7), was net income from dealing on own account (93.9% of total income). The largest portion of investment firms' income came from brokerage services (57.0% of total income), while the largest portion of investment fund management companies' income was accounted for by income from portfolio management (91.7% of total income). Net income of credit institutions from dealing on own account dropped by 53.5% (from EUR 288.0m to EUR 133.9m) on an annual basis, while income from brokerage services by investment firms decreased by 2.5% (from EUR 3.8m to EUR 3.7m), and income from portfolio management by investment fund management companies went down by 27.4% (from EUR 1.9m to EUR 1.4m).

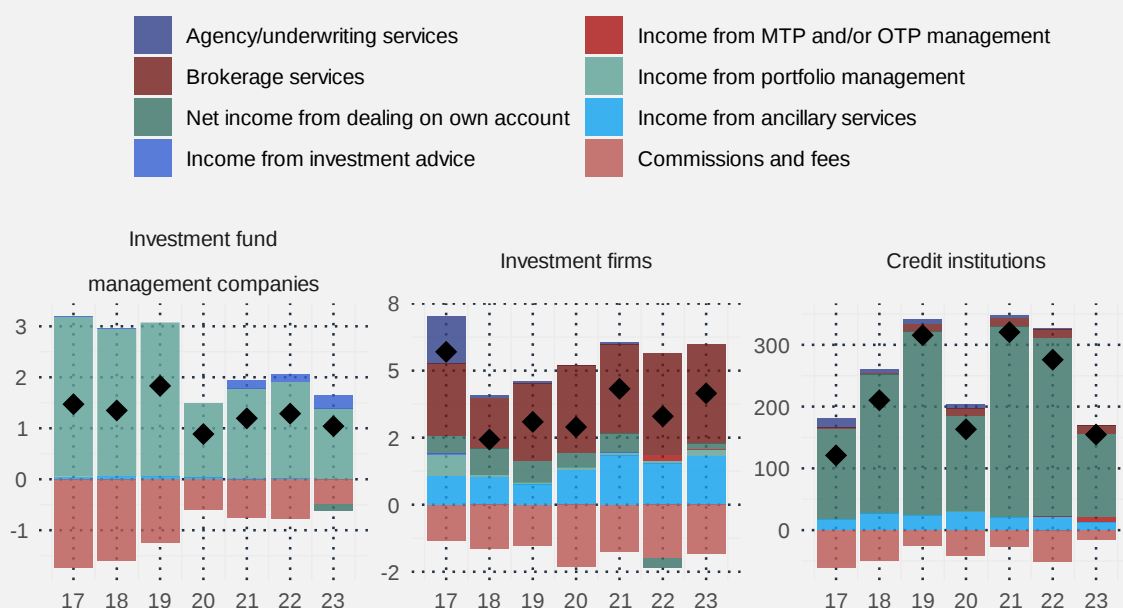
#### **Dealing on own account**

*Dealing on own account means dealing by using own funds instead of clients' capital.*

<sup>3</sup> Investment fund management companies managed EUR 648.2m or 92.0% of total assets managed by investment services providers, investment firms managed EUR 5.5m or 0.8% of total assets and credit institutions managed EUR 51.0m or 7.2% of total assets.

Figure 2.7 Investment services providers' income and expenditure by type of service

In EUR million



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

Source: Hanfa

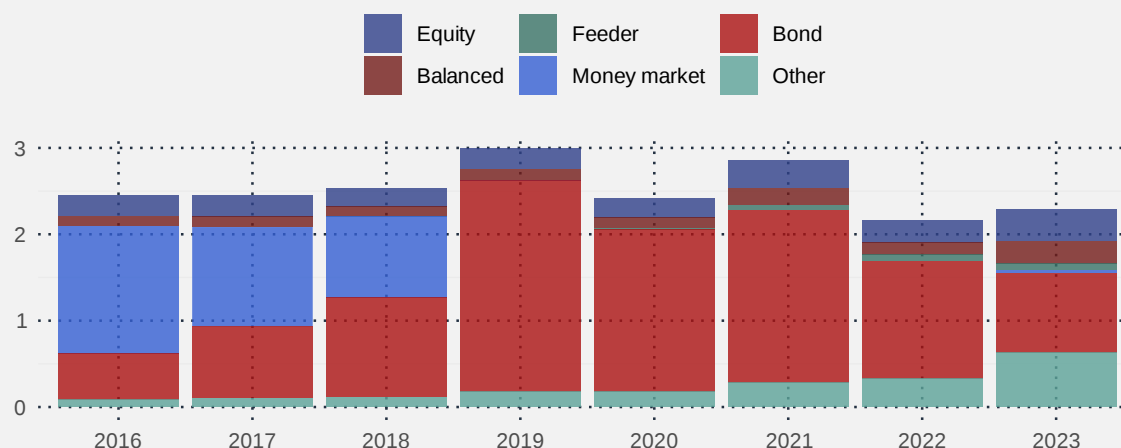
## 2.2.2 Investment funds

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

At the end of 2023, there were 108 open-ended investment funds with public offering (hereinafter: UCITS) operating on the domestic market and managing net assets amounting to EUR 2.3bn (an increase of 5.7% from the year before – Figure 2.8). The fund industry managed to partially recover from the decline recorded in 2022 on the back of the growth in the value of assets under management and a positive net inflow of funds in the course of 2023. However, this recovery was uneven, as there was a significant decrease in assets in bond funds, which mostly shifted to balanced and other funds. Bond funds thus recorded a decrease in their net asset value of 31.9% (down from EUR 1.4bn to EUR 925.8m). The largest increase of 92.5% (from EUR 327.7m to EUR 630.6m) was seen in other funds and balanced funds (88.5%, an increase from EUR 140.8m to EUR 265.4m). A more moderate growth of net assets was seen in equity funds (38.2%, an increase from EUR 261.6m to EUR 361.7m) and feeder funds (11.1%, a rise from EUR 72.8m to EUR 80.9m). The year 2023 saw the return of money market funds with a total net value of EUR 24.4m at the end of the year.

Figure 2.8 Net assets of UCITS

In EUR bn



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

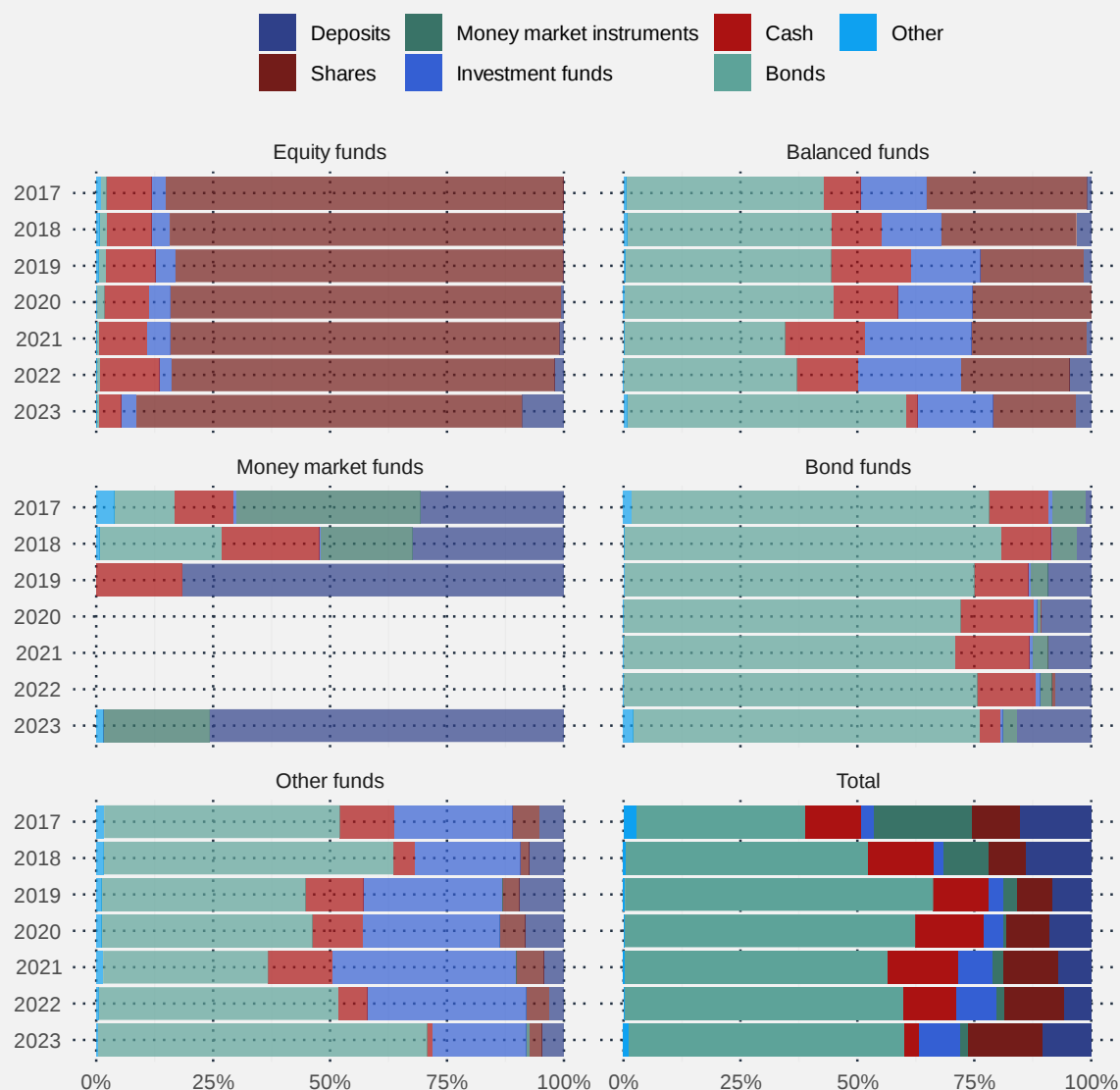
Source: Hanfa

At the end of 2023, the largest portion of UCITS investments (Figure 2.9) was allocated to bonds (58.9%), followed by stocks (15.9%), deposits (10.5%), investment funds (8.8%), cash (3.2%), money market instruments (1.8%) and other (1.1%). On an annual basis, the share of investments in deposits and stocks increased the most (by 4.5 p.p. and 3.1 p.p., respectively). The share of investments in cash and bonds went down (by 8.2 p.p. and 0.7 p.p., respectively) in the same period. Such developments reflect the migration of investors to higher-risk assets with potentially higher yields (from bonds to stocks), as well as the channelling of cash into deposits in the context of relatively high interest rates. The increase in the share of deposits in the assets of UCITS was also positively influenced by the rising importance of target-date funds and the return of money market funds, which hold a large part of their assets in deposits; at the end of the year, they were in the phase of raising funds for future investments, which makes their shares of deposits in the structure of investments even more disproportionate.

### Money market funds

*Money market funds are investment funds specialised for investments in money market instruments. Money market instruments include treasury and central bank bills, which, like bonds, represent debt. However, unlike bonds, their maturity is usually less than one year.*

Figure 2.9 Asset structure of UCITS by investments type  
In % of total assets



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

Source: Hanfa

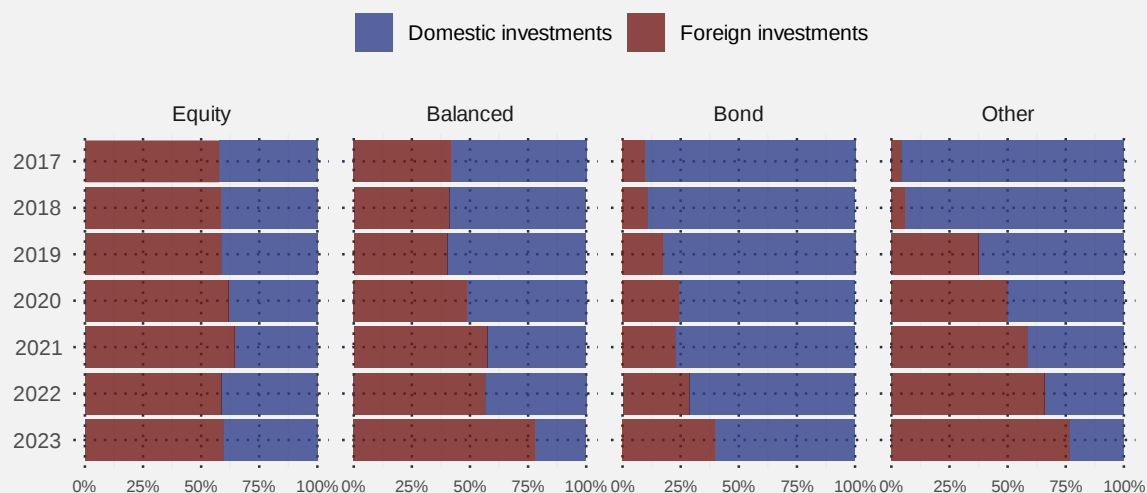
A large portion of the fund industry increased foreign investments in 2023 from the year before (Figure 2.10), which continued a years-long trend of cross-border diversification. The share of foreign investments grew in all fund categories, with the largest increase seen in balanced funds (+21.2 p.p.), bond funds (+11.0 p.p.) and other funds (+11.0 p.p.), while equity funds recorded only a slight increase in foreign investments in their portfolios (+1.1 p.p.) Portfolio diversification driven by the growth in foreign investment offers increased possibilities in search of competitive yields. In addition, it reduces the exposure of UCITS to exposure concentration and liquidity risks, even though it makes their assets more susceptible to disruptions in foreign markets.

The recovery of investment optimism in 2023 had a positive impact on returns of all UCITS categories (Figure 2.11). The largest returns were recorded in the equity fund

segment (+23.5%), whose average unit value fully recovered after a fall in 2022. Balanced funds and other funds recorded competitive returns in 2023 (+8.8% and +6.8%, respectively), while bond funds generated relatively lower, albeit positive returns (+1.8%).

Figure 2.10 Asset structure of UCITS by domicile

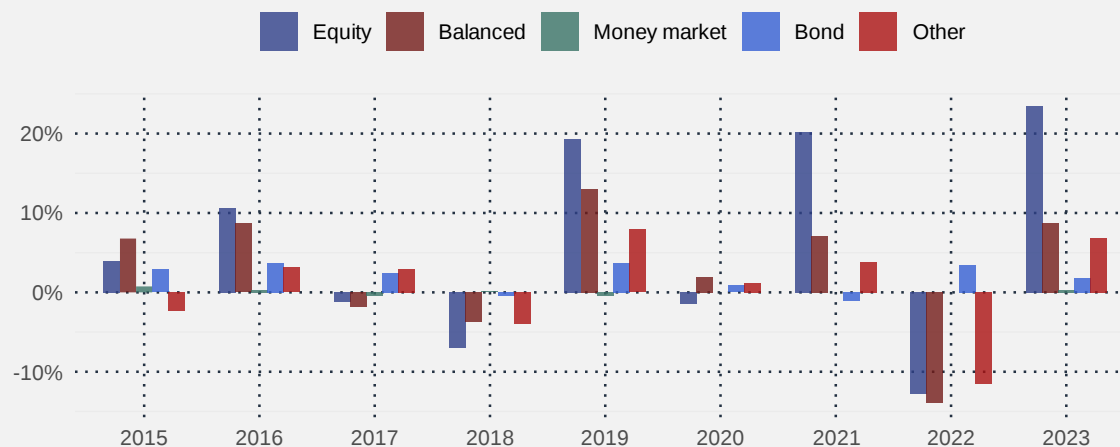
In %



Source: Hanfa

Figure 2.11 Average annual returns by fund type

In %



Note: The figures show the average yields weighted by the share in net assets of an individual fund in total net assets of the observed category

Source: Hanfa

### Alternative investment funds

At the end of 2023, there were 41 active alternative investment funds (hereinafter: AIFs), of which 37 AIFs with private and four AIFs with public offering. Net assets of AIFs with a private offering went up by 58.1% in 2023, with their portion in AIFs' total assets

standing at 97.8% at the end of 2023. The remaining 2.2% of net assets were linked to AIFs with public offering, whose assets increased by 9.5% relative to end-2022.

**Table 2.1:** AIF assets by type

| Alternative investment funds   | 2022           | Share         | 2023             | Share         | Absolute change | Relative change |
|--------------------------------|----------------|---------------|------------------|---------------|-----------------|-----------------|
| Public offering                | 21,435         | 3.1%          | 23,480           | 2.2%          | 2,046           | 9.5%            |
| Open-ended                     | 2,878          | 0.4%          | 3,247            | 0.3%          | 369             | 12.8%           |
| Closed-ended                   | 18,557         | 2.7%          | 20,234           | 1.9%          | 1,677           | 9.0%            |
| Basic (non-real estate)        | 18,557         | 2.7%          | 20,234           | 1.9%          | 1,677           | 9.0%            |
| Private offering               | 664,874        | 96.9%         | 1,051,002        | 97.8%         | 386,128         | 58.1%           |
| Open-ended                     | 441,138        | 64.3%         | 727,907          | 67.7%         | 286,769         | 65.0%           |
| Basic                          | 278,207        | 40.5%         | 55,087           | 5.1%          | -223,120        | -80.2%          |
| Special                        | 162,931        | 23.7%         | 672,819          | 62.6%         | 509,889         | 312.9%          |
| Hedge fund                     | 145,575        | 21.2%         | 188,988          | 17.6%         | 43,413          | 29.8%           |
| Multi asset                    | 0              | 0.0%          | 458,649          | 42.7%         | 458,649         | -               |
| Venture capital                | 5,955          | 0.9%          | 15,146           | 1.4%          | 9,191           | 154.4%          |
| Risk capital                   | 5,633          | 0.8%          | 0                | 0.0%          | -5,633          | -               |
| Specialised AIF                | 184            | 0.0%          | 426              | 0.0%          | 242             | 131.4%          |
| For sovereign debt investments | 5,165          | 0.8%          | 8,150            | 0.8%          | 2,985           | 57.8%           |
| For equity investments         | 419            | 0.1%          | 1,461            | 0.1%          | 1,042           | 248.4%          |
| Closed-ended                   | 223,736        | 32.6%         | 323,095          | 30.1%         | 99,359          | 44.4%           |
| Basic                          | 200,563        | 29.2%         | 285,091          | 26.5%         | 84,528          | 42.1%           |
| Special (venture capital)      | 23,173         | 3.4%          | 38,004           | 3.5%          | 14,832          | 64.0%           |
| <b>Total</b>                   | <b>686,309</b> | <b>100.0%</b> | <b>1,074,482</b> | <b>100.0%</b> | <b>388,174</b>  | <b>56.6%</b>    |

In EUR thousand

**Source:** Hanfa

### ***Fund established under special act***

Net assets of the Fund for Croatian Homeland War Veterans and Members of their Families amounted to EUR 146.4m at end-2023, up by 15.7% relative to 2022. The price of its units went up by 16.7% year-on-year, amounting to EUR 82.8 as at 31 December 2023.

### ***Investment fund management companies***

In 2023, there were 25 licensed fund management companies. Twenty-two of these licensed companies managed 151 investment funds. Five of these companies managed UCITS only, 12 companies managed AIFs only, while five companies managed both AIFs and UCITS. Total assets of investment fund management companies stood at EUR 34.4m at the end of 2023, up by 0.2% from the year before. Their net profit amounted to EUR 8.5m as at 31 December 2023, down by 4.7% from the year before.

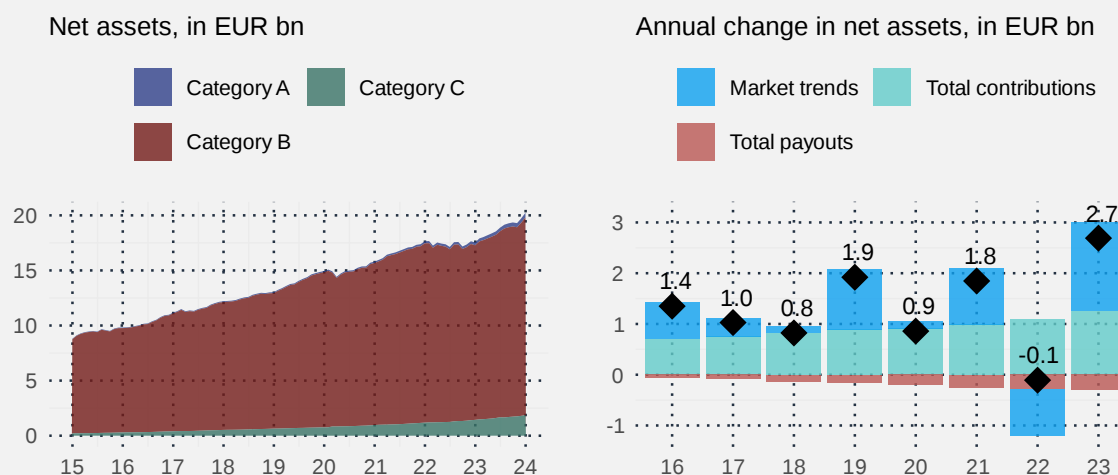
## 2.3 Pension system

### 2.3.1 Mandatory pension funds (MPFs)

In 2023, there were 12 mandatory pension funds (hereinafter: MPFs). The assets of MPFs reached EUR 20.2bn at the end of 2023 (26.7% of GDP), which is an increase of 15.2% from 2022 (Figure 2.12). The improvement in investment sentiment in the first half of 2023 led to a recovery in market values and thus to an increase in pension fund assets. Asset growth was further spurred by positive net contributions, which amounted to EUR 1.3bn in 2023 (up by 14.1% from 2022). In 2023, net assets of category A, category B and the conservative category C rose by 63.0% (EUR 161.4m), 13.3% (EUR 2.1bn) and 29.3% (EUR 421.4m), respectively. In addition to the relatively strong recovery in the stock markets, the main reason for the significant growth in category A with a small initial base was the inflow of new members. By contrast, the higher number of exits of members from categories B and C, and consequently the higher amount of payments, made this growth relatively smaller.

**Figure 2.12 Net assets, total contributions, payouts and market trends recorded by MPFs**

In EUR bn



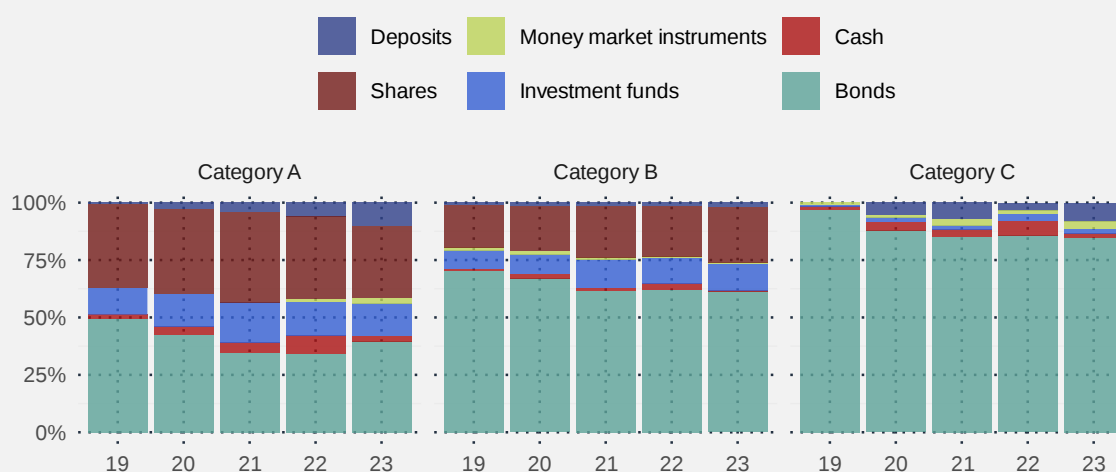
Source: Hanfa

The structure of pension fund investments, largely determined by legal limits, remained relatively unchanged from the previous year, with a moderate growth in share investments and a decrease in bond investments. However, bonds still accounted for the largest portion of MPFs investments, with a share of 63.0% in total assets (a decrease of 0.5 p.p. from 2022), while shares reached 22.7% of total MPFs' assets (an increase of 2.0 p.p.) (Figure 2.13). The share of investment fund units remained at 10.7% (up by 0.1 p.p. from 2022). Other asset classes (deposits, money

market instruments and cash) accounted for 4.1% of total assets, down by 1.6 p.p. from the year before<sup>4</sup>.

In late 2023, a package of amendments to the pension laws was adopted<sup>5</sup>, liberalising pension fund investments, providing more flexibility for membership and the possibility to switch between pension funds, and reducing costs for members. Changes in investment opportunities and limits brought about by legislative changes should provide fund managers with more room for investment diversification, which was implicitly increased in the segment of currency allocation of assets in 2023 after Croatia joined the euro area.

**Figure 2.13 Mandatory pension funds' asset structure by investment type**  
In % of total assets



Source: Hanfa

The total number of MPF members reached 2.2 million at the end of 2023 (an increase of 69.7 thousand from 2022). The number of members in categories A and C continued to increase (by 86.8 thousand and 20.9 thousand, respectively), whereas the number of members in category B decreased (by 38.0 thousand). The steady rise in the number of category A members was the result of amendments to the Mandatory Pension Funds Act<sup>6</sup> that entered into force in 2019, according to which any members who fail

<sup>4</sup> Category A recorded an increase in investments in bonds (of 5.7 p.p.) and a decline in share investments (of 4.6 p.p.). Category B witnessed a decrease in investments in bonds (of 0.7 p.p.) and a rise in investments in shares (of 2.6 p.p.). Category C, where investments in shares are not permitted, also recorded a decrease in investments in bonds (of 1.0 p.p.).

<sup>5</sup> The Decision was adopted on amendments to four acts on the second and third pension pillar: Mandatory Pension Funds Act ([Official Gazette, No 156/23 \(2392\)](#)), Voluntary Pension Funds Act ([Official Gazette, No 156/23 \(2393\)](#)), Act on Pension Insurance Companies ([Official Gazette, No 156/23 \(2394\)](#)) and Pension Supplement Act for Pensions Granted under the Pension Insurance Act ([Official Gazette, No 156/23 \(2395\)](#)).

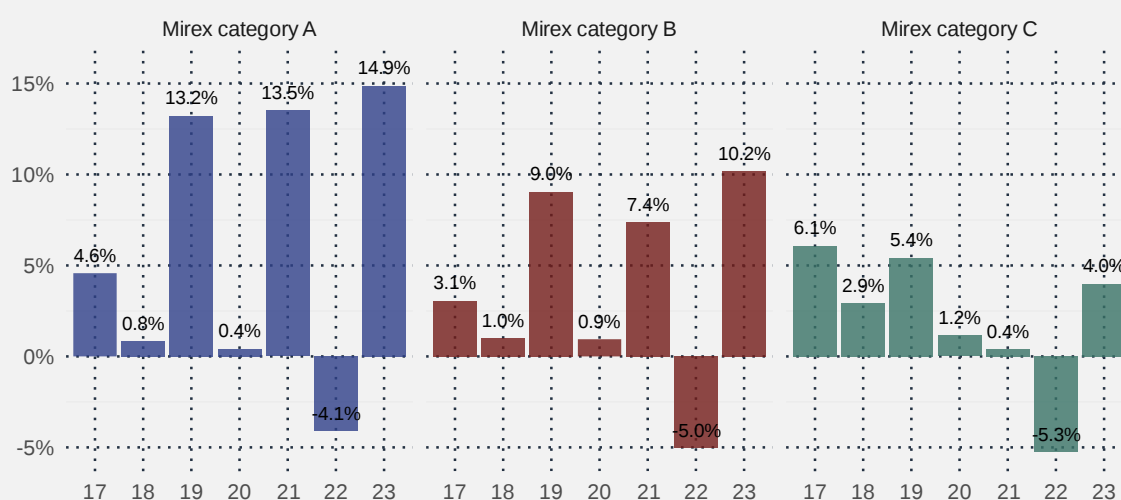
<sup>6</sup> Legislative changes provide for the procedure according to which any new members who fail to select their pension fund on their own within 30 days following their employment are allocated automatically to one of the four category A funds ([Official Gazette, No 115/18](#)).

to select their fund category themselves in the process of selecting the fund for the first time are allocated automatically to one of category A funds<sup>7</sup>.

After extremely unfavourable global trends, which affected all segments of financial markets in 2022, the market recovery in 2023 enabled the recovery of the value of MPF units. As a result, all three categories of mandatory pension funds ended 2023 with positive returns (Figure 2.14). Given the heterogeneous market recovery, which was particularly pronounced in stock markets, the highest returns in 2023 of 14.9% were recorded in category A (up by 19.0 p.p. from 2022), followed by balanced category B with a return of 10.2% (up by 15.2 p.p.) and conservative category C with a return of 4.0% (an increase of 9.2 p.p.).

**Figure 2.14 Mandatory pension funds' annual rates of return**

In %



Source: Hanfa

### 2.3.2 Voluntary pension funds (VPFs)

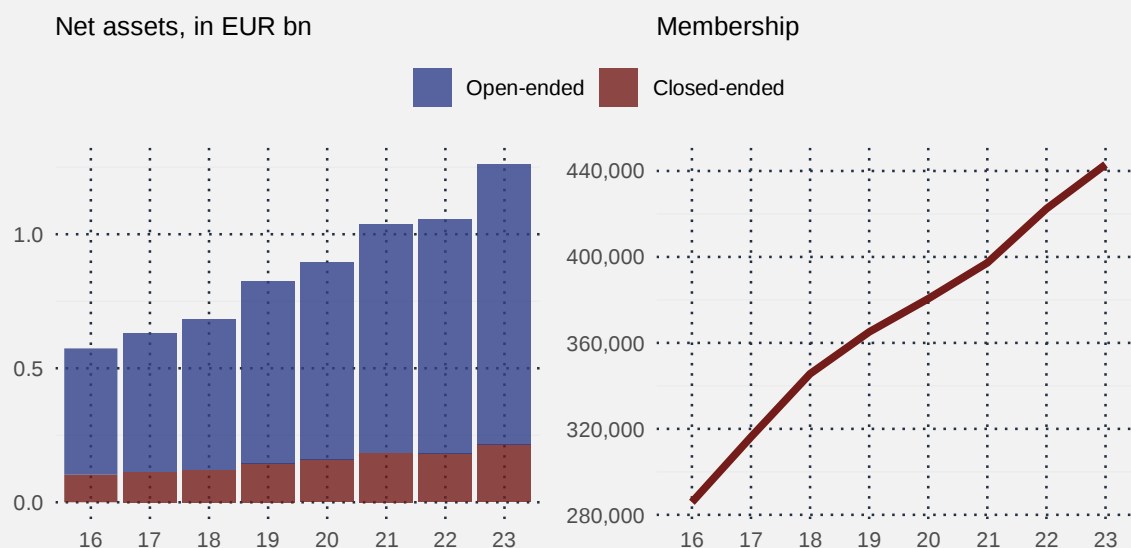
The number of pension funds operating within the third, voluntary pillar of pension insurance remained unchanged in 2023. At the end of 2023, there were 29 voluntary pension funds (hereinafter: VPFs) operating in Croatia, of which eight were of an open-ended type (hereinafter: OVPFs) and 21 were of a closed-ended type (hereinafter: CVPFs).

The positive market effects in 2023 had a favourable impact on the growth of VPF assets, which reached EUR 1.3bn at the end of the year (an increase of 19.2% from 2022). The assets of OVPFs and CVPFs increased by 19.4% and 18.4%, respectively (to EUR 1.0bn

<sup>7</sup> Of the total number of new members in 2023, 2.3% chose an MPF independently, while the rest has been allocated to one of the MPF categories by the Central Registry of Affiliates (hereinafter: Regos) acting *ex officio*.

and EUR 215.1m, respectively) (Figure 2.15)<sup>8</sup>. The number of members of the third pension pillar continued its upward trend in 2023 and ended the year at 443.0 thousand members (an increase of 20.6 thousand from 2022). The number of OVPF and CVPF members rose by 5.2% and 2.0%, respectively.

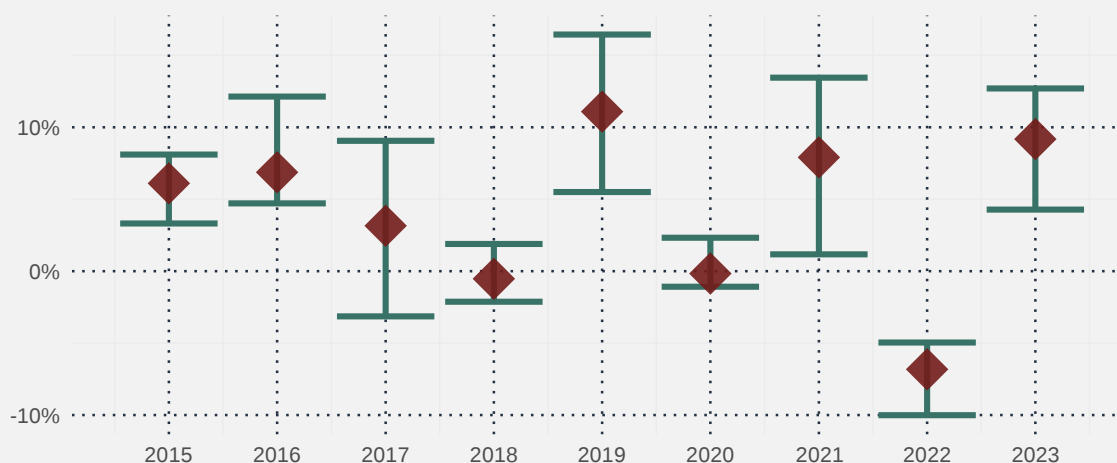
Figure 2.15 Voluntary pension funds' net assets and membership



Source: Hanfa

Figure 2.16 Voluntary pension funds' annual rates of return

In %



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

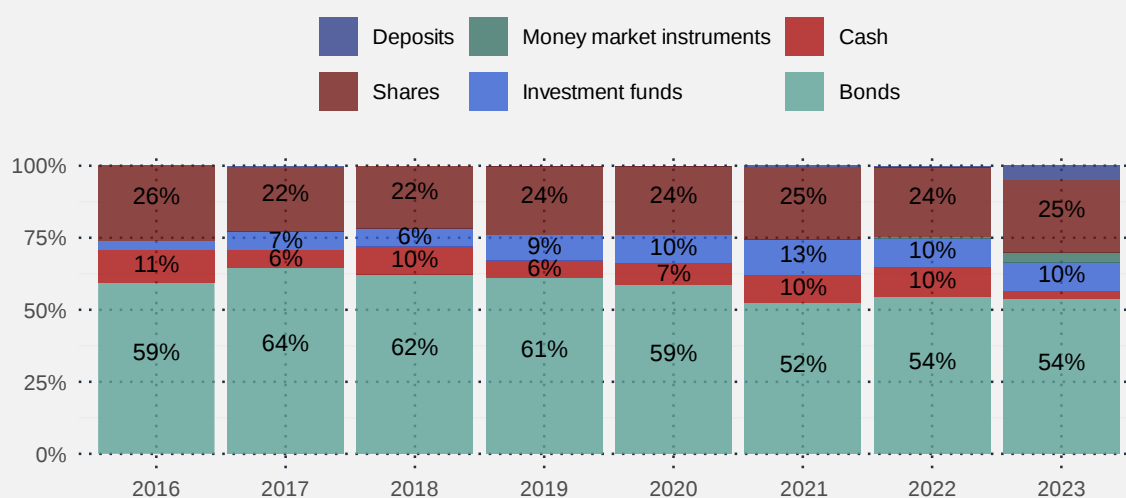
Source: Hanfa

<sup>8</sup> The Republic of Croatia encourages voluntary pension savings by government incentives paid from the state budget. The paid funds amount to 15% of total payments made in the previous calendar year up to a maximum of EUR 663.6 per member, with the largest sum standing at EUR 99.5. In late 2023, in order to encourage voluntary pension savings, legislative changes were introduced ([Official Gazette, No 156/23 \(2393\)](#)) and the exit fee for the transfer of funds into another voluntary pension fund was decreased from 2.5% to 1.75%.

The VPF investment structure was dominated by bonds (with a share of 54.0% in total assets at end-2023), shares (with a share of 25.1%) and investment funds (with a share of 10.0%) (Figure 2.17). Relative to 2022, the share of investments in deposits and money market instruments increased (by 4.4 p.p. and 3.1 p.p., respectively), while the share of investments in bonds, investment funds and money market instruments declined (by 0.5 p.p., 0.2 p.p. and 7.6 p.p., respectively). After an unfavourable performance in 2022, VPFs also recorded a recovery in profitability in 2023, with returns ranging from 4.3% to 12.7%, with the average return of 9.18% (Figure 2.16).

**Figure 2.17 Voluntary pension funds' investment structure**

In % of total assets



Source: Hanfa

### 2.3.3 Pension companies

In 2023, the assets of 12 mandatory and 29 voluntary pension funds continued to be managed by five pension companies. Three of them managed both mandatory and voluntary pension funds, one of them managed only mandatory pension funds, and one of them managed only voluntary pension funds.

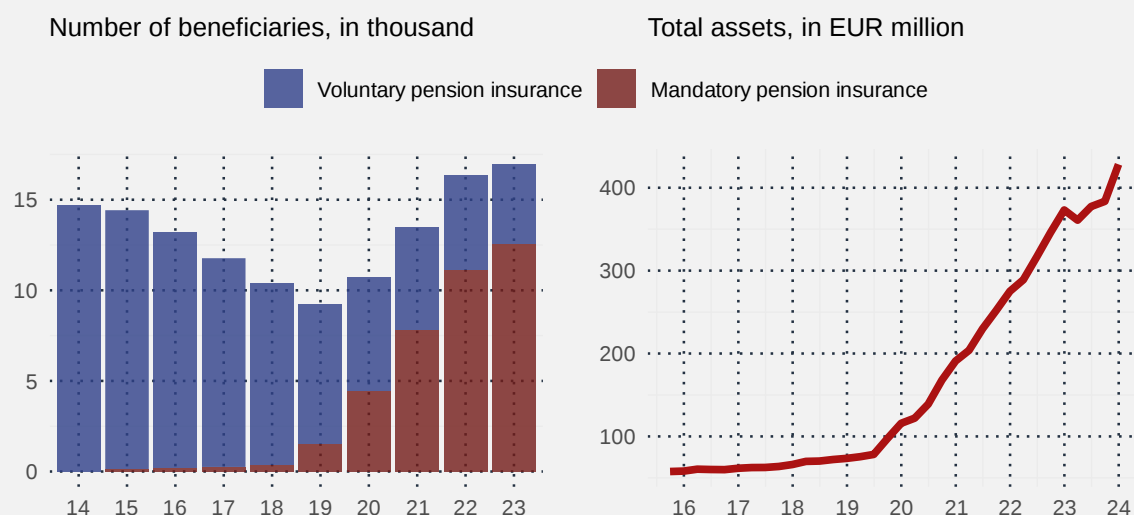
The structure of income was dominated by the net result of fund management, which stood at EUR 42.8m in 2023, up by 12.8% from 2022. Income from management followed the growth of assets under management and increased by 9.4%, while expenditure from management also went up, by 4.4%. Net profit amounted to a total of EUR 23.3m, up by 26.2% from 2022.

### 2.3.4 Pension insurance companies (PICs)

In 2023, there were two pension insurance companies in Croatia (hereinafter: PICs). Their total assets stood at EUR 428.3m at the end of 2023, up by 14.8% from the year before. This rise was also due to the increase in the number of PIC beneficiaries, which increased by 3.7% on an annual basis and reached 16.9 thousand (Figure 2.18). The number of mandatory pension insurance beneficiaries increased by 13.0% (to 12.5

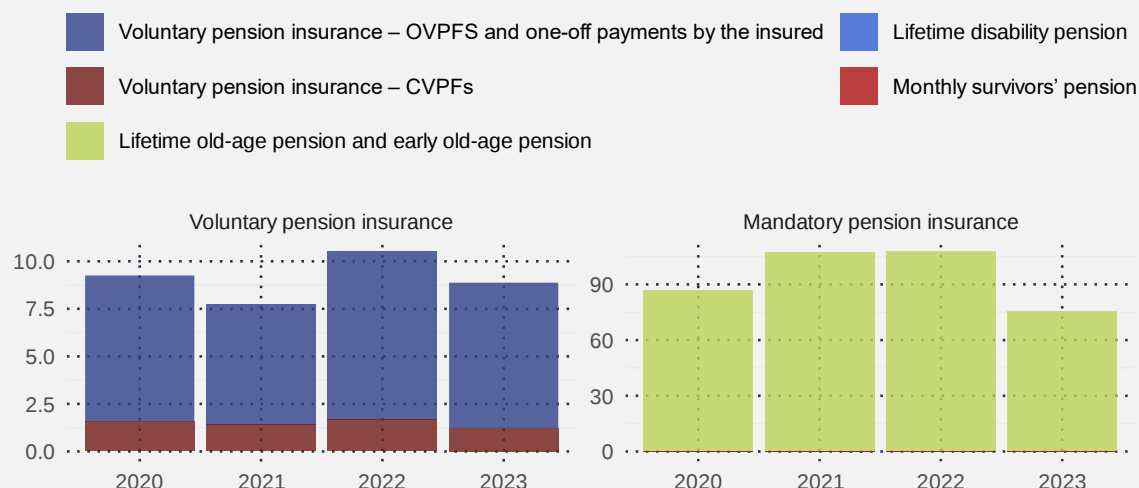
thousand), while the number of voluntary pension insurance beneficiaries declined by 15.9% (to 4.4 thousand). The growth in the number of mandatory pension insurance beneficiaries and the simultaneous fall in the number of voluntary pension insurance beneficiaries were partly a result of legislative changes introduced in 2019<sup>9</sup>, which introduced voluntary pension savings payout options via pension funds and life insurance companies, but also to combined payouts, which were used by a significant share of the members.

**Figure 2.18 Number of pension insurance beneficiaries and pension insurance companies' assets**



Source: Hanfa

**Figure 2.19 Payments to pension insurance companies by type of pension scheme**  
In EUR million



Source: Hanfa

<sup>9</sup> [Official Gazette, No 115/18](#)

Total payments made to PICs ended 2023 at EUR 84.4m, down by 28.9% from 2022. Payments for mandatory pension insurance dropped by 30.1%, while payments for voluntary pension insurance decreased by 15.1%.

Most payments in 2023 were made for lifetime old-age pensions and early retirement pensions, with a share of 89.3% in total payments, followed by payments to OVPFs and one-off payments by beneficiaries, with a share of 9.1%, and payments to CVPFs with a share of 1.5%. Payments for lifetime disability pension and monthly survivors' pension accounted for 0.2% and 0.1%, respectively (Figure 2.19).

Total PICs investments stood at EUR 393.0m (91.6% of total assets) at end-2023, rising by 21.7% on an annual basis. In 2023, PICs reported a net profit of EUR 1.9m, further strengthening their capitalisation, which was well above regulatory requirements in 2023<sup>10</sup>.

## 2.4 Insurance

There were 15 insurance companies operating in Croatia at the beginning of 2023. In the course of the year, one life insurance company merged into another company with a registered office in the Republic of Croatia. Consequently, there were 14 insurance companies operating in Croatia at end-2023: two life insurance companies, four non-life insurance companies and eight composite insurance companies.

IFRS 17, regulating insurance contracts and bringing significant changes in financial reporting, entered into force on 1 January 2023. One of the changes involved the obligation to report on the collected insurance premiums, which has enabled consistency of reporting on premiums between non-life and life insurance segments.

Total premium collected by insurance companies amounted to EUR 1.7bn at the end of 2023, which is an increase of 7.1% from 2022<sup>11</sup>. This growth was due to the increase in non-life insurance premium, where premiums collected increased by 13.7% from 2022, while life insurance premium fell by 15.0%. In 2023, total premium collected was dominated by non-life insurance with a share of 81.6%, which is an increase of 4.8 p.p. from 76.8% recorded in 2022. In the non-life insurance segment, the largest portion of premium collected was accounted for by motor vehicle liability insurance (35.5%), while life insurance (insurance class 19) accounted for the largest portion of total life insurance (76.7% of collected life insurance premium).

### **Annuity insurance**

*Annuity insurance is a type of life insurance in which payments occur periodically, usually in monthly instalments, after payment of the premium.*

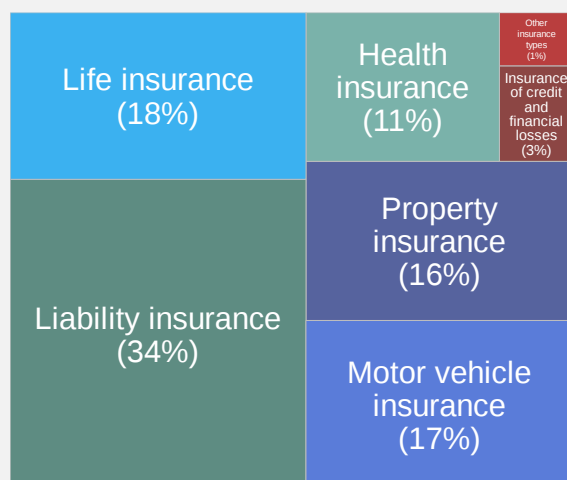
<sup>10</sup> In 2023, two major regulatory changes were introduced which affected PICs: the changeover to the euro and the application of the new international financial reporting standard IFRS 17 (hereinafter: IFRS 17).

<sup>11</sup> Unrevised data on collected premium for 2022 have been collected from insurance companies for analytical purposes.

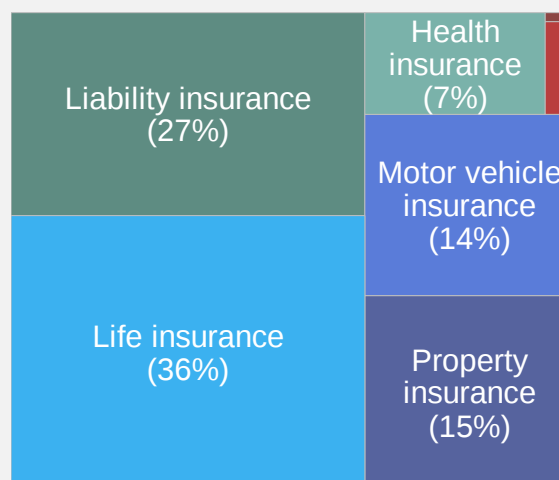
The growth in the general price level and the rise in the number of claims led to an increase in settled claims of 13.6% in 2023, which reached EUR 1.2bn. The non-life insurance segment witnessed a rise in settled claims of 24.3%, with an increase in the number of claims of 5.8%, while the life insurance segment recorded a fall of 1.4%, with a rise in the number of claims of 15.3%. In the life insurance segment, the largest share was accounted for by life insurance (insurance class 19, 86.5%), while in the non-life insurance segment, the largest share was accounted for by motor vehicle liability insurance (38.1% of settled claims in the non-life insurance segment).

Figure 2.20 Structure of premium collected and claims settled in 2023

#### Collected Premium



#### Claims settled



Note: The share of other insurance types in claims settled amounts to 1.2%, while the share of insurance of credit and financial losses amounts to 0.1%  
Source: Hanfa

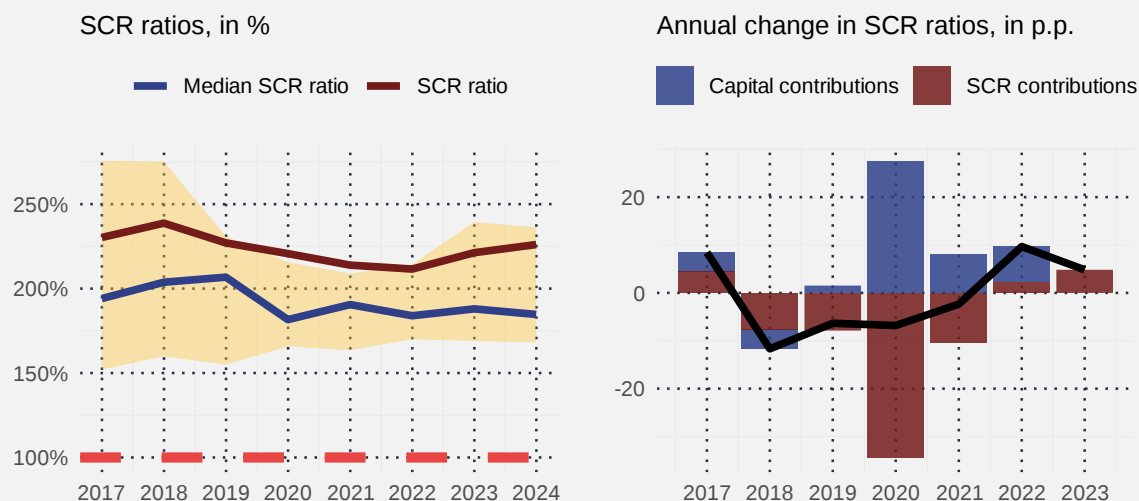
The profound changes introduced by IFRS 17 impacted the financial statements of insurance companies, making it difficult to make an unambiguous comparison between companies' operations in 2023 and in the year before. Under the previous standard (IFRS 4), total assets of insurance companies amounted to EUR 6.2bn at end-2022, with a total loss of EUR 303.5m, while under the new standard (IFRS 17), total assets stood at EUR 5.7bn, with comprehensive income amounting to EUR 106.9m.

