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CROATIAN FINANCIAL
SERVICES SUPERVISORY AGENCY

HANFA

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Introduction

The Croatian Financial Services Supervisory Agency (Hrvatska agencija za nadzor financijskih usluga; hereinafter: Hanfa) was established under the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 140/05, 12/12). Hanfa is an independent legal person with public authority within its area of competence defined by the said and other laws, and is accountable to the Croatian Parliament. Hanfa's objectives, specified by law, comprise fostering and safeguarding the stability of the financial system, and supervision of the lawfulness of business operations of supervised entities.

Apart