According to financial statements conforming to IFRS 17, total assets of insurance companies rose by 4.3% at end-2023 from the year before, standing at EUR 5.9bn. The largest share in assets was accounted for by investments (84.7% of assets, a rise of 3.1 p.p. from the year before). Liabilities under insurance contracts were most widely represented in the liabilities structure, accounting for 62.1% of total liabilities, followed by capital and reserves with a share of 29.1% in total liabilities. The above items recorded a growth from 2022, of EUR 163.1m and EUR 124.8m, that is, 4.6% and 7.6%, respectively. Comprehensive income of insurance companies stood at EUR 123.8m in 2023, up by 15.9% from 2022.

In 2023, the capitalisation of insurance companies measured by the solvency ratio (hereinafter: SCR ratio) was continuously at levels much above the regulatory minimum. The SCR ratio ended the year at 226.1% (a growth of 4.8 p.p. from 2022), while the median SCR ratio dropped by 3.3 p.p. and stood at 184.7% (Figure 2.21). The net

increase in the SCR ratio on an aggregate level was mostly due to the decrease in capital requirements for market risk resulting from the introduction of the euro as the official currency of the Republic of Croatia.

Figure 2.21 Solvency of insurance companies



Note: The highlighted area in the left-hand chart denotes the interquartile range of the SCR ratio by companies. The dotted horizontal line denotes the regulatory limit reaching 100%.  
Source: Hanfa

### Croatian Insurance Bureau

In 2023, the operations of the Croatian Insurance Bureau (hereinafter: Bureau) included the segments of regular business (the regular non-profit segment of its operations) and taxable activities (the regular profit-making segment of its operations). According to the consolidated balance sheet of the Regular Business Operations of the Bureau, total assets stood at EUR 1.4m at end-2023. On the liability side, total liabilities stood at EUR 505.2 thousand and sources of financing at EUR 900.6 thousand. The Bureau's income totalled EUR 1.6m, increasing by 7.4% from 2022, and was primarily made up of income from its members for operating expenses. The Bureau's total expenditure amounted to EUR 1.6m, an increase of 15.0% from the year before. The regular business expenditures were dominated by functional expenditures, standing at EUR 613.4 thousand, an increase of 6.4% from 2022. As at 31 December 2023, total assets of the Guarantee Fund amounted to EUR 3.1m, rising by 13.7% from the previous year.

### Croatian Nuclear Insurance and Reinsurance Pool, EIG

As at 31 December 2023, the founding members of the Croatian Nuclear Insurance and Reinsurance Pool (hereinafter: Croatian Nuclear POOL) included Allianz Hrvatska d.d., Croatia osiguranje d.d., Generali osiguranje d.d. and Triglav osiguranje d.d.

At end-2023, funds available to the Croatian Nuclear POOL totalled EUR 10.0m. The investment structure saw a rise in the share of cash (from 87.3% to 87.7%), while the share of bonds declined (from 12.7% to 12.3%). Total technical provisions as at 31 December 2023 stood at EUR 9.6m, up by 2.3% from the year before. Gross profit stood at EUR 7.7 thousand at the end of 2023.

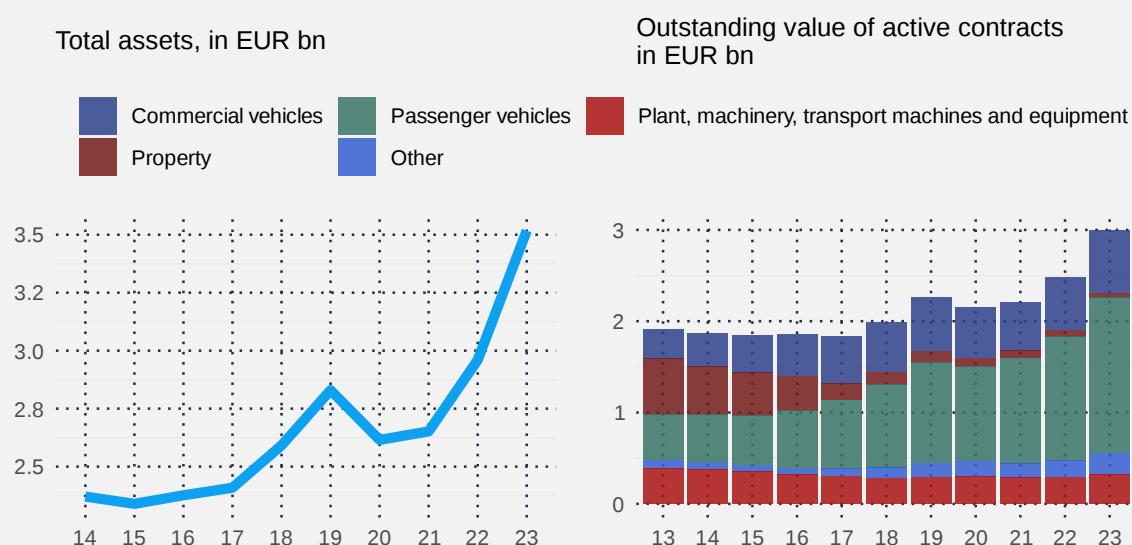
## 2.5 Non-bank financing

### 2.5.1 Leasing companies

Against the backdrop of favourable economic trends in 2023, leasing companies continued to perform extremely well. The number of leasing companies remained unchanged in 2023; there were still 15 leasing companies operating in Croatia at the end of the year. As at 31 December 2023, total assets amounted to EUR 3.5bn, rising by 18.1% compared to the previous year. Finance lease receivables were the largest asset item, with assets ending the year at EUR 2.6bn (an increase of 20.7% on an annual basis). Their primary source of financing were still loans and credits from foreign institutions, which amounted to EUR 2.6bn at the end of the year, growing by 18.2% at an annual level and making total liabilities reach EUR 3.2bn. The profitability of leasing companies, that is, return on their average assets increased from 2022 and stood at 2.0%.

In 2023, the value of newly concluded contracts rose by 26.9% and stood at EUR 1.8bn. This growth was also driven by the finance and operating lease segments with an increase of 22.4% and 55.6%, respectively, as well as by the rise in the prices of leased assets (inflation stood at 4.5% in 2023). In addition, there was a rise in demand for lease, which is evident from the increase in the number of newly concluded lease contracts (a growth of 16.4%), driven by the economic growth. The value and the number of active contracts also went up: the value of active contracts stood at EUR 3.0bn (a rise of 20.0%), while the number of contracts reached 169.1 thousand (an increase of 6.9%) at end-2023. The structure of newly concluded and active contracts in terms of leased assets is dominated by passenger cars and commercial vehicles, which accounted for 80.3% of the total value of active contracts at end-2023. As concerns counterparty activity, leasing companies were primarily exposed to tourism-related companies, which accounted for 30.6% of the value of active contracts.

Figure 2.22 Leasing companies' assets and value of their active contracts

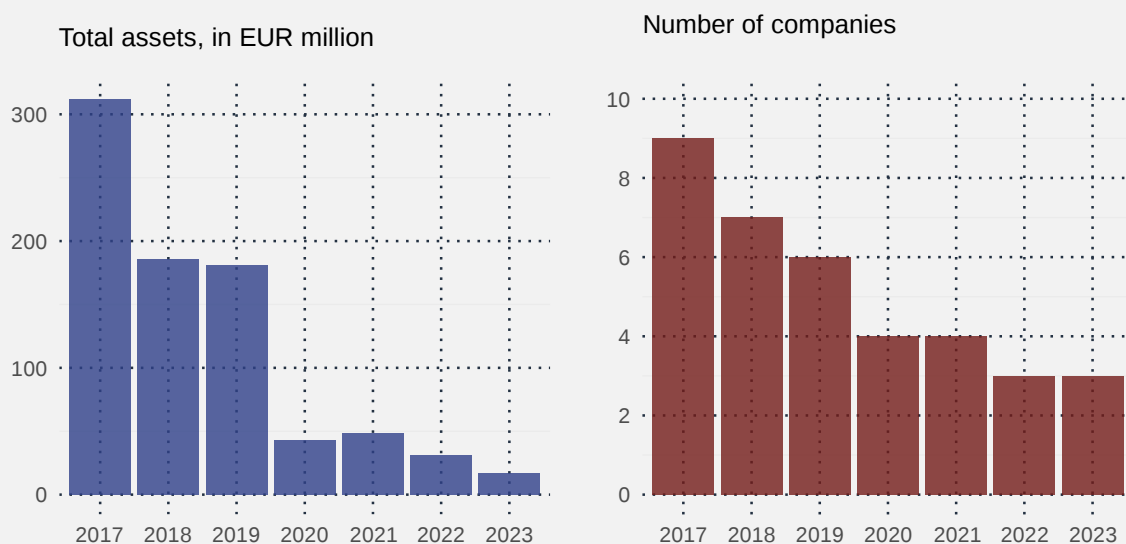


Source: Hanfa

## 2.5.2 Factoring companies

The number of factoring companies fell by one in 2023. Thus, there were three factoring companies operating in Croatia at the end of 2023. Their assets decreased by 45.9% from 2022 and stood at EUR 17.1m. The volume of transactions amounted to EUR 95.3m in 2023, down by 24.2% on an annual basis. The largest share in the volume of transactions was accounted for by regular factoring operations with an 86.7% share, followed by reverse factoring with a 10.7% share and factoring including the discounting of bills of exchange with a 2.6% share. Factoring companies' receivables stood at EUR 10.1m at end-2023, up by 7.6% from 2022. The most significant part in factoring companies' receivables was accounted for by regular factoring operations with an 80.9% share, followed by reverse factoring with a 19.1% share. Factoring companies reported a net profit of EUR 1.0m at the end of 2023, as opposed to a net loss generated in 2022.

Figure 2.23 Number of factoring companies and their assets



Source: Hanfa

# **SUPERVISORY ACTIVITIES**

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## 3 SUPERVISORY ACTIVITIES

Supervising the legality of supervised entities' operations is one of Hanfa's core objectives. The financial services sector comprises companies operating in insurance, investment and pension fund, capital market, leasing and factoring sectors. Within the scope of its on-site and off-site inspections, Hanfa seeks to determine whether these companies operate in compliance with the law, by-laws and all other regulations, and whether they operate in a way that enables their proper functioning, and implementation of measures and activities aimed at eliminating identified illegalities and irregularities. In carrying out their supervisory activities, Hanfa's employees adhere to values such as independent, impartial and consistent conduct, high professional standards, accountability, team work and proactive behaviour, with the aim of supervising legality and assessing the safety and stability of supervised entities' operations, in order to protect the interests of financial services users and the public interest and to contribute to the stability of the financial market.

### 3.1 Microprudential supervision

#### 3.1.1 Capital market

##### *Supervision of capital market infrastructure*

The supervision of the capital market infrastructure in the Republic of Croatia in 2023 encompassed the operations of the Zagreb Stock Exchange as the operator of the regulated market and a multilateral trading platform for small and medium-sized companies called Progress Market, Central Depository & Clearing Company Inc. (hereinafter: CDCC) as the central securities depository and SKDD-CCP Smart Clear d.d. (hereinafter: SKDD-CCP) as the central counterparty, supervised by Hanfa as the competent supervisory authority<sup>12</sup> in accordance with the provisions of the Capital Market Act<sup>13</sup> (hereinafter: CMA) and other legislation transposing EU law into Croatian legislation.

<sup>12</sup> Hanfa is a competent authority for: (i) CDCC as a central securities depository in accordance with the Act Implementing [Regulation \(EU\) No 909/2014](#) of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending [Directives 98/26/EC](#) and [2014/65/EU](#) and [Regulation \(EU\) No 236/12 \(Official Gazette, No 44/16, 123/23\)](#) and the corresponding regulation;

(ii) SKDD-CCP as a central counterparty in accordance with the Act Implementing [Regulation \(EU\) No 648/2012](#) of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories ([Official Gazette, No 54/13, 123/23](#)) and the corresponding regulation;

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

<sup>13</sup> Official Gazette, No [65/18](#), [17/20](#), [83/21](#) and [151/22](#)

The beginning of 2023 was marked by Croatia's accession to the euro area. Capital market stakeholders, including companies that make up market infrastructure, started preparing for the accession as early as in 2021 and 2022, with their preparatory activities partly continuing into 2023. Market infrastructure preparations included financial, IT, technical and legal adaptation of the system in accordance with the Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia<sup>14</sup> (hereinafter: Act on the Introduction of the Euro), under Hanfa's active monitoring in order to ensure a smooth adjustment to the new official currency and means of payment, without any disruptive effects on investors, users of market infrastructure services and the capital market as a whole. In order to facilitate the changeover to the new currency, protect investors and prevent potential anomalies in the trading of securities listed on the ZSE, the last day of ZSE trading in the kuna was 28 December 2022, while market prices were converted in accordance with the Act on the Introduction of the Euro based on the closing prices on that last day of trading in the kuna. Trading in the new currency began on 2 January 2023. Hanfa continuously monitored, supervised and actively participated in the euro changeover process and in the adjustment of the whole market infrastructure, which included:

- supervising and monitoring preparatory actions and activities by the CDCC, SKDD-CCP and the ZSE with regard to the euro changeover;
- approving potential changes to operating rules and the Price List of the ZSE, the CDCC and SKDD-CCP due to the currency changeover and the need to ensure compliance with the new legislative framework governing the introduction of the euro; and
- active supervision, monitoring and communication with the market infrastructure during the operational introduction of the euro in the last days of 2022 and the first days of 2023.

With regard to market infrastructure entities and users of their services, the changeover to the new currency ran smoothly in terms of the provision of market infrastructure services, which was of utmost importance for Hanfa, given its task of ensuring the orderly functioning of the capital market and the protection of investors' interests.

The Zagreb Stock Exchange is the operator of the regulated market in the Republic of Croatia, which is divided into three segments: Prime Market, Official Market and Regular Market. In addition to the regulated market, the ZSE also operates Progress Market, a multilateral trading platform intended for small and medium-sized enterprises, imposing lower transparency requirements for the issuers compared to the regulated market, which consequently implies a higher risk of investing in securities traded on the platform.

During 2023, Hanfa carried out continuous off-site supervision of the operations of the ZSE, which also included the supervision of trading in financial instruments admitted to the regulated market and Progress Market. In accordance with Article 16 of the

<sup>14</sup> [Official Gazette, No 57/22](#) and [Official Gazette, No 88/22](#)

Market Abuse Regulation<sup>15</sup>, Hanfa received reports of suspicious transactions and orders (hereinafter: STOR reports) from the market operator and investment firms. In 2023, Hanfa received nine STOR reports, of which seven were submitted by the ZSE as the operator of the regulated market and Progress Market in the Republic of Croatia and two were submitted by investment firms. Five STOR reports concerned suspected market manipulation, while the remaining four reports were related to suspicions of insider dealing. Having analysed the received reports, Hanfa established that in eight cases there was no market abuse. In five cases, Hanfa decided to further monitor investor activities, while one case is still pending.

#### **TARGET2-Securities**

*T2S is a pan-European platform for securities settlement operated by four central banks, that is, the central banks of France, Germany, Spain and Italy. It is a centralised platform for cross-border securities settlement, offering the settling of securities on a delivery-versus-payment (DvP) basis. In addition to the CDCC, on 11 September 2023 another four central securities depositories (from Finland, Belgium and Bulgaria) were connected to T2S, so that T2S currently includes 24 central depositories from 23 European countries.*

Hanfa regularly reports to the European Securities and Markets Authority (hereinafter: ESMA) about its supervisory activities, as well as temporary suspensions of trading and/or removal from trading of financial instruments admitted to the regulated market. In addition, Hanfa also provides ESMA with information on net short positions and data on the duration-adjusted amount of sovereign debt instruments issued by the Republic of Croatia. In 2023, Hanfa also carried out an off-site supervision of the ZSE as the authorised provider of services of the approved system for publishing information about transactions involving financial instruments traded on a trading venue (Approved Publication Arrangement, APA) that have been executed outside a trading venue (OTC transactions), whose purpose is to improve the transparency of trading on financial markets as a whole.

In the course of the year, Hanfa also continuously carried out supervision of the so-called post-trading part of the market infrastructure, that is, the CDCC and SKDD-CCP. In 2023, the CDCC, as the central depository of book-entry securities in the Republic of Croatia, had an obligation, under the Act on the Introduction of the Euro, to convert nominal amounts of book-entry debt securities issued by the Republic of Croatia and the Ministry of Finance of the Republic of Croatia, as well as the obligation to convert the amounts of share capital and the nominal value of shares denominated in the kuna for joint stock companies. With regard to the obligation to convert the amounts of share capital, no irregularities were found at the CDCC.

During 2023, Hanfa also monitored and supervised the preparatory activities taken by the CDCC in terms of connecting to TARGET2-Securities, a single European platform for securities settlement (hereinafter: T2S), as well as the operational access to T2S, which was successfully enabled on 11 September 2023. Following the connection to

<sup>15</sup> **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

T2S, there were no difficulties, disturbances or anomalies in the system attributable to the accession to the new settlement platform. For the purpose of joining T2S, from May to August 2023 the CDCC made several amendments to its rules of operation (Rules and Instructions). In 2023, Hanfa issued two decisions approving significant amendments to the rules of operation of the CDCC related to aligning the central maintenance model with EU standards and EU market practices. Within the scope of the mentioned procedures, Hanfa analysed the newly proposed types of securities accounts and verified their compliance with the Regulation on improving securities settlement and on central securities depositories<sup>16</sup> (hereinafter: CSDR) and the requirements prescribed in the CMA. These amendments to the rules of operation of the CDCC introduced transaction accounts for participants (custodians, brokers, money market participants, portfolio account management companies) as new types of accounts for the purpose of settlement in T2S, which are connected to members' accounts in T2S.

As the designated competent authority pursuant to the CSDR, Hanfa carries out a review procedure and evaluates the risks and the compliance of the CDCC with the CSDR and related regulatory and implementing technical standards on an annual basis. It also assesses compliance with the recommendations by the European Central Bank (hereinafter: ECB) which, together with the national central banks, forms the Eurosystem, that is, the system of euro area central banks. The recommendations were issued to the CDCC in the process of assessing conditions for the connection to T2S and alignment with the Eurosystem rules<sup>17</sup>. The results of Hanfa's annual review procedure were submitted to the Croatian National Bank (hereinafter: CNB), which represents the Eurosystem in the Republic of Croatia and which, following Croatia's entry into the euro area, assumed the role of a relevant authority in accordance with the CSRD<sup>18</sup>. Building on the review, Hanfa issued several recommendations to the CDCC with the aim of eliminating identified weaknesses, shortcomings and deficiencies, implemented by the CDCC in the course of 2023. In addition, in February 2023, within the scope of a regular on-site inspection of overall CDCC operations<sup>19</sup> initiated in 2021, Hanfa issued a decision to the CDCC with recommendations for the purpose of eliminating the identified organisational shortcomings and deficiencies (e.g., recommendations to update internal regulations related to risk management, recommendations related to managing operational risks and improving the management of ICT incidents, etc.), which were implemented by the CDCC in 2023.

<sup>16</sup> **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

<sup>17</sup> On 10 November 2022, based on the CDCC Action Plan and the confirmation by the CNB, as the central bank, that the conditions referred to in Section II of Criterion B from Annex VIa to **Guideline (EU) 2015/510** have been met, the Eurosystem, that is the ECB representing it, adopted the Decision on the eligibility of the securities settlement system operated by the CDCC for Eurosystem credit operations. On 21 November 2022, the ECB provided the CDCC with a letter confirming the adoption of the Decision on the eligibility of the securities settlement system operated by the CDCC for Eurosystem credit operations, with recommendations to be implemented and time limits for their implementation.

<sup>18</sup> Pursuant to Article 12 paragraph (1) items b) and c) of the **CSDR**

<sup>19</sup> The inspection focused on the operation of the CDCC and the activities referred to in Article 629 of the **CMA** in the period from 1 January 2019 to the date of the completion of the procedure.

Hanfa carries out continuous off-site inspection of the CDCC by analysing the CDCC's financial statements, reports with periodical and statistical data submitted in accordance with Commission Delegated Regulation (EU) 2017/392<sup>20</sup> and monthly reports on settlement fails, and by analysing the operations of the Investor Protection Scheme operated by the CDCC. Within the scope of the off-site inspection of the CDCC as the operator of the Investor Protection Scheme, no irregularities or deficiencies were found in the CDCC's operations in 2023, and no insured event occurred that would trigger the payment of secured claims to clients. In addition, within the scope of ongoing off-site inspections, Hanfa monitors participants' reports on internalised settlements<sup>21</sup> (volumes, values, rates of failed internalised settlements, types of financial instruments and types of transactions settled outside the settlement system operated by the central depository), assesses risks associated with internalised settlements and provides ESMA with quarterly reports on detected risks related to internalised settlements.

SKDD-CCP went through a similar, albeit slightly less demanding process of adjustment to euro area accession. A price list with a dual display of prices was published on the SKDD-CCP's website as of September 2022. Also, two minor changes to the rules of operation of SKDD-CCP were introduced in 2023, largely associated with the euro changeover and alignment with the changes to operating rules of the CDCC due to the accession to T2S, and partly also related to the requirements set out in the Regulation on a framework for the recovery and resolution of CCPs<sup>22</sup> (hereinafter: CCP-RRR).

With the entry into application of the CCP-RRR on 12 February 2022, SKDD-CCP became obliged to draw up a recovery plan in accordance with the mentioned regulations, while Hanfa was designated as the resolution authority<sup>23</sup>. In late 2023, a resolution college was established for SKDD-CCP as the central counterparty. Pursuant to the CCP-RRR, a resolution college provides a framework for resolution authorities and other relevant authorities to perform the following tasks: exchange information relevant for drawing up resolution plans and assessing the resolvability of central

<sup>20</sup> [Commission Delegated Regulation \(EU\) 2017/392](#) of 11 November 2016 supplementing [Regulation \(EU\) No 909/2014](#) of the European Parliament and of the Council with regard to regulatory technical standards on authorisation, supervisory and operational requirements for central securities depositories, OJ L 65/48

<sup>21</sup> Pursuant to the definition in Article 2(1)(11) of the [CSDR](#), settlement internaliser means any institution, including one authorised in accordance with [Directive 2013/36/EU](#) or [Directive 2014/65/EU](#), which executes transfer orders on behalf of clients or on its own account other than through a securities settlement system. Pursuant to Article 9 of the [CSDR](#), settlement internalisers report to Hanfa, as the competent authority of their place of establishment, on a quarterly basis the aggregated volume and value of all securities transactions that they settle outside the securities settlement system, while Hanfa is obligated to inform ESMA thereof.

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

<sup>23</sup> The Act Implementing [Regulation \(EU\) 2021/23](#) on a framework for the recovery and resolution of central counterparties ([Official Gazette, No 119/22](#)) designated Hanfa as the resolution authority for SKDD-CCP. Hanfa has a dedicated organisational unit, the Resolution Office, in charge of the activities of the resolution authority of SKDD-CCP in accordance with the CCP-RRR. In 2023, the resolution authority of SKDD-CCP drew up a list of members of the resolution college established pursuant to the CCP-RRR. Steps were taken to conclude a written agreement on the establishment of the resolution college of SKDD-CCP.

counterparties, identify, address and remove impediments to the resolvability of central counterparties and coordinate public communication about resolution plans and strategies. Following the procedure implemented in accordance with the CCP-RRR and the Regulation on OTC derivatives, central counterparties and trade repositories (hereinafter: EMIR) and taking into account a positive Joint decision by the College of Supervisors of SKDD-CCP issued in late 2022<sup>24</sup>, in January 2023, Hanfa approved the Recovery Plan of SKDD-CCP, together with several recommendations and expectations with the aim of improving the content and the elements of the Recovery Plan. SKDD-CCP provided Hanfa with its amended Recovery Plan in late September 2023. This started a new procedure for its review, which involved all the members of the College of Supervisors and Hanfa as the resolution authority of SKDD-CCP.

In 2023, Hanfa also carried out a review procedure and evaluated the risks and the compliance of SKDD-CCP with EMIR and other related regulations and issued several recommendations to SKDD-CCP with the aim of further improving internal organisational arrangements, protocols and rules. Within the scope of the procedure, Hanfa also evaluated the risks for SKDD-CCP, broken down by risk categories (business risk, operational risk, governance risk, liquidity risk, investment risk, deep dive of the structure of members of SKDD-CCP, prudential requirements).

During 2023, Hanfa continuously monitored the implementation of recommendations contained in the decision on the licensing of SKDD-CCP issued in 2021, with regard to the need to modify the models and parameters of SKDD-CCP related to risk management and the calculation of fees, contributions to the default fund and collateral requirements. In addition, in 2023, the procedure for obtaining , validation of the change introduced in the risk management model/parameters was initiated before Hanfa and ESMA. Moreover at end-November 2023, SKDD-CCP submitted an application to Hanfa for the extension of the initial authorisation with respect to clearing of transactions with ETFs<sup>25</sup> backed by stocks and T-bills<sup>26</sup> issued by the Ministry of Finance of the Republic of Croatia executed on the regulated market and multilateral trading platform operated by the ZSE. Following Hanfa's analysis, it was assessed that, in the specific case, the risk profile of the newly proposed financial instruments (ETFs backed by stocks and T-bills issued by the Ministry of Finance) fully corresponded to the risk profile of the already existing financial instruments that are cleared (stocks, bonds). Therefore, after consultation with the other members of the

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<sup>24</sup> The College of Supervisors of SKDD-CCP was established on 16 August 2021 by a written agreement in accordance with Article 18 of **EMIR**. The members of the College of Supervisors of SKDD-CCP include Hanfa, the CNB, the ECB and the president or independent member of ESMA CCP Supervisory Committee referred to in Article 24a paragraph (2) items (a) and (b). The list of the members of the College of Supervisors of SKDD-CCP is updated after each change and published on Hanfa's website.

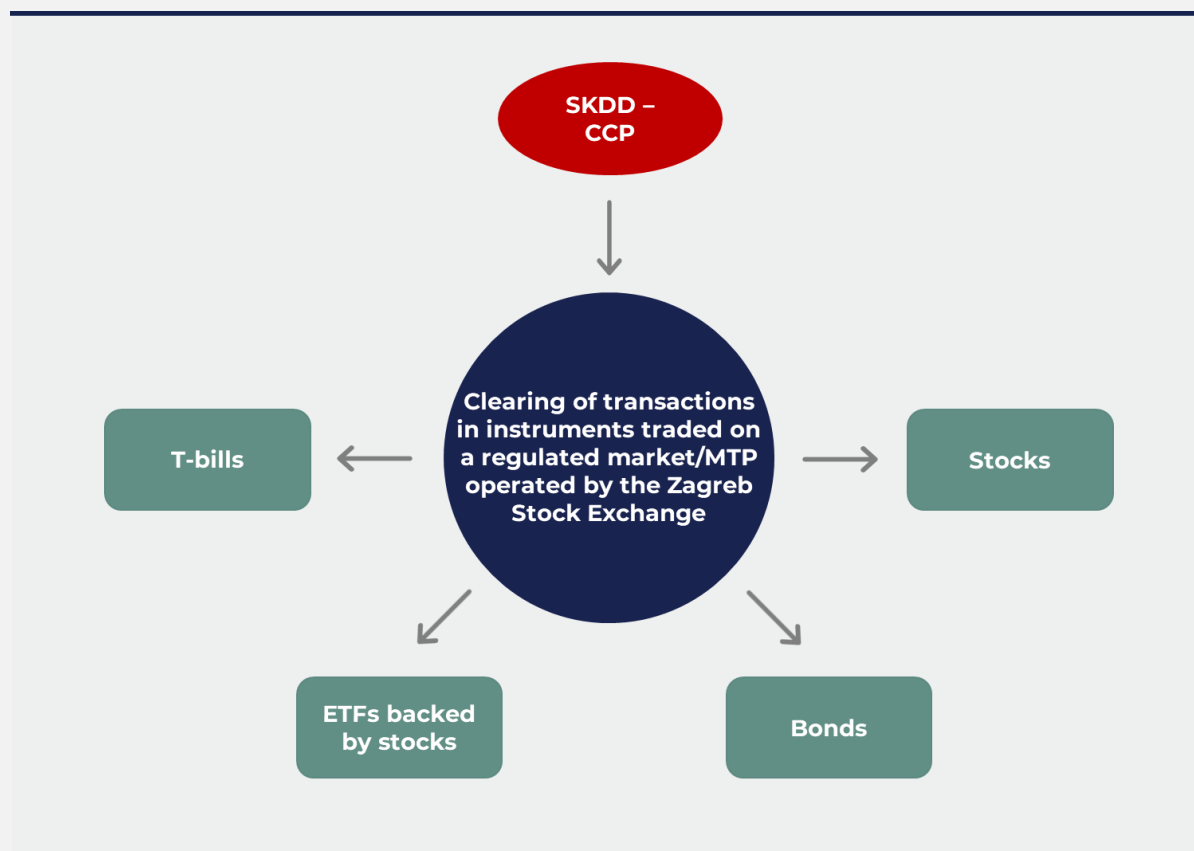
<sup>25</sup> An exchange-traded fund or an ETF is a unit or share in a collective investment undertaking with at least one class of units or shares being traded during the day on at least one trading venue and with at least one market maker which takes measures to ensure that the price of units or shares on that trading venue does not materially deviate from the net value of assets per unit or share and, where applicable, the indicative net value of assets per unit or share.

<sup>26</sup> T-bills are money market instruments that, according to their characteristics, are similar to debt securities, except that T-bills are sold at a discount, and their nominal price is paid on their maturity, and that they are issued with a shorter maturity of up to one year (usually 91, 182, 364 days).

College of Supervisors, Hanfa issued a decision on the extension of SKDD-CCP's authorisation to also include clearing of the new financial instruments.

In November 2023, Hanfa took part in an international CCP fire-drill. The exercise was conducted through a questionnaire / a set of questions completed by central counterparties (hereinafter: CCPs), their members, clients and national competent authorities, and also included the so-called connectivity call (an audio call organised to verify the functioning of communication channels between ESMA and national competent authorities, using a hypothetical default of a specific clearing member). Hanfa also participated in the exercise. ESMA will draw up a report based on the collected responses to the questionnaires in early 2024.

**Figure 3.1** Clearing of transactions in financial instruments within SKDD-CCP



**Source:** Hanfa

In 2023, ESMA continued to analyse Hanfa's supervisory activities by examining the supervisory convergence of all the CCP competent authorities in the EU and the compliance with EMIR (peer review analysis). ESMA's analysis included the competent authorities of all the EU Member States with authorised CCPs

#### CCP fire drill

*is an exercise which involved EU and non-EU CCPs and their competent authorities, with the aim of testing all or part of the chain of operations to follow in case of default of a clearing member.*

(a total of 12 authorities). In its final report, Hanfa, as the CCP competent authority in the Republic of Croatia, has obtained the highest total score and no recommendations were issued<sup>27</sup>.

### 3.1.2 Supervision of issuers

In line with its mandate, in 2023 Hanfa issued one decision on the approval of a prospectus for the admission of shares to the regulated market and one decision on the approval of a prospectus for the issuance and the admission of shares to the regulated market. Additional requirements in terms of amendments to prospectuses related to corrections in the chapter Risk factors, the provision of information on members of the administrative, management and supervisory bodies and senior management, details of family ties of managers and information on the companies in which these persons were employed. A total of 58 notifications were received about the use of exemption from the obligation to publish a prospectus for the issuance and/or admission of shares or bonds to the regulated market. The exemptions were most often used in the cases of share issues addressed to fewer than 150 natural persons per Member State, other than qualified investors. When reviewing the prospectuses, Hanfa referred issuers to the ESMA's statement from July 2023 drawing attention to sustainability-related disclosure in prospectuses in order to meet the applicable provisions of the Prospectus Regulation<sup>28</sup>.

Hanfa continuously monitors the disclosure of regulated information by the issuers of securities in the domestic capital market on the ZSE, the central storage of regulated information and in the media. Hanfa verifies the completeness and timeliness of the disclosure and the adequate labelling and signing of the published regulated information.<sup>29</sup> In 2023, Hanfa carried out 177 off-site inspections of issuers regarding the handling of regulated information. The off-site inspections carried out are shown in Figure 3.2 Off-site inspections of issuers in 2023.

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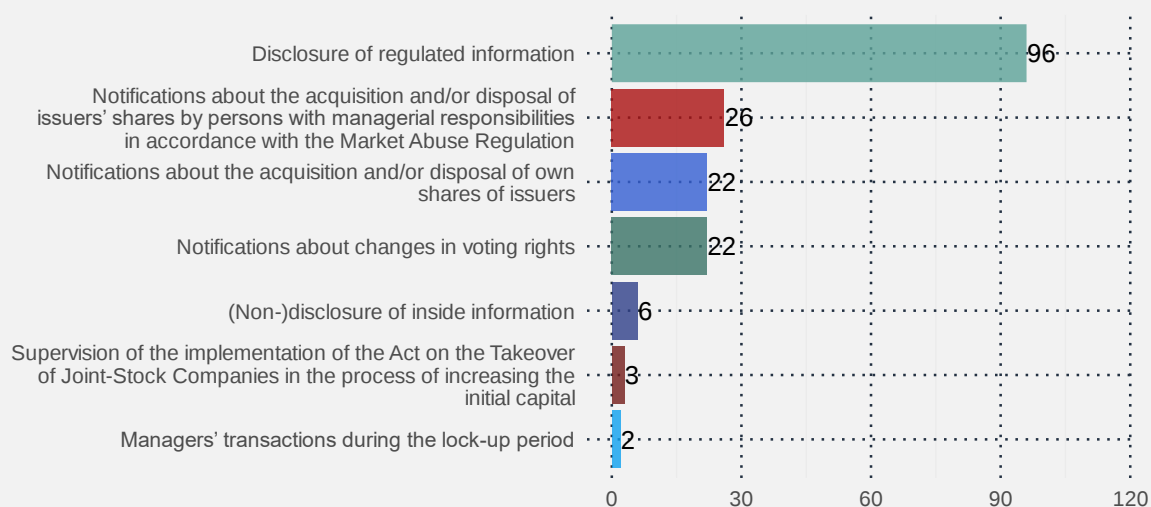
<sup>27</sup> ESMA's report is available on its website: <https://www.esma.europa.eu/press-news/esma-news/esma-publishes-annual-peer-review-eu-ccp-supervision-1>.

<sup>28</sup> **Regulation (EU) 2017/1129** of the European Parliament and 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

<sup>29</sup> Pursuant to the Ordinance on the contents, form and manner of submitting regulated information to the Croatian Financial Services Supervisory Agency and the Official Appointed Mechanism for the central storage of regulated information (**Official Gazette, No 114/18**)

Figure 3.2 Off-site inspections of issuers in 2023

Number of off-site inspections



Source: Hanfa

Due to irregularities identified within the scope of continuous inspections of handling of regulated information, a total of 11 off-site inspections were initiated concerning the setting up of a process for handling regulated and inside information of issuers. The irregularities found concerned the keeping of a list of insiders and their notification<sup>30</sup> and notifying persons with managerial responsibilities about their obligations. The irregularities found were remedied by the issuers during the inspection.

During 2023, Hanfa regularly examined the preparation and publication of all financial statements of issuers, including quarterly and annual financial statements. In accordance with ESMA Guidelines on enforcement of financial information of 23 November 2020, a total of six issuers were selected for full-scope examination of their financial statements. At-end 2023, four examinations were completed, while two issuers were still under examination. The irregularities found within the scope of the examination of financial statements concerned incomplete application of the IFRS and the International Accounting Standards (hereinafter: IAS), primarily involving the following standards: IAS 16 Property, Plant and Equipment, IAS 24 Related Party Disclosures, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, IFRS 10 Consolidated Financial Statements and IFRS 16 Leases. In addition, certain irregularities were also observed in the labelling of individual positions of the annual financial statements in ESEF (European Single Electronic Format).

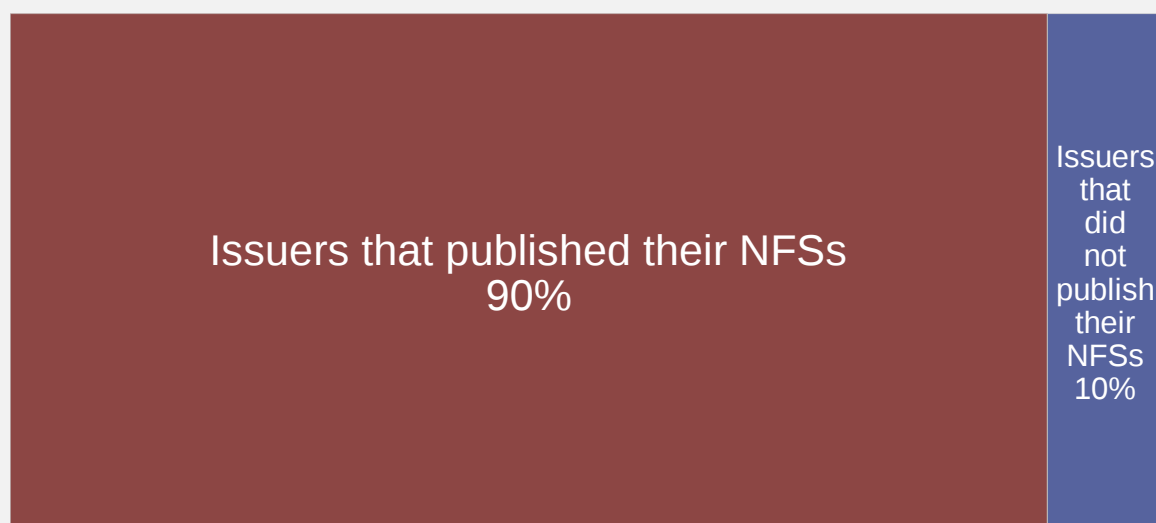
Hanfa is authorised to collect, process and publicly disclose issuers' data relating to corporate governance, that is, the application of the Corporate Governance Code adopted in 2019 by Hanfa and the ZSE (hereinafter: Code), the compliance with the Code and the progress made in ensuring compliance with the Code. An analysis of the data for 2022 showed that overall compliance of share issuers with the Code was better than in the year before. Also, within the scope of the Annual Report on Corporate Governance, disclosures of non-financial reports for 2022 were analysed. The Report

<sup>30</sup> Pursuant to Article 18(2) of the [Market Abuse Regulation](#)

included information on the timely disclosure of non-financial reports and certain information about the content of issuers' non-financial reports and disclosure of indicators in accordance with the Taxonomy Regulation<sup>31</sup>. Figure 3.3 shows non-financial reports disclosures by issuers that were obliged to draw up a non-financial report for 2022, showing that 90% of issuers fulfilled this obligation.

To determine the degree of alignment of the legal framework of the Republic of Croatia with the G20/OECD Principles of Corporate Governance, in December 2022 Hanfa drew up a compliance report, supplemented in June 2023, which was analysed by the OECD Corporate Governance Committee. The Committee found that certain areas governed by the OECD principles were not implemented or were insufficiently implemented in the legal system of the Republic of Croatia and recommendations were made in relation to the identified areas. These areas include: related party transactions, shareholder agreements, control of the group, independence of the board and remote meetings. Following the recommendations of the OECD, further legislative and other activities have been proposed with the aim of full implementation of these recommendations in the legal system of the Republic of Croatia.

Figure 3.3 Publication of the non-financial report for 2022



Note: Entities subject to NFR requirements may either publish the NFR themselves or the reports may be published by their parent companies, which is considered to be equivalent to their own publication.

Source: Hanfa

In 2023, Hanfa approved a total of five applications for the approval to publish a bid for the takeover of joint-stock companies and one application for the approval to publish a voluntary bid for the takeover of joint-stock companies.<sup>32</sup> One application for the approval to publish a voluntary bid for the takeover of joint-stock companies was rejected. In addition, in 2023, Hanfa issued a decision on the completion of the supervisory procedure in the case concerning the obligation to publish a bid for the

<sup>31</sup> [Regulation \(EU\) 2020/852](#) of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending [Regulation \(EU\) 2019/2088](#), OJ L 198

<sup>32</sup> Pursuant to the Act on the Takeover of Joint Stock Companies (Official Gazette, No [109/07](#), [36/09](#), [108/12](#), [90/13](#), [99/13](#), [148/13](#))

takeover that was carried out on the basis of the ruling and decision passed by the High Administrative Court of the Republic of Croatia on referring the case back to Hanfa. In that procedure, a declaratory decision was issued, establishing the existence of the obligation to publish a bid for the takeover.

During 2023, Hanfa also worked on amendments to a number of ordinances, guidelines and technical instructions in the light of the obligation to use a qualified electronic signature, applicable as of April 2023.

### ***Training for issuers***

A virtual training on non-financial reporting, the regulatory framework governing the ESEF reporting, sub-annual financial reporting and Annual Corporate Governance Report was held in April 2023. In June 2023, a virtual training was held in cooperation with the ZSE and the CDCC relating to regulations governing the capital market. Following a number of virtual trainings during the pandemic, in November 2023, Hanfa held the second independent training in person about the European Common Enforcement Priorities (ECEP), regulated information according to the applicable laws, the list of insiders, the results of the Annual Corporate Governance Report, the new regulatory framework governing sustainability reporting and XBRL taxonomy.

## **3.1.3 Investment services**

### ***On-site supervision of investment fund management companies***

In 2023, Hanfa completed an on-site inspection of an investment fund management company that managed UCITS and alternative investment funds. The aim was to inspect the investment process and investment of fund assets, the effectiveness of the control function in charge of monitoring the compliance with the relevant regulations and the effectiveness of the internal audit control function. The inspection found certain irregularities and deficiencies with regard to the existing investment process and investment of fund assets concerning the main internal regulation, illegalities and irregularities in the work of the function in charge of monitoring compliance with the relevant regulations with regard to ensuring the durability and continuity of this function and the final assessment of the degree of risk of non-compliance, as well as deficiencies in documenting the recommendations by the function concerned. In addition, certain deficiencies were found in the part of internal company documentation that was not drawn up in the Croatian language. The company remedied all the illegalities, irregularities and deficiencies during the on-site inspection; thus, no supervisory measure was imposed on the company.

### ***On-site supervision of an investment firm concerning its activities as a depositary of alternative investment funds***

Amendments to the Alternative Investment Funds Act in late 2021 provided investment firms with the possibility to act as depositaries of alternative investment

funds whose units are not offered to retail investors.<sup>33</sup> Prior to these legislative changes, this activity was reserved only for registered credit institutions.

This legal advantage was taken up by an investment firm which, in addition to its principal activity, also started to operate as a depositary of AIFs. In this regard, in 2023, Hanfa initiated an on-site inspection of the investment firm, focusing on safekeeping and recording the assets, the obligations relating to the control of the calculation of net asset value and asset valuation, monitoring cash flow, obligations relating to the issue and redeeming of units, the execution of the order of an alternative investment fund management company (hereinafter: AIFM), AIF investment control in accordance with the proclaimed objectives and rules of AIFs and in compliance with laws and subordinate legislation, and behaviour in cases where irregularities in the AIFM operations are detected.

The illegalities and irregularities found mostly concerned the investment firm's internal procedure governing the operation of the depositary, deficiencies in the systematisation of jobs in the investment firm's organisational unit performing the aforementioned activities, illegalities and irregularities in contracts on the performance of depositary functions, illegalities and deficiencies in the depositary's conduct in the case of identified illegalities and irregularities in the operations of the AIFM, illegalities in the monitoring of cash flow and control of the valuation of AIFs' assets. Hanfa found that, after receiving Hanfa's findings, the depositary partially eliminated the illegalities and irregularities that would be subject to a supervisory measure, after which a letter was sent to the depositary with the aim of eliminating the remaining illegalities and irregularities, which the depositary ultimately did and thus eliminated all illegalities and irregularities identified by the inspection.

### **Off-site supervision of the compliance with the SFTR**

In 2023, Hanfa initiated and completed an off-site inspection with the aim of examining the compliance with the SFTR<sup>34</sup>, that is, the orderly and accurate reporting of transactions in securities to trade repositories, the analysis of reported data and disclosures to investors. The inspection covered six UCITS, four AIFs and one investment firm. Some irregularities

and deficiencies were found during the inspection, including a discrepancy in the scope of reporting. No measures were imposed on the supervised entities based on the findings of the inspection. However, the Association of Investment Funds

#### **Securities Financing Transactions Regulation (SFTR)**

*is a regulation adopted with the aim of reducing systemic risk on the securities financing market by increasing transparency and supervision.*

<sup>33</sup> Provided that certain conditions are met concerning the amount of initial capital, provided that the firms meet conditions set out in **Regulation (EU) 2019/2033** of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations **(EU) No 1093/2010**, **(EU) No 575/2013**, **(EU) No 600/2014** and **(EU) No 806/2014**, OJ L 314 and provided that Hanfa has issued an authorisation to conduct custodian and related services.

<sup>34</sup> **Regulation (EU) 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 337

Management Companies of the Croatian Chamber of Economy was sent a letter on the results of the off-site inspection and issued recommendations.

#### ***Off-site supervision of UCITS asset valuation***

In 2023, Hanfa carried out an off-site inspection of companies managing open-ended investment funds with public offering (hereinafter: management companies, MCs), focusing on the control of the valuation of the assets of UCITS managed by these companies, particularly the valuation of inactive securities. The aim of the inspection was to examine whether, in determining the net value of UCITS assets, the MCs comply with the provisions of the Ordinance on determination of the net asset value and the unit price of UCITS<sup>35</sup> related to the valuation of securities traded on active and inactive markets. Deficiencies were found in one supervised entity, and Hanfa plans to issue corresponding recommendations in the upcoming period.

#### ***Off-site supervision of the distribution of UCITS units***

Within the scope of an off-site inspection of a credit institution initiated in 2023 based on an investor's complaint, Hanfa identified some illegalities and irregularities concerning the distribution of investment products on the negative target market, which were remedied by the credit institution concerned. In the aftermath of the illegalities and irregularities found during the inspection, and with the aim of aligning supervisory practices, Hanfa issued Instructions for distributors in determining the negative target market when distributing UCITS units to investors on the negative target market.

In 2023, Hanfa also carried out an inspection in another credit institution with the purpose of examining the distribution of units of an UCITS. Illegalities and irregularities were found in product governance process, suitability and appropriateness assessment, notification to investors of changes to the key information document (hereinafter: KIDs) and periodic suitability assessments and delivery of documentation to clients. The credit institution remedied most of the illegalities and irregularities before Hanfa issued the decision on supervisory measures.

#### ***Off-site inspection of a fund's key information document and provision of information to distributors***

Within the scope of an off-site inspection carried out in a management company in 2023, Hanfa identified certain illegalities relating to delayed updating of a fund's key information document, the process of reviewing the information contained in the key information document and the process of informing the distributors of the fund concerned. Consequently, Hanfa issued a decision on a supervisory measure with a warning to the management company.

#### ***Common supervisory actions***

In 2023, Hanfa took part in two common supervisory actions (CSA) coordinated by ESMA. One CSA concerned marketing communication of entities providing investment services and carrying out investment activities and ancillary services in accordance with the CMA, while the other CSA covered the marketing content

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<sup>35</sup> Official Gazette, No [128/17](#), [114/18](#), [124/19](#), [2/20](#) and [155/22](#)

pertaining to funds managed by companies managing open-ended investment funds with public offering and alternative investment fund management companies.

### **Marketing communications of entities providing investment services**

The aim of the supervisory action was to examine internal policies, processes and procedures adopted to ensure compliance with the requirements under the Markets in Financial Instruments Directive II (hereinafter: MiFID II) applicable to marketing communications, including advertisements (the CSA considered governance aspects such as questions on the role of control functions and senior management in creating and approving marketing communications). The CSA was also carried by other Member States in an identical way, that is, by using pre-defined forms, within previously agreed deadlines and according to the pre-established methodology. The selected supervised entities that met ESMA's CSA sampling requirements included four credit institutions and two investment firms.

The supervisory action also included the so-called mystery shopping exercise (hereinafter: MSE), which was carried out in compliance with the pre-defined ESMA mystery shopping methodology. The MSE was carried out on the same sample as the CSA, and covered marketing

#### **Mystery shopping**

*means a practice of anonymously collecting data and information from supervised entities for the purpose of examining their compliance with legal provisions and other relevant regulations.*

communications, including advertising activities and other related services. The MSE was carried out by collecting information on entities' websites and by using other relevant on-line distribution channels (mobile apps, social networks, YouTube channels, etc.). Hanfa assessed the overall situation as satisfactory for most of the entities in the selected sample, with some minor irregularities that were remedied during the exercise. One investment firm was found not to have established processes and procedures relating to the preparation, publication and control of marketing communications and advertisements. Consequently, an administrative off-site inspection will be initiated in the investment firm in the upcoming period. In addition, a letter was sent to the Association for Business and Intermediation in Financial Markets of the Croatian Chamber of Economy on the results of this off-site inspection with issued recommendations and best practices.

### **Advertising for UCITS and AIFs with public offering**

The aim of inspection was to identify marketing communications as such and to verify that all information included in marketing communications intended for investors or potential investors for UCITS funds and AIFs is fair, clear and not misleading.<sup>36</sup> Having inspected the marketing activities of a total of 11 MCs and two AIFMs, Hanfa assessed the overall situation as satisfactory, albeit with some deficiencies in the publication of marketing communications that concerned the absence of an indication of the marketing communication and disclaimers. A letter was sent to the Association of

<sup>36</sup> Compliance of marketing communications with the applicable provisions of the Act on Open-Ended Investment Funds with Public Offering and the Alternative Investment Funds Act, as well as the ESMA Guidelines on marketing communications under the [Regulation on cross-border distribution of funds \(ESMA34-45-1272\)](#)

Investment Fund Management Companies of the Croatian Chamber of Economy on the results of this off-site inspection with issued recommendations.

### ***Review of the assessment of suitability of qualified investors in alternative investment funds with a private offering***

In the upcoming period, Hanfa will continue with its off-site inspection involving the review of the assessment of suitability of qualified investors in alternative investment funds with a private offering, started in November 2023. The aim of the inspection is to examine the proper conduct of AIF management companies in assessing the suitability of qualified investors and, where necessary, correct the manner in which data are collected for the purposes of that assessment. The inspection started on a selected sample of AIFs with a private offering and focused on verifying compliance with the requirements for a qualified investor in accordance with the relevant provisions of the Alternative Investment Funds Act<sup>37</sup>, reviewing the suitability assessments carried out in accordance with the Ordinance on types of alternative investment funds<sup>38</sup> and the suitability reports and their delivery to the investor, verifying the collected investor declarations on understanding and acceptance of the essential characteristics of AIFs and the types and significance of all risks associated with investing in AIF, as well as reviewing the internal procedures of each AIFM whose purpose is to ensure that the collected investor data is accurate and complete, up-to-date and documented.

### ***Off-site supervision of the conversion to the euro***

In early 2023, Hanfa completed an off-site inspection of all the entities providing investment services within the meaning of the Act on the Introduction of the Euro, started in 2022. Letters were sent to all supervised entities, clearly indicating their obligations as regards the period of dual display of prices, the obligations regarding general notifications which had to be made available to financial services users at least three months before the date of the introduction of the euro, as well as the obligations regarding personalised notifications. It was established that all notifications had been sent to all members and clients within the legal time limit of 30 days from the date of the introduction of the euro as the official currency in the Republic of Croatia, that is, by 31 January 2023.

### ***Off-site supervision of the protection of clients' financial assets***

In 2023, Hanfa carried out an off-site inspection of the protections of clients' financial assets. The sample included three investment firms, three credit institutions and two investment fund management companies. The inspection was carried out by analysing the documentation and comments submitted by the supervised entities and the information and data available from other sources (public disclosures, financial statements, supervisory reports and available registers). The inspection was aimed at examining the supervised entities' compliance with the organisational requirements regarding the protection of clients' assets when providing brokerage services, such as execution of clients' orders, portfolio management and custody of assets. Two firms were found not to have clearly and fully laid down in internal regulations the criteria

<sup>37</sup> Official Gazette, No [21/18](#), [126/19](#), [110/21](#) and [83/23](#)

<sup>38</sup> Official Gazette, No [28/19](#), [15/20](#) and [155/22](#)

for assessing the suitability of third parties holding their clients' financial assets, which was remedied during the inspection. In addition, a deficiency was found in one firm concerning the organisational part of keeping internal records and a recommendation was issued to remedy the deficiency concerned.

In 2023, Hanfa also carried out other ongoing off-site inspections of annual financial statements of UCITS management companies and UCITS, AIFMs, AIFs and investment firms. Off-site inspections involved checking the annual updates of and material amendments to prospectuses and rules of UCITS and AIFs. Hanfa also performed a regular annual inspection of key information documents for UCITS investors which are to be prepared and updated by management companies on an annual basis and published on their websites.

### 3.1.4 Pension savings

#### ***On-site supervision of pension companies***

In 2023, Hanfa carried out four on-site inspections of pension companies and pension funds.

In 2023, Hanfa started a regular on-site inspection of a pension company, focused on the investment process and on investing pension funds' assets, as well as the involvement and efficiency of control functions in the investment process. The on-site inspection is expected to be completed in 2024.

Two on-site inspections (one of them being an *ad hoc* inspection) were initiated in 2022 and were completed during 2023. In the course of the regular on-site inspection, it was found that the pension company in question had properly organised the business processes that had been the subject of the inspection and only several irregularities (not illegalities) were found. It was found that within the scope of its investment process, the pension company failed to document potential investments it considered and failed to explain the reasons why it did not go through with these investments. Also, the pension company failed to adequately and transparently explain and document the reasons behind some of its investment decisions and failed to make up-to-date and timely decisions based on relevant analyses as part of its ongoing investment monitoring. In the course of the on-site inspection and following the receipt of the report on the established facts, the pension company remedied the deficiencies and irregularities found, and Hanfa ended the regular on-site inspection.

Within the scope of an *ad hoc* on-site inspection, it was found that the pension company in question failed to submit regular supervisory reports to Hanfa as set out in the applicable ordinances and that it failed to implement effective procedures and techniques for measuring and managing liquidity risk with regard to mandatory pension funds it managed. In addition, the pension company failed to set up internal reporting procedures and failed to provide information at all relevant company levels about operating the application solution being inspected, which was remedied during the inspection. With regard to other illegalities found, Hanfa issued a decision containing supervisory measures, ordering the pension company to improve its supervisory reporting, to adjust the liquidity assessment procedure and to amend its internal regulations governing reporting to Hanfa in the light of the adjustments made.

The company was also ordered to prepare and submit an internal audit report on compliance with the order and to deliver a new updated supervisory report. The pension company complied with the supervisory measures, and Hanfa ended the *ad hoc* on-site inspection.

Several illegalities and irregularities were found within the scope of an on-site inspection of a pension company started in 2022. Consequently, Hanfa imposed several supervisory measures on the pension company in the course of 2023. Hanfa issued a decision with supervisory measures which included a warning about an inadequately prepared strategy and inadequate monitoring of its implementation, the failure to set up adequate management and monitoring of investments of pension fund assets in shares of a particular issuer and the failure to establish adequate mechanisms for handling inside information.

The pension company was ordered to make a more detailed breakdown of the asset classes in which pension fund assets are invested and to single out the issuers of transferable debt securities. Hanfa also recommended the management board of the pension company to determine internal credit ratings of investments and to establish an appropriate system to compare such investments with other potential investments to check whether there is another investment with equal or higher growth potential and lower estimated risk. The management board of the pension company was also recommended to improve the practice of making and documenting decisions on business cooperation (choice of strategic partners) and monitoring the success of business cooperation. Finally, the pension company was ordered to provide, within a specific time limit in 2024, proof of compliance with improved internal regulations in relation to corporate governance in issuers in which the pension funds have a majority holding or a strategic partnership with another shareholder and proof concerning the obligation to justify the reasons for the non-participation of an individual pension fund in transactions realised for other funds. In 2023, the pension company submitted proof and reports on the follow-up to the supervisory measures imposed within the set time limits. The pension company is expected to continue with such behaviour in the forthcoming period.

#### ***Off-site supervision of the compliance with the SFTR***

In 2023, Hanfa carried out an off-site inspection of the compliance of voluntary pension fund management companies with the obligations referred to in Article 4 of the SFTR on reporting obligation and safeguarding in respect of securities financing transactions (SFTs). Since it was found during the off-site inspection that pension companies had ensured the application of the SFTR, that there was a negligible number of SFTs over a longer period of time and that no irregularities were found, there was no follow-up to the inspection.

#### ***Off-site supervision of the control function's annual reports***

In October 2023, Hanfa inspected the operation of control function in charge of monitoring the compliance with the relevant regulations in all pension companies, with a focus on annual reports prepared by the compliance functions. The inspection found that the control functions in charge of monitoring the compliance with the relevant regulations acted in compliance with internal procedures and external

regulations, and no illegalities or irregularities have been found. With regard to deficiencies identified during the inspection, pension companies have taken into account Hanfa's recommendations and made appropriate corrections.

#### ***Off-site supervision of the conversion to the euro***

In late 2022 and in early 2023, Hanfa supervised the compliance of pension companies and Regos with the regulatory requirements for the introduction of the euro concerning the dual display of amounts to pension fund members and notifying members about the essential elements of the conversion. It has been found that pension companies and Regos had made the necessary changes and adjustments in relation to dual display, both on their websites and in the documents they sent or made available to pension fund members. It was also found that, after the introduction of the euro, the regulatory requirements regarding the provision of personalised notifications about conversion to pension fund members in Croatia have been met.

#### ***Off-site inspection of financial statements and monitoring capital requirements applicable to pension companies***

The review of financial statements and the monitoring of the capital requirements for pension companies in 2022 revealed discrepancies between certain data from the audited annual financial statements and audited reports on the calculation of own funds and data from supervisory reports of two pension companies, which have been remedied by the companies concerned. It was also found that one pension company did not properly complete the report on the calculation of own funds and that the data on remuneration paid to employees of the pension company were not disclosed in a clear, simple and understandable manner. It was also established that, for the purpose of auditing the report on the calculation of own funds, two pension companies engaged an independent external certified auditor by concluding a limited assurance engagement, which represents a significantly lower degree of assurance than a reasonable assurance engagement.

#### ***Other ongoing off-site inspections***

The ongoing off-site inspections of the operations of pension companies and pension funds in 2023 included the examination of pension companies' investments aimed at strengthening financial literacy, pension fund investments in transferable securities not admitted to the regulated market and acquisitions of over 10% of transferable equity securities of a single issuer, the examination of the valuation of transferable debt securities in the portfolios of mandatory pension funds, a review of the Mandatory Pension Funds Report for the Croatian Parliament and a review of the report prepared by the Central Registry of Affiliates for the Government of the Republic of Croatia. In addition, off-site inspections also covered the review of reports on complaints by pension fund members, a review of monthly and quarterly reports published by pension companies on their websites and a control of liquidity risk management of mandatory pension funds, in which certain illegalities, irregularities and deficiencies were identified, and which were remedied by pension companies in a timely manner, so there was no need for further action.

### 3.1.5 Insurance

In 2023, Hanfa carried out a total of ten inspections, that is, two on-site inspections and eight off-site inspections. Of the two on-site inspections, one was a regular inspection while the other was an *ad hoc* inspection. Within the scope of these on-site inspections, one decision was issued with measures to remedy illegalities and irregularities in the inspected company. The second inspection continued into 2024. The focus of inspections covered verification of the company's compliance with the fit and proper requirements of the employees carrying out insurance distribution activities, the system of governance (risk management system, internal controls system and key functions), capital management measures and policies, the adequacy of the product oversight and governance system for insurance-based investment products, the process of valuation and validation of the best estimate for life insurance, cyber security management and outsourcing. In 2023, Hanfa also monitored the taking of actions and implementation of supervisory measures imposed within the scope of ten on-site inspections carried out in previous years. Within the scope of the mentioned inspections, nine decisions were issued. Five of them imposed measures to remedy illegalities and/or irregularities, while four of them concerned the completion of the inspections.

With the aim of protecting policyholders, insured persons and beneficiaries of insurance contracts, in 2023 Hanfa monitored actions taken as a follow-up to one on-site inspection involving mystery shopping focused on pre-contractual information and distributors' compliance with the rules of professional conduct in accordance with the applicable legislation. The inspection continued into 2024.

Of the eight off-site inspections carried out in 2023, five were regular and three were *ad hoc*. The inspections focused on:

- pre-contractual provision of information on non-life insurance and handling of complaints and objections;
- compliance with the Regulation on sustainability-related disclosures in the financial services sector (hereinafter: SFDR)<sup>39</sup> and the applicable sustainability-related legislation;
- verifying compliance with the obligation to submit financial and statistical reports by insurance distributors and the fulfilment of the requirements on the person responsible for carrying out insurance distribution activities;
- solvency capital requirement calculation, risk exposure from the aspect of capital management measures and policies and the system of governance concerning cross-border activities risk.

Following the off-site inspections, six decisions were issued. Five of them concerned measures to remedy illegalities and/or irregularities, while one of them concerned the completion of the inspection. As in the case of on-site inspections, in 2023, Hanfa also monitored the execution and implementation of supervisory measures imposed within the scope of seven inspections carried out in previous years. Within the scope of

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<sup>39</sup> **Regulation (EU) 2019/2088** of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, OJ L 317

these activities, three decisions were issued. One of them was an enforcement decision. Of the other two decisions, one concerned measures to remedy illegalities and irregularities, while the other concerned the completion of the inspection.

As part of its supervisory activities, in 2023 Hanfa carried out a thematic review of insurance terms and conditions and pre-contractual documentation of the CPI products offered by insurance companies providing credit protection insurance, which were most often distributed through banks. This review primarily concerned consumer protection, focusing on the evaluation of “value for money” and checking the comprehensibility of insurance coverage and the appropriateness of the exclusions or limitations of insurance coverage in the terms of insurance contracts. As a result of the review, in November 2023, Hanfa provided all insurance companies concerned with an Instruction on the requirements for the insurance product oversight and governance to underline supervisory expectations regarding the design, distribution strategies and review of the products concerned, together with clarifications, comments and recommendations to comply with the Instruction. In order to protect the interests of consumers, Hanfa will continue to analyse and monitor the compliance of insurance companies with the supervisory expectations communicated in the Instruction and, if necessary, take additional supervisory measures and procedures.

In view of the challenges faced by insurance companies in 2023, such as the beginning of implementation of the new international financial reporting standards and the euro introduction and the consequent changes in reporting forms, Hanfa performed additional assessments of risks to which insurance companies were exposed to, based on quantitative and qualitative information. Also, Hanfa performed its continuous reviews and analyses of regular financial, supervisory and other reports prepared by insurance companies, pension insurance companies, the Bureau, the Croatian Nuclear POOL, insurance companies from other Member States providing insurance and reinsurance services in the Republic of Croatia through their branches and persons authorised to perform insurance distribution and/or reinsurance distribution activities. Hanfa also continued with its regular annual monitoring of efforts invested by insurance companies in activities that support the strengthening of financial literacy of Croatia's citizens.

Furthermore, in order to encourage and raise awareness of the importance of sustainable finance, but also to monitor the compliance of insurance and pension insurance companies with sustainability-related regulations<sup>40</sup>, Hanfa continued to review sustainability-related disclosures on companies' websites in 2023, and pursued its other supervisory activities, including off-site inspections where necessary. In addition, given that the regulations in question and the related obligations are new to

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<sup>40</sup> **Taxonomy Regulation** – Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending **Regulation (EU) 2019/2088**, OJ L 198, **Commission Delegated Regulation (EU) 2022/1288** of 6 April 2022 supplementing **Regulation (EU) 2019/2088** of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of ‘do no significant harm’, specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports, OJ L 196

all financial market participants, in 2023 Hanfa provided supervised entities with support and guidance by means of letters, circulars, workshops and regular responses to the inquiries received, and will continue to do so in the forthcoming period.

In addition, in 2023 Hanfa continued and intensified its supervisory activities in terms of insurance companies' compliance with the Insurance Distribution Directive<sup>41</sup> and the Product Oversight and Governance Delegated Regulation<sup>42</sup> setting out product oversight and governance requirements for insurance companies. The purpose and focus of those activities were to ensure that insurance companies monitor and review the characteristics of insurance products in order for them to remain aligned with the interests, objectives and characteristics of the targeted market and to offer adequate value for money in such a way that the costs and fees they entail are proportionate to the benefits accruing to the customer. This particularly applied to credit protection insurance products and insurance-based investment products where the policyholder bears investment risk, to which Hanfa will pay special attention in the forthcoming period.

During 2023, Hanfa continued with activities aimed at improving the own risk and solvency assessment process (hereinafter: ORSA) and ORSA reports by insurance companies. Hanfa held meetings with representatives of insurance companies and brought forward additional recommendations for the improvement of the ORSA process and the ORSA reports. In addition to individual recommendations, Hanfa also sent joint recommendations to insurance companies regarding the inclusion of the results of analyses of the impact of inflation risk, as well as the impact of climate change in the ORSA report.

Furthermore, in 2023 Hanfa continued to monitor insurance companies' liquidity on a semi-annual level. The monitoring included data on realised and projected cash flows and on the liquidity structure of assets. The assessment of insurance companies' liquidity also included the sustainability of cash flows, that is, assessing whether a company had sufficient liquid assets to cover liquidity outflows in the case of negative cash flow projections.

### ***The application of IFRS 17 and IFRS 9***

As of the beginning of 2023, insurance and pension insurance companies started to apply the international standards IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments. As expected, the application of the new IFRS 17 and IFRS 9 standards, which replaced the previous IFRS 4 and IAS 39 standards, has led to changes in the structure of assets and liabilities of insurance and pension insurance companies. Specifically, the focus of IFRS 17 is on the valuation of insurance contract liabilities taking into account the characteristics of the insurance, as well as uncertainties regarding the timing and amounts. In 2023, insurance and pension insurance companies worked intensively to stabilise the application of IFRS 17 (e.g. cost allocation,

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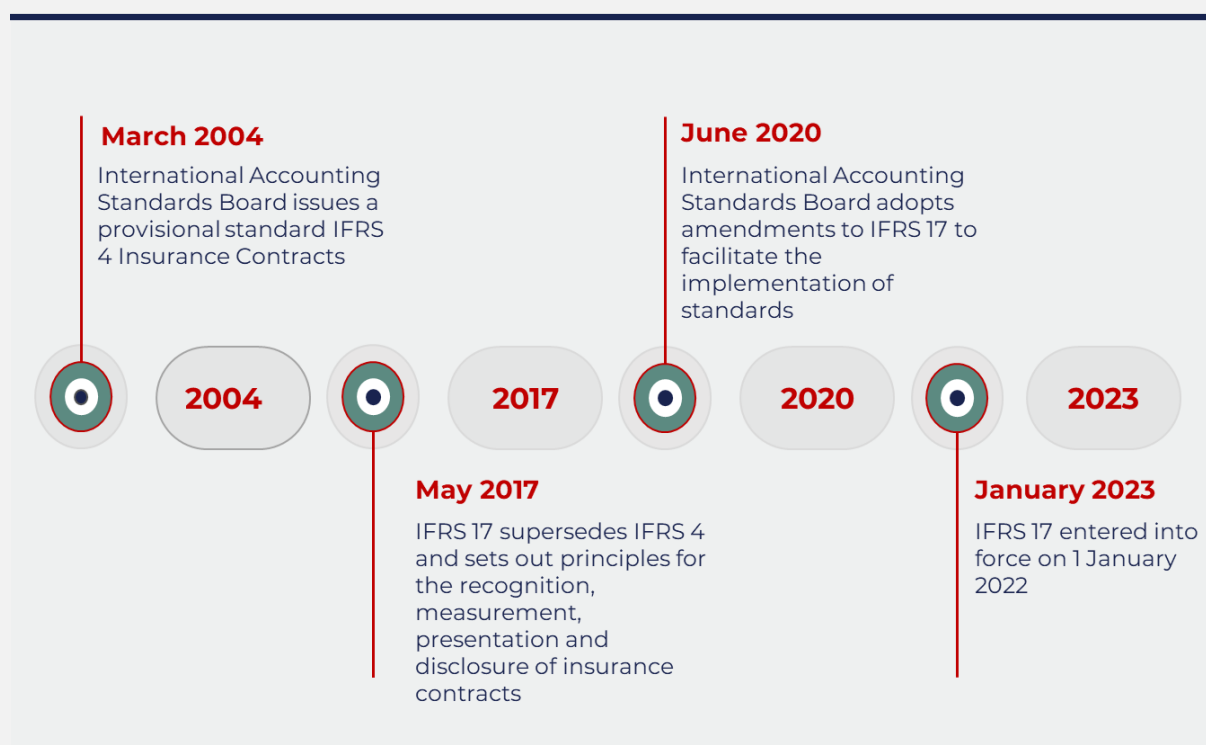
<sup>41</sup> **Directive (EU) 2016/97 of the European Parliament and of the Council** of 20 January 2016 on insurance distribution, OJ L 26

<sup>42</sup> **Commission Delegated Regulation (EU) 2017/2358** of 21 September 2017 supplementing **Directive (EU) 2016/97** of the European Parliament and of the Council with regard to product oversight and governance requirements for insurance undertakings and insurance distributors, OJ L 341

subsequent measurement of changes in cash flows and other changes). The main challenges faced by companies in implementing IFRS 17 were the availability of historical data at the required level of granularity, the setting of processes and methodologies in relation to the new requirements of the standard, the setting of discount rates, the adjustment of actuarial models for calculating cash flows, IT adaptation challenges as well as risks associated with human resources and deadlines.

On the other hand, the application of IFRS 9, which replaced the previous IFRS 39, led to an increase in the share of financial assets classified in the fair value portfolio through the profit or loss account. When classifying portfolio assets under IFRS 9, insurance companies were guided by the financial assets management model and the contractual cash flow characteristics of the financial assets. The survey conducted by Hanfa in the insurance market has shown that the application of IFRS 9 did not lead to changes in investment strategies of insurance companies.

**Figure 3.4** Key dates in the process of IFRS 17 implementation



**Sources:** Hanfa and IFRS

Following the implementation of the new standards, Hanfa has also prepared new ordinances related to the procedures for the valuation of liabilities of insurance companies and pension insurance companies. In addition, Hanfa has introduced a new set of financial statements, statistical and additional reports to be prepared by insurance companies and pension insurance companies. Given the amount of data to be prepared for the purpose of completing the new forms, insurance companies and pension insurance companies have been granted additional time for the submission of quarterly reports in the first two years of application of the new standards.

#### ***Pre-contractual information about insurance-based investment products***

With the entry into force of the new Commission Delegated Regulation (EU) 2021/2268<sup>43</sup> (hereinafter: PRIIP Delegated Regulation) on 1 January 2023, insurance companies have faced a significant challenge in terms of amending certain elements of presentation and contents of KIDs. With the aim of protecting potential investors, Hanfa continuously monitors compliance of newly published KIDs for insurance-based investment products with the PRIIP Delegated Regulation. With regard to the application of the PRIIP Delegated Regulation, Hanfa also held a workshop for insurance companies.

## Insurance protection gap for natural catastrophe risks

In Croatia, a worryingly low level of insurance coverage was observed for the risks of natural disasters and catastrophes, namely for the risk of hail, storm, flood, earthquake, subsidence, etc. In the last three years, the average share of gross written premiums for earthquake insurance in the total gross written premium was only 1.2%, and for flood insurance only 0.5% of the total gross written premiums. Although the underlying risks of natural catastrophes include a very low probability of occurrence, following the events in 2023 (floods, storms, hail), natural catastrophes are expected to occur more frequently in the future, with greater adverse consequences.

The European Insurance and Occupational Pensions Authority (hereinafter: EIOPA) thus developed a European on-line dashboard showing the level of insurance protection and the vulnerability of European countries to natural disaster risks (dashboard on insurance protection gap for natural catastrophes). The dashboard is an analytical tool that depicts the insurance protection gap for natural catastrophes in Europe, presenting data in current and historical views. The aim of this tool is to understand and raise awareness of the insurance gap and to create the basis for the development of proactive preventive measures to improve protection against the risks of natural catastrophes at European level. EIOPA's tool is based on a quantitative approach with scientific-based data (earthquake, flood). Where no data were available (e.g. wildfires), expert judgement was used. Two dimensions of the insurance gap were

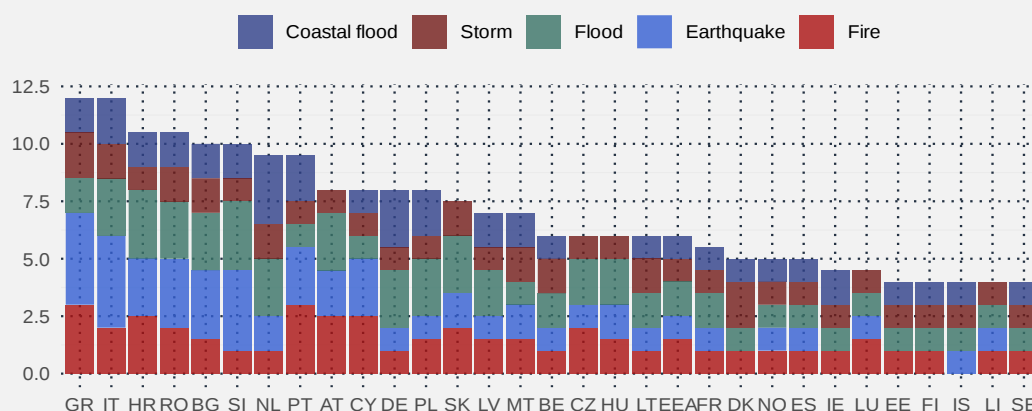
<sup>43</sup> **Commission Delegated Regulation (EU) 2021/2268** of 6 September 2021 amending the regulatory technical standards laid down in **Commission Delegated Regulation (EU) 2017/653** as regards the underpinning methodology and presentation of performance scenarios, the presentation of costs and the methodology for the calculation of summary cost indicators, the presentation and content of information on past performance and the presentation of costs by packaged retail and insurance-based investment products (PRIIPs) offering a range of options for investment and alignment of the transitional arrangement for PRIIP manufacturers offering units of funds referred to in Article 32 of **Regulation (EU) No1286/2014** of the European Parliament and of the Council as underlying investment options with the prolonged transitional arrangement laid down in that Article, OJ L 455I. The application of the regulation concerned has been postponed to 1 January 2023 in accordance with the **Commission Delegated Regulation (EU) 2022/975** of 17 March 2022 amending the regulatory technical standards laid down in **Delegated Regulation (EU) 2017/653** as regards the extension of the transitional arrangement laid down in Article 14(2) of that Regulation and amending the regulatory technical standards laid down in **Delegated Regulation (EU) 2021/2268** as regards the date of application of that Regulation.

observed: 1) risk assessment based on vulnerability, hazard and exposure to a hazard at the location involved; and 2) insurance penetration calculated as the ratio between the sum insured and replacement value.

According to EIOPA's analysis, Croatia stands out as the third country in the EU in terms of insurance protection gap for natural catastrophes (Figure 3.5), just behind Greece and Italy. In Croatia, the insurance protection gap is highest for earthquakes and floods, given the historical data on past events. Until the earthquakes in Zagreb and Petrinja in 2020, there were no significant adverse events in relation to earthquake insurance. In addition, climate change has increased flood and fire risks.

Figure 3.5 Insurance protection gap in European countries in 2023

Aggregate sum of estimated insurance protection gap for five risks



Note: The estimated protection gap score can range from 0 to 4, so the maximum score can be 20.  
Source: EIOPA

In 2023, EIOPA also carried out a process to assess and potentially recalibrate the calculation of the insurance companies' capital requirement for natural catastrophes, in which Hanfa also took part. The aim was to better capture the risks associated with perils such as earthquakes, flood, hail and storms based on new insights, data and models that have become available since the last assessment in 2018. New risk factors have been proposed for 25 perils, that is, regions in relation to five natural catastrophes (flood, hail, earthquake, storm, subsidence).

In order to ensure that insurance companies are able to adequately estimate the effect of natural catastrophes on their operations and capitalisation, in line with EIOPA's Application guidance on climate change materiality assessments and climate change scenarios in ORSA from August 2022 (hereinafter: Application guidance), in November 2022 Hanfa provided insurance companies with recommendations regarding the analysis of climate change in ORSA. Companies were recommended to include current developments related to climate change in future ORSA reports, including climate change risk analyses and climate change risk scenarios. In 2023, Hanfa carried out an analysis of climate change risks in ORSA reports. It has been found that 73% of

companies prepared their own scenarios/stress tests that included climate change risks. Furthermore, 20% of companies carried out a detailed analysis of climate change risks, while 60% of companies assessed physical and/or transition risks. The analysis has shown that almost all companies still classify climate change risk among future or emerging risks and assess that climate change risk is not materially significant to them. In December 2023, Hanfa provided the companies with further recommendations about the Application guidance regarding the conduct of an analysis of short-term and long-term climate change risks, taking into account the size, nature and complexity of climate change risk exposure (application of the proportionality principle).

### ***Supervisory activities in cooperation with EIOPA and other national supervisory authorities***

In 2023, Hanfa's employees participated in 12 regular meetings of colleges of supervisors of insurance groups (affiliated insurance and reinsurance companies and insurance or mixed financial holding companies) organised by competent supervisory authorities of Member States. The purpose of colleges of supervisors is to exchange information and data on insurance companies belonging to an insurance group and pursuing insurance business in other Member States. Hanfa participates in the colleges of supervisors of eight groups to which insurance companies with registered offices in the Republic of Croatia belong.

### **3.1.6 Non-bank financing**

#### ***Leasing***

In 2023, Hanfa completed its supervisory activities relating to the examination of value adjustments for receivables under finance and operating lease contracts as at 31 December 2021. The supervisory activities were carried out with regard to all active leasing companies and involved examining whether companies complied with internal regulations and procedures and the applicable laws and regulations. Hanfa also examined the calculation of value adjustments.

Two of the inspections concerning the calculation of value adjustments were completed in 2023 by means of decisions issued by Hanfa. One inspection showed that a company failed to comply with Hanfa's decision from 2022 and it was established that a new inspection was to be carried out. Thus, in 2023 Hanfa issued a decision on a special supervisory measure in the case at hand.

In 2023, Hanfa also commenced with supervisory activities in all nine leasing companies offering lease contracts to consumers, focusing on the applicable interest rates under finance lease contracts concluded with consumers. Hanfa examined the compliance of leasing companies' internal regulations and contractual provisions with the Consumer Credit Act<sup>44</sup>, the calculation of lease instalments, adjustment of interest rates with changes in the reference interest rate, the application of the maximum

<sup>44</sup> Official Gazette, No [75/09](#), [112/12](#), [143/13](#), [147/13](#), [09/15](#), [78/15](#), [102/15](#), [52/16](#), [128/22](#), [156/23](#)

permitted interest rate prescribed by the Consumer Credit Act and the provision of information to lessees about changes in interest rates.

The illegalities and irregularities relating to the incorrect calculation of lease instalments and non-compliance with the Consumer Credit Act in respect of exceeding the maximum permitted interest rate were found in three leasing companies. Consequently, in 2023 Hanfa prepared two reports on the findings of these inspections in 2023.

The inspections of interest rate calculations led to the refund of a higher amount of interest collected to consumers on the basis of detected irregularities in the calculation of instalments (interest) and charging interest rates above the maximum permitted interest rate under the Consumer Credit Act.

In addition, in 2023 Hanfa carried out ongoing off-site inspections, including the inspection of financial statements, additional reports and other reports that leasing companies were obligated to submit to Hanfa.

### **Factoring**

In 2023, Hanfa conducted administrative supervisory proceedings in a factoring company. Three reports on the findings were prepared and three decisions were issued with the aim of remedying the illegalities and irregularities found. Non-compliance was revealed regarding the recording of short-term loan agreements in a manner contrary to the provisions of International Accounting Standard 8 – Accounting Policies, Changes in Accounting Estimates and Errors, as well as regarding the reporting of receivables and liabilities of the company towards debtors and creditors in the business books.

Given that the company failed to comply with Hanfa's supervisory measures, the administrative supervisory proceedings ended with Hanfa's decision to withdraw authorisation of the factoring company concerned.

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

### **3.1.7 Prevention of money laundering and terrorist financing**

Money laundering and terrorist financing are current global problems and pose a significant risk to the economy and the financial system, and Hanfa, together with other regulatory authorities, plays an important role in their prevention and detection. Prevention of money laundering and terrorist financing (hereinafter: AMLTF) in the Republic of Croatia is governed by the Anti-Money Laundering and Terrorist Financing Act<sup>45</sup> (hereinafter: AMLTFA). Hanfa monitors supervised entities' compliance with the mentioned act and the Restrictive Measures Act<sup>46</sup>. In this sense, Hanfa's goal is to strengthen the AMLTF system and contribute to its effectiveness and ultimately to

<sup>45</sup> Official Gazette, No [108/17](#), [39/19](#), [151/22](#)

<sup>46</sup> [Official Gazette, No 133/23](#)

improve the overall framework for combating money laundering in the Republic of Croatia.

When conducting inspections relating to AMLTF, Hanfa applies a risk-based approach. To this end, Hanfa has developed and keeps improving its own risk matrix. Based on a predefined and refined set of questions, a dedicated questionnaire was developed with the aim of collecting data to identify all risk factors that are characteristic and relevant for each type of supervised entities. In 2023, the questionnaire was supplemented by a set of questions concerning inherent risk (refusal and termination of a business relationship). Consequently, Hanfa carries out annual analyses and assessments of risks associated with AMLTF for supervised entities and assesses these risks for each sector. Hanfa's inspections particularly focus on examining the application and the implementation of restrictive measures in entities supervised by Hanfa.

With regard to AMLTF, Hanfa carries out both on-site and off-site inspections. In 2023, Hanfa carried out a total of ten on-site inspections covering firms authorised to provide investment services and carry out investment activities, fund management companies, insurance

### **Virtual assets**

*Virtual assets are a digital representation of a value or a right that can be digitally traded or transferred and that can be used for payment or investment purposes.*

companies and virtual asset service providers (hereinafter: VASPs). The inspections ended with the imposition of supervisory measures, with which the companies complied within the set time limits. One VASP failed to comply with Hanfa's decision and failed to eliminate the identified illegalities, which resulted in banning of its operations on the territory of the Republic of Croatia. In addition to on-site inspections, Hanfa also carried out 197 off-site inspections concerning AMLTF.

The amended AMLTFA, which entered into force in early 2023, introduced the obligation of VASP registration. Hanfa has thus ensured alignment with the standards set by the Financial Action Task Force<sup>47</sup>, with the aim of increasing transparency, boosting financial stability and improving market protection. The introduction of the registration obligation has brought significant progress in the transparency of VASP operations vis-à-vis potential investors, as well as enhanced investor protection. As a result of the obligation to register VASPs, two new ordinances were introduced, with the aim increasing transparency and improving the collection of data used for the preparation of monthly analyses and for monitoring market situation.

The process of VASP registration began with the adoption of the Ordinance on keeping the register of virtual asset service providers and on the assessment of good repute of natural persons in a virtual asset service provider<sup>48</sup>. For companies that failed to comply with the legal obligation to register, Hanfa submitted applications to court registers of competent commercial courts to delete the virtual assets related activities from the list of their registered activities. Applications for the deletion of activities were submitted for 85 companies. A total of 19 companies submitted applications for registration in the

<sup>47</sup> An international organisation leading global actions to prevent money laundering, terrorist financing and proliferation of weapons.

<sup>48</sup> [Official Gazette, No 69/23](#)

Register of Virtual Asset Service Providers. Registration was approved to eight companies and refused to one company. In order to protect members of the public, Hanfa issued a number of warnings, advising them not to enter into business relationships with companies that had not applied to Hanfa for registration in order to avoid the risks that may arise from such a business relationship.

In the course of 2023, Hanfa's employees participated in several colleges of supervisors<sup>49</sup> which focused on stimulating cooperation and the exchange of experience among EU supervisors in the area of AMLTF. In this way, best practices were shared with regulators from EU Member States and the quality of supervisory activities was raised. The participants also obtained information on the money laundering and terrorist financing risk profile, penalties and other supervisory measures, as well as on inspections of supervised entities with cross-border operations.

The project titled "Risk-based supervision of anti-money laundering and countering the financing of terrorism in Croatia", organised by the European Commission, was successfully completed in 2023. The project started in 2021 and involved extensive workshops and cooperation with experts from the European Commission and other EU supervisory authorities (supervisory authorities from France, Portugal and Ireland).

Hanfa also held training sessions for its supervised entities. The sessions covered the topics of financial sanctions and the obligations arising from these sanctions for supervised entities. A training session was held in cooperation with the Croatian Chamber of Economy, attended by 197 participants from 75 companies. In addition, Hanfa held a training session intended for VASPs, providing them with a detailed explanation of the obligations arising under the AMLTFA and the Restrictive Measures Act, as well as of the risks associated with their operations.

### 3.2 Macroprudential supervision

In 2023, Hanfa continued to analyse risks which could affect the stability of the financial services sector and communicate them to the public through its regular publications Macroprudential Risk Scanner and Financial Stability. In addition to regular risk analysis, the publications also pay special attention to specific topics and risks that have recently come to the public's attention or have been assessed as potentially important from the aspect of financial stability. The autumn issue of Macroprudential Risk Scanner examined whether the fundamentals justified domestic equity market valuations<sup>50</sup>. The analysis has shown that the prices of shares in the domestic equity market are not relatively overestimated in relation to fundamental business and other factors, and that despite the recent price jump they are at the border between the undervaluation zone and the real market value.

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<sup>49</sup> A form of cooperation among EU Member States' supervisory authorities.

<sup>50</sup> See Box 1 Do the fundamentals justify equity market valuations? in the Macroprudential Risk Scanner No 9, available at the following [link](#).

The Financial Stability publication featured a detailed analysis of the real estate market<sup>51</sup>, with a special emphasis on commercial real estate, given that real estate investments in the financial services sector have been the most widely represented alternative type of investment for a long period. Although exposure to real estate properties offers certain stabilisation effects, it is necessary to assess them adequately, which is not possible without a thorough monitoring of the real estate market and the systemic risks that may arise in this sector. In order to adequately monitor commercial real estate prices and the associated risks, it is necessary to improve statistics at national as well as European level, which requires comprehensive interinstitutional cooperation. The publication also presents the results of a specific analysis of the potential systemic impact of climate risks in view of their growing significance and impact on financial stability<sup>52</sup>. Transmission mechanisms of climate risks were investigated with a particular focus on insurance companies, the existing legislative framework, as well as the exposure of the domestic financial services sector to such risks. The analysis has shown that the total exposure of domestic institutional investors and leasing companies to climate risks was moderate at the end of September 2023, with very low variability across individual segments of the financial services sector.

In addition to its regular risk analysis, in accordance with Article 25 of Directive 2011/61/EU and ESMA Guidelines on Article 25 of Directive 2011/61/EU, in 2023 Hanfa also analysed risks of excessive leverage by alternative investment funds. The analysis of data for end-2022 has shown that no fund (or a group of funds) in Croatia employed leverage to the extent that would contribute to the rise in systemic risk in the financial system, risk of market disruptions or risk to long-term economic growth. Consequently, no leverage limits have been imposed. The analysis was also reported to ESMA.

At the end of the year, the second iteration of the assessment of systemically important institutions in the financial services sector was carried out and systemically important institutions in the segment of insurance companies, leasing companies, investment fund management companies and investment firms were identified. Hanfa also continued to cooperate with other domestic and European macroprudential policy makers. Hanfa's representatives participated at the sessions of the Financial Stability Council, at which the assessments of the main risks and challenges to financial stability and activities related to the implementation of macroprudential policy were presented. At the EU level, similar topics were discussed at numerous meetings of committees and groups within the European Systemic Risk Board, attended by Hanfa's representatives as well.

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<sup>51</sup> See Box 1 Real estate investments: an alternative form of investment that significantly affects the stability of the financial services sector in Croatia? in Financial Stability No 3, available at the following [link](#).

<sup>52</sup> See Box 2 Financial services sector's exposure to climate risks in Financial Stability No 3, available at the following [link](#).

# **NORMATIVE ACTIVITIES**

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## 4 NORMATIVE ACTIVITIES

Hanfa actively participates in working groups for the drafting of laws governing the provision of financial services and independently adopts subordinate legislation within its field of competence, which, in addition to ordinances, also includes decisions, guidelines, recommendations and opinions on the application of regulations. In 2023, Hanfa actively participated in working groups of the Ministry of Finance for drafting legislative proposals in the area of capital market, investment funds, compulsory traffic insurance and pension insurance based on individual capitalised savings.

In 2023, Hanfa Board adopted 35 ordinances from almost all areas of its competence, as well as one official position. All of the by-laws were preceded by professional and public consultation process through the e-Consultation portal.

### 4.1 Capital market and investment services

#### 4.1.1 Legislative activities

With the aim of harmonising national legislation with EU regulations in the field of capital market, work on a number of acts on amendments to acts in the area of Hanfa's competence continued throughout the year. These acts were published in October 2023 in the Official Gazette. They provide for the conversion of administrative fines from the kuna into the euro in accordance with the rules laid down in the Act on the Introduction of the Euro.

In addition to the mentioned amendments, the Act Amending the Act Implementing Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products<sup>53</sup> further specifies a range of administrative fines. Non-recurring infringements that do not systematically and gravely affect retail investors' interests are subject to a lower range of penalties in order to comply with the general principle of proportionality.

The Act Amending the Act Implementing Regulation (EU) 2020/1503 on European crowdfunding service providers<sup>54</sup> complements the existing Act by harmonising the provisions concerning the conversion of value from the kuna into the euro due to the introduction of the euro and raising the amounts of fines. Hanfa has been granted additional powers as regards:

<sup>53</sup> [Official Gazette, No 123/23](#)

<sup>54</sup> [Official Gazette, No 88/23](#)

- imposing specific supervisory measures on natural persons (members of the management body or other persons exercising management functions in a crowdfunding service provider) identified as responsible for a serious breach of the provisions of the Crowdfunding Regulation<sup>55</sup> and establishing an obligation for Hanfa to take such measures into account in the event that such persons are to be appointed to management bodies or other management functions in another crowdfunding service provider;
- adopting an ordinance to further specify the specific national framework for marketing communications about crowdfunding services in accordance with the relevant provisions of the Crowdfunding Regulation; and
- the amount of the maximum fine for infringements by natural persons has been set to at least EUR 500,000.00 for Member States whose national currency is the euro. In the currently applicable Act Implementing the Crowdfunding Regulation<sup>56</sup>, the maximum fine for infringements by responsible persons in the legal person, that is, by natural persons, has been set at HRK 1,000,000.00 (EUR 132,722.81).

The significant increase in the maximum fine for infringements by a natural person in a crowdfunding service provider stems from the obligation of the Republic of Croatia to further harmonise and improve the conditions for the implementation of the Crowdfunding Regulation.

## Markets in Crypto-Assets Regulation

Regulation (EU) 2023/1114 on markets in crypto-assets<sup>57</sup> (hereinafter: the MiCA Regulation) entered into force on 29 June 2023, with the deferred application of the provisions on electronic money tokens (hereinafter: EMT) and asset referenced tokens (hereinafter: ART), to which it will apply from 30 June 2024, and the provisions related to the issuance of other types of crypto-assets and the provision of crypto-asset services, which will apply from 30 December 2024. The MiCA Regulation establishes a regime to regulate and supervise the issuance of crypto-assets and the provision of crypto-asset services in the EU.

The main objectives of the adoption of the MiCA Regulation are the following:

<sup>55</sup> **Regulation (EU) 2020/1503** of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937, OJ L 347

<sup>56</sup> **Official Gazette, No 144/21, 83/23**

<sup>57</sup> **Regulation (EU) 2023/1114** of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets, and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937, OJ L 150/40

- ensuring legal certainty by establishing a sound legal framework for crypto-assets not covered by existing EU legislation in the area of financial services;
- supporting innovation and healthy competition to promote the development of crypto-assets by establishing a secure and proportionate legal framework;
- protecting consumers and investors and safeguarding market integrity with regard to the risks associated with crypto-assets; and
- protecting financial stability and introducing safeguards to address potential risks to financial stability.

Pursuant to the MiCA Regulation, crypto-assets are defined as a digital representation of a value or of a right that is able to be transferred and stored electronically using distributed ledger technology or similar technology. Representations of value include external, non-intrinsic value attributed to a crypto-asset by the parties concerned or by market participants, meaning the value is subjective and based only on the interest of the purchaser of the crypto-asset.

The MiCA Regulation classifies crypto-assets into three types, which should be distinguished from one another and subject to different requirements depending on the risks they entail. The classification is based on whether the crypto-assets seek to stabilise their value by reference to other assets. The first type consists of crypto-assets that aim to stabilise their value by referencing only one official currency. The function of such crypto-assets is very similar to the function of electronic money as defined in Directive 2009/110/EC<sup>58</sup>. Like electronic money, such crypto-assets are electronic surrogates for coins and banknotes and are likely to be used for making payments. Those crypto-assets are defined in the MiCA Regulation as EMT. The second type of crypto-assets concerns ARTs, which aim to stabilise their value by referencing another value or right, or combination thereof, including one or several official currencies. That second type covers all other crypto-assets, other than e-money tokens, whose value is backed by assets, so as to avoid circumvention and to make this Regulation future-proof. Finally, the third type consists of crypto-assets other than asset-referenced tokens and e-money tokens, and covers a wide variety of crypto-assets, including utility tokens.

The MiCA Regulation lays down the following, *inter alia*:

<sup>58</sup> **Directive 2009/110/EC** of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC, OJ L 267/7

- transparency and disclosure requirements for the issuance, offer to the public and admission of crypto-assets to trading on a trading platform for crypto-assets (“admission to trading”);
- requirements for the authorisation and supervision of crypto-asset service providers, issuers of asset-referenced tokens and issuers of e-money tokens, as well as for their operation, organisation and governance;
- requirements for the protection of holders of crypto-assets in the issuance, offer to the public and admission to trading of crypto-assets;
- requirements for the protection of clients of crypto-asset service providers;
- measures to prevent insider dealing, unlawful disclosure of inside information and market manipulation related to crypto-assets, in order to ensure the integrity of markets in crypto-assets.

### **Obligations of issuers of crypto-assets**

The MiCA Regulation lays down obligations of issuers of crypto-assets (issuers of crypto-assets offering crypto-assets to third parties and those seeking admission to trading of crypto-assets), depending on the type of crypto-assets:

- each issuer of crypto-assets is required to draw up, publish and notify to its competent authority a crypto-asset “white paper”, to apply rules on the advertising of crypto-assets and to act fairly, transparently and professionally towards investors, in particular as regards the management of conflicts of interest and the maintenance of security access protocols, as well as cancellation rights for investors;
- issuers of asset-referenced tokens are required to obtain authorisation in respect of asset-referenced tokens from their competent authority, while issuers of e-money tokens can only be credit institutions or electronic money institutions;
- when a crypto-asset is admitted to trading on the initiative of the operator of a trading platform and a crypto-asset white paper has not been published, the operator of that trading platform for crypto-assets must comply with the above requirements.

The MiCA Regulation also provides for exceptions to this obligation, in order to ensure the necessary proportionality. Issuers of ARTs (unless they are credit institutions) and their white paper must be authorised by the competent authority. ARTs are a special type of crypto-asset that can be

used for investment purposes and as a means of exchange. ART issuers are subject to own funds requirements and are obligated to maintain a reserve of assets to cover the risks associated to the assets referenced by the asset-referenced tokens, as well as the liquidity risks associated to the permanent rights of redemption of the holders of ART. A credit institution that meets the requirements of the MiCA Regulation may also be an ART issuer, provided that it has received additional authorisation from its competent authority (the CNB and the ECB). The use of ARTs must be monitored, as they may not be widely used as a means of exchange within a single currency area. An ART should be considered to be used widely as a means of exchange when the average number and average aggregate value of transactions per day associated to uses as a means of exchange within a single currency area is higher than 1 million transactions and EUR 200,000,000 respectively. Significant ARTs (by applying criteria laid down in Article 43 of the MiCA Regulation) are supervised by the European Banking Authority (hereinafter: EBA) given that they can be used as a means of exchange and in large volumes might affect monetary policy and monetary sovereignty.

### **Crypto-asset service providers**

Pursuant to the MiCA Regulation, a crypto-asset service provider (hereinafter: CASP) is defined as a legal person or other undertaking whose occupation or business is the provision of one or more crypto-asset services to clients on a professional basis, and that is allowed to provide crypto-asset services in accordance with Article 59 of the MiCA Regulation. Crypto-asset services are defined as any of the following services and activities relating to any crypto-asset:

- providing custody and administration of crypto-assets on behalf of clients;
- operation of a trading platform for crypto-assets;
- exchange of crypto-assets for funds;
- exchange of crypto-assets for other crypto-assets;
- execution of orders for crypto-assets on behalf of clients;
- placing of crypto-assets;
- reception and transmission of orders for crypto-assets on behalf of clients;
- providing advice on crypto-assets;
- providing portfolio management on crypto-assets;

- providing transfer services for crypto-assets on behalf of clients.

Pursuant to the MiCA Regulation, a CASP is an entity providing crypto-asset services that do not qualify as financial instrument. By their nature, such services can be compared with investment and ancillary services under the CMA. Pursuant to Article 63 of the MiCA Regulation, a CASP must obtain an authorisation from the competent authority of a Member State, allowing it to use that authorisation as an EU passport to provide licensed crypto-asset services in other Member States. The conditions for authorisation are comparable to other financial service providers and include: good repute and expertise of senior management, minimum capital requirements, adequate coverage (as an alternative to minimum capital), reliable organisation and processes, client asset protection, policies concerning conflicts of interest, incentives, order execution, complaint handling, anti-money laundering, ICT business continuity, etc. Pursuant to the MiCA Regulation, in addition to CASPs, crypto-asset services may also be provided by financial services providers already authorised by their competent authority in accordance with specific regulations governing their business (investment firms, credit institutions, trading venues, management companies and alternative investment fund managers authorised to provide certain investment services, and central securities depositories), subject to prior notification to the competent authority designated in accordance with the MiCA Regulation. The MiCA Regulation does not apply to services provided in a fully decentralised manner, without intermediaries, nor to crypto-assets where the issuer cannot be identified.

### Adoption of the Act Implementing the MiCA Regulation

The Republic of Croatia currently does not have a national framework for the issuance of crypto-assets that do not qualify as financial instruments in the context of the CMA, nor for the provision of services related to the issuance of crypto-assets. Crypto-asset operations and the provision of services in relation to crypto-assets that do not qualify as financial instruments are currently governed only by the general rules relating to contractual relationships under the Civil Obligations Act<sup>59</sup> and the AMLTFA<sup>60</sup>. The Act Implementing the MiCA Regulation is planned to be adopted in the second half of 2024. For the first time in the Republic of Croatia, the Act will lay down rules for the regulation and supervision of the issuance of crypto-assets, the conditions for the issuance, public offering and admission of crypto-assets to a trading platform, the authorisation of service providers and issuers of tokens, the protection of clients, measures to prevent insider dealing and market manipulation, and sanctions for breaches of the MiCA Regulation. The Act Implementing the MiCA

<sup>59</sup> [Official Gazette, No 35/05, 41/08, 125/11, 78/15, 29/18, 126/21, 114/22, 156/22, 145/23, 155/23](#)

<sup>60</sup> [Official Gazette, No 108/17, 39/19, 151/22](#)

Regulation will also regulate the division of competences between Hanfa and the CNB.

#### 4.1.2 By-laws

In 2023, Hanfa adopted eight ordinances<sup>61</sup> under the CMA<sup>62</sup>. The Ordinance on the content of audit procedures in investment firms<sup>63</sup> has been amended to align the risks in audit reports with risks laid down in Article 167 of the CMA. Instead of the term “management of credit risk, market risk and operational risk”, the wording of the ordinance has been amended by using terms “management of risk to the client, risk to the market and risk to the firm”.

In 2023, Hanfa amended three ordinances relating to issuers and data reporting services providers. The most important changes to the current ordinances relate to the mandatory use of a qualified electronic signature for the submission of data in the Central Storage of Regulated Information (as of 1 April 2023), the removal of the limit on the number of signatories, change of the deadline for the submission of the corporate governance questionnaire from 30 June back to 30 April in order to align it with the deadline for the delivery of the annual audited report of the issuer, and the harmonisation of prescribed forms with the introduction of the euro as the official currency in the Republic of Croatia.

Hanfa adopted two ordinances in the area of resolution and bankruptcy of the central counterparty and the central depository. The Ordinance<sup>64</sup> adopted pursuant to the Act Implementing Regulation (EU) 2021/23<sup>65</sup>, which applies to a central counterparty established in the Republic of Croatia and to relevant persons of a central counterparty established in the Republic of Croatia, lays down temporary prohibitions that may be imposed within a decision on the submission or withdrawal of a proposal for initiating bankruptcy proceedings against a central counterparty, the conditions for determining the conversion rate and carrying out a simplified initial capital reduction.

The Ordinance on the bankruptcy and resolution of the central depository<sup>66</sup> also lays down in more detail the temporary prohibitions that may be imposed within the decision on the submission or withdrawal of a proposal for initiating bankruptcy proceedings against a central depository, the conditions and manner of carrying out inspections for resolution purposes, the resolution measures and the obligations of the central depository during and after inspections for resolution purposes. It also lays down the procedure for the adoption of a resolution plan and content of the resolution plan, as well as the resolution tools.

<sup>61</sup> The list of ordinances adopted by Hanfa in 2023 is provided in the Appendix.

<sup>62</sup> [Official Gazette, No 65/18, 17/20, 83/21 and 151/22](#)

<sup>63</sup> [Official Gazette, No 69/23](#)

<sup>64</sup> [Official Gazette, No 69/23](#)

<sup>65</sup> [Official Gazette, No 119/22](#)

<sup>66</sup> [Official Gazette, No 45/23](#)

In its official position on the application of Article 321(4)(1) of the CMA<sup>67</sup>, with the aim of harmonising the application of the provisions of the CMA, Hanfa informed the interested public of its views on the interpretation of the conditions of free transferability when listing transferable securities on the regulated market and answered the question whether it is possible to list on the regulated market shares of a joint stock company which are encumbered with a mandatory right of pre-emption under a shareholder agreement (one or more of them, between different shareholders), relating to all issued shares of the company. The official position of Hanfa is that the restriction on the specific right of pre-emption is so broad as to prevent the relevant securities from being regarded as freely transferable. That position is also based on the fact that, within the meaning of Article 1(2) of Commission Delegated Regulation (EU) 2017/568<sup>68</sup> (regarding the regulatory technical standards for the admission of financial instruments to trading on regulated markets under the MiFID II), such a clause in a shareholder agreement (one or more of them) concerning share trading is likely to cause market disruption.

## 4.2 Investment funds

### 4.2.1 Legislative activities

The year 2023 saw the adoption of the Act Amending the Alternative Investment Funds Act<sup>69</sup> (hereinafter: the Act Amending the AIFA). The amendments were introduced for the purpose of aligning the amounts denominated in the kuna with the amounts denominated in the euro as set out in the *acquis communautaire* regulating capital markets. The amendments introduced by the Act Amending the AIFA also relate to further harmonisation of the regulatory framework with the EU *acquis* in terms of the transposition of Directive (EU) 2019/1160<sup>70</sup> and the implementation of Regulation (EU) 2015/760<sup>71</sup>. Provisions relating to de-notification of arrangements made for the marketing of units or shares of some or all AIFs in the Member States other than in the home Member State of the AIFM have been revised so as to clarify that the de-notification of marketing may be made if the AIFM has provided Hanfa with evidence that, *inter alia*, it has made a blanket offer to repurchase or redeem, free of any charges or deductions, all such AIF units or shares held by investors in the home Member State of the AIFM and that the AIFM is obligated to cease any new or further, direct or indirect, distribution of the AIF units in the home Member State of the AIFM. The Act

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<sup>67</sup> [Link](#)

<sup>68</sup> [Commission Delegated Regulation \(EU\) 2017/568](#) of 24 May 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the admission of financial instruments to trading on regulated markets, OJ L 87/117

<sup>69</sup> [Official Gazette, No 83/2023](#)

<sup>70</sup> [Directive \(EU\) 2019/1160](#) of the European Parliament and of the Council of 20 June 2019 amending Directives 2009/65/EC and 2011/61/EU with regard to cross-border distribution of collective investment undertakings, OJ L 188/106

<sup>71</sup> [Regulation \(EU\) 2015/760](#) of the European Parliament and of the Council of 29 April 2015 on European long-term investment funds, as last amended by Regulation (EU) 2023/606 of the European Parliament and of the Council of 15 March 2023 amending Regulation (EU) 2015/760 as regards the requirements pertaining to the investment policies and operating conditions of European long-term investment funds and the scope of eligible investment assets, the portfolio composition and diversification requirements and the borrowing of cash and other fund rules, OJ L 80

also clarifies that the (voluntary) application for a higher category in an AIFM is not conditional on the limits as to the aggregate value of the assets of an AIF under the management of that AIF.

#### 4.2.2 By-laws

Two ordinances governing the operations of UCITS and AIFs were amended in late 2023.<sup>72</sup> Amendments to the ordinances implement the provisions of the Regulation on money market funds<sup>73</sup> regarding the valuation of assets of money market funds (UCITS/AIFs). Pursuant to the Regulation, the assets of money market funds (other than the assets of public debt CNAV MMFs and LVNAV MMFs that have a residual maturity of up to 75 days) can only be valued at fair value, meaning that the amortised cost method cannot be used. The ordinances were amended to include the above mentioned limitation.

### 4.3 Pension system

#### 4.3.1 Legislative activities

In 2023, Hanfa participated in the working group drafting three acts governing the pension system in the Republic of Croatia:

- Act Amending the Mandatory Pension Funds Act<sup>74</sup>;
- Act Amending the Voluntary Pension Funds Act<sup>75</sup>;
- Act Amending the Act on Pension Insurance Companies<sup>76</sup>.

Amendments to these acts have been introduced to advance the system of individual capitalised pension savings with the aim of improving the operations of entities in the system for the benefit of all pension fund members, which should ultimately result in a larger amount of pensions paid to beneficiaries. Also, these acts have been harmonized with other adopted regulations, both regulations governing the capitalised pension system and other horizontal regulations governing the capital market in a broader sense.

#### 4.3.2 By-laws

In 2023, Hanfa adopted six new ordinances governing the operations of pension insurance companies<sup>77</sup>.

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<sup>72</sup> The list of ordinances adopted by Hanfa in 2023 is provided in the Appendix.

<sup>73</sup> **Regulation (EU) 2017/1131** of the European Parliament and of the Council of 14 June 2017 on money market funds, OJ L 169/8

<sup>74</sup> **Official Gazette, No 156/23**

<sup>75</sup> **Official Gazette, No 156/23**

<sup>76</sup> **Official Gazette, No 156/23**

<sup>77</sup> The list of ordinances adopted by Hanfa in 2023 is provided in the Appendix.

The Ordinance on permitted investments and investment limits relating to assets covering technical provisions of the pension insurance company<sup>78</sup> prescribes in more detail additional conditions that must be met by assets covering technical provisions in which the pension insurance company is allowed to invest, additional investment limits relating to assets covering technical provisions and the method of calculating exposure, as well as the structure, content, manner and time limits for the submission of the report on the investment of assets covering technical provisions of the pension insurance company that the pension insurance company is obliged to prepare as part of regulatory reporting for the purposes of Hanfa.

The Ordinance on capital adequacy of pension insurance companies<sup>79</sup> prescribes the characteristics of the capital categories of the pension insurance company, the method of calculating the required solvency margin and the method of and time limits for reporting on capital adequacy.

These ordinances have been slightly amended and specify the method of submitting reports (in accordance with technical instructions).

The Ordinance on emergency reserves of the pension insurance company<sup>80</sup> lays down the characteristics of emergency reserves as well as the structure, content, method of and time limits for the submission of the report on emergency reserves that the pension insurance company is required to prepare as part of regulatory reporting for the purposes of Hanfa. It describes in more detail the separate management of emergency reserves for voluntary and mandatory pension insurance and specifies the method of submitting the report (in accordance with technical instructions).

In addition to the report on emergency reserves, pension insurance companies are required to submit financial statements and additional reports to Hanfa. The structure and content of such reports and the method of and time limits for their submission and their disclosure are laid down in the Ordinance on the structure and contents of financial statements and additional reports of pension insurance companies<sup>81</sup>. The Ordinance introduces the following additional reports: a report on the calculation of the asset management fee (MOD-IN Form), a report on the overview of the number of beneficiaries and contracts by type and form of pension (MOD-NKU Form) and a report on the overview of pension disbursements and received remittances by type and form of pension (MOD-VOM Form), and further regulates references to other provisions of the Ordinance, time limits for the submission of reports as well as the method of their submission to Hanfa.

Taking into account the obligation of pension insurance companies to keep business books, business documentation and other records in a way that allows verification of compliance of operations with the applicable regulations and professional standards, as well as the obligation to value assets and liabilities in accordance with legal regulations that include international financial reporting standards, Hanfa has adopted the Ordinance on the chart of accounts of pension insurance companies<sup>82</sup> and the

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<sup>78</sup> [Official Gazette, No 30/23](#)

<sup>79</sup> [Official Gazette, No 30/23](#)

<sup>80</sup> [Official Gazette, No 30/23](#)

<sup>81</sup> [Official Gazette, No 30/23](#)

<sup>82</sup> [Official Gazette, No 30/23](#)

Ordinance on the valuation of assets of pension insurance companies<sup>83</sup>, which are terminologically aligned with the application of the IFRS 17.

With regard to pension funds, Hanfa has adopted the Ordinance amending the Ordinance on determination of the net asset value and the unit price of voluntary pension funds<sup>84</sup> and the Ordinance amending the Ordinance on determination of the net asset value and the unit price of voluntary pension funds<sup>85</sup>. The amendments enabled the use of the ECB's reference exchange rates when converting assets and liabilities of a pension fund denominated in foreign currency into the euro equivalent and forward points when valuing foreign exchange forward transactions, as a result of the discontinuation of the publication of USD LIBOR interest rates.

### **Amendments of the acts on pension insurance based on individual capitalised savings (the 1st and the 2nd pension pillar)**

In 2023, Hanfa participated in the work of the working group of the Ministry of Labour, Family and Social Policy concerning the amendments of the acts on pension insurance based on individual capitalised savings (the 1st and the 2nd pension pillar), which included the Mandatory Pension Funds Act<sup>86</sup>, the Voluntary Pension Funds Act<sup>87</sup> and the Act on Pension Insurance Companies<sup>88</sup>. The purpose of the amendments was to create a solid ground for further strengthening of the pension system and improvement of capitalised savings with the aim of increasing the number of beneficiaries who choose pension disbursement from both pension pillars, achieving higher returns and ultimately higher amounts of pensions. The amendments also provided companies managing mandatory and voluntary pension funds and pension insurance companies with the necessary flexibility amid changing market circumstances in which they operate.

The amendments to the Mandatory Pension Funds Act, the Voluntary Pension Funds Act and the Act on Pension Insurance Companies introduced improvements to the individual capitalised pension savings scheme in the accumulation phase and in the payout phase, with the aim of improving the operations of entities in the capitalised system, for the benefit of all pension fund members or pension beneficiaries. The aim was also to achieve greater inclusion of insured persons in VPFs and to enable an increase in their assets in personal accounts and an increase in return on invested funds. With regard to the matter they regulate, the acts were harmonised with each other where necessary and appropriate, and were

<sup>83</sup> [Official Gazette, No 30/23](#)

<sup>84</sup> [Official Gazette, No 139/23](#)

<sup>85</sup> [Official Gazette, No 139/23](#)

<sup>86</sup> [Official Gazette, No 156/23](#)

<sup>87</sup> [Official Gazette, No 156/23](#)

<sup>88</sup> [Official Gazette, No 156/23](#)

also aligned with other horizontal regulations governing the capital market in a broad sense.

The most significant horizontal amendments to the acts on pension insurance based on individual capitalised savings are shown below.

### **Introducing the application of the concept of sustainable finance**

The concept of sustainable finance is governed by Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector<sup>89</sup> (hereinafter: SFDR) and Regulation 2020/852 on the establishment of a framework to facilitate sustainable investment<sup>90</sup>. This concept takes into account environmental, social and governance (ESG) factors in investment decision-making, which should lead to an increase in investment in sustainable economic activities in the long term. Although the application of the SFDR is not mandatory for the participants in the 2nd pension pillar, it became clear on global level that there was a need to consider and integrate sustainability-related risks into the decision-making process for investing pension fund assets, i.e. assets covering technical provisions from mandatory pension insurance, as well as to consider the impact of such investments on sustainability (especially in terms of the impact of investments on climate change). To mitigate information asymmetry, the SFDR gives discretion to Member States to extend the application also to national systems or alternatively to provide for a separate regime at national level. The Republic of Croatia decided to comply with the above regulations by laying down equivalent national provisions in the Mandatory Pension Funds Act and the Act on Pension Insurance Companies.

These provisions lay down the obligation to integrate sustainability risks into the risk management system, including conflicts of interest, information on the consideration of sustainability factors and risks and potential adverse effects of investments when making investment decisions, as well as an assessment of their impact on the returns of pension funds or pension schemes. Sustainability-related disclosures relating to pension funds and pension schemes have also been introduced, including disclosures in pre-contractual documents of the product and its periodic reports, as well as information available on the websites of pension companies or pension insurance companies. These provisions have been introduced to ensure that pension fund members or pension beneficiaries are aware of how pension companies or pension insurance companies take

<sup>89</sup> **Regulation (EU) 2020/852** of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, OJ L 198/13

<sup>90</sup> **Regulation (EU) 2019/2088** of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, OJ L 317/1

into account adverse sustainability impacts, promote environmental or social characteristics or make sustainable investments in their operations.

### **Flexibility with regard to permitted investments and investment limits**

Following the changed circumstances in the financial markets, and for the purpose of regulatory relief, risk diversification and the possibility of generating higher returns, the following amendments have been made with regard to permitted investments and investment limits of pension funds and assets covering technical provisions from mandatory and voluntary pension insurance:

- the amendments allowed for investments in new forms of assets, depending on the type of product, that is, real estate, unlisted mortgage bonds and equities traded on multilateral trading platforms, instruments with a long-term investment perspective not admitted to the market, and instruments issued by the European Investment Bank;
- investment limits have been set for each of the new asset classes;
- geographical diversification of portfolios as part of the principle of investment dispersion has been introduced;
- investments in infrastructure projects have been further regulated;
- a special category called “alternative asset class” has been introduced for investments of mandatory pension funds and assets covering technical provisions from mandatory pension insurance, which includes the part of the mandatory pension fund portfolio consisting of less liquid assets;
- flexibility has been introduced as to investment limits for the existing asset classes.

With regard to the “alternative asset class” category, given that it constitutes a riskier part of the portfolio, additional organisational requirements have been laid down for pension companies and pension insurance companies. This primarily concerns ensuring adequate knowledge and understanding of the investment risks associated with such assets by employing expert staff to manage this part of the portfolio. The obligation to prepare supervisory reports on alternative investments, to be submitted to Hanfa on an annual basis, has also been introduced. The reports will include information on the implementation of the business plan for the specific investment, information on the performance of the investment made in relation to the business plan, including information on the exit strategy.

These amendments were necessary to allow for a wider range of investment strategies in different market circumstances. In addition to the possibility of investing in more profitable forms of assets, such an extension of investment options will also contribute to a greater diversification of investment risks, which is particularly important given the systemic importance of pension funds, whose assets accounted for almost 20% of total assets of the domestic financial system at the end of 2023.

### **Administrative relief through reduction and/or abolishment of fees**

The management fee has been redefined to the benefit of mandatory pension fund members. It was reduced from the current 0.27% annually to 0.25% annually in 2024, to be gradually decreased further by 0.01% on an annual basis to 0.20% from 2029 onwards. The entry fee of 0.5% of the paid contributions was abolished, and at the same time the category of costs that can be paid from the assets of the mandatory pension fund was expanded to cover certain necessary costs related to the acquisition or sale of the assets of the mandatory pension fund with which the pension company uses the services of external associates up to the amount that could so far be charged to the member as an entry fee. A maximum of 50% of such costs can be paid from the assets of the mandatory pension fund, while the remaining 50% is financed by the pension company itself.

The fee charged in the event of exit from a voluntary pension fund, payable only in the event of a transfer of a personal account to another voluntary pension fund managed by another pension company, which currently amounts to a maximum of 2.5%, has been reduced to a maximum of 1.75% in order to further reduce the burden on members when changing a pension fund. Reducing the exit fee can also boost competition between domestic pension companies and stimulate better management of the pension fund's portfolio, while giving fund members greater freedom in decisions on the disposal of funds intended for retirement.

### **New powers of the supervisory authority in relation to the valuation of assets**

New supervisory powers have been introduced concerning the valuation of assets (especially in the case of investments in new categories of alternative investments), which allow supervisors, in cases where there is doubt about the correctness and objectivity of the asset valuation process, to require a pension company or a pension insurance company to engage an external valuer or auditor to perform valuation or due diligence.

### **Additional flexibility with regard to combined pension payouts by pension companies and pension insurance companies**

After VPF members become entitled to a pension, they can decide that a pension of up to EUR 13,272.28 is to be paid out through a pension company. Pursuant to the amended Voluntary Pension Funds Act and in accordance with statutory conditions, a pension fund member with up to EUR 17,253.97 on the personal account can opt for the payout of the entire amount instead of the limit amounting to EUR 13,272.28 that applied so far. Also, a pension fund member can opt for a combined payout of at least EUR 3,981.69 to be paid through a pension insurance company. This has been introduced in view of the fact that there were cases where, when agreeing on the payout of pension from the 3rd pillar, very small amounts of funds were transferred to pension insurance companies, which were unprofitable for both voluntary pension fund members and pension insurance companies.

### **Improving financial literacy of insured persons and future pension beneficiaries from the 2nd pillar**

In order to improve the financial literacy of insured persons and future pension beneficiaries from the 2nd pillar, the amendments to the Mandatory Pension Funds Act and the Act on Pension Insurance Companies also introduced improvements with regard to informing pension fund members about their rights and obligations after they have become entitled to a pension (when a pension fund member has less than one year to retirement). In order to ensure that members have more time to become acquainted with different pension payment options, the following obligations have been introduced:

- pension companies are obliged to send standardised and objective notification to members about the options they have with regard to pension payouts;
- such notification is to be prepared by pension companies in cooperation with Regos and the pension insurance company and must include, *inter alia*, information on all pension schemes offered by pension companies;
- members should be encouraged to seek additional information from pension insurance companies about the pension schemes they offer.

A mandatory pension fund member may, after receiving the notification, contact the pension insurance company not only with a request for general information on pension schemes, but may also request an informative calculation of the pension from the mandatory pension insurance based on individual capitalised savings for various options of pension schemes. This allows future pension beneficiaries to be better informed about the options available to them when the day of their retirement comes.

## Harmonisation with other regulations

The provisions of the Mandatory Pension Funds Act relating to the approval to be obtained from Hanfa in the event of a change in the ownership structure of a pension company have been amended: approval is now required only for the acquisition of a qualifying holding in a pension company, and not, as previously provided, for any change in the ownership structure, including the change of ownership of only one stock or share.

As in comparable laws, in the Voluntary Pension Funds Act, the role of a pension company's supervisory board following an inspection conducted by Hanfa has been formalised. Accordingly, it has been laid down that the supervisory board must provide Hanfa with an opinion on the findings of the inspection of the pension company, within 30 days from the date of delivery of the report on the conducted inspection, and that it must monitor the compliance of the pension company with Hanfa's orders and decisions.

As regards the Act on Pension Insurance Companies, the licensing of the members of the supervisory board of pension insurance companies has been introduced in order to comply with the regulations applicable to pension companies and insurance companies, and the list of persons who do not need Hanfa's approval to acquire a qualifying holding in a pension insurance company has been extended.

All three acts refined the existing rules in relation to the ICT domains related to information system security management, ICT risk management and business continuity assurance, modelled on comparable practices in insurance companies.

## Adjustments due to the introduction of the euro as the official currency in the Republic of Croatia

As the euro became the official currency of the Republic of Croatia as of 1 January 2023, the Mandatory Pension Funds Act, the Voluntary Pension Funds Act and the Act on Pension Insurance Companies have been amended for the purpose of converting the amounts denominated in the kuna to the euro in accordance with the Act on the Introduction of the Euro.

In addition to the described amendments, which were made horizontally, targeted amendments to the relevant laws in certain areas were also required, the most important of which are listed below.

The amendments to the Mandatory Pension Funds Act made it possible to switch between mandatory pension fund categories. Namely, the amendments made it possible to change the category of a mandatory pension fund once a year, at any time during the year (not only in the calendar month in which the insured person was born), within the same pension company or by transferring to a mandatory pension fund managed

by another pension company. As regards the automatic allocation of insured persons given the date of retirement, the automatic transfer of a member of the fund to a category C fund in the last five years until the date of fulfilment of the age condition for entitlement to an old-age pension was abolished. Members who do not choose the fund category themselves will remain in a category B fund until they retire and will be allowed to move to a category C fund upon request. Persons who are already members of a category C fund shall be allowed to transfer back to a category B fund provided that they have at least six months left before becoming entitled to pension. In addition, members were given the possibility to stay longer in a category A fund – up to the age of 60 instead of 55. In order for pension fund members to be informed of this right, an obligation was also introduced for Regos and pension companies to inform members of the possibility of remaining in a category A fund within the prescribed time limits.

Amendments to the Voluntary Pension Funds Act made it possible to make an early one-off payment or an early temporary periodic payment of funds to a member who has suffered a complete loss of working capacity or general incapacity for work because such a member has completely lost working capacity and has, in accordance with the regulations on pension insurance, acquired the right to a disability pension. Also, a new obligation was introduced for voluntary pension funds' depositaries to ensure that payments to pension fund members' personal accounts and payments from funds based on the pension entitlement are made in compliance with laws and other subordinate legislation and in line with the pension fund's prospectus.

The amendments to the Act on Pension Insurance Companies entailed regulation of technical provisions. The definition of technical provisions has been aligned with IFRS 17. Pursuant to the new IFRS 17 applicable as of 1 January 2023, instead of the existing categories of technical provisions, the financial statements of pension insurance companies now contain records of liabilities arising from insurance contracts. New measures have also been introduced in order to meet the necessary solvency margin, such as the obligation to draw up a recovery plan and additional ban on dividend payouts when the amount of capital drops below the solvency margin of 120%, that is, below 120% of own funds ("notification threshold"). An early warning mechanism has been introduced, whereby a pension insurance company must notify Hanfa when the amount of capital drops below 120% of the required solvency margin. Also, pension insurance companies are provided with the possibility to receive reimbursement of own funds used to finance the deficit, as well as with the possibility to avoid payment of own funds to assets covering technical provisions under controlled conditions. Furthermore, the amount of one-off payment has been increased and provisions on pension contracts have been improved. The one-off payment

has been increased from 15% to 20% of total capitalised funds in the 2nd pillar. An option of pension payout without adjustments due to inflation has also been introduced, with the obligation to provide complete information about all payout options, as well as to explain in detail the risk involved when opting for pension payout without adjustments due to inflation. With regard to mandatory pension insurance, provisions have been introduced on the consequences of the failure to conclude a pension contract.

## 4.4 Insurance

### 4.4.1 Legislative activities

During 2023, Hanfa participated in the drafting of the Act Amending the Act on Compulsory Traffic Insurance,<sup>91</sup> which entered into force on 28 December 2023, transposing Directive 2021/2118<sup>92</sup> into the legal system of the Republic of Croatia. The Act introduces targeted amendments regarding compensation of parties injured as a result of accidents where the insurance company concerned is insolvent, minimum obligatory amounts of insurance cover, insurance checks of vehicles by Member States, and the use of policyholders' claims-history statements by a new insurance company. In the light of these amendments, the relevant subordinate legislation is expected to be drafted in 2024.

### Act Amending the Act on Compulsory Traffic Insurance

The Act on Compulsory Traffic Insurance governs compulsory insurance in traffic, including:

- accident insurance of passengers in public transport;
- insurance of the owner or user of the vehicle against liability for damage caused to third parties;
- insurance of the owner or user of an aircraft against liability for damage caused to third parties and passengers;
- insurance of the owner or user of a motorboat or yacht against liability for damage caused to third parties.

<sup>91</sup> **Official Gazette, No 155/23**

<sup>92</sup> **Directive (EU) 2021/2118** of the European Parliament and of the Council of 24 November 2021 amending Directive 2009/103/EC relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability, OJ L 430

Insurance against civil liability in respect of the use of motor vehicles (compulsory motor insurance) is of special importance for citizens, whether they are policyholders or victims of an accident. It is also a major concern for insurance companies as it constitutes an important part of non-life insurance business in the Republic of Croatia (35.5%).

The Act transposes Directive 2009/103/EC<sup>93</sup> into the Croatian legal system. In 2017, the European Commission carried out an evaluation of the functioning of the Directive, including its efficiency, effectiveness and coherence with other EU policies. The conclusion of the evaluation was that the Directive functions well on the whole, and does not need amendment in most aspects. However, several areas were identified in respect of which targeted amendments would be appropriate:

- **modification of the definition of a vehicle** – one of the incentives for new solutions is the fact that since 2009 many new types of motor-powered vehicles have come onto the market, and they were not covered by the former definition of “vehicles”. Some of them are powered by a purely electrical motor, some of them by auxiliary equipment. Such vehicles should be taken into account in defining the meaning of “vehicle”. That definition should be based on the general characteristics of such vehicles, in particular their maximum design speeds and net weights, and should provide that only vehicles propelled exclusively by mechanical power are covered;
- **definition of use of a vehicle** – amendments were also driven by decisions of the Court of Justice of the European Union,<sup>94</sup> clarifying the meaning of the concept “use of vehicles”, the definition of which was introduced in the interest of legal certainty. The definition implies that motor vehicles are intended normally to serve as a means of transport, irrespective of such vehicles’ characteristics, and that the use of such vehicles covers any use of a vehicle consistent with its normal function, irrespective of the terrain on which the motor vehicle is used and of whether it is stationary or in motion;
- **motorsport events and activities**<sup>95</sup>, not covered in Directive 2009/103/EC – the injured parties should be compensated for such damage in a manner that is as close as possible to how they would be compensated under Directive 2009/103/EC;
- **accidents involving trailers in respect of which a third party liability insurance separate from the one of the towing vehicle was issued** – the injured party should be able to bring the claim against the insurer of

<sup>93</sup> Directive 2009/103/EC of the European Parliament and of the Council of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability (codified version), OJ L 114

<sup>94</sup> In the cases Vnuk, Rodrigues de Andrade and Torreiro.

<sup>95</sup> Including races and competitions, as well as training, testing and demonstrations allowed in accordance with the national law of each EU Member State.

the trailer where national law so provides, and should be able to obtain from the insurer of the trailer information about the identity of the insurer of the towing vehicle or information about the compensation mechanism;

- **recognition of the claims history when concluding a new insurance policy** – in order to simplify the verification and authentication of claims-history statements, it is important for their content and format to be the same across all Member States. In addition, insurance companies that take into account claims-history statements to determine motor insurance premiums should not discriminate on the basis of nationality or solely on the basis of the previous Member State of residence of the policyholder;
- **insolvency of an insurance company** – when an order is made or a decision is taken to commence the bankruptcy or winding-up proceedings, that order or decision should be made public. The body set up or authorised to compensate injured parties in the case of insolvency of an insurance company in the home Member State of the insurance company should inform such bodies in all other Member States about that order or decision and it should be competent at all stages in the proceedings to request information, to inform and be informed by, and to cooperate with the other relevant bodies, authorities and stakeholders in the EU.

Directive 2009/103/EC therefore had to be amended accordingly. To that end, Directive (EU) 2021/2118 <sup>96</sup>, the provisions of which have been transposed into the Croatian legislation by amendments to the Act on Compulsory Traffic Insurance, has been adopted.

Changes involved the definitions of the concepts “vehicle”, “use of a vehicle”, “injured party” and “parent Member State”, whereas a derogation has been provided from the obligation to conclude and renew compulsory motor liability insurance policy in respect of vehicles that are temporarily or permanently withdrawn and prohibited from use under specific regulations or used exclusively in specific areas with limited access under specific provisions.

In the case of entry into the Republic of Croatia of vehicles normally based in the territory of another Member State or a third country, it is stipulated that the police is authorised to carry out non-systematic checks on the possession of a valid international motor vehicle liability insurance document. Such checks are carried out as part of a control which is not aimed exclusively at insurance verification and form part of a general system of checks which are carried out also in respect of vehicles normally based in the territory of the Republic of Croatia and do not require the vehicle to stop.

<sup>96</sup> **Directive (EU) 2021/2118** of the European Parliament and of the Council of 24 November 2021 amending Directive 2009/103/EC relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability, OJ L430/1

Furthermore, owners intending to use their vehicles in motorsport events and activities are obliged to conclude a motor liability insurance contract that covers the damage that may arise to any third party, including spectators and other bystanders. This obligation applies when the organiser of the event or activity, or any other party, has not taken out an alternative insurance policy. Drivers of vehicles participating in motorsport events and activities and owners of vehicles used in such activities are not entitled to compensation in respect of damage resulting from the use of vehicles in such activities.

The Act also provides that motor liability insurance covers the damage caused by towing vehicles as well as the damage caused by the trailer in such a way that the owners of both vehicles are jointly and severally liable for the damage to third parties<sup>97</sup>. Injured parties may bring the claim either against the insurer of the towing vehicle or the insurer of the trailer. The insurance company that has compensated the injured party for the damage is entitled to compensation for the amount paid, interest and costs from the insurer of the towing vehicle or trailer if there is liability of its insured party for the damage. When the trailer or towing vehicle is uninsured or unknown, the company may require compensation for the amount paid from the Croatian Insurance Bureau.

The Act also stipulates that insurance companies are obliged to provide claims-history statements and specifies information that such statements must contain as well as that the statement is provided using the form of the claims-history statement.<sup>98</sup>. It also provides that an insurance company which takes account of claims-history statements when setting insurance premiums or when applying discounts is required to publish on its website how it uses them and that an insurance company is required to treat statements issued in other Member States in the same way as those issued in the Republic of Croatia, without discriminating against policyholders.

Finally, the amended Act provides that the compensation from earmarked funds of the Guarantee Fund is required when injured parties cannot collect damages due to the opening of winding-up or bankruptcy proceedings of the insurance company.

Apart from implementing Directive (EU) 2021/2118, the amended Act introduces further significant changes to the normative framework:

- provisions related to automated vehicles have been introduced, a definition of “automated vehicle” has been introduced and insurance against civil liability in respect of the use of automated vehicles has been regulated taking into account their specificities;
- definitions of “unmanned aircraft operator” as well as “passengers on board” have been introduced;

<sup>97</sup> If the damage was caused by the trailer or towing vehicle while both vehicles were connected and formed a single unit or if the damage occurred during the journey after the separation of the trailer.

<sup>98</sup> The European Commission shall adopt implementing acts specifying the form and content of the claims-history statement.

- Hanfa has been mandated to adopt ordinances to lay down in more detail the obligations of insurers with regard to the settlement of claims and to lay down in more detail the method of calculation and deadlines for the payment of contributions to the Guarantee Fund.

#### 4.4.2 By-laws

In 2023, Hanfa adopted the new Ordinance on the method of calculation and time limits for payment contributions and on the manner of keeping and using assets intended for liabilities of the Guarantee Fund<sup>99</sup>, which lays down the method of calculation and time limits for payment contributions, the manner of keeping and using assets intended for liabilities of the Guarantee Fund and the manner and time limits for reporting on the balance of assets intended for liabilities of the Guarantee Fund. In nomothetic terms, the Ordinance is aligned with the terminology in the Act on Amendments to the Insurance Act<sup>100</sup>, under which, the term “gross written premium” is no longer used due to the application of IFRS 17. Further regulated is the manner of reporting on the balance of assets intended for liabilities of the Guarantee Fund submitted to Hanfa by the Croatian Insurance Bureau and the values of the minimum amount to which the instrument for ensuring the fulfilment of the obligations of the Guarantee Fund must read and the amount of the base are adjusted, as well as the form of the report on the balance of assets intended for liabilities of the Guarantee Fund in euro due to the Act on the Introduction of the Euro. Also specified are actions of the Bureau in respect of determining the amount of contributions and the Bureau is given a new obligation to monitor the concentration risk and credit quality of banks whose guarantees are used by insurance companies (when such guarantees are used as collateral).

In 2023, Hanfa adopted eight ordinances<sup>101</sup> in the area of insurance companies and insurance distributors. In order to verify whether its supervised entities comply with the regulations on insurance distribution, all with the aim of preserving and improving the protection of policyholders, insured persons and beneficiaries under insurance contracts, Hanfa adopted the Ordinance on supervision involving mystery shopping<sup>102</sup>. Hanfa conducts supervision involving mystery shopping:

- through mystery shopping in which the mystery shopper expresses a clear and unequivocal intention to conclude an insurance contract or to purchase a particular insurance product;
- by reviewing and analysing mystery shopping reports on the conduct of the supervised entity in the mystery shopping; and
- by verifying whether the supervised entity acted and informed the mystery shopper in accordance with the rules on insurance distribution.

<sup>99</sup> [Official Gazette, No 20/23](#)

<sup>100</sup> [Official Gazette, No 151/22](#)

<sup>101</sup> The list of ordinances adopted by Hanfa in 2023 is provided in the Appendix.

<sup>102</sup> [Official Gazette, No 76/23](#)

Under the Ordinance on reporting on material changes and reporting at the request of the Croatian Financial Services Supervisory Agency<sup>103</sup>, Hanfa stipulated the content of reports on material changes and reports at the request of Hanfa as well as the manner of and time limits for their submission to Hanfa. The Ordinance:

- harmonises the terminology with that in the Act on Amendments to the Insurance Act and introduces the obligation to deliver prior notification of the intention to make a decision on convening the general meeting of the company three days before the decision is made;
- introduces an obligation to notify Hanfa of the commencement and termination of insurance business in other countries (if provided through a branch or directly) and extends the obligation to submit additional documentation when notifying life insurance price lists in relation to IFRS 17;
- imposes a new obligation to provide information and evidence on the appropriate keeping of records of the value calculations on the basis of which the insurance company performs the obligations arising from the insurance contract, as well as details of the calculations themselves and the technical arrangements for calculating the value on the basis of which the insurance company performs the obligations arising from the insurance contract, in particular the basis for surrender and capital values, imputed profits and the obligations arising from the claim for payment of insurance or compensation;
- abolishes the obligation to inform Hanfa about complaints, as this is regulated by another ordinance;
- extends the scope of the information provided by the company on distributors in relation to which types of insurance the individual distributor distributes. A reference to Hanfa Guidelines for conducting insurance business has also been added for distributors, while the provision on the submission of data on registration in the court register and the convening of the general meeting of the Bureau has been revised.

In the Ordinance on the structure and contents of financial statements and additional reports of insurance companies and reinsurance companies<sup>104</sup> Hanfa has prescribed the structure and content of financial statements, additional, annual and consolidated annual reports of the (re)insurance company, the manner and time limits for their submission to Hanfa, the content of the register of assets to cover statutory technical provisions according to accounting regulations and the scope, manner and time limits for reporting. In nomothetic terms, the Ordinance is aligned with the terminology in the Act on Amendments to the Insurance Act due to the entry into force of IFRS 17 and IFRS 9 and it:

- changes basic financial statements;
- introduces new forms (additional reports) that provide additional information on items in line with the new accounting standards;

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<sup>103</sup> **Official Gazette, No 20/23**

<sup>104</sup> **Official Gazette, No 20/23**

- introduces the obligation to provide data on distributors (premium charged and commission invoiced);
- abolishes the following forms: the Report on the age structure of insurance receivables (SSP), the Report on income and investment expenses by source of funds (PiT), the Profit and Loss Account for reinsurance operations (RDG-R), the Report on maturity alignment of assets to cover mathematical provisions with liabilities from mathematical provisions (RU-MP) and the Report on maturity alignment of assets to cover technical provisions other than mathematical provisions with liabilities from technical provisions other than mathematical provisions (RU-TP).

The Ordinance on the audit in insurance companies<sup>105</sup> prescribes the content of the audit for Hanfa's purposes, the method of and time limits for submission, as well as the reasons for rejecting annual financial statements of insurance companies or annual consolidated financial statements that are the subject of the statutory audit. In nomothetic terms, the current Ordinance is aligned with the terminology of the amended Act on Amendments to the Insurance Act and further specifies the method of submitting reports to Hanfa (previous reports were submitted in paper form, while this Ordinance provides for submission in accordance with Hanfa's technical instructions).

For the purpose of risk management in small insurance companies, Hanfa adopted the Ordinance on additional requirements for small insurance companies<sup>106</sup>, prescribing the calculation and adequacy of capital, the calculation of the solvency margin, liquidity management, qualitative and quantitative criteria for the investment of assets, the content of the business plan as well as reporting to Hanfa. IFRS 17 abolishes gross and net reporting and introduces:

- the effect of reinsurance on the coverage of statutory technical provisions of life insurance;
- the effect of reinsurance on the coverage of risk capital for life insurance business;
- the effect of reinsurance on non-life insurance business.

Given that insurance and reinsurance companies are obliged to keep and process statistical data on (re)insurance activities, risks covered by (re)insurance and insured cases and claims, Hanfa has adopted the Ordinance on insurance statistical standards<sup>107</sup>, which prescribes statistical standards for processing such data and determines the deadlines and the manner of reporting them to Hanfa. In nomothetic terms, the Ordinance is aligned with the terminology of the Act on Amendments to the Insurance Act due to the entry into force of IFRS 17 and introduces the obligation to report on premiums collected and claims settled by business lines and by risks, the

<sup>105</sup> [Official Gazette, No 20/23](#)

<sup>106</sup> [Official Gazette, No 20/23](#)

<sup>107</sup> [Official Gazette, No 20/23](#)

obligation to report monthly on premiums collected and claims settled and the obligation to report on fire insurance premiums.

In addition, Hanfa adopted the Ordinance on minimum standards applied in the process of calculating statutory technical provisions<sup>108</sup>. The Ordinance:

- lays down the minimum standards applied in the calculation of statutory technical provisions and regulates the activities of the appointed certified actuary;
- defines the minimum content of reports and opinions of the appointed certified actuary;
- specifies the obligations of the insurance company in relation to the activities of the appointed certified actuary, the internal regulations relating to statutory technical provisions, the obligation to update internal regulations, the method of documenting the calculation of statutory technical provisions, the related controls, the opinion of the independent certified actuary on the reliability and adequacy of statutory technical provisions at the time of the audit, specific standards and minimum standards relating to the valuation procedures under IFRS 17 and the literature considered to be standard with regard to statutory technical provisions.

In addition to adopting new ordinances, Hanfa amended two ordinances governing the field of insurance markets:

- Ordinance amending the Ordinance on the requirements for performing the function of a member of the management board and a member of the supervisory board of an insurance and/or reinsurance company, authorised officer of an insurance and/or reinsurance company and an authorised representative of a branch of an insurance and/or reinsurance company<sup>109</sup>, which introduces material changes related to the suitability and assessment of conflicts of interest for members of the management board of an insurance or reinsurance company and provides for a more detailed possibility of granting prior approval to perform the function of a member of the management board for a shorter term than required. Namely, the Ordinance now explicitly lists the cases in which Hanfa can issue prior approval to perform the function of a member of the management board for a shorter term than required, for example, when a candidate is applying for a new term of office in the same company, and the company repeatedly has difficulties in maintaining capital adequacy, if the information available to Hanfa results in delinquency and inconsistency with the company's prescribed obligations to report to Hanfa, etc.
- Ordinance amending the Ordinance on the fit and proper requirements for insurance distributors and reinsurance distributors and their entry in the register<sup>110</sup>, which facilitates the application and passing of exams for insurance distributors in such a way that exams are conducted exclusively online.

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<sup>108</sup> [Official Gazette, No 76/23](#)

<sup>109</sup> [Official Gazette, No 30/23](#)

<sup>110</sup> [Official Gazette, No 45/23](#)

## 4.5 Other normative activities

### 4.5.1 Legislative activities

The new Restrictive Measures Act<sup>111</sup> entered into force on 15 November 2023. Hanfa is in charge of supervising the implementation of restrictive measures by the entities it supervises under the Anti-Money Laundering and Terrorist Financing Act (AMLTFA)<sup>112</sup> and those entities it authorises in accordance with special regulations. Within six months of the entry into force of the Restrictive Measures Act, supervised entities are obliged to put in place policies, controls and procedures for the implementation of the restrictive

#### **Restrictive measures**

*Restrictive measures include a restriction on the disposal of property, a ban on entry into the territory of the Republic of Croatia or a ban on transit through the territory of the Republic of Croatia, a total or partial termination of economic relations, a total or partial restriction on trade, import, export, transit, provision of services and postal traffic, transport, electronic and other communications, embargo on arms and military equipment, termination of diplomatic relations and other measures in accordance with international and European law.*

measures. The CDCC (as the central securities depository in the Republic of Croatia) is explicitly designated as the entity responsible for the application of restrictive measures on book-entry securities. In accordance with the Act, Hanfa participates in the Permanent Group on the Application and Monitoring of the Implementation of Restrictive Measures, coordinated by the Ministry of Foreign and European Affairs. Hanfa is obliged to inform the supervised entities about the sanctions in force as well as about the guidelines and instructions for their implementation.

Under the new legislation, entities subject to the Act are obliged to apply the restrictive measures imposed by resolutions as well as the consolidated sanctions lists of the United Nations Security Council from the moment of their publication on the website of the Ministry of Foreign and European Affairs. In this regard, the website of the Ministry of Foreign and European Affairs is considered the primary source for information on the entry into force of restrictive measures and it will contain updated links to the current United Nations Security Council and European Union sanctions lists.

The approval of exemptions from the sanctions regime for the entities subject to Hanfa's supervision is within the competence of each ministry, while Hanfa is obliged to submit an opinion at the request of the competent ministry.

### 4.5.2 By-laws

Two new ordinances were adopted based on the AMLTFA:

<sup>111</sup> **Official Gazette, No 133/23**

<sup>112</sup> Official Gazette, **No 108/27, 39/19, 151/22**

- Ordinance on keeping the register of virtual asset service providers and on the assessment of good reputation of natural persons in a virtual asset service provider;<sup>113</sup> and
- Ordinance on supervisory reports and information on issues relevant for carrying out supervision or for monitoring compliance of obliged entities within the meaning of the Anti-Money Laundering and Terrorist Financing Act<sup>114</sup>.

The Ordinance on keeping the register of virtual asset service providers and on the assessment of good reputation of natural persons in a virtual asset service provider regulates the implementation of the obligation to register VASPs in the Hanfa register (with verification of the good reputation requirements for owners and members of the management board), introduced by the Act Amending the Anti-Money Laundering and Terrorist Financing Act<sup>115</sup>. The Ordinance lays down the procedure for the registration of VASPs and the assessment of good reputation for owners and members of the management body of VASPs, as well as the submission of compliance reports, which focus on the AMLTF risk profile.

In the Ordinance on supervisory reports and information on issues relevant for carrying out supervision or for monitoring compliance of obliged entities within the meaning of the AMLTFA, Hanfa lays down in more detail the minimum content and the manner and time limits for the preparation and delivery of supervisory reports and information.

Hanfa also amended the Ordinance on the assessment of money laundering and terrorist financing risk and on the manner of carrying out simplified and enhanced customer due diligence measures<sup>116</sup>, with the amendments introduced ensuring its application to VASPs. The amendments to the Ordinance also ensure that the VASPs will also be subject to the EBA Guidelines on customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions (EBA/GL/2021/02) under Articles 17 and 18(4) of Directive (EU) 2015/849<sup>117</sup>.

Hanfa adopted two ordinances governing the field of leasing and factoring:

- Ordinance amending the Ordinance on the requirements for membership in management and supervisory boards of leasing companies;<sup>118</sup> and
- Ordinance amending the Ordinance on the requirements for membership in management and supervisory boards of factoring companies<sup>119</sup>, which introduce minor changes.

<sup>113</sup> [Official Gazette, No 69/23](#)

<sup>114</sup> [Official Gazette, No 76/23](#)

<sup>115</sup> [Official Gazette, No 151/22](#)

<sup>116</sup> [Official Gazette, No 69/23](#)

<sup>117</sup> [Directive \(EU\) 2015/849](#) of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2015 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC, OJ L 141

<sup>118</sup> [Official Gazette, No 21/23](#)

<sup>119</sup> [Official Gazette, No 45/23](#)

In the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2023<sup>120</sup> Hanfa lays down supervision fees paid by Hanfa's new supervised entities, that is, crowdfunding service providers and credit institutions providing crowdfunding services, as well as the issuers of covered bonds. Fees charged to other supervised entities have not been changed, but only converted into the euro.

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<sup>120</sup> Official Gazette, No 155/22

# LICENSING AND TRAINING

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## 5 LICENSING AND TRAINING

In licensing procedures Hanfa verifies the compliance with the prescribed requirements for issuing authorisations and approvals to legal and natural persons based on relevant regulations.

The conditions that Hanfa checks with regard to establishing companies relate to regulatory and organisational requirements, while when licensing members of the management and supervisory board of supervised entities, it checks the good reputation and integrity of candidates, their work experience, expertise and other requirements laid down in legislation and subordinate legislation before a possible approval is issued. In the procedures of change of ownership of entities supervised by Hanfa, i.e. holders of qualifying holdings, the good reputation, financial condition and transparent origin of funds for financing the intended acquisition are checked.

By holding examinations for authorisation for insurance distribution and issuing the certificate of passing the examination in the field of capital markets, pension funds and pension insurance companies, Hanfa takes care of the adequate licensing and competence of persons operating in this field.

### 5.1 Licensing

In 2023, Hanfa carried out 235 licensing procedures, which involved the issuance of approvals to acquire a qualifying holding, authorisations, approvals to perform the function of a management board member and a supervisory board member, approvals for the status change of the merger, approvals to perform activities of a certified actuary and authorisations to pursue insurance and reinsurance distribution business, as well as procedures determining the termination of a licence.

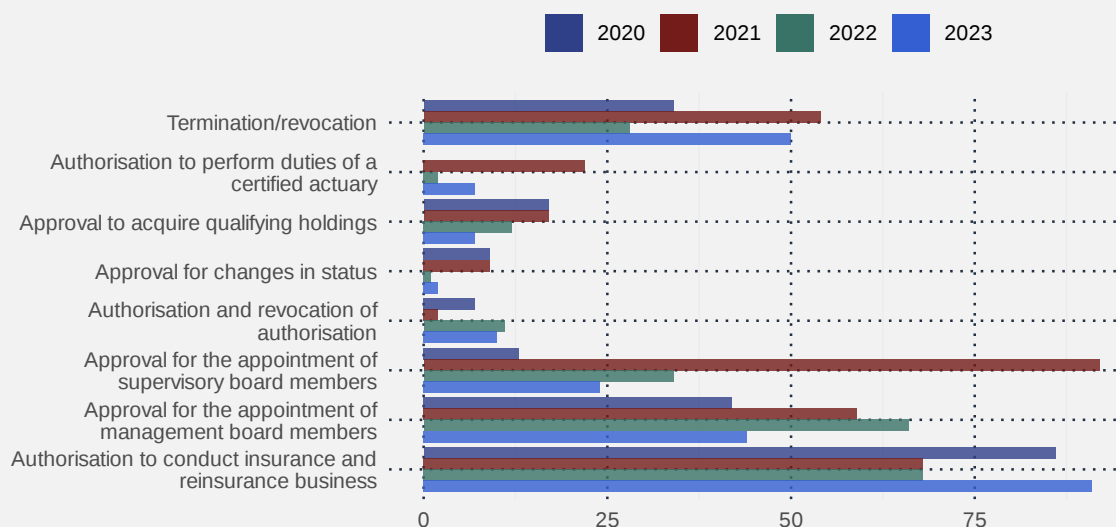
The largest number of licensing applications related to applications for authorisations to pursue insurance and reinsurance distribution business (71), of which the majority of authorisations were issued to insurance representation crafts to pursue insurance distribution business (54).

#### 5.1.1 Capital market

In 2023, Hanfa issued three approvals to perform the function of a member of the management board of an investment firm. An investment firm was authorised to provide an ancillary service on the basis of the provisions of the law governing the

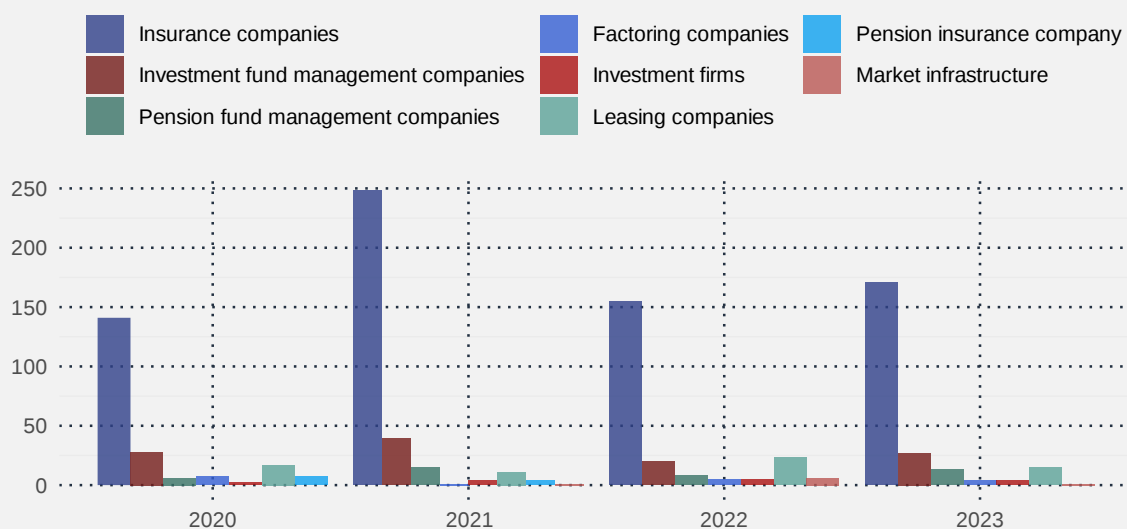
capital market. In addition, one approval was granted for the appointment of a member of the management board of a central counterparty, while five procedures related to the establishment of a new investment firm were terminated.

Figure 5.1 Licensing procedures by type of procedure



Source: Hanfa

Figure 5.2 Licensing procedures by industry



Source: Hanfa

### 5.1.2 Investments

During 2023, Hanfa issued six authorisations to alternative investment fund management companies, one in the large AIFM category, two in the medium-sized AIFM category and three in the small AIFM category. The authorisation in the large AIFM category was issued to an existing AIFM that had already possessed authorisation in the small AIFM category. The authorisation for a medium-sized AIFM was issued to a new alternative investment fund management company, while the other was issued to an existing AIFM that had already possessed authorisation in the large AIFM category. Two authorisations in the small AIFM category were issued to new alternative investment fund management companies, while one authorisation was issued to an existing AIFM that had already possessed authorisation in the medium-sized AIFM category.

Hanfa also issued 14 approvals to perform the function of a member of the management board of an investment fund's management company, five of which were issued with respect to the performance of the function of a member of the UCITS management company's management board, five with respect to the performance of the function of a member of the AIFM management board and four with respect to the performance of the function of a member of the UCITS and AIFM management company's management board. In one case, the procedure relating to the issuance of approval to perform the function of a member of the management board of an investment fund management company was terminated.

In 2023, Hanfa issued five approvals to acquire qualifying holdings in investment fund management companies, three of which related to a direct and two to an indirect acquisition.

Hanfa also issued two approvals for the status change of the merger of an investment fund management company from the Republic of Croatia to another investment fund management company from the Republic of Croatia.

### 5.1.3 Pension system

Three approvals were issued in 2023 to perform the function of a member of the pension company's management board, as well as ten approvals to perform the function of a member of the pension company's supervisory board, four of which related to supervisory board members of pension companies appointed by the Government of the Republic of Croatia for the purpose of protecting the interests of members of mandatory pension funds.

In addition, in 2023 Hanfa also issued two approvals to perform the function of a management board member of a pension insurance company.

### 5.1.4 Insurance

In 2023, Hanfa issued an approval to a domestic insurance company for the status change of the merger of another insurance company with a registered office in the Republic of Croatia.

During the year, eight approvals were issued to members of insurance companies' management boards, 14 approvals to members of insurance companies' supervisory boards and seven approvals to perform the activities of a certified actuary. The largest number of authorisations (71) related to the segment of insurance and reinsurance distribution, of which the majority went to insurance representation crafts (54). Also, in the segment of insurance and reinsurance distribution, Hanfa issued 50 decisions on the termination of authorisation to pursue insurance distribution business, which is an increase of 79% from 2022.

### 5.1.5 Non-bank financing

#### ***Leasing and factoring companies***

In 2023, Hanfa adopted 13 decisions on issuing approval to perform the function of a member of the leasing company's management board. Authorisations of two leasing companies that had previously been undergoing winding-up proceedings were revoked on their request in 2023. Last year, Hanfa also issued two approvals to perform the function of a factoring company's management board member. Also issued were three approvals to acquire a qualifying holding of 15% of the initial capital in a domestic factoring company.

## **5.2 Examinations and professional training**

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

In 2023, Hanfa organised eight examination cycles related to the examination of knowledge and acquisition of qualifications needed to provide information on investment products and services, carry out brokerage activities and provide investment advice services, perform the function of a certified pension fund manager and manage pension insurance companies. The 2023 examinations were held online on a continuous two-month basis and they were taken by 36 applicants, of whom 14 (39%) passed.

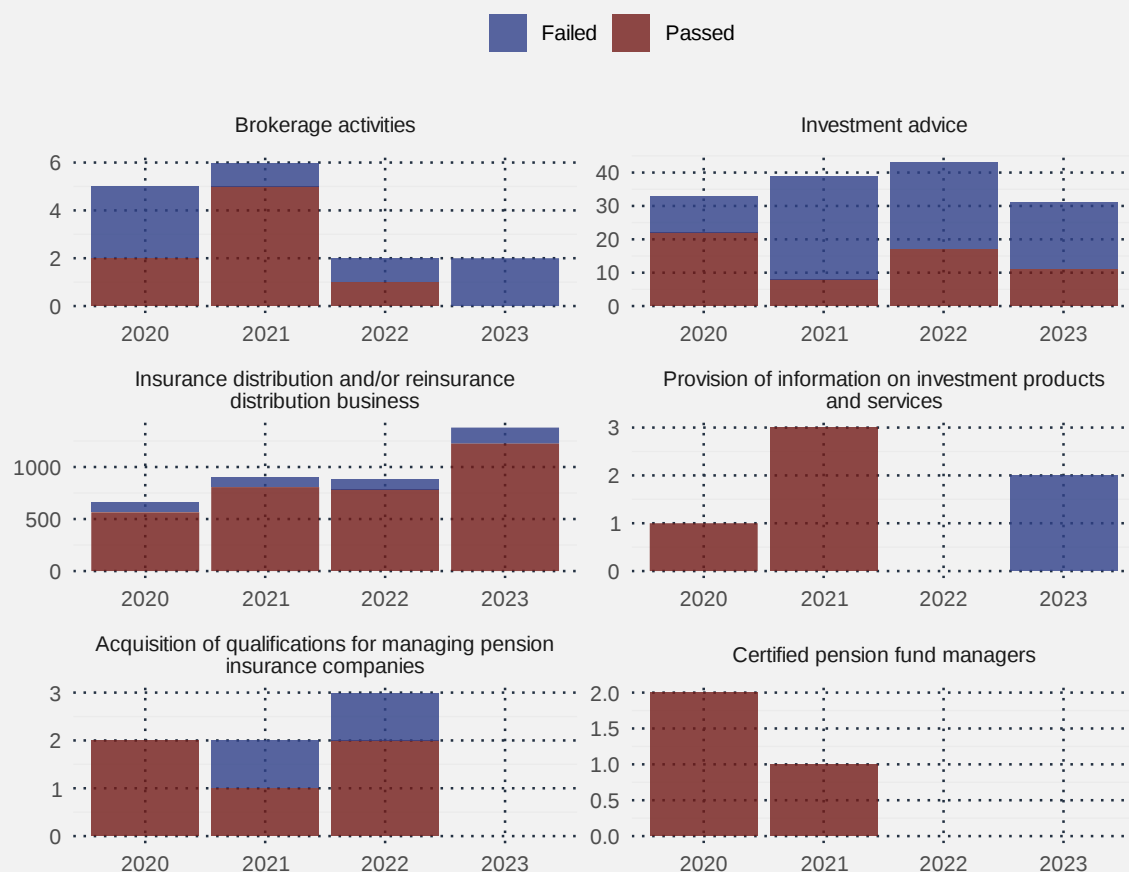
### 5.2.2 Examinations of professional knowledge required in order to pursue insurance and/or reinsurance distribution activities and ongoing professional training for distributors

Examinations are held online on a weekly basis and involve the examination of knowledge with respect to the selected insurance group, category of insurance intermediaries and ancillary intermediaries, and insurance or reinsurance products the intermediary intends to distribute. In 2023, examinations were taken by a total of 1,415 candidates, which is an increase of 60% from the previous year.

In addition to passing the examination of professional knowledge required in order to pursue insurance and/or reinsurance distribution activities, insurance and/or reinsurance distributors' expertise implies the maintenance of an adequate level of knowledge and competence of distributors throughout the entire period of pursuing

insurance and/or reinsurance business. For this reason, Hanfa in 2023 continued to monitor the compliance of distributors regarding ongoing professional training, which is required to retain a license.

Figure 5.3 Examination results by type of examination



Source: Hanfa

# **CONSUMER PROTECTION AND IMPROVEMENT OF FINANCIAL LITERACY**

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## 6 CONSUMER PROTECTION AND IMPROVEMENT OF FINANCIAL LITERACY

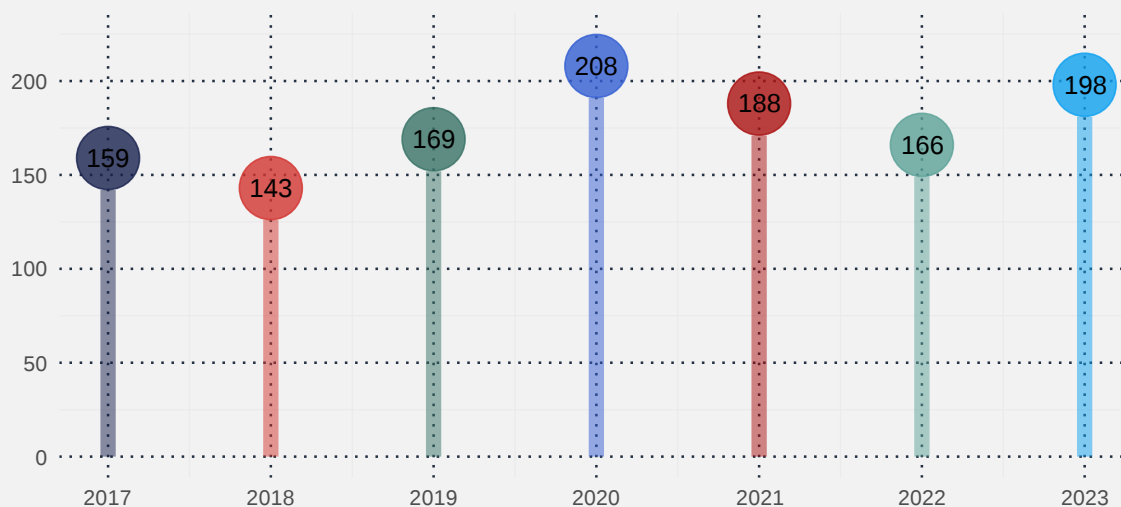
Fostering and safeguarding the stability of the financial system and supervising the legality of supervised entities' operations are Hanfa's two principal objectives. In order to achieve these objectives, it is necessary to ensure mutual trust between all actors in the financial services sector and the best way to do so is open and transparent communication with financial service users and the general public concerned. The protection of the rights and interests of users of financial services is primarily carried out through various forms of supervisory activities, but continued education and increasing the level of financial literacy are equally important. Specific activities include handling consumer complaints, publishing educational materials and warnings, and maintaining various forms of training, directly or online via social media.

### 6.1 Consumer protection

In addition to supervising the financial market and services, as well as legal and natural persons providing these services with the aim of promoting and maintaining their financial stability and the stability of the financial system as a whole, Hanfa, as a supervisory authority, also monitors the legality of the operations of supervised entities in terms of their relationship and the treatment of users of financial services. As one of the essential indicators of supervised entities' treatment of users, Hanfa receives, processes and analyses complaints from financial service users and other interested persons within all areas of its competence. Each complaint received is answered in writing within 30 days. Hanfa also responds to complaints that do not relate to its scope and competence, informing the submitters of this fact and forwarding the complaint to the relevant competent authority where possible and fit for purpose. Complaints may be submitted in writing directly (by personal delivery or stated orally on the record), by post, fax, e-mail and by means of a form published on Hanfa's website. Within its scope and competence, Hanfa also considers and takes into account complaints of consumers and other financial service users when assessing whether there are grounds for initiating *ex officio* proceedings or other activities, in order to protect the public interest and the interests of users of financial services or for the purpose of verifying the business of Hanfa's supervised entities in accordance with the laws whose application it supervises.

A total of 198 complaints were received in 2023, which is 32 complaints or 19.3% more than in 2022.

Figure 6.1 Number of complaints received during the year  
Number of complaints



Source: Hanfa

In terms of individual segments of the financial services market, in 2023 the largest number of complaints concerned the area of insurance, 104 or 52.5 % of the total. This is a small decrease from the previous year, when such complaints accounted for 60.8% of all complaints received. Almost every third complaint in this area has revealed certain shortcomings or deficiencies in companies' actions, which are dominantly linked to the processing of claims within legal deadlines and inadequate pre-contractual information. The high share of complaints in the field of insurance can be attributed to the very characteristics of this financial service, widely spread in almost all segments of the day-to-day life of users of financial services, both legal persons and consumers, as suggested by the large number of insurance contracts concluded.<sup>121</sup> Therefore it can be expected that in this segment of the financial services market the largest number of disputes between insurance companies and distributors and financial service users will occur. In the vast majority of cases, disputes relate to the merits of claims by users of insurance services, obligations to pay damages or insurance claims by insurance companies and the actual amount of compensation. Thus, in 2023, the most common reason for submitting complaints to Hanfa in the field of insurance was again the question of the merits of the decision on the claim or non-payment of damages (23.5 %, 24 complaints), while the issue of the amount of compensation was the main cause for submitting 7.8% of claims (8 complaints). A smaller share of complaints in the field of insurance related to claims-handling operations and communication, which is closely linked to the level of financial literacy of service users and their awareness of their own rights and obligations, as well as the rights and obligations of insurance companies and distributors.

Broken down by type of insurance, the largest-number of insurance-related complaints received in 2023 concerned car insurance (44.1%, 45 complaints), of which more than a half (30 complaints or 29.4%) related to compulsory motor vehicle liability

<sup>121</sup> The number of insurance policies between 1 January 2023 and 31 December 2023 stood at 13,267,550.

insurance, whereas 15 complaints (14.7%) related to comprehensive insurance. The increase in the number of complaints in the field of voluntary health insurance observed in 2022 continued in 2023, when the share of these claims was 18.6% (19 complaints). Most complaints related to the issues associated with the possibility and methods of terminating the contract, i.e. insurance policy, and understanding contract terms. The number of complaints related to property insurance grew in 2023, reaching 13.7% of all insurance-related claims (14 complaints). This was a significant increase from 2022, when they accounted for only 6.1%; however, it was still below the share in 2020 and 2021, when such complaints accounted for 26.3% as the consequence of the earthquakes that hit the area of the City of Zagreb and Petrinja. The relative share of complaints associated with other forms of insurance tends to fall less or does not show significant deviations from previous years.

The reduced share of insurance-related complaints in 2023 is also a result of an increase in the share of complaints in the field of capital markets, which in 2023 accounted for 15.6 % of the total, up from 10.8 % in 2022. In particular, an increased number of complaints was recorded in the first half of 2023 (22 complaints), with more than half of them coming from small shareholders in relation to the acquisition of TURISTHOTEL d.d.

The number of complaints in the leasing segment did not change much from the previous year, with nine complaints received in 2023, or 4.5% of total complaints over the year. Complaints within the remit of Hanfa have raised various topics such as the reclassification of contracts from operating to finance leasing within the meaning of accounting regulations, with no irregularities identified in relation to this complaint. A complaint concerning the rights of the lessee under an operating lease contract was also received and in response the submitter was informed about the key features of operating lease. Furthermore, a complaint was received concerning an increase in interest payments, i.e. contracted instalment, due to a variable interest rate; the submitter was referred to the contract terms and there was no need for further actions by Hanfa.

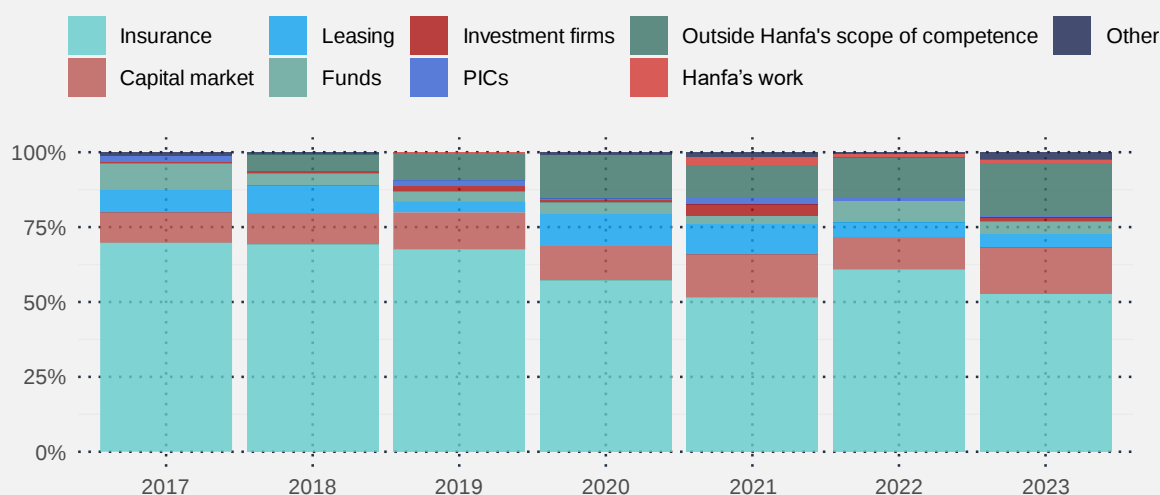
In the area of pension savings and pension payments, in 2023, similar to previous years, only few complaints were received (two, or 1.0% of all complaints), which concerned the change in the market value of the amount of savings in pension funds and the possibility of pension payment to a protected account. The number of complaints associated with investment firms and funds also did not change much from the previous year. Three complaints related to investment firms (1.5%) were received, one of which was submitted anonymously, while the other two concerned the disbursement of funds to a Revolut account and the treatment of brokerage contracts and the characteristics of such transactions. Seven complaints (3.5%) concerned the work of investment fund management companies, the most notable being the topics of declining unit value, charging and informing contractors.

During 2023, Hanfa received 35 complaints (17.7% of all complaints received during the year) which did not concern its competence, a significant increase compared to the previous year when 22 such complaints were received. They mostly related to actions taken by banks in connection with the provision of banking services, teleoperators, as well as other companies that are not entities subject to Hanfa's supervision.

There was also an increase in the number of complaints received in the area of AML/CFT compared to 2022 (five compared to just one a year ago). All related to the nontransparent business and conduct of companies engaged in the provision of exchange services between virtual currencies and fiat currencies and/or the provision of custodian wallet services. To one such company, also mentioned in complaints, Hanfa refused registration in the Register of Virtual Asset Service Providers as it did not meet all the requirements, which was also established through the preliminary scrutiny procedure.<sup>122</sup> In carrying out the actions within its competence, Hanfa found that the company did not meet the requirements for registration in the Register, while prior to the submission of the application, it had already carried out the on-site inspection of that entity, on the basis of which it had imposed eight supervisory measures. The inspection showed that the ML/TF prevention and detection system was not proportionate to the size, nature, scale and complexity of the company's activities, so it was instructed to ensure an adequate AML/CFT system. Hanfa informed the public about the above mentioned on its website.

Two complaints concerning Hanfa's work were received in 2023, as in the year before, but their analysis showed no irregularities. Complaints were processed and analysed by a commission composed of representatives of several Hanfa's organisational units, including the Internal Audit Office, in accordance with Hanfa's internal procedural rules.

**Figure 6.2 Structure of financial services users' complaints submitted to Hanfa**  
In % of the total number of complaints received



Source: Hanfa

Hanfa responded to submitters in all cases in 2023, or, when complaints fell outside the area of its competence, it notified the submitter that the subject of complaint was not

<sup>122</sup> The company concerned was Wirex Digital d.o.o. from Zagreb, to which Hanfa refused registration in the Register of Virtual Asset Service Providers and ordered it to apply without delay for the removal of activities related to the exchange of virtual and fiat currencies and the provision of custodian wallet services from the register of companies with the competent commercial court and to inform Hanfa accordingly.

within its area of competence and forwarded the complaint to the relevant competent institution, whenever possible. In addition to complaints, Hanfa receives other queries from consumers via a specific email address intended for consumers and via a consumer hotline. A total of 295 such queries were received in 2023.

In 2023, Hanfa continued its supervisory activities from the previous year, driven by complaints received, concerning the failure of insurance companies to respond in writing to complaints/objections within the legal deadline.<sup>123</sup> The on-site inspection of one insurance company was completed by the adoption of a decision imposing a warning on the company due to established illegalities and irregularities which could not be eliminated due to their nature and the passage of time, and which were not of a major scope. During the inspection, the company amended and aligned its internal regulations related to the complaint and objection handling procedure. The on-site inspection of another company was also completed by the adoption of a decision imposing a warning on the company due to established illegalities and irregularities, with an order to eliminate any illegalities and irregularities that could be eliminated (amendments to specific decision forms, amendments to internal rules and updates to the company website). The company submitted a management report showing that it complied with the Hanfa's order and a decision on the completion of the supervisory procedure was adopted. Inspections of two other companies are still underway.

Following an anonymous complaint, an off-site inspection of an insurance distributor was also carried out in 2023. It was established that the distributor acted in breach of the Insurance Act and that conditions for revocation of the licence for insurance distribution and removal from the Hanfa register have been met. However, as bankruptcy proceedings have been opened against the distributor company, which has resulted in its removal from the Hanfa register ex lege, a decision was adopted to suspend the supervisory procedure, while the procedure of supervision of the insurance agent as a natural person continued.

Hanfa addressed a recommendation to all insurance companies registered in the Republic of Croatia and branches of insurance companies from EU Member States operating in the Republic of Croatia regarding the possibility of improving the awareness of interested parties about the options

and ways to submit complaints/objections. In essence, the recommendation invited companies to regulate their websites by including information for injured parties and not only their insured persons, and that the instructions on the website show that there is no limitation period for submitting complaints for interested parties. In addition to this recommendation, which addressed all insurance companies, four individual recommendations were also addressed to insurance companies in 2023, which mainly concerned deficiencies in pre-contractual information and claims handling. A letter was also sent to one leasing company regarding compliance with its own internal regulations based on the findings from the complaint.

#### **Recommendation to insurance companies**

*In 2023, a recommendation was issued to insurance companies, related to improving the awareness of interested parties referred to in Article 375 of the Insurance Act, on options and ways to submit complaints/objections to companies.*

<sup>123</sup> Article 378 of the Insurance Act ([Official Gazette, No 30/15, 112/18, 63/20, 133/20, 151/22](#))

Through consumer protection activities, Hanfa also monitors the need to issue warnings to consumers about the activities and procedures of foreign investment services firms that operate in the Croatian market without prior notification to Hanfa. Following inquiries and other communication from members of the public, Hanfa in 2023 issued warnings related to companies using false certificates of Hanfa and ESMA. Hanfa does not issue certificates to foreign investment firms but, upon receipt of notification from their home competent authority, registers and discloses them in its register of investment service providers that can offer investment services to Croatian citizens. In addition, Hanfa issued a warning concerning company Dryden Partners from Taiwan, company BitLucky d.o.o. from Kostrena which was not registered to invest in crypto-assets, company OrbisFX, and false messages from Hanfa or its staff related to the alleged reimbursement of money lost by individuals through online trading in financial instruments.

In order to raise the level of awareness and financial literacy of consumers relative to more complex financial products, Hanfa published in 2023 an informative text titled KID – identity card of packaged investment products, which relates to life insurance products where the policyholder bears investment risk (IBIPS, insurance-based investment products). In Croatia, these are mostly life insurance contracts where the paid amount of the premium is invested in an open-ended investment fund with public offering or linked to an index. Before investing in such products, it is necessary, in order to make an informed decision, to have a good knowledge of their characteristics, associated costs, potential returns and the risk involved. Given the complexity of these products, regulations prescribe in detail what are the key information that must be provided to the consumer about such products and in what format, in particular in KIDs.

#### **Consumer risk matrix**

*Hanfa publishes on its website an overview of the main sources of risks that insurance service users may be exposed to.*

In early 2023, Hanfa also published an overview of the main sources of risks to which users of insurance services may be exposed in that year, with the aim of familiarising consumers and the general public with the characteristics of insurance services, as well as indicating to insurance companies and other stakeholders (e.g. consumer protection associations) the trends and risks that insurance users may be exposed to. The consumer risk dashboard provides consumers with a single overview of the risks they may be exposed to in the insurance market. These risks may relate to insurance companies and distributors (business processes, conduct and policies of the company) or to consumers (understanding financial products, level of financial literacy and expectations), but may also be conditioned by external influences such as market developments and geopolitical, regulatory, technical and other circumstances. Two criteria were used for the risk assessment: the likelihood of risk occurrence (materialisation) and the impact that the risk would have on consumers if materialised. The assessment was carried out at the market level and by means of a survey questionnaire; almost all insurance companies in Croatia provided their answers. Hanfa also assessed potential risks, basing its estimates on supervisory and other activities related to consumer protection in the insurance sector. Hanfa plans to publish the

main risks to consumers for the year in progress at the beginning of each year and extend the estimate to assess the risk from consumers themselves, i.e. to integrate the perception of insurance service users in the dashboard.

## 6.2 Educational activities

In recent years, pronounced digitalisation of finance has made financial products increasingly complex, less transparent and partly more risky, while making them increasingly available to consumers. Given these trends, there is a growing urge to strengthen financial literacy, that is, the understanding of financial concepts and responsible financial behaviour, especially with regard to digital finance. In 2023, Hanfa continued to step up the implementation of educational activities, both in person and online. A total of 88 educational activities for various target groups were held in 2023, carried out by Hanfa on its own or in cooperation with other stakeholders. Almost 3,900 persons directly participated in educational activities, while more than 2,500 persons indirectly participated, mainly by following the recordings of lectures published on Hanfa's YouTube channel. This means that the number of activities held grew by 11.4%, while the number of participants rose by 7.5% from 2022, which clearly indicates a growing awareness of the importance of financial education and the need for continuous learning to better understand financial products, risks and market opportunities.

In 2023, as in the previous years, Hanfa marked all significant international events dedicated to financial literacy or its area of activity and competence. Cooperation with other stakeholders was realised through public calls for cooperation in educational activities, which Hanfa publishes at the beginning of each January. The main objective of these calls is to intensify cooperation with interested stakeholders in order to enhance financial literacy of the public. In addition to the public call, Hanfa has continuously developed cooperation

with other institutions and organisations engaged in financial literacy throughout the year. Also, Hanfa is an active member of the National Consumer Protection Council and of the Task Force for monitoring the implementation of measures and activities defined in the Action Plan for the Improvement of Financial Literacy, coordinated by the Ministry of Finance.

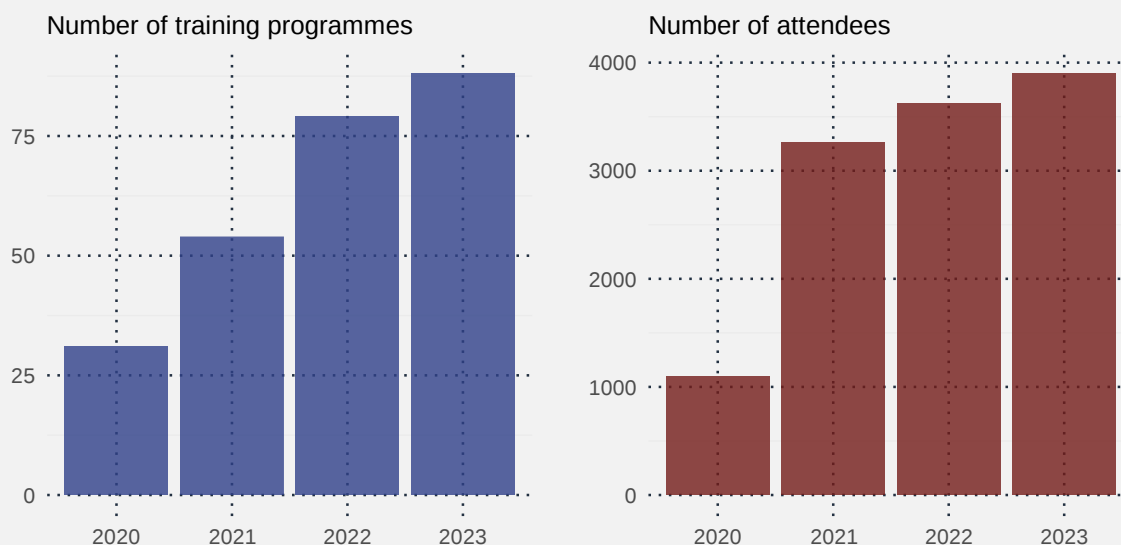
As most surveys of financial literacy suggest that young people show the lowest level of financial literacy, Hanfa carries out the bulk of its educational activities through the education system. In 2023, almost half of all educational activities were carried out in cooperation with secondary schools, while 11 educational activities involved primary schools, significantly more than in 2022 (when only four such activities took place). This enhanced cooperation with primary schools reflects Hanfa's intention to pay additional attention to education of younger learners in

### **Operational working group at the Ministry of Finance**

*The operational working group 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, was established on the basis of the National Strategic Framework of Financial Literacy of Consumers 2015-2020. Hanfa has been an active member of the group since its establishment. In 2023, the operational working group had 27 members.*

order to ensure a fundamental understanding of financial concepts from the youngest age.

Figure 6.3 Training programmes held by Hanfa and number of attendees



Source: Hanfa

To that end, a competition was carried out in 2023 for the creation of comics for primary school pupils titled “I take care of money and monitor costs”. The winners of the competition were the pupils from the Turanj Primary School from Karlovac with their comic titled “Zipi and personal budget”, published on Hanfa’s website. A total of 31 primary schools from all parts of Croatia applied for the competition, and the winning school received a valuable prize – an interactive board. In addition to the primary school competition, a video competition was launched for secondary schools titled “Protecting your money”. The winning video was made by the students from the Secondary School for Art, Design, Graphics and Clothes Zabok. The video was published on Hanfa’s website and YouTube channel and the school was awarded an interactive screen. A total of 45 secondary schools from all parts of Croatia joined the competition.

### Financial literacy through play

In 2023, Hanfa developed and published educational content for children, parents and teachers on its website for learning through play. For 1st to 4th grade pupils, two word search puzzles, “Personal budget” and “Distinguish between desires and needs”, and two games: “Decipher the message” and “Financial pumpkin” were created. The worksheet “My savings plan” is suitable not only for pupils in lower grades, but also for pupils from 5th to 8th grade. These educational materials aim to enable children to get acquainted with financial concepts through play and research, while teachers are given

materials suitable for improving students' financial literacy. In addition to these games and crossword puzzles, Hanfa's website also features educational comics created by Hanfa, as well as the student comic book "Zipi and personal budget". The form of comics is also used in workshops for primary school children in lower grades. At the workshop, pupils are divided into smaller working groups, they are presented with the comic book "Savings" and asked to create their own comics on the topic of savings. Pupils create comics independently, on their own, satisfying the criteria and form of a comic, which should give an answer to three basic questions: "What is savings?", "What are the ways to save?" and "Why do I save?". Such a workshop aims to encourage pupils to think about savings, using artistic and creative expression, which further stimulates their innovation, as well as their interest in participating.

At the 2022 competition for primary schools "Financial Literacy through Play" for primary schools, the pupils of Petar Hektorović Primary School from the island of Hvar presented their conceptual design of the board game "Desitudo". Hanfa decided to refine the game in terms of content, methodology and graphics, and to produce it for educational purposes in primary schools. The game was presented to the public in 2024.

Interactive educational content has also been created for secondary school pupils. Two escape rooms were published on Hanfa's website, i.e. digital interactive content on the topic of "Capital Market" and "Pension System". In the educational content on the topic of capital markets, questions are asked on the example of fictitious companies and market situations, within which pupils are expected to think critically and analytically and get acquainted with different financial concepts. The educational content on the topic of the pension system puts pupils in the situation in which they get their first job and have to calculate expenses from the gross salary for the 1st and 2nd pillar of the pension insurance, choose the fund and category with regard to risk appetite and make an informative calculation of the amount of voluntary pension savings. Students progress through the game by answering questions correctly, and in the event of an incorrect answer, additional help is provided in the form of instructions and/or explanations of certain concepts that can help pupils solve the task. At the end of the game, pupils are given a piece of a secret code that helps them decipher the secret message associated with financial literacy. In addition to the secret code, at the end of each quiz, there are additional information, tips and links where more information on the specific topic can be found.

Interactive, creative content aims to bring the topic of financial literacy closer to pupils, but also to encourage their further independent research and learning. Learning through play and encouraging creative, critical and analytical thinking helps in the adoption and long-term awareness of the learned content. Financial topics are often complex and difficult to understand, so it is important to create interesting and simple content appropriate to the age and target group. Through a series of activities and the creation of interactive educational content, Hanfa wants to bring financial topics closer to

pupils, but also to offer teachers the opportunity to independently conduct educational activities on the topic of financial literacy.

**Figure 6.4** Creative educational content for primary school pupils

### HANFA ZAIGRAJ I PONOVI FINANCIJSKA BUNDEVA

|       |          |            |    |       |      |      |
|-------|----------|------------|----|-------|------|------|
| 71    | 72       | OSIGURANJE | 74 | 75    | 76   | KRAJ |
| 70    | 69       | 68         | 67 |       | 65   | 64   |
| 57    | ULAGANJE | 64-5       | 60 | 61    | 62   | 63   |
| 56    |          | 54         |    | 52    | 57-4 | 50   |
| 43    | 44       | 45         | 46 | 47    | 48   | 49   |
|       | 41       | BUDŽET     | 39 |       | 29+8 | 36   |
| 29    | 30       | 31         | 32 | 33    | 34   | 35   |
| 28    | 27       | STEDNJA    | 25 | 24    |      | 22   |
| 15    | 16       | 17         |    | 19    | 20   | 21   |
| 14    | POTREBA  | 12         | 11 | 10    | 9    | 8    |
| START | 2        |            | 4  | ŽELJA | 6    | 7    |

### HANFA Osobni budžet

Mogu li pronaći skrivene pojmove?

|   |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|
| S | K | A | Š | O | R | T | I | C | E | D | C |
| H | Š | L | P | N | I | G | H | O | I | T | L |
| S | P | T | F | E | T | I | G | S | O | L | T |
| H | O | U | E | T | U | L | A | G | A | N | J |

### HANFA RAZLIKOVANJE ŽELJA I POTREBA

Pronađi zadane riječi i razmisli što je želja, a što potreba.

|   |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|
| O | D | J | E | Č | A | E | G | S | C | Ž | Š |
| T | Č | H | R | K | L | N | O | L | A | E | C |
| S | A | N | G | A | N | T | P | A | M | L | J |
| C | M | E | Č | S | A | E | O | D | P | A | I |

### MOJ PLAN ŠTEDNJE

Štedim za:

Kako ću ostvariti svoj cilj?

Koraci koje ću poduzeti da ispunim svoj cilj:

- 
- 
- 

Što mi je potrebno da ispunim svoj cilj?

### OSOBNİ BUDŽET DEŠIFIRAJ PORUKU

Žipi je poslao odličan savjet svojim prijateljima. Pokušaj dešifrirati poruku.

| A  | B  | C  | Č  | Ć  | D  | DŽ | Đ  | E  | F  | G  | H  | I  | J  | K  |
|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| 1  | 2  | 3  | 4  | 5  | 6  | 7  | 8  | 9  | 10 | 11 | 12 | 13 | 14 | 15 |
| L  | LJ | M  | N  | NJ | O  | P  | R  | S  | Š  | T  | U  | V  | Z  | Ž  |
| 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 |

1. 19 9 26 23 21 25 13

2. 28 13 25 9 19 9 11 21

3. 25 26 21 20 1 23 1 6 13 25

Source: Hanfa

In addition to primary and secondary schools, Hanfa conducts numerous educational activities with students. For the third year in a row, Hanfa conducted the call for students titled “Hanfa Annual Award for students for the best scientific and expert papers in 2023”. In 2023, in addition to students of economic faculties, students of law and electrical engineering and computer science also won the award, which further emphasizes interest in financial topics outside the economic community. A new competition for 2024 has also been announced with the aim of continuing to strengthen cooperation with faculties and the development of scientific research skills of young people, primarily in the field of finance.

In 2023, Hanfa successfully organised a conference titled “Blockchain and cryptomarkets – disruptive innovations” in cooperation with the Faculty of Economics Zagreb. It also participated in two conferences organised by the Croatian Academic Community of the Faculties of Economics and in the Financial Literacy Week organised by the Faculty of Economics Zagreb. A student debate was also held, which Hanfa, now traditionally, organises in cooperation with the CNB on the occasion of the World and European Money Week. Students from the Faculty of Economics Zagreb participated in the debate, which focused on the topic of “Sustainable finance and Generation Z”. The discussion acquainted students with the possibilities of investing, saving and lending in the financial market, taking into account environmental, social and governance criteria. The aim was to familiarise students with sustainable finance, as well as gain insight into how representatives of Generation Z perceive sustainability and how important it is to them when making decisions related to finance.

Four educational lectures for the professional training of teachers were also held, as part of their professional development. In addition, Hanfa actively participated in a two-day State Professional Meeting for Educational Staff in February and another one in March 2023, which gathered more than 600 teachers. Hanfa continuously organises lectures and participates in professional meetings for teachers in order to increase their financial literacy, but also to provide information and support in the improvement of pupils' financial literacy.

Hanfa continued with the practice of organising online lectures open to the general public, covering various topics within its competence, financial literacy and other relevant financial topics such as the financial habits of Generation Z, consumer protection in the field of insurance, fraud on financial and cryptomarkets and presentation of the results of financial literacy survey in Croatia. Ten online lectures were held, attracting more than 380 participants. The recordings of all lectures are available at Hanfa's YouTube channel, attracting more than 900 views by the end of 2023.

Hanfa actively participated in the marking of almost all relevant international events, such as the World and European Money Week, the World Investor Week, the International Fraud Awareness Week, etc. Adapted educational activities, workshops, public online presentations, student debates and specific presentations for target groups were held within such events. In 2023, the focus was put on financial fraud,

digitalisation and sustainability, as these topics were particularly relevant in financial markets.

In addition to all the mentioned educational materials, Hanfa published a number of texts, warnings and short videos on its website, the Internet portal Money for Tomorrow and social networks. In 2023, Hanfa redesigned its website, particularly taking into account consumer protection and education. The new website features a separate subpage dedicated to consumers with a focus on financial services, education, complaints and financial fraud. New educational leaflets “Steps to retirement”, “Voluntary pension savings”, “Pension payment from the 2nd pillar” and “Types of pensions” have also been published on Hanfa’s website. Educational leaflets have been made to bring the pension system closer to individuals, given that the results of the survey on financial literacy level among young persons and people approaching retirement and in retirement in 2022 showed a relatively low level of pension literacy of these target groups.

In the course of the educational activities in cooperation with secondary schools, Hanfa surveys the financial literacy of secondary school pupils on a regular basis. In 2023, such a survey questionnaire was completed by 545 pupils, of which 69.1% were female pupils and 30.9% were male pupils, with their average age being 16.7 years. On average, pupils gave the correct answer to only 42% of the financial questions, with their level of self-assessed knowledge

being higher than their actual knowledge of financial concepts. They performed better as regards financial behaviour, which implies responsible money management (58%), while attitude towards money (41%) describes how pupils perceive money. Pupils are rarely informed about financial topics, with Internet, parents and school being their usual sources of information.

In 2023, Hanfa also conducted a survey to examine the level of financial literacy among primary school pupils; 113 pupils from 5th to 8th grade participated in the survey, of which 61.3% were female pupils and 38.7% were male pupils, and their average age was 14. The results show that pupils are least familiar with the concept of budget and the distinction between savings and investments. When shopping, they mostly think about whether they have enough money for the purchase, however, they compare prices less often. Most pupils save and only 17% of them spend more than their allowance.

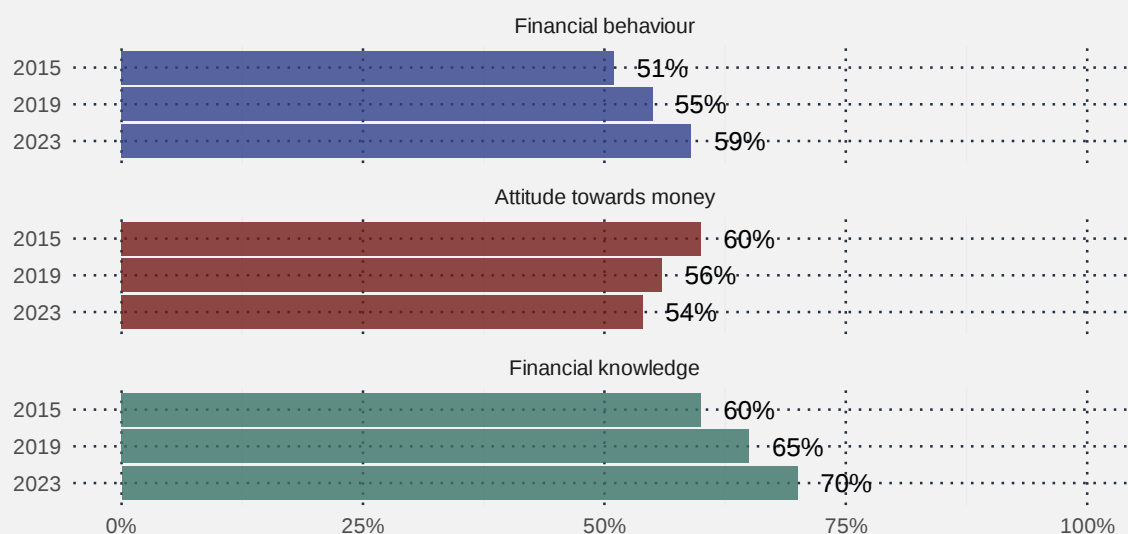
During 2023, in cooperation with the CNB, Hanfa conducted a national financial literacy survey based on the methodology of the OECD International Network on Financial

#### Online lectures “15th of the month”

*In 2021, Hanfa started conducting lectures for the general public with the aim of bringing financial topics and current market developments closer to individuals. Lectures are held once a month online, and all members of the public interested in the topic can apply. Lectures are recorded and recordings are posted on Hanfa's YouTube channel; after each lecture, people can ask questions and participate in the debate.*

Education (OECD/INFE), which makes the results internationally comparable<sup>124</sup>. In 2023, the average financial literacy score was 62%, meaning that respondents answered 62% of the questions correctly on average. The respondents achieved the best results in the category of financial knowledge. The comparison with the results of the two previous surveys conducted in 2015 and 2019 shows a continuous increase in the financial knowledge of individuals. More specifically, the percentage of correct answers grew from 60% in 2015 to 65% in 2019 and further to 70% in 2023. Although financial knowledge is growing, the score for financial behaviour remains low. The survey also showed that Croatian citizens are less inclined to seek financial advice from independent sources compared to citizens of EU and OECD countries. However, there are also positive trends: Croatians are more likely to pay their bills on time (by 3.1 percentage points) and make thoughtful purchases more often (by 2.4 percentage points). The attitude towards money indicates that a significant number of individuals in Croatia still prefer consumption over long-term savings. However, it is worth noting that this is the only component of financial literacy that has been declining since 2015, when the first measurement of financial literacy in Croatia was carried out.

Figure 6.5 Assessment of financial literacy by components



Source: Hanfa

In 2023, digital financial literacy was analysed for the first time, covering issues related to knowledge of digital technologies and attitudes and behaviours in the digital environment. The average score of digital financial literacy of Croatian citizens is 49%, with the best result achieved in the digital behaviour component. The results of digital financial literacy point to the necessity of focusing educational activities on digital finance, given that the average score of OECD countries was 55%, while the average score of respondents in Croatia was 49%.

<sup>124</sup> In addition to Croatia, the survey was conducted in 38 other countries, including 20 OECD member countries.

Despite the fact that overall financial literacy in Croatia is slightly below the OECD average, it should be noted that in Croatia a significantly smaller number of respondents were exposed to financial fraud or unauthorised transactions compared to other countries or the OECD average.

The results of the survey indicate that the educational activities related to financial literacy of all stakeholders in Croatia bring results and progress in raising the level of financial literacy. Hanfa pays special attention to education in the field of pension literacy and capital market so that people can plan their pension in a timely manner and effectively protect themselves from financial fraud. Given the relatively low digital financial literacy scores, Hanfa plans to pay particular attention to digital financial literacy. One of the goals is to encourage individuals to adequately inform themselves before concluding financial services contracts, compare available services and get the best value for their money, while avoiding fraud, and to minimize poor investment estimates.

# COMMUNICATION ACTIVITIES

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## 7 COMMUNICATION ACTIVITIES

Communication and public relations have been recognised as an important component of Hanfa's activities, so the goals of its communication strategy have been aligned with its long-term objectives. In addition to maintaining the continuity of timely information and communication with it supervised entities, Hanfa also continued to inform in a timely manner the members of the general public with the aim of providing continuous financial education and raising the level of financial literacy.

Given that financial market participants pay close attention to any disclosure and decision made by the regulator, this position gives Hanfa great significance in daily communication on the financial services market. To ensure clear and more transparent online content, a step forward in communication was made in 2023 – a redesign of the website as a key channel of communication, accompanied by a new visual identity.

### 7.1 Communication activities in 2023

In 2023, Hanfa continued with intensive and timely communication activities, with the emphasis on education of specific target groups, financial market participants and the public at large.

**Figure 7.1** Strategic topics in Hanfa's communication



**Source:** Hanfa

Also, Hanfa continued to transparently report on the decisions adopted at the meetings of Hanfa Board, while separate explanations and releases were published in respect of decisions of particular interest to the market and the general public.

Upcoming regulatory changes of relevance to the market and investors were also announced in a timely manner. This particularly concerns the provisions of the forthcoming MiCA Regulation establishing uniform rules for the regulation and supervision of the issuance of crypto-assets and the trading and provision of crypto-asset services. In the context of consumer protection, Hanfa conducted an education campaign to mark the International Fraud Awareness Week late in the year, in which it again informed consumers about the types of financial and crypto-fraud through a number of articles and an educational digital guide. The aim of the campaign was to raise awareness of the importance of self-protection against such fraud and to draw attention to risks associated with traditional and cryptomarkets.

In addition, Hanfa continued to report on current topics related to the ESG legislative package, which defines non-financial reporting and financial investments in sustainable projects and the green transformation of companies. With regard to this topic, Hanfa has recognised education as an important channel of communication with the market; numerous workshops focused on Hanfa's supervised entities and issuers in the regulated capital market were organised over the year.

Hanfa actively communicated all its conclusions through Hanfa's Council: from the process of Croatia's accession to the OECD, current legislative changes related to the financial services sector and new developments on the capital market, the Strategy for capital market development to interpretations of potential obligations that the ESG regulations may bring to the financial sector and issuers listed in the Zagreb Stock Exchange.

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

Particularly important was the organisation of the conference "Consumer Protection in Insurance and Pension Savings", which discussed the role and opportunities of the industry in the context of the development of financial literacy and consumer protection. The keynote speaker of the conference was EIOPA Chair Petra Hielkema, who referred to the European context of consumer rights protection.

The conference "Corporate Governance in Croatia – a Path to Climate Transition" was held in October. It focused on the extreme importance of high-quality corporate governance, both for individual business success and for general economic growth. On this occasion, and marking the publication of the Annual Report on Corporate Governance, awards were presented to best companies – issuers of securities admitted to the regulated market, for best compliance with the Corporate Governance Code according to the 2022 indicators.

In addition to presentations and workshops held at public events, Hanfa regularly communicates through its social networks by addressing messages to the business community, the financial market and consumers. Hanfa's LinkedIn community had

more than 10,500 followers at the end of 2023, while its Facebook site Money for Tomorrow was followed by more than 8,500 people. Hanfa published about 60 press releases and four educational video materials as well as its first podcast last year.

In addition to a number of traditional publications and reports, a new regulatory bulletin for the segment of capital markets was presented to the target audience in 2023. The aim of the bulletin is to present important changes to new European and national regulations and documents in order to announce the upcoming regulatory changes relevant to their business to non-bank financial sector stakeholders in a timely manner.

## 7.2 Change of visual identity

Almost ten years have passed since the latest change of Hanfa's logo. Meanwhile, much has changed in the global and domestic markets. In these circumstances, as in other public and state bodies, Hanfa's method of communication has significantly expanded and deepened.

Therefore, in September 2023, Hanfa presented a new, redesigned logo. The new visual identity ensures the memorability, flexibility and breadth of application, which allows information provided to different types of public to be clear, understandable and adequately accepted. As visual experience in communication is becoming increasingly dominant, Hanfa's new visual identity makes it easier to display information and to educate through images, infographics and video content.

The new logo promotes Hanfa's supervisory, regulatory and educational activities in the form of an umbrella (arch as a visual element). The arch also represents a kind of a bridge in building trust among financial market participants. This one line presents visually to financial service users Hanfa's principal objectives:

- fostering and safeguarding the stability of the financial system;
- supervising and monitoring the compliance of supervised entities with legal provisions;
- protecting and educating financial services users.

## 7.3 Redesign of the website

In addition to the new visual identity, in September 2023, Hanfa made an important communication effort – the redesign of its website. The aim of the new website under one domain is to facilitate insight into information, not only to supervised entities but also to a wider public that is particularly important to Hanfa – citizens and future employees.

The content of the website is divided into three subpages and tailored to different audiences, and the structure of the content improves browsability and makes it easier to navigate between a wide range of documents and news published almost every day.

The redesigned website also enables stronger promotion of the information and activities highlighted in day-to-day communication to the market, entities subject to supervision, examination candidates, consumers or new young professionals, potential new employees of Hanfa.

Special care is devoted to consumer education and a clearer presentation of the overall educational content Hanfa has been publishing for years. Also, anyone who wants to report an irregularity or fraud can do so directly through the website, while at the same time easily identifying current alerts on potential fraud. The entire content is different, in terms of the language and style, from the content dedicated to the financial market and the professional public, with particular focus being put on the warnings issued by Hanfa.

Another novelty of the redesign is the third subpage dedicated to future staff. Employer branding is important in presenting Hanfa to potential young employees, but also to experienced professionals who want to learn more about the job opportunities in Hanfa. The programme of scholarships and student internships is also presented in more detail in this place, enhancing previous Hanfa's efforts in communication with the young academic community.

## 7.4 Access to information

As a public authority, Hanfa provides regular and timely access to all information laid down in the Act on the Right to Access Information<sup>125</sup> in an easily searchable manner and in a machine readable format.

In 2023, Hanfa received 14 requests for access to information. Of that number, 11 requests were handled within the legal deadline by providing the submitters with the requested information relating to activities falling within Hanfa's competence, two requests were transferred to 2024 within an open deadline and one request was assigned.

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

Taking account of its legal obligations referred to in the Act on the Right to Access Information, Hanfa submitted its 2023 Report on the implementation of the Act on the Right to Access Information to the Information Commissioner within the legal

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<sup>125</sup> Official Gazette, No [25/13](#), [85/15](#), [69/22](#)

deadline, and the Report will form an integral part of the 2023 Annual Report of the Information Commissioner. It was also published on Hanfa's website.

# INTERNATIONAL COOPERATION

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## 8 INTERNATIONAL COOPERATION

In addition to the objectives to be achieved in the financial services sector in Croatia, there are objectives that require international activities. Hanfa aims to achieve these objectives through membership in EU bodies: ESMA and EIOPA, as well as participation in the work of the ESRB and cooperation in IAIS, IOSCO and IOPs – international authorities in charge of insurance, capital markets and pension funds. Effective and timely international cooperation between supervisory authorities within the EU, as well as globally, is becoming an increasingly important dimension of supervisory action to maintain financial stability, orderly market functioning and investor protection. Given that a large number of companies offer their financial services globally, and given the frequent market turbulence within the financial sector caused by different events, supervisory cooperation not only between financial sector supervisors, but also with regulators and authorities from other sectors, is increasingly important. Also, significant activities of Hanfa are associated with participation in various forms of technical cooperation under the auspices of the European Commission, as a recipient or provider of technical assistance, as well as the conclusion of numerous bilateral cooperation agreements.

### 8.1 Participation in the work of supervisory authorities and organisations

#### 8.1.1 ESMA – European Securities and Markets Authority

After ESMA's actions and joint cooperation with national supervisory authorities in 2022 were largely characterised by developments related to the war in Ukraine and the disruption of the energy market with high price growth and pronounced volatility in the energy derivatives market, which required a coordinated and effective response from ESMA and national supervisory authorities, ESMA's actions and cooperation with supervisory authorities in 2023 focused on achieving the objectives presented in ESMA's 2023-2028 strategy and reorganising the actions of its groups.

The three strategic priorities for this period were identified as: ensuring efficient markets and financial stability, strengthening supervisory activities, and investor protection with two thematic drivers: creating a framework for the functioning of sustainable finance and enabling technological innovation and efficient use of collected data.

The reorganisation of ESMA groups composed of ESMA's staff and the staff of national supervisory authorities, dealing with the preparation of draft technical standards, guidelines, questions and answers, public statements, warnings, different reports and analyses, has been undertaken to allow these groups to respond appropriately to the

increasing regulatory and supervisory requirements resulting from the adoption of a large number of very specific regulations at EU level. A group focused on digital finance, including crypto-asset and digital ledger technology (DLT) issues, and a group dealing with sustainable finance issues at a horizontal level have been created, while groups dealing with issues related to issuers were reorganised and consolidated with the establishment of working groups with specific tasks such as corporate sustainability reporting or the financial reporting on the publication of the prospectus. Issues related to secondary trading are organised in such a way that working groups on market integrity, post-trade infrastructure, commodity derivatives and shareholder transactions have been set up, while the group dealing with data, the quality of which is one of the two ESMA priorities for 2023 at Union level (Union Strategic Supervisory Priorities – USSP), is divided into two working groups dealing with disclosures and reporting. In 2023, Hanfa actively participated in the work of 15 committees and 15 working groups. Such intensive engagement in ESMA groups poses a major challenge for national supervisors in terms of having an adequate number of skilled staff and financial resources in view of ongoing obligations at national level.

Consequently, there was also an increased number (141) of voting procedures of the Board of Supervisors (of which the President of Hanfa Board or his alternate are members), by means of a written procedure, i.e. a process leading to different decisions by ESMA. The President of Hanfa Board or his alternate actively participated in nine meetings of the Board of Supervisors at which topics were addressed at the strategic level and were held in physical or digital format.

Hanfa expressed its compliance with the following ESMA guidelines:

- Guidelines on standard forms, formats and templates to apply for permission to operate a DLT market infrastructure;
- Guidelines on MiFID II product governance requirements;
- Guidelines on stress test scenarios under the MMF Regulation (updated in 2022);
- Guidelines on certain aspects of the MiFID II remuneration requirements;
- Guidelines on certain aspects of the MiFID II suitability requirements;
- Guidelines on the methodology to be used by the resolution authority for determining the valuation of contracts prior to their termination as referred to in Article 29(1) of the CCP-RRR;
- Guidelines on the consistent application of the triggers for the use of Early Intervention Measures;
- Guidelines further specifying the circumstances for temporary restrictions in the case of a significant non-default event in accordance with Article 45a of EMIR;
- Guidelines on CCP recovery plan scenarios.

Hanfa regularly informed supervised entities and the wider community about all these activities via e-mail and its website.

In addition, capital market information in ESMA's scope was also presented through Hanfa's publication Capital Market Regulatory Bulletin, which had two issues over the past year.

As regards technical standards elaborating primary EU legislation, ESMA's groups focused on the development of regulatory technical standards (RTS) related to the areas of sustainable finance and digital finance. Particularly noteworthy in this regard is the preparation of

several packages of regulatory technical standards in relation to the implementation of the MiCA, the Digital Operational Resilience Act for the financial sector<sup>126</sup> (hereinafter: DORA) as well as the amendments to the RTS in accordance with the SFDR. The adoption of those acts aims to clarify to market participants the obligations and modalities of implementing primary rules in their day-to-day operations, in order to be able to prepare for the application of primary rules in a timely manner and to establish a level playing field among service providers and to harmonise supervisory standards among national supervisory authorities. In addition to the development of the RTS in the above areas, ESMA's groups also worked on developing RTS on post-trade infrastructure, e.g. the obligation of clearing members of CCPs, the minimum elements to be included in the business reorganisation plan and the criteria to be met by the business reorganisation plan of CCPs to be approved by the resolution authority and the RTS on reporting templates under the Securitisation Regulation and the European Long-Term Investment Funds Regulation.<sup>127</sup>

In addition to the development of RTS, ESMA and national supervisors, in view of their tasks of preserving financial stability, ensuring the orderly functioning of trading and investor protection, adopted and published a number of other documents aimed at clarifying the obligations of market participants and investor rights and education.

In terms of investor protection, two factsheets were published in online format, one of which aims to explain the meaning of rising interest rates and the impact of inflation on the value of financial instruments and the other aims to clarify concepts in the area of sustainable finance and how citizens can support the transition to a sustainable economy through their investments. In addition, the Board of Supervisors considered the need for intervention measures in relation to complex financial products and issued a warning on investment firms that provide related services without

### **Hanfa's regulatory bulletins**

*In response to the continuous evolution of European and domestic regulations governing the field of finance, Hanfa has decided to launch the drafting of regulatory bulletins that are to provide essential and current regulatory information in an easily accessible and searchable digital format. The intention is to list in one place important changes in European and national regulations and documents so as to announce forthcoming relevant regulatory changes to market participants and the broader interested public. Two issues of the capital market bulletin were published in 2023.*

<sup>126</sup> **Regulation (EU) 2022/2554** of the European Parliament and of the Council of 14 December 2022 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011, OJ L 333

<sup>127</sup> **Regulation (EU) 2015/760** of the European Parliament and of the Council of 29 April 2015 on European long-term investment funds, OJ L 123

authorisation, as well as a warning about permitted use of retail financial instruments used in financial instrument borrowing transactions.

With regard to (un)acceptable behaviour of service providers, the Board of Supervisors approved a number of public statements, such as: a statement on fractional shares, a statement on the results of the 2022 common supervisory action with national competent authorities concerning the mystery shopping exercise on MiFID requirements on information on costs and charges, a statement on the required sustainability-related disclosure provided in prospectuses of financial instruments, a statement on the deprioritisation of supervisory reporting activities under MiFID RTS in relation to best execution practices, and a statement on common supervisory priorities in relation to financial reporting.

A number of opinions were also published, concerning the recovery of illicit costs in the case of investment and alternative investment funds, position limits and bilateral margin obligations on share options, as well as on the obligations to carry out back-testing checks under EMIR.

In the context of orderly trading, the focus was also on discussions on the CCP stress-testing framework, in particular on new aspects of stress testing, which highlight not only the resilience of CCPs themselves, but also feedback from the wider financial system to assess possible spillovers of risks from one segment to another. Discussions also took place on findings related to actual supervisory cases, as such discussions proved to be a very useful tool in resolving concerns and achieving supervisory convergence.

In 2023, ESMA groups put a strong focus on sustainability-related issues. In addition to the activities mentioned above, the objective was to prepare a Progress Report on Greenwashing in order to identify the emergence of greenwashing practices within the value chain and give proposals for their prevention. The exercise of this mandate will be completed with the preparation and publication of the Final Report on Greenwashing, which aims at identifying the practices of national supervisory authorities in relation to the detection of greenwashing and the measures taken to minimise and prevent such practices. The findings from both reports will be used to improve supervisory practices as well as to make recommendations on possible changes to the existing legislative framework. In this respect, at the end of the year, the Commission announced public consultations on potential amendments to the SFDR, on which the European (ESAs) and national supervisory authorities are preparing their opinions and proposals. In addition, as part of ESMA's Sustainable Finance Roadmap project, intensive efforts were made to organise training on a number of different topics related to sustainable finance, with the aim of strengthening the supervisory capacity of ESMA and national supervisors.

Furthermore, in cooperation with employees of national supervisory authorities, the Risk Committee of ESMA prepares and publishes various articles in order to provide an overview of market developments and warn about identified risks. The focus last year was put on the issues of inflation, interest rate growth and various topics related to sustainable finance.

### 8.1.2 EIOPA – European Insurance and Occupational Pensions Authority

During 2023, EIOPA continued to play a key role in the supervision of insurance and occupational pensions in Europe, working closely with national supervisory authorities, European institutions and other stakeholders to meet its strategic objectives set out in the annual work programme, which include:

- providing strong and consistent protection of consumer interests around the EU and;
- strengthening the resilience and sustainability of the financial sector to preserve efficiency, a level playing field and financial inclusion.

Against the backdrop of economic and geopolitical uncertainty leading to market volatility, high inflation and uncertain economic growth, EIOPA focused in 2023 on closely monitoring the capital position and liquidity of insurance companies and institutions for occupational retirement provision (hereinafter: IORP) in the EU, to ensure the resilience of the insurance and pension sectors and consumer protection.

EIOPA continued its work to promote the integration of sustainability risks into the risk management practices of (re)insurers and occupational pension insurers. In 2023, EIOPA focused on developing supervisory tools to actively identify, monitor and address greenwashing cases, and worked with the ECB on possible solutions to address the climate risk protection gap. EIOPA continued its work with other European Supervisory Authorities on the SFDR, which requires financial market participants to disclose their environmental, social and governance impacts and requirements.

EIOPA continued to closely monitor the increasing adoption of digital technology, such as artificial intelligence and open insurance, to keep up with the latest market developments. This included finding an optimal approach to consumer protection while fostering innovation and supporting national supervisors. During 2023, together with the other European Supervisory Authorities, EIOPA worked to develop the different policy mandates laid down in the DORA. Furthermore, it worked on a new holistic digital strategy to clarify how it will support consumers, markets and the supervisory community through the digital transformation.

As part of its activities, with a view to enhancing regulatory monitoring of the digital development of the European insurance sector, in 2023 EIOPA launched the Digitalisation Market Monitoring Survey, a tool to monitor innovation and digitalisation trends in insurance, as well as the Survey on access to cyber coverage by SMEs, implemented SupTech projects and set out the Methodological principles of insurance stress testing, with a particular focus on cyber risk. In cooperation with the European Commission and other European Supervisory Authorities, it continued its work on the EU Supervisory Digital Finance Academy and supported the work of the European Forum for Innovation Facilitators.

EIOPA continued to promote a common supervisory culture and consistent supervisory practices across Europe, putting as supervisory priorities: (i) the practical implementation of the key features of the common supervisory culture and the further development of supervisory tools, (ii) risks to the internal market and a level playing field that may lead to supervisory arbitrage, and (iii) the supervision of emerging risks.

During 2023, EIOPA continued to calculate and publish information essential for the effective application of the Directive on the taking-up and pursuit of the business of Insurance and Reinsurance<sup>128</sup> (hereinafter: Solvency II) and the Directive on the activities and supervision of institutions for occupational retirement provision<sup>129</sup> (hereinafter: IORP II Directive).

EIOPA submitted technical advice to the European Commission on the revision of the IORP II Directive, covering prudential and governance standards, cross-border activities, the functionality of the pension benefit statement, the adaptation to the shift from defined benefit to defined contributions, sustainability aspects and prudential requirements relating to diversity and inclusion. As regards business policy management, EIOPA continued its work on the Insurance Distribution Directive<sup>130</sup> and monitored the legislative process of the Retail Investment Strategy and provided input. EIOPA continued to play an important role at international level in the context of the International Association of Insurance Supervisors, contributing to the development of global standards: the Insurance Capital Standard and the Holistic Framework for Systemic Risk in the Insurance Sector.

EIOPA continued to monitor and assess risks and vulnerabilities in order to preserve the stability of the insurance and occupational pensions sector. In 2023 it focused on the impact of inflation on markets and consumers, possible consequences of nature-related risks, and on the potential risks of increasing digitalisation, especially in the form of cyber attacks. In line with ongoing developments, EIOPA analysed the vulnerability of insurance companies' portfolios to exchange rate risk and debt reduction in pandemic conditions and energy sensitive sectors. EIOPA also continued to publish detailed statistics on insurance markets and IORPs, opting for information lists to make the information more accessible. EIOPA also improved its bottom-up stress testing methodological framework and undertook extensive work on improving the models used in the top-down stress testing. EIOPA continued to further develop its crisis process and procedures to adapt them to the latest developments and started designing a crisis exercise.

In 2023, EIOPA continued the preparation and impact assessment of the Insurance Recovery and Resolution Directive, which gives important new roles and responsibilities to the supervisory authority, including the development of technical standards and guidelines and other more permanent tasks, such as the establishment of a resolution board or participation in resolution colleges.

Achieving EIOPA's objectives depends on close cooperation with national supervisory authorities, as well as on regular consultation with stakeholders, consumer organisations and industry representatives.

Members of Hanfa Board contributed to EIOPA's activities by participating in the Board of Supervisors, in all EIOPA's steering committees, namely the Policy Steering

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<sup>128</sup> [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)

<sup>129</sup> [Directive 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)

<sup>130</sup> [Directive 2016/97](#) of the European Parliament and of the Council of 20 January 2016 on insurance distribution

Committee, the Supervisory Steering Committee and the Risks and Financial Stability Steering Committee as well as the Management Board and the Quality Control Committee. In the course of 2023, there were nine meetings of the Board of Supervisors and 93 written procedures. Within other committees, members of Hanfa Board participated in 31 meetings and 73 written procedures.

The contribution of Hanfa to EIOPA's work is further reflected in a number of Hanfa's experts actively involved in the Joint Committee for Digital Operational Resilience for the Financial Sector, the Information Technology and Data Committee, the Committee on Consumer Protection and Financial Innovation, nine specialised expert networks and many projects and working groups.

### 8.1.3 EBA – European Banking Authority

Within the EBA Investment Firms Subgroup, employees of Hanfa actively took part in 2023 discussions leading to a consultation paper on the revision of the legislative framework for prudential requirements for investment firms, the preparation of materials for the meetings of the EBA Board of Supervisors, as well as in many written procedures of that Board.

The most significant document by EBA, with which Hanfa expressed its consent in June 2023, were the Guidelines applicable to the supervisory review and evaluation process (SREP) of investment firms, as defined in Articles 36 to 45 of Directive (EU) 2019/2034. The Guidelines cover in particular overall risk management and governance arrangements, the risks to capital, as well as the assessment of systemic risk of the investment firm. The main objective of these guidelines is to ensure consistency in supervisory practices in the assessment of investment firms, and thus to contribute to level playing field for these investment firms across the EU.

### 8.1.4 ESRB – European Systemic Risk Board

During 2023, Hanfa continued its successful cooperation with the ESRB with the aim of addressing in a timely manner systemic risks to which the European financial system is exposed, which could also affect the stability of the financial system in the Republic of Croatia. Warnings and recommendations are the main tools used by the ESRB in its mission to prevent and mitigate risks to financial stability. The ESRB issues warnings when significant systemic risks are identified in a certain country and monitors whether such systemic risks are appropriately addressed. The recommendations indicate a higher level of systemic risk and, considering their form and effect, represent a stronger exercise of the ESRB's powers, as they set both corrective measures and time limits for their implementation. Although not legally binding, addressees are required to inform the ESRB and the Council of the European Union of the measures taken in response to the recommendation and/or provide adequate justification in case of non-compliance with the recommendation.

While no new warning or recommendation was issued in 2023 that would be relevant for the domestic financial services sector, Hanfa was obliged to comply with the 2021 Recommendation on a pan-European systemic cyber incident coordination

framework for relevant authorities<sup>131</sup>. Under part B of the Recommendation, in cooperation with other macroeconomic and fiscal policy makers, a key contact point has been designated to inform and coordinate with other contact points in other Member States as well as with the ESRB in the event of a major cyber incident. In addition, Hanfa actively complied with the Recommendation on vulnerabilities in the commercial real estate sector in the European Economic Area<sup>132</sup>, which aims to recognise the real estate market as a possible source and/or catalyst of systemic disturbances and improve financial institutions' resilience to shocks arising from this market. To adequately meet the requirements of the Recommendation and improve the monitoring of systemic risks arising from the commercial real estate market in 2023, Hanfa analysed in more detail the domestic commercial real estate market with a particular focus on the real estate portfolios of its supervised entities.<sup>133</sup>

In line with the usual practice, whereby the ESRB provides stress scenarios for regular European Supervisory Authorities stress tests, in 2023 the ESRB produced three different stress scenarios, and Hanfa's representatives actively participated in the iterative process of finalising these scenarios by means of written procedures. This includes a stress scenario for ESMA's MMF stress testing, a stress scenario for CCP stress testing, and a one-off analysis of climate risk scenarios of the Fit for 55 package.

Hanfa's representatives also participated in other ESRB activities through proactive attendance at meetings and discussions at which, in addition to macroprudential policies and measures, current developments in the macroeconomic and financial system and the main vulnerabilities and risks to which European economies are exposed were also discussed. President of Hanfa Board attended ESRB General Board meetings, while Hanfa's employees participated in meetings of its Advisory Technical Committee and Analysis Working Group.

### 8.1.5 IAIS – International Association of Insurance Supervisors

The International Association of Insurance Supervisors (hereinafter: IAIS) is an association promoting effective and globally consistent supervision of insurance industry through the creation of international standards for insurance supervision and as a forum for the exchange of experience and good practices among insurance supervisors. The IAIS brings together supervisors from more than 200 countries and other jurisdictions, accounting for more than 97% of the global insurance market.

Hanfa actively participates in a large number of activities with the President of Hanfa Board also being a member of the IAIS Executive Committee as the representative of the CEET region (Central and Eastern Europe and Transcaucasia). In addition to the meetings of the IAIS Executive Committee, the President of Hanfa Board (or his alternate) participates in the meetings of the Macroprudential Committee, Budget Committee as well as several IAIS working groups (Selection Group, Working Group for

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<sup>131</sup> Recommendation of the European Systemic Risk Board of 2 December 2021 on a pan-European systemic cyber incident coordination framework for relevant authorities ([ESRB/2021/17](#))

<sup>132</sup> Recommendation of the European Systemic Risk Board of 1 December 2022 on vulnerabilities in the commercial real estate sector in the European Economic Area ([ESRB/2022/9](#))

<sup>133</sup> **Financial Stability, No 3**, Box 1 Real estate investments: an alternative form of investment that significantly affects the stability of the financial services sector in Croatia?

Strategic and Financial Planning). Hanfa representatives also participated in the IAIS General Meeting and the Annual Conference.

Apart from regular self-assessment of the implementation of the IAIS Insurance Core Principles (ICPs), Hanfa continues to participate in the Global Monitoring Exercise – Sector-Wide Monitoring, providing required qualitative and quantitative data on the Croatian insurance and reinsurance market.

#### 8.1.6 IOPS – International Organisation of Pension Supervisors

In 2023, Hanfa participated in all regular activities of the International Organisation of Pension Supervisors (hereinafter: IOPS) as a full member. The IOPS currently has 80 full members and 10 associated members and observers. Participation includes IOPS regular annual meetings where decisions on the work programme in the forthcoming period are taken and meetings of the Technical Committee at which various issues related to the supervision of capitalised pension savings schemes are discussed. Hanfa also participates in workshops providing exchange of experience from supervisory practices and research on supervisory and regulatory practices implemented by the IOPS.

At regular elections held in 2022, Hanfa's representative was appointed as a member of the IOPS Executive Committee for a period of two years, i.e. from 2023 to the end of 2024. A representative of Hanfa Board attends Executive Committee meetings at which decisions related to the activities of the organisation are taken and decisions are prepared for the annual membership meeting.

In the past year, the IOPS conducted a survey on the liquidity risk for pension funds and on various aspects of pension fund investments, including the use of financial leverage. Hanfa also took part in the survey.

#### 8.1.7 IOSCO – International Organisation of Securities Commissions

In 2023, Hanfa Board members continued to participate in the work of the International Organisation of Securities Commissions (hereinafter: IOSCO) by attending the meetings of the Presidents Committee, the Growth and Emerging Markets Committee and the European Regional Committee, as well as through participation in written procedures of these committees. By participating in the Financial Innovation Network and in the Multilateral Memorandum of Understanding (hereinafter: IOSCO MMoU) Monitoring Group, Hanfa representatives also continued to take part in the work of that international organisation. Hanfa exchanged information with other supervisory authorities regarding the carrying out of supervisory activities on the basis of the IOSCO MMoU relating to consultation, cooperation and exchange of information, and participated in the work of the IOSCO Administrative Arrangement Assessment Group (AA-AG).

## Accession of the Republic of Croatia to the OECD

The Organisation for Economic Co-operation and Development is a forum in which governments compare and share political experiences, identify good practices in light of new challenges, and promote decisions and recommendations that should contribute to better policies to create better living conditions. The OECD's mission is to promote policies that improve people's economic and social wellbeing worldwide. OECD has 38 member countries.

The accession of the Republic of Croatia to the OECD is the last strategic foreign policy objective of the Republic of Croatia. To this end, a negotiating team for Croatia's accession to the OECD (hereinafter: negotiating team), of which Hanfa is a member, was established in February 2022. The negotiating team was set up as an interdepartmental group headed by the Minister of Foreign and European Affairs, which brings together representatives of all the bodies involved in the accession process on a regular basis. Croatia formally started accession negotiations in July 2022 and the OECD accession process should be concluded by the end of 2025, with the ambition to achieve formal membership in 2026. Hanfa has been actively participating in the process of accession of the Republic of Croatia to the OECD from the outset, as a member of the negotiating team and providing expert support to competent ministries in the area of financial markets, insurance, private pensions, corporate governance, financial literacy, consumer protection and codes of liberalisation.

The self-assessment against applicable OECD legal instruments through the so-called initial memorandum in October 2022 was followed by technical reviews by OECD committees and working groups in November 2022. The technical reviews and the resulting official opinions cover two main elements: an assessment of Croatia's readiness and ability to implement all OECD legal instruments within the remit of the committees and the assessment of Croatia's policies and practices compared to OECD best policies and practices in the relevant field.

Together with competent ministries, in 2023 Hanfa took part in the technical review processes of the following OECD committees and working parties:

- Investment Committee (Codes of Liberalisation);
- Committee on Financial Markets;
  - Task Force on Financial Consumer Protection;
  - International Network on Financial Education;
- Corporate Governance Committee;
- Insurance and Private Pensions Committee;
- Working Party on Private Pensions.

The technical review processes included the timely preparation and submission of responses to questionnaires, the preparation of a self-assessment of compliance with OECD legal instruments, the organisation and conduct of missions where experts from the OECD Secretariat identify facts and collect additional information and data for the purpose of preparing the report, and presentations at accession discussions before the OECD committees and working parties.

In six of the seven OECD committees and working parties in which Hanfa participates with the relevant ministries, in 2023 the Republic of Croatia received formal letters from their chairs on the outcome of the accession review. The Chairs of the Committee on Financial Markets, the Working Party on Private Pensions, Task Force on Financial Consumer Protection and the International Network on Financial Education informed the Republic of Croatia that the above-mentioned OECD working bodies had decided to conclude the accession review. In the letters, the Republic of Croatia received certain recommendations aimed at further alignment with OECD policies and best practices, but their fulfilment is not a condition for the conclusion of the accession review.

In relation to the OECD Codes of Liberalisation, the Chair of the Investment Committee informed the Republic of Croatia that the Committee concluded that the Republic of Croatia had to comply with a number of binding recommendations and to inform the committee about their follow-up. The negotiating team analysed the resulting recommendations and Hanfa participated in the development of an Action plan to address the recommendations falling within its remit (financial markets, insurance, private pensions).

The Chair of the Corporate Governance Committee also informed the Republic of Croatia that the Committee concluded that the Republic of Croatia had to address a number of binding recommendations regarding compliance with the OECD Corporate Governance Principles, so that the accession review could be concluded.

Apart from the activities associated with Croatia's accession to the OECD, Hanfa participated in regular meetings of the mentioned OECD committees and working parties. It also took part in regular reporting to the OECD on private pensions and insurance, which includes the preparation of statistical data on pension funds and pension insurance companies and information on the regulatory framework and investment rules.

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

Within the project "Programme for Strengthening the Central Bank Capacities in the Western Balkans" (stage 2, hereinafter: Programme), which is financed by the European Commission, Hanfa provided technical assistance to the Central Bank of

Kosovo, which is also the supervisory authority for the insurance market, in relation to the liberalisation of the compulsory traffic insurance market. The technical assistance included two missions of Hanfa experts to the Central Bank of Kosovo, as well as the organisation of a study visit to Zagreb for colleagues from Kosovo.

In the context of providing support to candidate countries' institutions, Hanfa experts participated in a number of missions, workshops and other technical assistance and information exchange activities (hereinafter: TAEX), an EU technical assistance programme. Last year, Hanfa experts provided technical assistance in the field of insurance (Albania) and open-ended and alternative investment funds and financial conglomerates (Montenegro). The TAEX instrument was also used to analyse the compatibility of some candidate countries' draft laws with the *acquis communautaire* in the area of capital markets (Serbia) and pension funds (Montenegro). In addition to TAEX, Hanfa provided technical assistance to the countries of the region through other international projects as well as on a bilateral basis.

In 2023, Hanfa signed a new cooperation agreement with the Capital Market Authority of Montenegro, regulating the exchange of data and technical cooperation on the capital market and capitalised pension savings. Hanfa experts participated in a training programme for pension fund managers organised by the Authority.

In 2023, Hanfa launched the implementation of a multinational project approved through the EU Technical Support Instrument "Sustainable Finance – Supervisory Capacity Enhancement". In the project, Hanfa is joined by the national supervisory authorities of Malta, Poland and Romania. The project includes a tailored approach for each supervisory authority and ensures a coordinated approach as regards common aspects. Hanfa's goal is to enhance its expertise in the field of the EU's sustainable financial framework and to improve the robustness of the system under its supervision.

Also, in 2023 Hanfa continued with the implementation of a joint Hanfa and CNB project "Implementation of regulations and supervisory practices regarding market behaviour", aimed at strengthening institutions' capacity in the area of consumer protection. The project should be completed in early 2024. The implementation of the EU Supervisory Digital Finance Academy (EU-SDFA), a project which aims to ensure the transfer of knowledge to Member States' supervisory authorities on new technologies in the area of financial services, the development of supervisory tools and information on the development of the regulatory framework, continued.

In the second half of 2023, Hanfa successfully completed the implementation of the joint project of Hanfa and the CNB "The improvement of risk-based supervision of anti-money laundering and terrorist financing", which resulted in further improving supervisory practices of both institutions.

In the second half of the year, Hanfa submitted two projects for the new cycle of the Technical Support Instrument: a joint project of the Ministry of Finance, the CNB and Hanfa "Enhancing the use of financial services through improvement of digital financial literacy" and a multinational project "Enhancing the capacity for CCP licensing, supervision, recovery and resolution", which is to be implemented jointly with the supervisory authorities of Greece, Poland, Portugal and Romania. Both projects have been approved and are scheduled to begin in 2024.

# JUDICIAL PROCEEDINGS

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## 9 JUDICIAL PROCEEDINGS

Hanfa regularly participates in misdemeanour proceedings as an authorised prosecutor and as a defendant in administrative disputes upon lawsuits filed against its administrative acts. Hanfa, as an authorised prosecutor, brings indictments to the Zagreb Municipal Misdemeanour Court (as a court with exclusive territorial jurisdiction) and to the Financial Inspectorate of the Ministry of Finance of the Republic of Croatia. Hanfa's employees actively participate in misdemeanour proceedings (by attending hearings, preparing statements and carrying out any other actions for which Hanfa is authorised by law as an authorised prosecutor). Procedures conducted by Hanfa within its competence are subject to the provisions of the General Administrative Procedure Act, unless otherwise provided by law. Hanfa, as a body governed by public law, conducts administrative proceedings in one instance, so its acts may be the subject of administrative disputes in which Hanfa is actively involved as a party. In the event of a criminal offence that is prosecuted *ex officio*, Hanfa files criminal charges to the competent State Attorney's Office in accordance with criminal procedure regulations.

### 9.1 Misdemeanour proceedings

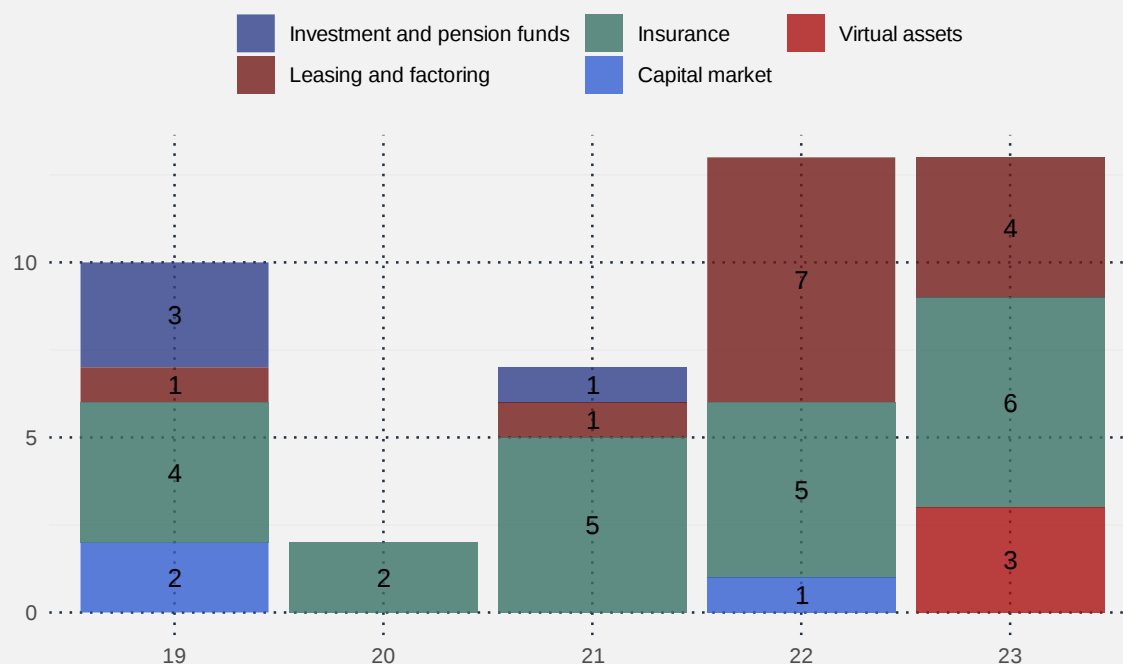
By virtue of its powers, Hanfa filed 13 indictments in the course of 2023. Ten of them were brought to the Zagreb Municipal Misdemeanour Court and three were brought to the Financial Inspectorate of the Ministry of Finance. The misdemeanour proceedings resulted from inspections that Hanfa carried out in the field of insurance, factoring and prevention of money laundering and terrorist financing, as well as from complaints submitted by consumers

Since its establishment on 1 January 2006 until 31 December 2023, Hanfa filed a total of 529 indictments serving as a basis for initiating misdemeanour proceedings.

The Misdemeanour Act<sup>134</sup> provides for the possibility for the authorised prosecutor and defendant to negotiate terms and conditions for the admission of guilt and to agree on the type and amount of the sanction. The general tendency towards alternative dispute resolutions resulted in 26 final convictions in the period from 2018 to end-2023.

<sup>134</sup> Official Gazette, No [107/07](#), [39/13](#), [157/13](#), [110/15](#), [70/17](#), [118/18](#), [114/22](#)

Figure 9.1 Overview of misdemeanour proceedings by sectors from 2019 to 2023  
Number of misdemeanour proceedings by sectors

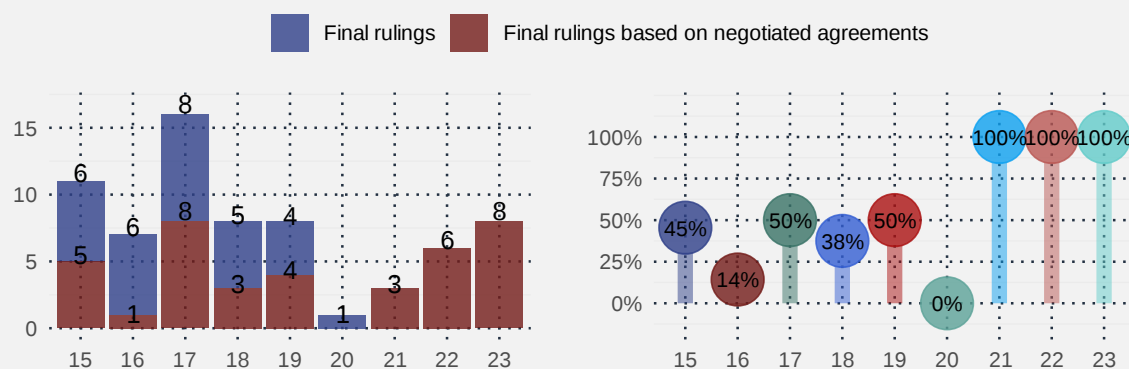


Source: Hanfa

Figure 9.2 Final rulings and indictments in the period from 2015 to end-2023

Number of final rulings based on negotiated agreements

Share of final rulings based on negotiated agreements, in % of the total number of indictments



Note: Final rulings based on negotiated agreements for the year 2016 include an agreement concluded and confirmed that year, for which the indictment was filed in 2012, before negotiation between an authorised prosecutor and a defendant was provided for by the Misdemeanour Act.

Source: Hanfa

### 9.1.1 Insurance market

Six indictments were brought against insurance companies and their responsible persons in 2023. Three indictments resulted from consumer complaints relating to the

violation of provisions of the Act Amending the Act on Compulsory Traffic Insurance<sup>135</sup>, namely to non-compliance with legally prescribed time limits for the submission of a reasoned offer or a reasoned reply to their claim, and to non-compliance with time limits for the payment of compensation (or the uncontested part of the claim as an advance) to injured parties. The proceedings are still pending.

The other three misdemeanour proceedings were the result of inspections carried out in respect of insurance companies. One of them was associated with violations of the Insurance Act<sup>136</sup> in connection with Commission Implementing Regulation (EU) 2015/2450 of 2 December 2015 laying down implementing technical standards with regard to the templates for the submission of information to the supervisory authorities according to Directive 2009/138/EC of the European Parliament and of the Council,<sup>137</sup> which resulted in a failure to provide information to Hanfa on the cross-border supply of insurance services in another EU Member State. The proceedings ended with the conclusion of a settlement. The other misdemeanour procedure was initiated for violation of the provisions of the Insurance Act relating to the establishment of an effective and reliable system of governance in the field of operational risk management and for violation of the provisions of the same Act relating to the provision of information and conduct of companies in the distribution of insurance products and for violation of the PRIPs Delegated Regulation as regards the content of key information documents. The proceedings ended with the conclusion of a settlement.

Finally, the third set of proceedings was initiated in order to penalise the conduct of an insurance company contrary to the provisions of the Insurance Act and carrying on illegal activities to the detriment of policyholders in the context of insurance distribution. The proceedings are still pending.

## 9.1.2 Factoring

Four indictments were brought against a factoring company and its responsible person. Of that number, three were initiated because the company failed to comply with Hanfa's decisions ordering the elimination of established illegalities and irregularities, and one was associated with the failure to submit audited annual financial statements within the legal deadline, which is contrary to the provisions of the Factoring Act<sup>138</sup>. All four proceedings ended with the conclusion of a settlement between defendants and Hanfa as an authorised prosecutor.

## 9.1.3 Prevention of money laundering and terrorist financing

Three legal persons engaged in the provision of exchange services between virtual currencies and fiat currencies and/or the provision of custodian wallet services and

<sup>135</sup> Official Gazette, No [151/05](#), [36/09](#), [75/09](#), [76/13](#), [152/14](#), [155/23](#)

<sup>136</sup> Official Gazette, No [30/15](#), [112/18](#), [63/20](#), [133/20](#), [151/22](#)

<sup>137</sup> [Commission Implementing Regulation \(EU\) 2015/2450](#) of 2 December 2015 laying down implementing technical standards with regard to the templates for the submission of information to the supervisory authorities according to Directive 2009/138/EC of the European Parliament and of the Council, OJ L 347

<sup>138</sup> Official Gazette, No [94/14](#), [85/15](#), [41/16](#)

their responsible persons were the subject of misdemeanour proceedings before the Financial Inspectorate of the Ministry of Finance of the Republic of Croatia for infringement of the provisions of the AMLTFA<sup>139</sup>. One of them concerned the failure to implement the customer due diligence measures when establishing a business relationship. The other concerned the failure to ensure regular annual internal audit of the system for money laundering prevention. Both the proceedings ended with the conclusion of a settlement. The third procedure concerned failures relating to the appointment of one or more alternates to persons empowered to prevent money laundering and terrorist financing and the establishment of appropriate conditions with regard to organisation, personnel, equipment and other working conditions. The proceedings are still pending.

## 9.2 Administrative disputes

Seven administrative disputes were initiated against Hanfa's decisions, six of which were brought before the Administrative Court in Zagreb and one was brought before the Administrative Court in Split. Pursuant to the Administrative Disputes Act<sup>140</sup>, Hanfa provided responses to the complaints and submitted requested files to the court. In the proceedings initiated based on the complaints as well as the complaints from previous years, Hanfa's employees submitted reports and attended hearings before the court. Out of the seven initiated disputes, four were initiated against decisions relating to insurance and three were initiated against decisions in connection with the capital market in connection with the Act on the Takeover of Joint-Stock Companies<sup>141</sup>. A decision on the dismissal of the claim was adopted in one of the disputes related to the capital market; following an appeal, the case was brought to the High Administrative Court of the Republic of Croatia and has not yet been finally settled. All proceedings are still pending.

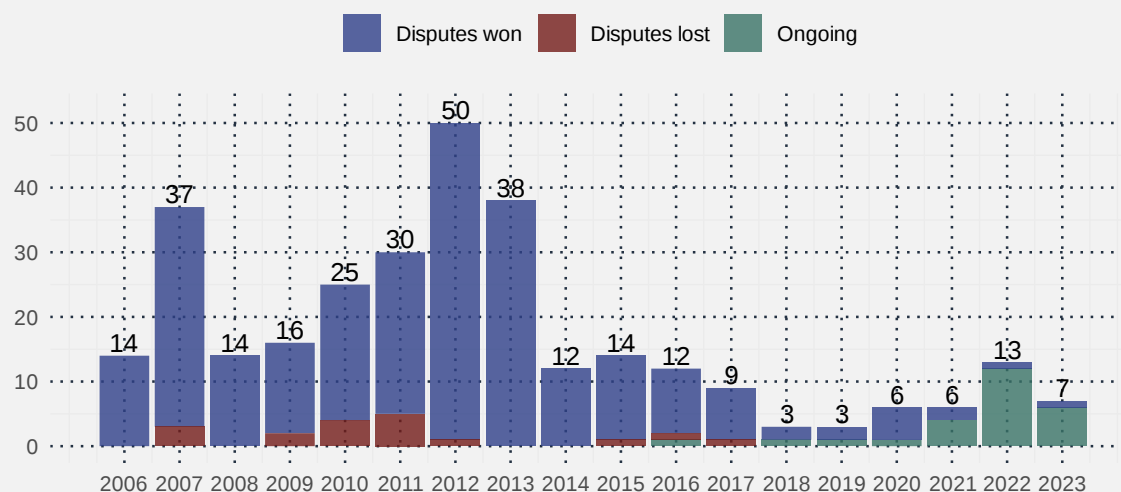
<sup>139</sup> Official Gazette, No [108/17](#), [39/19](#), [151/22](#)

<sup>140</sup> Official Gazette, No [20/10](#), [143/12](#), [152/14](#), [94/16](#), [29/17](#), [110/21](#)

<sup>141</sup> Official Gazette, No [109/07](#), [36/09](#), [108/12](#), [90/13](#), [99/13](#), [148/13](#)

Figure 9.3 Outcomes of administrative disputes

Number of disputes by type of outcome



Source: Hanfa

## 9.3 Criminal charges

Since its establishment on 1 January 2006 until 31 December 2023, Hanfa filed 52 criminal charges with the competent State Attorney.

## 9.4 Debt recovery actions

In the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2022<sup>142</sup> and the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2023<sup>143</sup> Hanfa laid down the entities subject to fees and the amount of fees payable to Hanfa. In 2023, Hanfa initiated enforcement proceedings with a view to recovering its claim for unpaid fees against a supervised entity, which resulted in the issuance of an enforcement order. The proceedings are still pending.

<sup>142</sup> Official Gazette, No **144/21**

<sup>143</sup> Official Gazette, No **155/22**

# **HANFA'S BUSINESS OPERATIONS**

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## 10 HANFA'S BUSINESS OPERATIONS

The work of Hanfa is managed by the Board, which is directly competent for five divisions and ten offices that carry out Hanfa's core functions and tasks defined in the Act on Hanfa. The business support function is performed by five departments of the Office of the Secretary General, which in addition to regular tasks in 2023 were heavily involved in the further digitalisation of business processes, in line with one of the strategic objectives of Hanfa.

Internal regulations and employment contracts have been aligned with the amendments to the Labour Act, which entered into force at the beginning of the year.

### 10.1 Internal organisational structure and human resources

Hanfa is governed by the Board consisting of five members, one of which is the President. The President and members of the Board are appointed by the Croatian Parliament at the proposal of the Government of the Republic of Croatia for a term of six years. In 2018, Ante Žigman was appointed President of the Board, while Antun Palarić, Tomislav Ridzak, Ilijana Jeleč and Jurica Jednačak were appointed members of the Board. President of the Board appoints a Deputy President, a rotating position taken on by a different Board member every 18 months. In 2023, that position was held by Tomislav Ridzak.

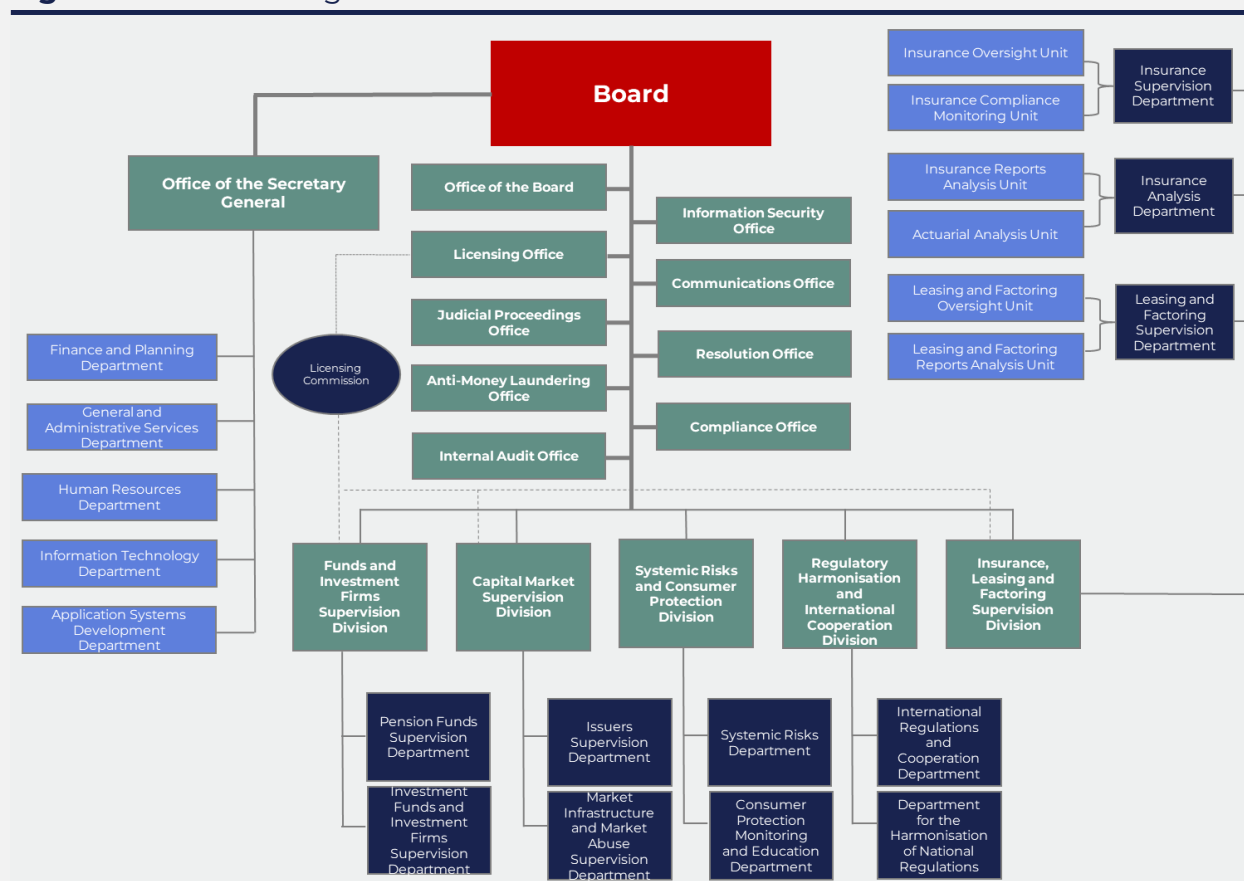
The Board adopts its decisions at meetings by a majority of at least three votes, with no possibility to abstain from voting. Hanfa Board held 35 meetings and adopted 830 decisions in 2023.

The Act on Hanfa provides that Hanfa has an advisory body – Hanfa's Council, consisting of nine members. The President of Hanfa Board is a member of the Council by virtue of his office. Three members are appointed by the Government of the Republic of Croatia and five by representatives of supervised entities' associations at the Croatian Chamber of Economy. In addition to the President of Hanfa Board Ante Žigman, Council members in 2023 were Kristijan Buk (President of the Council), Ivana Gažić, Josip Glavaš, Klaudija Karabuva Vidas, Ivana Ravlić Ivanović, Davor Tomašković, Ivana Žepić and Novka Simić. During 2023, the Council held four meetings.

The number and structure of Hanfa's employees did not change much from previous years. At the end of 2023, Hanfa had a staff of 189, which is a decrease of 7% from the end of the previous year. Around two-thirds of total staff were female employees and one third were male employees, holding both executive and managerial positions. The average age of male employees was 46 years and the average age of female employees was 44 years.

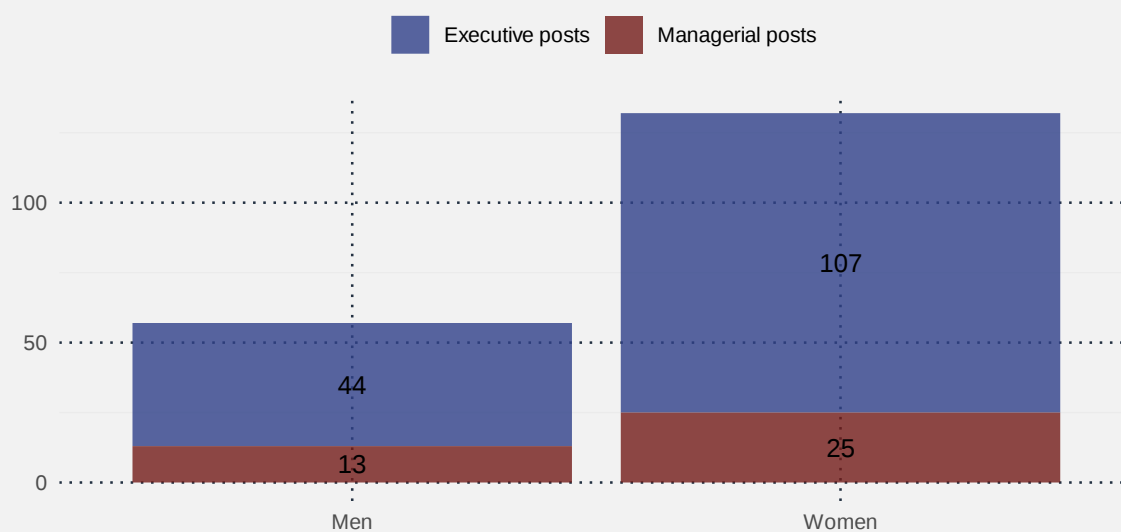
The most represented professions are economists, lawyers and mathematicians. The average total number of years in service was 18, and the average number of years working in Hanfa was 9. In supervisory positions, 66% of Hanfa's employees had passed a state exam and 27% had passed a bar exam (relieving employees from the obligation to sit a state exam). The bar exam was passed by 64% of all lawyers, i.e. 79% of lawyers holding supervisory positions.

**Figure 10.1** Hanfa's organisational structure as at 31 December 2023



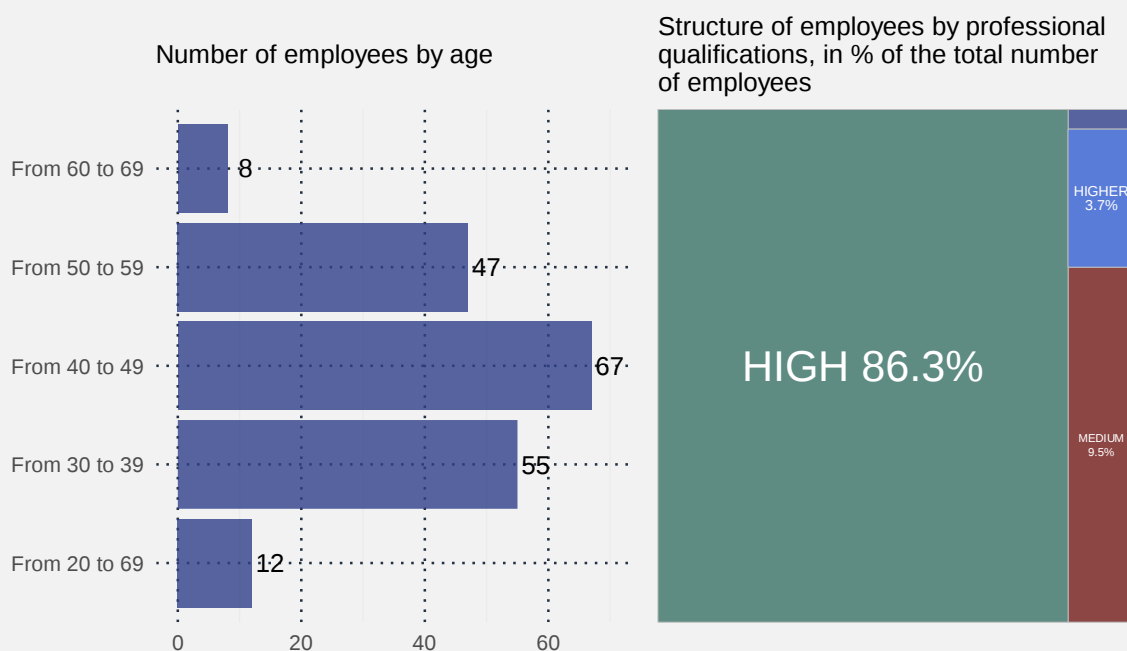
Source: Hanfa

Figure 10.2 Gender structure of Hanfa's employees at the end of 2023



Source: Hanfa

Figure 10.3 Structure of Hanfa's employees at the end of 2023



Note: LOW – low qualifications (completed primary school), MEDIUM – medium qualifications (completed secondary school), HIGHER – higher qualifications (study programmes of 180 to 240 ECTS credits), HIGH – high qualifications (study programmes of a minimum of 300 ECTS credits).

Source: Hanfa

After amendments to the Labour Act<sup>144</sup> entered into force on 1 January 2023, the alignment of internal regulations and related contracts was carried out. The Ordinance on the work of Hanfa as well as employee employment contracts have been amended.

<sup>144</sup> [Official Gazette, No 151/22](#)

Also, instead of a previously appointed one person, there are now two persons authorised to receive and handle complaints related to the protection of dignity. Minor amendments to the Ordinance on teleworking have further facilitated work-life balance, following global trends in work organisation. The Ordinance on wages and other remuneration of Hanfa's employees has also been amended.

As in the previous years, an internship competition was announced for students of relevant disciplines; ten students were selected and given the opportunity for student internship in 2023.

The elaboration and development of the functionalities of the information system for accounting and human resources continued. Digitalisation of part of the process has accelerated certain activities and reduced the use of paper.

As part of the project to create new Hanfa's websites, the content was split into three units intended for professionals, consumers, and potential employees and students. This has increased the availability, browsability and comprehensibility of content for different categories of readers. In order to better present Hanfa as employer, the scope of information relating to the organisational structure, the application procedure, the selection procedure, the work in Hanfa, traineeships, student internship and student scholarship conditions has been significantly increased.

## 10.2 Internal audit

The internal audit is carried out according to a plan drawn up in accordance with the requirements of the system of financial management and control and the requirements of Hanfa's operations, in line with the importance of business processes, risks and other relevant parameters. In 2023, the Internal Audit Office carried out internal audits in the areas of acquisition and disposal of financial instruments by employees, the process of conducting a self-assessment of the system of financial management and control, business processes related to the conduct of public and simple procurement procedures, business processes for the oversight of the legality of operators and other capital market infrastructures, and the process of oversight of the legality of the conduct of securities issuers.

## 10.3 Information security at Hanfa

In 2023, Hanfa participated in the drafting of European regulations in the area of digital operational resilience. As members of several European working bodies and committees, staff of the Information Security Office were involved in the process of developing the regulatory and implementing technical standards resulting from the DORA, which will apply from January 2025. Hanfa also participated in the drafting of the new Cyber Security Act<sup>145</sup> and in the preparation of laws on critical infrastructures and the implementation of the DORA. In cooperation with the CNB, numerous activities were undertaken aimed at informing financial entities about the obligations

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<sup>145</sup> [Official Gazette, No 14/24](#)

imposed by the DORA, through organising workshops for a large number of financial institutions.

In cooperation with the Insurance, Leasing and Factoring Supervision Division, the Information Security Office participated in the supervision of the quality of IT systems of individual entities subject to supervision, with a special emphasis on cyber security, business continuity and the management of relations with external suppliers. In addition, activities related to the application of the Act on Cybersecurity of Key Service Providers and Digital Service Providers<sup>146</sup> were carried out during the year.

## 10.4 Hanfa's information systems

In maintaining and improving the information system, further digitalisation of business processes continued, with the aim of reducing costs and creating a safer and more environmentally friendly way of working. The main activities were related to the harmonisation of the reporting system associated with the changeover from the Croatian kuna to the euro, the implementation of the new accounting standards IFRS 17 and IFRS 9 and the introduction of a digital signature in the business of Hanfa. The submission of documents by supervised entities and the automated processing of the data received have been improved. In addition, Hanfa's information systems have been adapted to the requirements arising from regulatory changes, including integration with state infrastructure and reference state registers.

## 10.5 Hanfa's financial operations

Hanfa keeps business books in accordance with the regulations governing financial operations and accounting of non-profit organisations. These regulations include the Act on Financial Operations and Accounting of Non-Profit Organisations<sup>147</sup>, Ordinance on non-profit accounting and the accounting plan<sup>148</sup>, Ordinance on reporting in non-profit accounting and the register of non-profit organisations<sup>149</sup> and the Ordinance on the financial management and control system, and the preparation and execution of financial plans of non-profit organisations<sup>150</sup>.

As at 31 December 2023, Hanfa's total assets amounted to EUR 4.3m, growing by 3.3% from the end of 2022. The increase in total assets was largely due to the rise in financial assets, of 6.5%, while the amount of non-financial assets fell by 8.8% from 2022. The structure of liabilities also changed from 2022 so that own sources increased by 10.4% and liabilities decreased by 10.9%, with the own resources-to-liabilities ratio standing at 71/29 in favour of own sources in 2023.

<sup>146</sup> **Official Gazette, No 64/18**

<sup>147</sup> Official Gazette, No **121/14, 114/22**

<sup>148</sup> Official Gazette, No **1/15, 25/17, 96/18, 103/18, 134/22**

<sup>149</sup> Official Gazette, No **31/15, 67/17, 115/18** and **21/21**

<sup>150</sup> Official Gazette, No **119/15, 134/22**

**Table 10.1** Hanfa's balance sheet as at 31 December 2023

In EUR thousand

| Assets                   | Amount         | Share in assets      |
|--------------------------|----------------|----------------------|
| Non-financial assets     | 796.4          | 18.6%                |
| Financial assets         | 3,487.1        | 81.4%                |
| <b>Total assets</b>      | <b>4,283.5</b> |                      |
| Liabilities              | Amount         | Share in liabilities |
| Liabilities              | 1,237.1        | 28.9%                |
| Own sources              | 3,046.4        | 71.1%                |
| <b>Total liabilities</b> | <b>4,283.5</b> |                      |

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

**Source:** Hanfa

Cash at bank and in hand and deposits with banks accounted for the largest shares in Hanfa's financial assets, 59.6% and 31.5%, respectively, while the rest was accounted for by guarantee deposits, receivables and prepayments. Most of non-financial assets, 75.1%, related to intangible assets, that is licenses and other rights. The remaining part of non-financial assets consisted of buildings, equipment and furniture, and software investments.

On the liability side, 98% was accounted for by liabilities for expenditures, that is, liabilities for employees, liabilities for material expenses, other liabilities and liabilities for prepayments and taxes. The remaining part of liabilities related to accrued expenses. Own sources comprised operating sources and surplus income over expenditure, which amounted to EUR 455.8 thousand in 2023 and was transferred into the state budget of the Republic of Croatia.

### 10.5.1 Income

Hanfa's total income amounted to EUR 12.6m in 2023, an increase of 8.1% from the year before. The most significant source of income was income received under special regulations, comprising income received from fees from assets and income of supervised entities, fees charged for the provision of services within Hanfa's competence and other income received under special regulations. This income accounted for 99.4% (EUR 12.5m) of Hanfa's total income. The remaining EUR 81.7 thousand of income consisted of income from assets, income from donations and other income.

**Table 10.2** Summary of income realised in 2023

In EUR thousand

|                                                                                                           |                 |
|-----------------------------------------------------------------------------------------------------------|-----------------|
| <b>Total income</b>                                                                                       | <b>12,555.7</b> |
| Income received under special regulations                                                                 | 12,474.0        |
| Income received under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2023 | 11,351.4        |
| Income generated under the Ordinance on the type and amount of fees paid to Hanfa                         | 1,107.1         |
| Other income received under special regulations                                                           | 15.5            |
| Income from assets                                                                                        | 11.2            |
| Income from donations                                                                                     | 0.2             |
| Other income                                                                                              | 70.3            |

**Source:** Hanfa

The largest share of income received under special regulations in 2023, 90.4%, was accounted for by income made on the basis of the Ordinance on the calculation, amount and charging of fees<sup>151</sup>, which grew by 4.1% from 2022. The most important item in that income category was income from pension fund management companies, which amounted to EUR 6.9m.

Income generated under the Ordinance on the type and amount of fees<sup>152</sup> amounted to EUR 1.1m, up by 109.8% from 2022. This was mostly due to income earned under the Act on the Takeover of Joint-Stock Companies, which amounted to EUR 596.6 thousand in 2023, accounting for 53.9% of total income under the Ordinance on the type and amount of fees. A significant part of income in that category was income realised pursuant to the Insurance Act and arising from the examination of professional knowledge and issuance of authorisations and licences to pursue insurance and reinsurance distribution business. This income amounted to EUR 301 thousand in 2023, which was 35.7% more than in 2022.

In comparison with Hanfa's 2023 Financial Plan, the amount of income realised exceeded the planned amount by 9.1% or EUR 1.0m. The larger-than-planned income was mostly a result of income generated under the Act on the Takeover of Joint-Stock Companies, larger income from the examination of professional knowledge and issuance of authorisations to natural persons to pursue insurance distribution business and larger income from pension fund management companies.

<sup>151</sup> [Official Gazette, No 155/22](#)

<sup>152</sup> [Official Gazette, No 26/19](#)

## 10.5.2 Expenditure

Hanfa's expenditure is recognised on the basis of the accrual principle, that is, in the reporting period when it was incurred, regardless of the time of its payment.

Hanfa's total expenditure amounted to EUR 12.1m in 2023, an increase of 5.7% from 2022. Employee expenses accounted for the largest share of total expenditure (63%) in 2023, growing by 9.2% from the previous year.

Material expenditure amounted to EUR 4.0m, up by 1.7% from 2022. The largest share of material expenditure related to expenditure on services, 15.6% of total expenditure, including costs of renting business premises, current and investment maintenance services, telephone, postal and transport services, utilities, promotion and information services, intellectual services and other services. A significant share of material expenditure was accounted for by other material expenditure, of EUR 1.3m, which included membership fees to European and international bodies (ESMA, EIOPA, IAIS, IOSCO, IOPS, etc.), representation expenses and insurance premiums.

Depreciation expenditure was 17.5% lower in 2023 than in 2022 due to the expiry of the depreciation period of some assets, and came to 2.3% of total expenditure. Donations amounted to EUR 18.9 thousand, increasing by 71.4% from 2022, and included donations to institutions and natural persons, as well as scholarships paid to students. In 2023, to mark the World and European Money Week, Hanfa launched a competition for secondary schools titled "Protecting your money". The winning school, the Secondary School for Art, Design, Graphics and Clothes Zabok was awarded an interactive screen. Also conducted was a competition for primary schools titled "I take care of money and monitor costs", following which the winning school, Turanj Primary School from Karlovac was awarded an interactive board. In addition, Hanfa paid student scholarships in 2023.

Other expenses, accounting for 1.1% of total expenditure, included fines for failure to meet the employment quota for persons with disabilities, net book value and other expenses for fixed assets, receivables written-off, tax on road motor vehicles, fee refunds, voluntary pension insurance premiums and other unspecified expenses.

In accordance with the Act on Financial Operations and Accounting of Non-Profit Organisations, an external audit of Hanfa's 2023 financial statements was carried out, and the Independent Auditor's Report was published on Hanfa's website.

**Table 10.3** Income from fees generated in 2023

In EUR thousand

| <b>Income received under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2023</b>                                                    | <b>Amount</b>   | <b>Share in total income</b> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|------------------------------|
| Income from pension fund management companies                                                                                                                       | 6,943.4         | 61.17%                       |
| Income from insurance companies and reinsurance companies                                                                                                           | 1,246.7         | 10.98%                       |
| Income from investment fund management companies                                                                                                                    | 905.8           | 7.98%                        |
| Income from investment firms                                                                                                                                        | 720.9           | 6.35%                        |
| Income from leasing companies                                                                                                                                       | 581.3           | 5.12%                        |
| Income from issuers                                                                                                                                                 | 463.2           | 4.08%                        |
| Income from the Central Depository and Clearing Company                                                                                                             | 160.7           | 1.42%                        |
| Income from insurance distributors and reinsurance distributors                                                                                                     | 112.8           | 0.99%                        |
| Income from pension insurance companies                                                                                                                             | 104.6           | 0.92%                        |
| Income from the Zagreb Stock Exchange                                                                                                                               | 61.6            | 0.54%                        |
| Income from companies managing funds established under special regulations                                                                                          | 38.5            | 0.34%                        |
| Income from the central counterparty                                                                                                                                | 8.5             | 0.07%                        |
| Income from factoring companies                                                                                                                                     | 3.4             | 0.03%                        |
| <b>Total</b>                                                                                                                                                        | <b>11,351.4</b> | <b>100.00%</b>               |
| <b>Income generated under the Ordinance on the type and amount of fees paid to Hanfa</b>                                                                            | <b>Amount</b>   | <b>Share in total income</b> |
| Income generated under the Act on the Takeover of Joint-Stock Companies                                                                                             | 596.6           | 53.89%                       |
| Income generated under the Insurance Act                                                                                                                            | 301.0           | 27.19%                       |
| Income generated under the Act on Open-Ended Investment Funds with Public Offering                                                                                  | 63.4            | 5.73%                        |
| Income generated under the Alternative Investment Funds Act                                                                                                         | 34.1            | 3.08%                        |
| Income generated under the Capital Market Act                                                                                                                       | 33.7            | 3.04%                        |
| Income from the maintenance of the Register of Leased Assets                                                                                                        | 20.9            | 1.89%                        |
| Income generated under the Mandatory Pension Funds Act                                                                                                              | 18.7            | 1.69%                        |
| Income generated under the Leasing Act                                                                                                                              | 17.9            | 1.62%                        |
| Income generated under the Act on Hanfa (issuance of opinions and copies)                                                                                           | 10.7            | 0.97%                        |
| Income from fees charged for the training organised for brokers, investment advisers, certified pension fund managers, certified pension insurance company managers | 3.3             | 0.30%                        |
| Income generated under the Act implementing EMIR                                                                                                                    | 3.3             | 0.30%                        |
| Income generated under the Factoring Act                                                                                                                            | 2.1             | 0.19%                        |
| Income generated under the Act on Pension Insurance Companies                                                                                                       | 1.3             | 0.12%                        |
| <b>Total</b>                                                                                                                                                        | <b>1107.0</b>   | <b>100.00%</b>               |

Source: Hanfa

**Table 10.4** Summary of expenditure realised in 2023

In EUR thousand

|                                  |                 |
|----------------------------------|-----------------|
| <b>Total expenses</b>            | <b>12,099.8</b> |
| Employee expenses                | 7,620.0         |
| Material expenditure             | 4,042.6         |
| Costs for employees              | 571.7           |
| Costs for external staff         | 31.1            |
| Expenditure on services          | 1,883.9         |
| Expenses on materials and energy | 291.9           |
| Other material expenditure       | 1,264.0         |
| Depreciation expenditure         | 278.8           |
| Financial expenditure            | 10.2            |
| Donations                        | 18.9            |
| Other expenses                   | 129.3           |

**Source:** Hanfa

# STATISTICAL OVERVIEW OF INDUSTRIES



# 11 STATISTICAL OVERVIEW OF INDUSTRIES

## 11.1 Investment funds

### Open-ended investment funds with public offering – UCITS

#### Investment funds - UCITS

|                             | 2018      | 2019      | 2020      | 2021      | 2022      | 2023      |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Number of funds             | 93        | 96        | 96        | 93        | 100       | 109       |
| Net assets, in EUR thousand | 2,537,289 | 2,996,499 | 2,417,699 | 2,855,179 | 2,165,751 | 2,288,781 |

#### Issuance and redemption of units in UCITS

In EUR thousand

|                     | 2018      | 2019      | 2020      | 2021      | 2022      | 2023    |
|---------------------|-----------|-----------|-----------|-----------|-----------|---------|
| Issuance of units   | 1,525,904 | 1,526,082 | 1,171,994 | 1,387,582 | 1,019,540 | 987,044 |
| Redemption of units | 1,434,937 | 1,259,075 | 1,823,878 | 989,611   | 1,475,401 | 908,581 |

#### Asset structure of equity UCITS per asset type

In EUR thousand

|                          | 2018    | 2019    | 2020    | 2021    | 2022    | 2023    |
|--------------------------|---------|---------|---------|---------|---------|---------|
| Cash                     | 20,580  | 25,478  | 21,237  | 33,073  | 33,365  | 16,950  |
| Shares                   | 180,052 | 200,906 | 186,193 | 269,944 | 215,771 | 300,822 |
| Bonds                    | 3,542   | 3,856   | 3,658   | 1,843   | 1,819   | 1,726   |
| Investment funds         | 8,150   | 10,561  | 10,002  | 16,165  | 6,852   | 12,110  |
| Money market instruments | 0       | 0       | 0       | 0       | 133     | 145     |
| Deposits                 | 425     | 181     | 1,327   | 2,920   | 5,023   | 32,476  |

#### Asset structure of balanced UCITS per asset type

In EUR thousand

|                          | 2018   | 2019   | 2020   | 2021   | 2022   | 2023    |
|--------------------------|--------|--------|--------|--------|--------|---------|
| Cash                     | 12,607 | 22,690 | 17,639 | 33,721 | 18,692 | 6,401   |
| Shares                   | 34,203 | 29,336 | 32,711 | 48,669 | 32,797 | 47,653  |
| Bonds                    | 51,856 | 58,264 | 57,394 | 68,073 | 52,444 | 160,312 |
| Investment funds         | 15,102 | 19,406 | 20,542 | 45,038 | 31,177 | 43,364  |
| Money market instruments | 0      | 0      | 0      | 0      | 0      | 1,768   |
| Deposits                 | 3,709  | 2,052  | 0      | 1,925  | 6,582  | 8,729   |

**Asset structure of bond UCITS per asset type**

In EUR thousand

|                          | 2018    | 2019      | 2020      | 2021      | 2022      | 2023    |
|--------------------------|---------|-----------|-----------|-----------|-----------|---------|
| Cash                     | 131,617 | 296,304   | 304,237   | 322,504   | 170,590   | 41,427  |
| Shares                   | 0       | 0         | 1,742     | 3,391     | 10,221    | 0       |
| Bonds                    | 994,228 | 1,912,402 | 1,406,927 | 1,440,558 | 1,039,305 | 697,692 |
| Investment funds         | 4,940   | 11,566    | 15,116    | 15,941    | 13,658    | 4,839   |
| Money market instruments | 63,024  | 91,955    | 15,810    | 64,313    | 35,233    | 29,595  |
| Deposits                 | 38,685  | 238,592   | 208,327   | 186,150   | 104,966   | 148,996 |

**Asset structure of money market UCITS per asset type**

In EUR thousand

|                          | 2018    | 2019 | 2020 | 2021 | 2022 | 2023   |
|--------------------------|---------|------|------|------|------|--------|
| Cash                     | 207,241 | 197  | 0    | 0    | 0    | 1      |
| Shares                   | 0       | 0    | 0    | 0    | 0    | 0      |
| Bonds                    | 258,721 | 0    | 0    | 0    | 0    | 0      |
| Investment funds         | 2,842   | 0    | 0    | 0    | 0    | 0      |
| Money market instruments | 194,593 | 0    | 0    | 0    | 0    | 5,521  |
| Deposits                 | 321,451 | 876  | 0    | 0    | 0    | 18,462 |

**Asset structure of other UCITS per asset type**

In EUR thousand

|                          | 2018   | 2019   | 2020   | 2021    | 2022    | 2023    |
|--------------------------|--------|--------|--------|---------|---------|---------|
| Cash                     | 5,213  | 23,053 | 21,178 | 46,486  | 22,607  | 6,192   |
| Shares                   | 2,345  | 6,710  | 10,804 | 20,829  | 19,349  | 18,244  |
| Bonds                    | 75,483 | 81,211 | 90,375 | 141,329 | 225,457 | 519,715 |
| Investment funds         | 25,162 | 53,413 | 44,035 | 82,412  | 65,802  | 63,866  |
| Money market instruments | 0      | 0      | 27     | 40      | 465     | 5,398   |
| Deposits                 | 9,003  | 17,703 | 16,504 | 15,101  | 12,548  | 33,583  |

**Asset structure of feeder UCITS per asset type**

In EUR thousand

|                          | 2018  | 2019  | 2020   | 2021   | 2022   | 2023   |
|--------------------------|-------|-------|--------|--------|--------|--------|
| Cash                     | 287   | 101   | 497    | 2,022  | 2,022  | 1,859  |
| Shares                   | 0     | 0     | 0      | 0      | 0      | 0      |
| Bonds                    | 0     | 0     | 0      | 0      | 0      | 0      |
| Investment funds         | 2,298 | 1,921 | 14,740 | 55,341 | 70,900 | 79,153 |
| Money market instruments | 0     | 0     | 0      | 0      | 0      | 0      |
| Deposits                 | 0     | 0     | 0      | 0      | 0      | 0      |

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

|                             | 2018    | 2019    | 2020    | 2021    | 2022    | 2023      |
|-----------------------------|---------|---------|---------|---------|---------|-----------|
| Number of funds             | 34      | 36      | 38      | 34      | 39      | 41        |
| Net assets, in EUR thousand | 476,280 | 593,889 | 625,407 | 693,196 | 686,309 | 1,074,482 |

**Investment firms****Investment firms**

|                                                   | 2018   | 2019    | 2020    | 2021    | 2022    | 2023    |
|---------------------------------------------------|--------|---------|---------|---------|---------|---------|
| Number of firms                                   | 7      | 7       | 6       | 6       | 5       | 5       |
| Portfolio management, in EUR thousand             | 3,707  | 3,067   | 3,492   | 4,388   | 3,959   | 5,531   |
| Custody of financial instruments, in EUR thousand | 89,894 | 140,060 | 241,898 | 581,120 | 659,670 | 977,785 |

## 11.2 Pension funds

### Mandatory pension funds

#### Mandatory pension funds

|                                      | 2018       | 2019       | 2020       | 2021       | 2022       | 2023       |
|--------------------------------------|------------|------------|------------|------------|------------|------------|
| Number of funds                      | 12         | 12         | 12         | 12         | 12         | 12         |
| Number of fund members               | 1,936,261  | 2,010,403  | 2,057,391  | 2,111,192  | 2,179,051  | 2,248,825  |
| Category A                           | 6,273      | 25,453     | 83,448     | 150,266    | 233,445    | 320,273    |
| Category B                           | 1,896,361  | 1,948,510  | 1,925,328  | 1,899,623  | 1,865,378  | 1,827,332  |
| Category C                           | 33,627     | 36,440     | 48,615     | 61,303     | 80,228     | 101,220    |
| Net assets, in HRK thousand          | 13,023,584 | 14,944,337 | 15,803,047 | 17,650,040 | 17,542,566 | 20,233,301 |
| Total contributions, in HRK thousand | 9,714,146  | 10,602,678 | 11,509,131 | 12,498,732 | 13,592,485 | 14,848,092 |
| Total payments, in HRK thousand      | -1,080,839 | -1,231,711 | -1,431,943 | -1,678,874 | -1,960,854 | -2,260,060 |

#### MIREX values

|         | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  |
|---------|-------|-------|-------|-------|-------|-------|
| Mirex A | 134.6 | 152.3 | 153.0 | 173.7 | 166.5 | 191.3 |
| Mirex B | 243.2 | 265.2 | 267.7 | 287.4 | 272.9 | 300.7 |
| Mirex C | 129.0 | 136.0 | 137.5 | 138.1 | 130.9 | 136.1 |

#### Asset structure of category A MPFs by investment type

In EUR thousand

|                          | 2018   | 2019   | 2020   | 2021   | 2022   | 2023    |
|--------------------------|--------|--------|--------|--------|--------|---------|
| Cash                     | 4,473  | 2,084  | 4,685  | 8,409  | 20,835 | 9,580   |
| Shares                   | 29,502 | 40,486 | 48,295 | 74,935 | 91,761 | 130,146 |
| Bonds                    | 44,147 | 54,626 | 55,454 | 65,632 | 86,895 | 164,928 |
| Investment funds         | 7,207  | 12,885 | 18,562 | 33,177 | 37,368 | 58,384  |
| Money market instruments | 0      | 0      | 0      | 0      | 3,101  | 10,851  |
| Deposits                 | 1,725  | 664    | 3,557  | 8,017  | 15,662 | 41,755  |

#### Asset structure of category B MPFs by investment type

In EUR thousand

|                          | 2018      | 2019      | 2020      | 2021      | 2022      | 2023       |
|--------------------------|-----------|-----------|-----------|-----------|-----------|------------|
| Cash                     | 410,899   | 108,900   | 269,507   | 199,866   | 431,359   | 95,729     |
| Shares                   | 2,057,268 | 2,595,473 | 2,873,173 | 3,661,505 | 3,451,850 | 4,370,703  |
| Bonds                    | 8,662,779 | 9,895,183 | 9,871,192 | 9,990,630 | 9,808,964 | 10,994,737 |
| Investment funds         | 801,736   | 1,139,143 | 1,268,108 | 2,001,896 | 1,777,452 | 2,071,720  |
| Money market instruments | 165,866   | 186,563   | 234,221   | 143,334   | 120,492   | 79,457     |
| Deposits                 | 240,404   | 154,626   | 215,349   | 234,396   | 250,779   | 337,318    |

#### Asset structure of category C MPFs by investment type

In EUR thousand

|                          | 2018    | 2019    | 2020    | 2021      | 2022      | 2023      |
|--------------------------|---------|---------|---------|-----------|-----------|-----------|
| Cash                     | 24,531  | 11,372  | 35,157  | 36,485    | 93,064    | 35,671    |
| Shares                   | 0       | 0       | 0       | 0         | 0         | 0         |
| Bonds                    | 582,423 | 729,952 | 848,645 | 1,013,341 | 1,232,780 | 1,577,580 |
| Investment funds         | 9,168   | 4,422   | 17,842  | 24,558    | 43,148    | 34,808    |
| Money market instruments | 5,308   | 7,429   | 10,612  | 31,853    | 20,004    | 62,328    |
| Deposits                 | 22,430  | 0       | 52,692  | 85,143    | 50,107    | 153,983   |

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

|                                                      | 2018    | 2019    | 2020    | 2021    | 2022    | 2023      |
|------------------------------------------------------|---------|---------|---------|---------|---------|-----------|
| Number of funds                                      | 8       | 8       | 8       | 8       | 8       | 8         |
| Number of fund members                               | 305,145 | 320,533 | 335,327 | 351,266 | 374,760 | 394,363   |
| Net assets of funds, in HRK thousand                 | 561,596 | 679,470 | 735,652 | 852,153 | 875,608 | 1,045,123 |
| Total contributions during the year, in HRK thousand | 82,859  | 96,508  | 95,386  | 105,030 | 112,566 | 122,893   |
| Total payments during the year, in HRK thousand      | -33,285 | -32,297 | -32,851 | -34,194 | -37,432 | -40,342   |

**Annual returns of OVPFs**

|                                | 2018   | 2019   | 2020   | 2021   | 2022    | 2023   |
|--------------------------------|--------|--------|--------|--------|---------|--------|
| AZ Benefit OVPF                | -0.07% | 6.56%  | -0.44% | 0.55%  | -6.53%  | 5.07%  |
| AZ Profit OVPF                 | -2.53% | 10.45% | -1.26% | 7.03%  | -6.33%  | 12.59% |
| Croatia osiguranje OVPF        | -1.52% | 12.20% | 0.39%  | 5.92%  | -7.55%  | 10.14% |
| Croatia osiguranje 1000 A OVPF | 5.23%  | 13.76% | 0.82%  | 7.69%  | -10.47% | 12.60% |
| Croatia osiguranje 1000 C OVPF | 2.45%  | 5.37%  | 1.76%  | 0.76%  | -4.05%  | 3.37%  |
| Erste Plavi Expert OVPF        | -2.09% | 12.60% | -3.00% | 11.26% | -4.16%  | 13.42% |
| Erste Plavi Protect OVPF       | 5.40%  | 6.85%  | 0.42%  | -0.30% | -6.44%  | 4.75%  |
| Raiffeisen OVPF                | 1.61%  | 8.86%  | -1.04% | 8.12%  | -4.99%  | 8.62%  |

**Asset structure of OVPFs by investment type***In EUR thousand*

|                          | 2018    | 2019    | 2020    | 2021    | 2022    | 2023    |
|--------------------------|---------|---------|---------|---------|---------|---------|
| Cash                     | 53,232  | 42,311  | 56,249  | 81,140  | 94,189  | 28,661  |
| Shares                   | 120,875 | 161,412 | 175,064 | 212,246 | 210,396 | 259,761 |
| Bonds                    | 355,089 | 421,688 | 442,152 | 456,875 | 479,572 | 568,904 |
| Investment funds         | 35,041  | 56,687  | 62,655  | 98,649  | 83,519  | 102,286 |
| Money market instruments | 0       | 0       | 0       | 0       | 3,951   | 29,478  |
| Deposits                 | 0       | 1,699   | 1,858   | 4,645   | 5,638   | 57,731  |

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

|                                                      | 2018   | 2019    | 2020    | 2021    | 2022    | 2023    |
|------------------------------------------------------|--------|---------|---------|---------|---------|---------|
| Number of funds                                      | 20     | 20      | 20      | 20      | 21      | 21      |
| Number of fund members                               | 40,482 | 44,569  | 45,228  | 46,001  | 47,718  | 48,683  |
| Net assets, in HRK thousand                          |        | 146,220 | 159,012 | 183,712 | 181,597 | 215,102 |
| Total contributions during the year, in HRK thousand |        | 20,528  | 17,558  | 18,927  | 17,895  | 18,509  |
| Total payments during the year, in HRK thousand      |        | -4,971  | -5,246  | -6,524  | -7,571  | -7,123  |

**Asset structure of CVPFs by investment type***In EUR thousand*

|                          | 2018   | 2019   | 2020   | 2021   | 2022   | 2023    |
|--------------------------|--------|--------|--------|--------|--------|---------|
| Cash                     | 14,355 | 8,885  | 10,916 | 18,691 | 15,970 | 6,300   |
| Shares                   | 28,226 | 37,240 | 39,673 | 47,621 | 46,212 | 56,946  |
| Bonds                    | 70,847 | 84,360 | 85,197 | 85,597 | 95,578 | 109,937 |
| Investment funds         | 7,808  | 15,618 | 26,538 | 31,731 | 24,069 | 23,310  |
| Money market instruments | 0      | 0      | 0      | 0      | 0      | 14,759  |
| Deposits                 | 0      | 565    | 0      | 0      | 0      | 4,064   |

## 11.3 Insurance companies

### Insurance

|                                                | 2018      | 2019      | 2020      | 2021      | 2022      | 2023      |
|------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Number of insurance and reinsurance companies  | 18        | 16        | 15        | 15        | 15        | 14        |
| Premium collected, in EUR thousand             | 1,308,916 | 1,391,964 | 1,391,144 | 1,558,675 | 1,633,669 | 1,749,382 |
| Claims settled, gross amounts, in EUR thousand | 737,025   | 793,188   | 869,171   | 972,868   | 1,024,107 | 1,163,501 |

The amounts for 2018 – 2021 relate to the gross written premium, while the amounts for 2022 and 2023 relate to the premium collected.

### Overview of the premium collected by insurance classes

In EUR thousand

| Code                                              | Insurance class                                                                  | 2022             | Share          | 2023             | Share          | Change         |
|---------------------------------------------------|----------------------------------------------------------------------------------|------------------|----------------|------------------|----------------|----------------|
| 01                                                | Personal accident insurance                                                      | 71,695           | 4.39%          | 75,315           | 4.31%          | 5.05%          |
| 02                                                | Health insurance                                                                 | 97,541           | 5.97%          | 112,272          | 6.42%          | 15.10%         |
| 03                                                | Insurance of land motor vehicles                                                 | 208,310          | 12.75%         | 259,293          | 14.82%         | 24.47%         |
| 04                                                | Insurance of railway rolling stock                                               | 434              | 0.03%          | 663              | 0.04%          | 52.92%         |
| 05                                                | Insurance of aircraft                                                            | 2,581            | 0.16%          | 2,029            | 0.12%          | -21.40%        |
| 06                                                | Insurance of vessels                                                             | 31,525           | 1.93%          | 31,817           | 1.82%          | 0.93%          |
| 07                                                | Insurance of goods in transit                                                    | 5,757            | 0.35%          | 6,897            | 0.39%          | 19.80%         |
| 08                                                | Insurance against fire and natural forces                                        | 114,228          | 6.99%          | 128,929          | 7.37%          | 12.87%         |
| 09                                                | Insurance against other damage to property                                       | 124,963          | 7.65%          | 141,293          | 8.08%          | 13.07%         |
| 10                                                | Motor vehicle liability insurance                                                | 423,051          | 25.90%         | 507,283          | 29.00%         | 19.91%         |
| 11                                                | Aircraft liability insurance                                                     | 1,204            | 0.07%          | 1,043            | 0.06%          | -13.37%        |
| 12                                                | Insurance against liability arising out of the use of vessels                    | 6,059            | 0.37%          | 6,210            | 0.35%          | 2.49%          |
| 13                                                | General liability                                                                | 72,698           | 4.45%          | 83,490           | 4.77%          | 14.85%         |
| 14                                                | Credit insurance                                                                 | 49,253           | 3.01%          | 19,152           | 1.09%          | -61.11%        |
| 15                                                | Suretyship insurance                                                             | 1,509            | 0.09%          | 1,383            | 0.08%          | -8.37%         |
| 16                                                | Insurance against miscellaneous financial loss                                   | 24,299           | 1.49%          | 26,647           | 1.52%          | 9.66%          |
| 17                                                | Legal expenses insurance                                                         | 445              | 0.03%          | 475              | 0.03%          | 6.80%          |
| 18                                                | Assistance                                                                       | 19,707           | 1.21%          | 23,647           | 1.35%          | 19.99%         |
| 19                                                | Life insurance                                                                   | 282,619          | 17.30%         | 246,605          | 14.10%         | -12.74%        |
| 20                                                | Annuity insurance                                                                | 2,027            | 0.12%          | 1,845            | 0.11%          | -8.95%         |
| 21                                                | Supplementary insurance linked with life insurance                               | 16,071           | 0.98%          | 15,601           | 0.89%          | -2.92%         |
| 22                                                | Marriage and birth insurance                                                     | 423              | 0.03%          | 368              | 0.02%          | -13.08%        |
| 23                                                | Life or annuity insurance where the investment risk is borne by the policyholder | 77,270           | 4.73%          | 57,124           | 3.27%          | -26.07%        |
| 24                                                | Tontines                                                                         | 0                | 0.00%          | 0                | 0.00%          |                |
| 25                                                | Insurance with paid-up sum assured                                               | 0                | 0.00%          | 0                | 0.00%          |                |
| <b>Total non-life insurance (classes 01 – 18)</b> |                                                                                  | <b>1,255,259</b> | <b>76.84%</b>  | <b>1,427,838</b> | <b>81.62%</b>  | <b>13.75%</b>  |
| <b>Total life insurance (classes 19 – 25)</b>     |                                                                                  | <b>378,411</b>   | <b>23.16%</b>  | <b>321,544</b>   | <b>18.38%</b>  | <b>-15.03%</b> |
| <b>Total (classes 01 – 25)</b>                    |                                                                                  | <b>1,633,669</b> | <b>100.00%</b> | <b>1,749,382</b> | <b>100.00%</b> | <b>7.08%</b>   |

## 11.4 Leasing companies

### Leasing companies

|                                                                                            | 2018             | 2019             | 2020             | 2021             | 2022             | 2023             |
|--------------------------------------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Number of leasing companies                                                                | 16               | 14               | 15               | 15               | 15               | 15               |
| Leasing companies' assets, in EUR thousand                                                 | 2,591,633        | 2,829,732        | 2,615,199        | 2,651,731        | 2,961,890        | 3,517,710        |
| <b>Number of newly concluded contracts (from 1 January to 31 December)</b>                 |                  |                  |                  |                  |                  |                  |
| Operating lease                                                                            | 20,483           | 14,853           | 10,392           | 10,983           | 11,530           | 16,815           |
| Finance lease                                                                              | 41,223           | 50,600           | 30,033           | 39,130           | 42,438           | 46,000           |
| <b>Total</b>                                                                               | <b>61,706</b>    | <b>65,453</b>    | <b>40,425</b>    | <b>50,113</b>    | <b>53,968</b>    | <b>62,815</b>    |
| <b>Value of newly concluded contracts, in EUR thousand (from 1 January to 31 December)</b> |                  |                  |                  |                  |                  |                  |
| Operating lease                                                                            | 198,236          | 217,720          | 165,466          | 171,163          | 189,359          | 294,560          |
| Finance lease                                                                              | 971,620          | 1,133,922        | 708,240          | 908,552          | 1,207,343        | 1,477,281        |
| <b>Total</b>                                                                               | <b>1,169,855</b> | <b>1,351,641</b> | <b>873,706</b>   | <b>1,079,715</b> | <b>1,396,703</b> | <b>1,771,841</b> |
| <b>Number of active contracts</b>                                                          |                  |                  |                  |                  |                  |                  |
| Operating lease                                                                            | 43,426           | 43,399           | 39,582           | 38,409           | 36,585           | 38,304           |
| Finance lease                                                                              | 90,457           | 106,438          | 106,679          | 113,893          | 121,622          | 131,356          |
| Loans                                                                                      | 205              | 25               | 24               | 17               | 6                | 7                |
| <b>Total</b>                                                                               | <b>134,088</b>   | <b>149,862</b>   | <b>146,285</b>   | <b>152,319</b>   | <b>158,213</b>   | <b>169,667</b>   |
| <b>Value of active contracts, in EUR thousand</b>                                          |                  |                  |                  |                  |                  |                  |
| Operating lease                                                                            | 334,941          | 347,218          | 322,681          | 315,284          | 320,297          | 412,595          |
| Finance lease                                                                              | 1,649,146        | 1,916,266        | 1,834,678        | 1,895,173        | 2,156,922        | 2,579,746        |
| Loans                                                                                      | 2,026            | 75               | 44               | 0                | 0                | 0                |
| <b>Total</b>                                                                               | <b>1,986,113</b> | <b>2,263,558</b> | <b>2,157,404</b> | <b>2,210,457</b> | <b>2,477,219</b> | <b>2,992,341</b> |

## 11.5 Factoring companies

### Factoring companies

|                                                                            | 2018           | 2019           | 2020           | 2021           | 2022          | 2023          |
|----------------------------------------------------------------------------|----------------|----------------|----------------|----------------|---------------|---------------|
| Number of factoring companies                                              | 7              | 6              | 4              | 4              | 4             | 3             |
| Factoring companies' assets, in EUR thousand                               | 185,532        | 180,903        | 42,997         | 48,143         | 31,632        | 17,112        |
| <b>Transaction volume, in EUR thousand (from 1 January to 31 December)</b> |                |                |                |                |               |               |
| Factoring                                                                  | 228,505        | 248,167        | 104,005        | 98,239         | 67,958        | 82,578        |
| Factoring including discounting of bills of exchange                       | 66,444         | 28,333         | 11,335         | 11,081         | 2,392         | 2,500         |
| Reverse factoring                                                          | 133,260        | 136,598        | 16,547         | 14,598         | 6,359         | 10,223        |
| <b>Total</b>                                                               | <b>428,208</b> | <b>413,098</b> | <b>131,887</b> | <b>123,918</b> | <b>76,710</b> | <b>95,301</b> |
| <b>Receivables, in EUR thousand</b>                                        |                |                |                |                |               |               |
| Factoring                                                                  | 52,339         | 60,011         | 15,394         | 19,134         | 7,690         | 8,153         |
| Factoring including discounting of bills of exchange                       | 34,339         | 8,358          | 3,242          | 1,875          | 737           | 0             |
| Reverse factoring                                                          | 51,588         | 49,097         | 5,488          | 4,890          | 932           | 1,921         |
| <b>Total</b>                                                               | <b>138,266</b> | <b>117,466</b> | <b>24,123</b>  | <b>25,899</b>  | <b>9,359</b>  | <b>10,074</b> |

# APPENDICES

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## 12 APPENDICES

### Appendix 1 List of ordinances adopted in 2023

#### *Ordinances adopted under the Capital Market Act*

1. Ordinance on the bankruptcy and resolution of the central depository ([Official Gazette, No 45/23](#))
2. Ordinance amending the Ordinance on the contents and structure of issuers' interim reports and on the form and manner of their submission to the Croatian Financial Services Supervisory Agency ([Official Gazette, No 32/23](#))
3. Ordinance amending the Ordinance on corporate governance-related information that needs to be submitted by issuers to the Croatian Financial Services Supervisory Agency, and on the form, time limits and manner of its submission ([Official Gazette, No 12/23](#))
4. Ordinance on the contents, form and manner of submitting regulated information to the Croatian Financial Services Supervisory Agency and to the Officially Appointed Mechanism of Regulated Information ([Official Gazette, No 12/23](#))
5. Ordinance amending the Ordinance on issuing authorisations, organisational requirements and supervisory reports of data reporting services providers ([Official Gazette, No 12/23](#))
6. Ordinance amending the Ordinance on supervisory reports of the central counterparty ([Official Gazette, No 56/23](#))
7. Ordinance amending the Ordinance on the content of audit procedures in investment firms ([Official Gazette, No 69/23](#))
8. Ordinance amending the Ordinance on supervisory reports of the central counterparty ([Official Gazette, No 56/23](#))

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

1. Ordinance amending the Ordinance on determination of the net asset value and the unit price of UCITS ([Official Gazette, No 147/23](#))

#### *Ordinances adopted under the Alternative Investment Funds Act*

1. Ordinance amending the Ordinance on determination of the net asset value and the unit price of AIFs ([Official Gazette, No 147/23](#))

***Ordinances adopted under the Act Implementing Regulation (EU) 2021/23 on a framework for the recovery and resolution of central counterparties***

1. Ordinance on temporary prohibitions in the case of a proposal for initiating insolvency proceedings against a central counterparty and conditions for determining the conversion rate, and on carrying out simplified initial capital reduction or withdrawing the existing shares or other equity instruments during the resolution of a central counterparty ([Official Gazette, No 69/23](#))

***Ordinances adopted under the Mandatory Pension Funds Act***

1. Ordinance amending the Ordinance on determination of the net asset value and the unit price of mandatory pension funds ([Official Gazette, No 139/23](#))

***Ordinances adopted under the Voluntary Pension Funds Act***

1. Ordinance amending the Ordinance on determination of the net asset value and the unit price of voluntary pension funds ([Official Gazette, No 139/23](#))

***Ordinances adopted under the Act on Pension Insurance Companies***

1. Ordinance on emergency reserves of the pension insurance company ([Official Gazette, No 30/23](#))
2. Ordinance on the structure and contents of financial statements and additional reports of pension insurance companies ([Official Gazette, No 30/23](#))
3. Ordinance on the valuation of assets of pension insurance companies ([Official Gazette, No 30/23](#))
4. Ordinance on the chart of accounts of pension insurance companies ([Official Gazette, No 30/23](#))
5. Ordinance on permitted investments and investment limits relating to assets covering technical provisions of the pension insurance company ([Official Gazette, No 30/23](#))
6. Ordinance on capital adequacy of pension insurance companies ([Official Gazette, No 30/23](#))

***Ordinances adopted under the Insurance Act***

1. Ordinance on the audit in insurance companies ([Official Gazette, No 20/23](#))
2. Ordinance on additional requirements for small insurance companies ([Official Gazette, No 20/23](#))
3. Ordinance on the structure and contents of financial statements and additional reports of insurance companies and reinsurance companies ([Official Gazette, No 20/23](#))
4. Ordinance on insurance statistical standards ([Official Gazette, No 20/23](#))

5. Ordinance on reporting on material changes and reporting at the request of the Croatian Financial Services Supervisory Agency (**Official Gazette, No 20/23**)
6. Ordinance on minimum standards applied in the process of calculating statutory technical provisions (**Official Gazette, No 76/23**)
7. Ordinance on supervision involving mystery shopping (**Official Gazette, No 76/23**)
8. Ordinance amending the Ordinance on the fit and proper requirements for insurance distributors and reinsurance distributors and their entry in the register (**Official Gazette, No 16/19, 9/21, 83/21, 45/23**)
9. Ordinance amending the Ordinance on the requirements for performing the function of a member of the management board and a member of the supervisory board of an insurance and/or reinsurance company, authorised officer of an insurance and/or reinsurance company and an authorised representative of a branch of an insurance and/or reinsurance company (**Official Gazette, No 102/20, 30/23**)

#### ***Ordinances adopted under the Act on Compulsory Traffic Insurance***

1. Ordinance on the calculation method and time limits for paying contributions and on the manner of managing and using assets intended for meeting liabilities of the Guarantee Fund (**Official Gazette, No 20/23**)
2. Ordinances adopted under the Leasing Act
3. Ordinance amending the Ordinance on the requirements for membership in management and supervisory boards of leasing companies (**Official Gazette, No 21/23**)
4. Ordinances adopted under the Factoring Act
5. Ordinance amending the Ordinance on the requirements for membership in management and supervisory boards of factoring companies (**Official Gazette, No 45/23**)

#### ***Ordinances adopted under the Anti-Money Laundering and Terrorist Financing Act***

1. Ordinance on keeping the register of virtual asset service providers and on the assessment of good repute of natural persons in a virtual asset service provider (**Official Gazette, No 69/23**)
2. Ordinance on supervisory reports and information on issues relevant for carrying out supervision or for monitoring compliance of obliged entities within the meaning of the Anti-Money Laundering and Terrorist Financing Act (AMLTFA) (**Official Gazette, No 76/23**)
3. Ordinance amending the Ordinance on the assessment of money laundering and terrorist financing risk and on the manner of carrying out simplified and enhanced customer due diligence measures (**Official Gazette, No 69/23**)

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

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

## Appendix 2 Hanfa's financial operations

### Hanfa's balance sheet as at 31 December 2023

In EUR thousand

| Account<br>from the<br>Chart of<br>Accounts | ITEM                                                             | ADP      | As at 1<br>January | As at 31<br>December | Index<br>(5/4) |
|---------------------------------------------|------------------------------------------------------------------|----------|--------------------|----------------------|----------------|
| 1                                           | 2                                                                | 3        | 4                  | 5                    | 6              |
| <b>ASSETS</b>                               |                                                                  |          |                    |                      |                |
|                                             | <b>ASSETS (ADP 002+074)</b>                                      | <b>1</b> | <b>4,147</b>       | <b>4,284</b>         | <b>103.3%</b>  |
| 0                                           | Non-financial assets (ADP 003+018+047+051+055+064)               | 2        | 873                | 796                  | 91.2%          |
| 01                                          | Non-produced fixed assets (ADP 004+008-017)                      | 3        | 16                 | 11                   | 67.1%          |
| 011                                         | Tangible assets - natural resources (ADP 005 to 007)             | 4        | 0                  | 0                    | -              |
| 0111                                        | Land                                                             | 5        | 0                  | 0                    | -              |
| 0112                                        | Mineral resources                                                | 6        | 0                  | 0                    | -              |
| 0113                                        | Other tangible assets (natural resources)                        | 6        | 0                  | 0                    | -              |
| 012                                         | Intangible assets (ADP 009 to 016)                               | 6        | 608                | 598                  | 98.3%          |
| 0121                                        | Patents                                                          | 6        | 0                  | 0                    | -              |
| 0122                                        | Concessions                                                      | 6        | 0                  | 0                    | -              |
| 0123                                        | Licences                                                         | 6        | 446                | 424                  | 95.1%          |
| 0124                                        | Other rights                                                     | 6        | 162                | 174                  | 107.1%         |
| 0125                                        | Goodwill                                                         | 6        | 0                  | 0                    | -              |
| 0126                                        | Formation expenses                                               | 6        | 0                  | 0                    | -              |
| 0127                                        | Research and development                                         | 6        | 0                  | 0                    | -              |
| 0128                                        | Other intangible assets                                          | 6        | 0                  | 0                    | -              |
| 019                                         | Value adjustment for non-produced fixed assets                   | 6        | 592                | 587                  | 99.2%          |
| 02                                          | Produced fixed assets (ADP 019+023+031+034+039+042-046)          | 6        | 849                | 781                  | 92.0%          |
| 021                                         | Buildings (ADP 020 to 022)                                       | 6        | 473                | 473                  | 100.0%         |
| 0211                                        | Houses                                                           | 6        | 0                  | 0                    | -              |
| 0212                                        | Commercial buildings                                             | 6        | 458                | 458                  | 100.0%         |
| 0213                                        | Other buildings                                                  | 6        | 15                 | 15                   | 100.0%         |
| 022                                         | Plant and equipment (ADP 024 to 030)                             | 6        | 1,639              | 1,746                | 106.5%         |
| 0221                                        | Office equipment and furniture                                   | 6        | 1,494              | 1,570                | 105.1%         |
| 0222                                        | Telecommunications equipment                                     | 6        | 36                 | 67                   | 186.3%         |
| 0223                                        | Maintenance and security equipment                               | 6        | 82                 | 83                   | 100.5%         |
| 0224                                        | Medical and laboratory equipment                                 | 6        | 0                  | 0                    | -              |
| 0225                                        | Instruments and machines                                         | 6        | 9                  | 9                    | 100.0%         |
| 0226                                        | Sports and musical equipment                                     | 6        | 0                  | 0                    | -              |
| 0227                                        | Machines and equipment for other purposes                        | 6        | 18                 | 18                   | 100.0%         |
| 023                                         | Means of transportation (ADP 032+033)                            | 6        | 36                 | 36                   | 100.0%         |
| 0231                                        | Means of road transportation                                     | 6        | 36                 | 36                   | 100.0%         |
| 0232                                        | Other means of transportation                                    | 6        | 0                  | 0                    | -              |
| 024                                         | Books, artwork and other exhibits (ADP 035 to 038)               | 6        | 20                 | 20                   | 100.0%         |
| 0241                                        | Library books                                                    | 6        | 0                  | 0                    | -              |
| 0242                                        | Works of art (in galleries, museums etc.)                        | 6        | 20                 | 20                   | 100.0%         |
| 0243                                        | Museum exhibits and objects of natural rarities                  | 6        | 0                  | 0                    | -              |
| 0244                                        | Other exhibits                                                   | 6        | 0                  | 0                    | -              |
| 025                                         | Growing crops and live stock (ADP 040+041)                       | 6        | 0                  | 0                    | -              |
| 0251                                        | Growing crops                                                    | 6        | 0                  | 0                    | -              |
| 0252                                        | Live stock                                                       | 6        | 0                  | 0                    | -              |
| 026                                         | Intangible produced assets (ADP 043 to 045)                      | 6        | 884                | 941                  | 106.5%         |
| 0261                                        | Software investments                                             | 6        | 884                | 941                  | 106.5%         |
| 0262                                        | Works of art, literary and scientific works                      | 6        | 0                  | 0                    | -              |
| 0263                                        | Other intangible produced assets                                 | 6        | 0                  | 0                    | -              |
| 029                                         | Value adjustment for produced fixed assets                       | 6        | 2,203              | 2,436                | 110.6%         |
| 03                                          | Precious metals and other valuables (ADP 048)                    | 6        | 0                  | 0                    | -              |
| 031                                         | Precious metals and other valuables (ADP 049+050)                | 6        | 0                  | 0                    | -              |
| 0311                                        | Precious metals and precious stones                              | 6        | 0                  | 0                    | -              |
| 0312                                        | Archived books, works of art and similar valuables               | 6        | 0                  | 0                    | -              |
| 04                                          | Small inventory (ADP 052+053-054)                                | 6        | 0                  | 0                    | -              |
| 041                                         | Small inventory on stock                                         | 6        | 0                  | 0                    | -              |
| 042                                         | Small inventory in use                                           | 6        | 141                | 135                  | 96.2%          |
| 049                                         | Value adjustment for small inventory                             | 6        | 141                | 135                  | 96.2%          |
| 05                                          | Non-financial assets - work in progress (ADP 056 to 059+062+063) | 6        | 0                  | 0                    | -              |
| 051                                         | Buildings - work in progress                                     | 6        | 0                  | 0                    | -              |
| 052                                         | Plant and equipment - work in progress                           | 6        | 0                  | 0                    | -              |
| 053                                         | Means of transportation - work in progress                       | 6        | 0                  | 0                    | -              |
| 054                                         | Growing crops and livestock - work in progress (ADP 060+061)     | 6        | 0                  | 0                    | -              |
| 0541                                        | Growing crops - work in progress                                 | 6        | 0                  | 0                    | -              |

|      |                                                                                                                           |   |       |       |         |
|------|---------------------------------------------------------------------------------------------------------------------------|---|-------|-------|---------|
| 0542 | Live stock - work in progress                                                                                             | 6 | 0     | 0     | -       |
| 055  | Other intangible produced assets - work in progress                                                                       | 6 | 0     | 0     | -       |
| 056  | Other intangible assets - work in progress                                                                                | 6 | 0     | 0     | -       |
| 06   | Produced current assets (ADP 065+070+073)                                                                                 | 6 | 7     | 4     | 58.7%   |
| 061  | Inventories for the pursuit of activities (ADP 066 to 069)                                                                | 6 | 7     | 4     | 58.7%   |
| 0611 | Inventories for redistribution                                                                                            | 6 | 0     | 0     | -       |
| 0612 | Materials inventory for regular needs                                                                                     | 6 | 7     | 4     | 58.7%   |
| 0613 | Spare parts inventory                                                                                                     | 6 | 0     | 0     | -       |
| 0614 | Materials inventory for special needs                                                                                     | 6 | 0     | 0     | -       |
| 062  | Production and products (ADP 071+072)                                                                                     | 6 | 0     | 0     | -       |
| 0621 | Production in progress                                                                                                    | 6 | 0     | 0     | -       |
| 0622 | Finished goods                                                                                                            | 6 | 0     | 0     | -       |
| 063  | Goods for resale                                                                                                          | 6 | 0     | 0     | -       |
| 1    | Financial assets (ADP 075 +083+100+105+125+133+142)                                                                       | 6 | 3,274 | 3,487 | 106.5%  |
| 11   | Cash at bank and in hand                                                                                                  | 6 | 2,956 | 2,078 | 70.3%   |
| 111  | Cash at bank (ADP 077 to 079)                                                                                             | 6 | 2,955 | 2,078 | 70.3%   |
| 1111 | Cash in the account with domestic commercial banks                                                                        | 6 | 2,955 | 2,078 | 70.3%   |
| 1112 | Cash in the account with foreign commercial banks                                                                         | 6 | 0     | 0     | -       |
| 1113 | Interim account                                                                                                           | 6 | 0     | 0     | -       |
| 112  | Cash reserved                                                                                                             | 6 | 0     | 0     | -       |
| 113  | Cash in hand                                                                                                              | 6 | 1     | 0     | 8.4%    |
| 114  | Securities in hand                                                                                                        | 6 | 0     | 0     | -       |
| 12   | Deposits, guarantee deposits, employee receivables and receivables for prepaid taxes, and other (ADP 084+087+088+089+095) | 6 | 90    | 1,191 | 1324.1% |
| 121  | Deposits with banks and other financial institutions (ADP 085+086)                                                        | 6 | 0     | 1,100 | -       |
| 1211 | Deposits with domestic banks and other financial institutions                                                             | 6 | 0     | 1,100 | -       |
| 1212 | Deposits with foreign banks and other financial institutions                                                              | 6 | 0     | 0     | -       |
| 122  | Guarantee deposits                                                                                                        | 6 | 80    | 80    | 100.0%  |
| 123  | Employee receivables                                                                                                      | 6 | 1     | 1     | 87.7%   |
| 124  | Receivables for prepaid taxes and contributions (ADP 090 to 094)                                                          | 6 | 1     | 0     | 56.1%   |
| 1241 | Receivables for prepaid taxes                                                                                             | 6 | 0     | 0     | 42.5%   |
| 1242 | Value-added tax receivables                                                                                               | 6 | 0     | 0     | -       |
| 1243 | Receivables for prepaid duties and customs duties                                                                         | 6 | 0     | 0     | -       |
| 1244 | Receivables for prepaid other taxes                                                                                       | 6 | 0     | 0     | -       |
| 1245 | Receivables for prepaid contributions                                                                                     | 6 | 0     | 0     | 67.1%   |
| 129  | Other receivables (ADP 096 to 099)                                                                                        | 6 | 8     | 9     | 121.6%  |
| 1291 | Receivables for refundable benefits                                                                                       | 6 | 3     | 7     | 239.0%  |
| 1292 | Receivables for damages                                                                                                   | 6 | 0     | 0     | -       |
| 1293 | Receivables for advance payments                                                                                          | 6 | 5     | 3     | 52.3%   |
| 1294 | Other receivables                                                                                                         | 6 | 0     | 0     | -       |
| 13   | Loans (ADP101+102+103-104)                                                                                                | 6 | 0     | 0     | -       |
| 131  | Loans to citizens and households                                                                                          | 6 | 0     | 0     | -       |
| 132  | Loans to legal entities engaged in entrepreneurial activity                                                               | 6 | 0     | 0     | -       |
| 133  | Loans to other entities                                                                                                   | 6 | 0     | 0     | -       |
| 139  | Impairment of loan receivables                                                                                            | 6 | 0     | 0     | -       |
| 14   | Securities (ADP 106 +109+112+115+118+121-124)                                                                             | 6 | 0     | 0     | -       |
| 141  | Cheques (ADP 107+108)                                                                                                     | 6 | 0     | 0     | -       |
| 1411 | Cheques – domestic                                                                                                        | 6 | 0     | 0     | -       |
| 1412 | Cheques – foreign                                                                                                         | 6 | 0     | 0     | -       |
| 142  | Commercial papers and treasury bills (ADP 110+111)                                                                        | 6 | 0     | 0     | -       |
| 1421 | Commercial papers and treasury bills – domestic                                                                           | 6 | 0     | 0     | -       |
| 1422 | Commercial papers and treasury bills – foreign                                                                            | 6 | 0     | 0     | -       |
| 143  | Bills of exchange (ADP 113+114)                                                                                           | 6 | 0     | 0     | -       |
| 1431 | Bills of exchange – domestic                                                                                              | 6 | 0     | 0     | -       |
| 1432 | Bills of exchange – foreign                                                                                               | 6 | 0     | 0     | -       |
| 144  | Bonds (ADP 116+117)                                                                                                       | 6 | 0     | 0     | -       |
| 1441 | Bonds – domestic                                                                                                          | 6 | 0     | 0     | -       |
| 1442 | Bonds – foreign                                                                                                           | 6 | 0     | 0     | -       |
| 145  | Options and other financial derivatives (ADP 119+120)                                                                     | 6 | 0     | 0     | -       |
| 1451 | Options and other financial derivatives – domestic                                                                        | 6 | 0     | 0     | -       |
| 1452 | Options and other financial derivatives – foreign                                                                         | 6 | 0     | 0     | -       |
| 146  | Other securities (ADP 122+123)                                                                                            | 6 | 0     | 0     | -       |
| 1461 | Other domestic securities                                                                                                 | 6 | 0     | 0     | -       |
| 1462 | Other foreign securities                                                                                                  | 6 | 0     | 0     | -       |
| 149  | Value adjustment for securities                                                                                           | 6 | 0     | 0     | -       |
| 15   | Shares and participations in equity (ADP 126+129-132)                                                                     | 6 | 0     | 0     | -       |
| 151  | Shares and participations in equity of banks and other financial institutions (ADP 127+128)                               | 6 | 0     | 0     | -       |
| 1511 | Shares and participations in equity of domestic banks and other financial institutions                                    | 6 | 0     | 0     | -       |
| 1512 | Shares and participations in equity of foreign banks and other financial institutions                                     | 6 | 0     | 0     | -       |
| 152  | Shares and participations in equity of companies (ADP 130+131)                                                            | 6 | 0     | 0     | -       |
| 1521 | Shares and participations in equity of domestic companies                                                                 | 6 | 0     | 0     | -       |

|                                    |                                                                                     |            |              |              |               |
|------------------------------------|-------------------------------------------------------------------------------------|------------|--------------|--------------|---------------|
| 1522                               | Shares and participations in equity of foreign companies                            | 6          | 0            | 0            | -             |
| 159                                | Value adjustment for shares and participations in equity                            | 6          | 0            | 0            | -             |
| 16                                 | Income receivables (ADP 134 to 137+140-141)                                         | 6          | 0            | 0            | -             |
| 161                                | Customer receivables                                                                | 6          | 0            | 0            | -             |
| 162                                | Receivables for membership fees and membership contributions                        | 6          | 0            | 0            | -             |
| 163                                | Receivables for income under special regulations                                    | 6          | 0            | 0            | -             |
| 164                                | Receivables for income from assets (ADP 138+139)                                    | 6          | 0            | 0            | -             |
| 1641                               | Receivables for income from financial assets                                        | 6          | 0            | 0            | -             |
| 1642                               | Receivables for income from non-financial assets                                    | 6          | 0            | 0            | -             |
| 165                                | Other receivables                                                                   | 6          | 0            | 0            | -             |
| 169                                | Value adjustment for receivables                                                    | 6          | 0            | 0            | -             |
| 19                                 | Prepayments and accrued income (ADP 143+144)                                        | 6          | 228          | 218          | 95.4%         |
| 191                                | Prepayments                                                                         | 6          | 228          | 218          | 95.4%         |
| 192                                | Accrued income                                                                      | 6          | 0            | 0            | -             |
| <b>LIABILITIES AND OWN SOURCES</b> |                                                                                     |            |              |              |               |
|                                    | <b>Liabilities and own sources (ADP 146+195)</b>                                    | <b>145</b> | <b>4,147</b> | <b>4,284</b> | <b>103.3%</b> |
| 2                                  | Liabilities (ADP 147+174+182+190)                                                   | 146        | 1,389        | 1,237        | 89.1%         |
| 24                                 | Liabilities for expenditures (ADP 148+156+164+168+169+170)                          | 147        | 1,353        | 1,213        | 89.6%         |
| 241                                | Liabilities for employees (ADP 149 to 155)                                          | 148        | 1,051        | 915          | 87.0%         |
| 2411                               | Liabilities for salaries – net                                                      | 149        | 292          | 292          | 99.8%         |
| 2412                               | Liabilities for salary compensations – net                                          | 150        | 30           | 36           | 118.9%        |
| 2413                               | Liabilities for salaries in kind – net                                              | 151        | 0            | 0            | -             |
| 2414                               | Liabilities for tax and surtax on salaries                                          | 152        | 79           | 57           | 72.3%         |
| 2415                               | Liabilities for contributions from salaries                                         | 153        | 116          | 96           | 82.6%         |
| 2416                               | Liabilities for contributions on salaries                                           | 154        | 90           | 72           | 80.1%         |
| 2417                               | Other liabilities for employees                                                     | 155        | 444          | 362          | 81.6%         |
| 242                                | Liabilities for material expenses (ADP 157 to 163)                                  | 156        | 274          | 252          | 92.1%         |
| 2421                               | Costs for employees                                                                 | 157        | 10           | 9            | 89.3%         |
| 2422                               | Remuneration for members of representative and executive bodies, committees e       | 158        | 0            | 0            | -             |
| 2423                               | Remuneration for volunteers                                                         | 159        | 0            | 0            | -             |
| 2424                               | Costs for external staff                                                            | 160        | 0            | 0            | -             |
| 2425                               | Liabilities towards domestic suppliers                                              | 161        | 207          | 160          | 77.1%         |
| 2426                               | Liabilities towards foreign suppliers                                               | 162        | 52           | 80           | 153.6%        |
| 2429                               | Other liabilities for financing operating expenses                                  | 163        | 4            | 3            | 68.6%         |
| 244                                | Liabilities for financial expenses (ADP 165 to 167)                                 | 164        | 0            | 0            | -             |
| 2441                               | Liabilities for interest on issued securities                                       | 165        | 0            | 0            | -             |
| 2442                               | Liabilities for interest on credits and loans received                              | 166        | 0            | 0            | -             |
| 2443                               | Liabilities for other financial expenses                                            | 167        | 0            | 0            | -             |
| 245                                | Liabilities for financial aid funds collected                                       | 168        | 0            | 0            | -             |
| 246                                | Liabilities for penalties and damages                                               | 169        | 0            | 0            | -             |
| 249                                | Other liabilities (ADP 171 to 173)                                                  | 170        | 28           | 46           | 164.7%        |
| 2491                               | Liabilities for taxes                                                               | 171        | 0            | 0            | -             |
| 2492                               | Liabilities for value-added tax                                                     | 172        | 2            | 2            | 69.9%         |
| 2493                               | Liabilities for prepayments, deposits, caution money received and other liabilities | 173        | 26           | 44           | 173.6%        |
| 25                                 | Liabilities for securities (ADP 175+178-181)                                        | 174        | 0            | 0            | -             |
| 251                                | Liabilities for cheques (ADP 176+177)                                               | 175        | 0            | 0            | -             |
| 2511                               | Liabilities for cheques – domestic                                                  | 176        | 0            | 0            | -             |
| 2512                               | Liabilities for cheques – foreign                                                   | 177        | 0            | 0            | -             |
| 252                                | Liabilities for bills of exchange (ADP 179+180)                                     | 178        | 0            | 0            | -             |
| 2521                               | Liabilities for bills of exchange – domestic                                        | 179        | 0            | 0            | -             |
| 2522                               | Liabilities for bills of exchange – foreign                                         | 180        | 0            | 0            | -             |
| 259                                | Value adjustment for securities liabilities                                         | 181        | 0            | 0            | -             |
| 26                                 | Liabilities for credits and loans (ADP 183+186-189)                                 | 182        | 0            | 0            | -             |
| 261                                | Liabilities for bank credits and credits from other creditors (ADP 184+185)         | 183        | 0            | 0            | -             |
| 2611                               | Liabilities for domestic credits                                                    | 184        | 0            | 0            | -             |
| 2612                               | Liabilities for foreign credits                                                     | 185        | 0            | 0            | -             |
| 262                                | Liabilities for commodity and other loans (ADP 187+188)                             | 186        | 0            | 0            | -             |
| 2621                               | Liabilities for domestic 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 (ADP 191+194)                                  | 190        | 35           | 24           | 68.7%         |
| 291                                | Accrued expenses                                                                    | 191        | 32           | 24           | 75.9%         |
| 292                                | Deferred income (ADP 193+194)                                                       | 192        | 3            | 0            | 0.0%          |
| 2921                               | Accrued income                                                                      | 193        | 3            | 0            | 0.0%          |
| 2922                               | Deferred income                                                                     | 194        | 0            | 0            | -             |
| 5                                  | Own sources (ADP 196+199-200)                                                       | 195        | 2,758        | 3,046        | 110.4%        |
| 51                                 | Own sources (ADP 197+198)                                                           | 196        | 288          | 282          | 97.8%         |
| 511                                | Own sources                                                                         | 197        | 288          | 282          | 97.8%         |
| 512                                | Revaluation reserves                                                                | 198        | 0            | 0            | -             |
| 5221                               | Excess of income                                                                    | 199        | 2,470        | 2,765        | 111.9%        |
| 5222                               | Income deficit                                                                      | 200        | 0            | 0            | -             |
| <b>OFF-BALANCE SHEET ITEMS</b>     |                                                                                     |            |              |              |               |
| 61                                 | Off-balance sheet items – assets                                                    | 201        | 69           | 189          | 272.6%        |
| 62                                 | Off-balance sheet items – liabilities                                               | 202        | 69           | 189          | 272.6%        |

**Statement of Hanfa's income and expenditure for the period from 1 January 2023 to 31 December 2023**

In EUR thousand

| 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             |
| <b>PRIHODI</b>                     |                                                                                                    |           |                               |                                  |               |
| <b>3</b>                           | <b>INCOME (ADP 002 +005+008+011+024+040+049)</b>                                                   | <b>1</b>  | <b>11613</b>                  | <b>12556</b>                     | <b>108.1%</b> |
| 31                                 | Income from the sale of goods and provision of services (AOP 003+004)                              | 2         | 35,111                        | 0                                | 0.0%          |
| 3111                               | Income from the sale of goods                                                                      | 3         | 0                             | 0 -                              |               |
| 3112                               | Income from the provision of services                                                              | 4         | 35,111                        | 0                                | 0.0%          |
| 32                                 | Income from membership fees and membership contributions (AOP 006+007)                             | 5         | 0                             | 0 -                              |               |
| 3211                               | Membership fees                                                                                    | 6         | 0                             | 0 -                              |               |
| 3212                               | Membership contributions                                                                           | 7         | 0                             | 0 -                              |               |
| 33                                 | Income under special regulations (ADP 009+010)                                                     | 8         | 11447                         | 12474                            | 109.0%        |
| 3311                               | Income under special regulations from the state budget                                             | 9         | 0                             | 0 -                              |               |
| 3312                               | Income under special regulations from other sources                                                | 10        | 11447                         | 12474                            | 109.0%        |
| 34                                 | Income from assets (ADP 012+021)                                                                   | 11        | 3,11                          | 11,186                           | 359.7%        |
| 341                                | Income from financial assets (ADP 013 to 020)                                                      | 12        | 3,11                          | 11,186                           | 359.7%        |
| 3411                               | Interest income from loans granted                                                                 | 13        | 0                             | 0 -                              |               |
| 3412                               | Income from interest on securities                                                                 | 14        | 0                             | 0 -                              |               |
| 3413                               | Interest on time deposits and demand deposits                                                      | 15        | 0.0244                        | 7.6275                           | >>100         |
| 3414                               | Income from default interest                                                                       | 16        | 0                             | 0 -                              |               |
| 3415                               | Income from positive exchange rate differences                                                     | 17        | 3,0855                        | 3,5473                           | 115.0%        |
| 3416                               | Dividend income                                                                                    | 18        | 0                             | 0 -                              |               |
| 3417                               | Income from profits of companies, banks and other financial institutions under special regulations | 19        | 0                             | 0 -                              |               |
| 3418                               | Other income from financial assets                                                                 | 20        | 0                             | 0.0108                           | -             |
| 342                                | Income from non-financial assets (ADP 022+023)                                                     | 21        | 0                             | 0 -                              |               |
| 3421                               | Income from leases and rents                                                                       | 22        | 0                             | 0 -                              |               |
| 3422                               | Other income from non-financial assets                                                             | 23        | 0                             | 0 -                              |               |
| 35                                 | Income from donations (ADP 025+030+033+036+037)                                                    | 24        | 0.0369                        | 0,1945                           | 527.0%        |
| 351                                | Income from donations from the budget (ADP 026 to 029)                                             | 25        | 0                             | 0 -                              |               |
| 3511                               | Income from donations from the state budget                                                        | 26        | 0                             | 0 -                              |               |
| 3512                               | Income from donations from bodies of local and regional self-government                            | 27        | 0                             | 0 -                              |               |
| 3513                               | Income from donations from the state budget for EU projects                                        | 28        | 0                             | 0 -                              |               |
| 3514                               | Income from donations from bodies of local and regional self-government for EU projects            | 29        | 0                             | 0 -                              |               |
| 352                                | Income from foreign governments and international organisations (ADP 031+032)                      | 30        | 0                             | 0 -                              |               |
| 3521                               | Income from foreign governments and international organisations                                    | 31        | 0                             | 0 -                              |               |
| 3522                               | Income from EU institutions and bodies                                                             | 32        | 0                             | 0 -                              |               |
| 353                                | Income from companies and other legal persons (ADP 034+035)                                        | 33        | 0.0369                        | 0,1945                           | 527.0%        |
| 3531                               | Income from companies and other legal persons                                                      | 34        | 0.0369                        | 0,1945                           | 527.0%        |
| 3532                               | Income from companies and other legal persons for EU projects                                      | 35        | 0                             | 0 -                              |               |
| 354                                | Income from citizens and households                                                                | 36        | 0                             | 0 -                              |               |
| 355                                | Other income from donations (ADP 038+039)                                                          | 37        | 0                             | 0 -                              |               |
| 3551                               | Other income from donations                                                                        | 38        | 0                             | 0 -                              |               |
| 3552                               | Other income from donations for EU projects                                                        | 39        | 0                             | 0 -                              |               |
| 36                                 | Other income (ADP 041+044+045)                                                                     | 40        | 127.22                        | 70,282                           | 55.2%         |
| 361                                | Income from damages and refunds (ADP 042+043)                                                      | 41        | 115,45                        | 35,097                           | 30.4%         |
| 3611                               | Income from damages                                                                                | 42        | 0                             | 10 -                             |               |
| 3612                               | Income from refunds                                                                                | 43        | 115,45                        | 25,097                           | 21.7%         |
| 362                                | Income from the sale of fixed assets                                                               | 44        | 1,1414                        | 1,744                            | 152.8%        |
| 363                                | Other income (ADP 046 to 048)                                                                      | 45        | 10,629                        | 33,441                           | 314.6%        |
| 3631                               | Liability write-off                                                                                | 46        | 0,876                         | 0,1407                           | 16.1%         |
| 3632                               | Receivables written off                                                                            | 47        | 0                             | 0 -                              |               |
| 3633                               | Other income                                                                                       | 48        | 9,7534                        | 33,3                             | 341.4%        |
| 37                                 | Income from related non-profit organisations (ADP 050 to 053)                                      | 49        | 0                             | 0 -                              |               |
| 3711                               | Current income from related non-profit organisations                                               | 50        | 0                             | 0 -                              |               |
| 3712                               | Capital income from related non-profit organisations                                               | 51        | 0                             | 0 -                              |               |
| 3713                               | Current income from related non-profit organisations for EU projects                               | 52        | 0                             | 0 -                              |               |
| 3714                               | Capital income from related non-profit organisations for EU projects                               | 53        | 0                             | 0 -                              |               |
| <b>EXPENDITURE</b>                 |                                                                                                    |           |                               |                                  |               |
| <b>4</b>                           | <b>EXPENSES (ADP 055 +067+108+109+120+128+139)</b>                                                 | <b>54</b> | <b>11452</b>                  | <b>12100</b>                     | <b>105.7%</b> |
| 41                                 | Employee expenses (ADP 056+061+062)                                                                | 55        | 6977,2                        | 7620                             | 109.2%        |
| 411                                | Salaries (ADP 057 to 060)                                                                          | 56        | 5453,5                        | 5562,9                           | 102.0%        |
| 4111                               | Salaries for regular work                                                                          | 57        | 5373,4                        | 5492,5                           | 102.2%        |
| 4112                               | Salaries in kind                                                                                   | 58        | 59,7                          | 58,841                           | 98.6%         |
| 4113                               | Salaries for overtime work                                                                         | 59        | 20,358                        | 11,501                           | 56.5%         |
| 4114                               | Salaries for extraordinary working conditions                                                      | 60        | 0                             | 0 -                              |               |
| 412                                | Other employee expenses                                                                            | 61        | 644,44                        | 1210,8                           | 187.9%        |
| 413                                | Contributions on salaries (ADP 063 to 066)                                                         | 62        | 879,27                        | 846,38                           | 96.3%         |
| 4131                               | Contributions for health insurance                                                                 | 63        | 879,27                        | 846,38                           | 96.3%         |
| 4132                               | Employment contributions                                                                           | 64        | 0                             | 0 -                              |               |

|      |                                                                                                   |     |        |        |        |
|------|---------------------------------------------------------------------------------------------------|-----|--------|--------|--------|
| 4133 | Pension insurance contributions paid by the employer                                              | 65  | 0      | 0      | -      |
| 4134 | Special contributions for stimulating employment of people with disabilities                      | 66  | 0      | 0      | -      |
| 42   | Material expenses (ADP 068+072+077+082+087+097+102)                                               | 67  | 3975.9 | 4042.7 | 101.7% |
| 421  | Employees' costs (ADP 069 to 071)                                                                 | 68  | 467.22 | 571.65 | 122.4% |
| 4211 | Business trips                                                                                    | 69  | 253.41 | 338.3  | 133.5% |
| 4212 | Travel, field and separate maintenance allowance                                                  | 70  | 139.24 | 131.99 | 94.8%  |
| 4213 | Employees' professional training                                                                  | 71  | 74.575 | 101.36 | 135.9% |
| 422  | Remuneration for members of representative and executive bodies, committees etc. (ADP 073 to 076) | 72  | 8.3    | 8.3002 | 100.0% |
| 4221 | Remuneration for regular activities                                                               | 73  | 8.3    | 8.3002 | 100.0% |
| 4222 | Business travel costs                                                                             | 74  | 0      | 0      | -      |
| 4223 | Other costs                                                                                       | 75  | 0      | 0      | -      |
| 4224 | Other remuneration                                                                                | 76  | 0      | 0      | -      |
| 423  | Remuneration to volunteers (ADP 078 to 081)                                                       | 77  | 0      | 0      | -      |
| 4231 | Remuneration for regular operations                                                               | 78  | 0      | 0      | -      |
| 4232 | Business travel costs                                                                             | 79  | 0      | 0      | -      |
| 4233 | Other costs                                                                                       | 80  | 0      | 0      | -      |
| 4234 | Other remuneration                                                                                | 81  | 0      | 0      | -      |
| 424  | Remuneration to external staff (ADP 083 to 086)                                                   | 82  | 21.338 | 22.79  | 106.8% |
| 4241 | Remuneration for regular activities                                                               | 83  | 20.473 | 21.11  | 103.1% |
| 4242 | Business travel costs                                                                             | 84  | 0.8652 | 1.6804 | 194.2% |
| 4243 | Other costs                                                                                       | 85  | 0      | 0      | -      |
| 4244 | Other remuneration                                                                                | 86  | 0      | 0      | -      |
| 425  | Expenses for services (ADP 088 to 096)                                                            | 87  | 1962.8 | 1883.9 | 96.0%  |
| 4251 | Telephone, postal and transport services                                                          | 88  | 93.893 | 102.02 | 108.7% |
| 4252 | Daily and investment maintenance services                                                         | 89  | 353.01 | 351.24 | 99.5%  |
| 4253 | Promotional and information services                                                              | 90  | 76.383 | 67.834 | 88.8%  |
| 4254 | Public utility services                                                                           | 91  | 153.99 | 153.67 | 99.8%  |
| 4255 | Leases and rents                                                                                  | 92  | 666.72 | 696.9  | 104.5% |
| 4256 | Health care and veterinary services                                                               | 93  | 17.226 | 22.334 | 129.7% |
| 4257 | Intellectual and personal services                                                                | 94  | 182.21 | 110.65 | 60.7%  |
| 4258 | IT services                                                                                       | 95  | 49.5   | 42.092 | 85.0%  |
| 4259 | Other services                                                                                    | 96  | 369.88 | 337.15 | 91.2%  |
| 426  | Expenses for material and energy (ADP 098 to 101)                                                 | 97  | 237.55 | 291.98 | 122.9% |
| 4261 | Stationery and other material expenses                                                            | 98  | 67.546 | 100.13 | 148.2% |
| 4262 | Raw materials and consumables                                                                     | 99  | 0      | 0      | -      |
| 4263 | Energy                                                                                            | 100 | 156.64 | 185.71 | 118.6% |
| 4264 | Small inventory and car tires                                                                     | 101 | 13.364 | 6.1412 | 46.0%  |
| 429  | Other material expenses (ADP 103 to 107)                                                          | 102 | 1278.7 | 1264   | 98.9%  |
| 4291 | Insurance premiums                                                                                | 103 | 22.039 | 16.845 | 76.4%  |
| 4292 | Representation                                                                                    | 104 | 150.23 | 74.486 | 49.6%  |
| 4293 | Membership fees                                                                                   | 105 | 1105.2 | 1170.7 | 105.9% |
| 4294 | Participation fees                                                                                | 106 | 1.1779 | 1.97   | 167.2% |
| 4295 | Other material expenditure                                                                        | 107 | 0      | 0      | -      |
| 43   | Depreciation expenditure                                                                          | 108 | 337.71 | 278.77 | 82.5%  |
| 44   | Financial expenses (ADP 110+111+115)                                                              | 109 | 17.725 | 10.206 | 57.6%  |
| 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 | 17.725 | 10.206 | 57.6%  |
| 4431 | Banking and payment system services                                                               | 116 | 8.187  | 7.8439 | 95.8%  |
| 4432 | Negative exchange rate differences and currency clause                                            | 117 | 9.4347 | 2.3209 | 24.6%  |
| 4433 | Default interest                                                                                  | 118 | 0.0143 | 0.0409 | 285.3% |
| 4434 | Other material expenditure                                                                        | 119 | 0.0893 | 0      | 0.0%   |
| 45   | Donations (ADP 121+125)                                                                           | 120 | 11.006 | 18.868 | 171.4% |
| 451  | Current donations (ADP 122 to 124)                                                                | 121 | 11.006 | 18.868 | 171.4% |
| 4511 | Current donations                                                                                 | 122 | 2.6445 | 3.5388 | 133.8% |
| 4512 | Scholarships                                                                                      | 123 | 8.3615 | 15.329 | 183.3% |
| 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 | 132.03 | 129.31 | 97.9%  |
| 461  | Fines, penalties and indemnities (ADP 130 to 133)                                                 | 129 | 0      | 0      | -      |
| 4611 | Compensation for financial losses given to legal and natural persons                              | 130 | 0      | 0      | -      |
| 4612 | Penalties, storage charges and other                                                              | 131 | 0      | 0      | -      |
| 4613 | Indemnities for employees                                                                         | 132 | 0      | 0      | -      |
| 4614 | Agreed fines and other compensations for damage                                                   | 133 | 0      | 0      | -      |
| 462  | Other financial expenses (ADP 135 to 138)                                                         | 134 | 132.03 | 129.31 | 97.9%  |
| 4621 | Net book value and other expenses for retired and disposed fixed assets                           | 135 | 0.6211 | 0.4497 | 72.4%  |
| 4622 | Receivables written off                                                                           | 136 | 0.1394 | 0.0396 | 28.4%  |
| 4623 | Expenses for other tax levies                                                                     | 137 | 0.8826 | 0.8694 | 98.5%  |
| 4624 | Other expenses                                                                                    | 138 | 130.39 | 127.95 | 98.1%  |
| 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 | 11452  | 12100  | 105.7% |
|                                                      | EXCESS OF INCOME (ADP 001-148)                                                       | 149 | 161.09 | 455.78 | 282.9% |
|                                                      | DEFICIENCY OF INCOME (ADP 148-001)                                                   | 150 | 0      | 0      | -      |
| 5221                                                 | Excess of income – transferred                                                       | 151 | 2308.9 | 2308.9 | 100.0% |
| 5222                                                 | Income deficit – transferred                                                         | 152 | 0      | 0      | -      |
|                                                      | Income tax liabilities                                                               | 153 | 0      | 0      | -      |
|                                                      | Surplus income available in the following period (ADP 149+151-150-152-153)           | 154 | 2470   | 2764.7 | 111.9% |
|                                                      | Deficit of income for the coverage in the following period (AOP 150+152-149-151+153) | 155 | 0      | 0      | -      |
| <b>ADDITIONAL DATA</b>                               |                                                                                      |     |        |        |        |
| 11                                                   | Cash at the beginning of the year                                                    | 156 | 3459.1 | 2955.9 | 85.5%  |
| 11-payables                                          | Total inflows of cash at bank and in hand                                            | 157 | 13727  | 16069  | 117.1% |
| 11-receivables                                       | Total outflows of cash at bank and in hand                                           | 158 | 14230  | 16947  | 119.1% |
| 11                                                   | Cash at the end of the period (ADP 156+157-158)                                      | 159 | 2955.9 | 2078.4 | 70.3%  |
|                                                      | Average number of employees at the end of the reporting period (whole number)        | 160 | 0.203  | 0.199  | 98.0%  |
|                                                      | Average number of employees' working hours (whole number)                            | 161 | 0.199  | 0.188  | 94.5%  |
|                                                      | Number of volunteers                                                                 | 162 | 0      | 0      | -      |
|                                                      | Number of volunteered hours                                                          | 163 | 0      | 0      | -      |
| <b>VALUE OF REALISED INVESTMENTS IN FIXED ASSETS</b> |                                                                                      |     |        |        |        |
| 051                                                  | Buildings - work in progress                                                         | 164 | 0      | 0      | -      |
| 052                                                  | Plant and equipment - work in progress                                               | 165 | 128.2  | 141.47 | 110.4% |
| 053                                                  | Means of transportation - work in progress                                           | 166 | 0      | 0      | -      |
| 054                                                  | Growing crops and livestock - work in progress (ADP)                                 | 167 | 0      | 0      | -      |
| 055                                                  | Other intangible produced assets - work in progress                                  | 168 | 97.522 | 57.978 | 59.5%  |
| 056                                                  | Other intangible assets - work in progress                                           | 169 | 13.364 | 6.1412 | 46.0%  |
| <b>ITEM DESCRIPTION</b>                              |                                                                                      |     |        |        |        |
|                                                      | Inventories                                                                          | 170 | 7.4466 | 4.3697 | 58.7%  |
|                                                      | Control sum (ADP 160 to 170)                                                         | 171 | 246.93 | 210.35 | 85.2%  |

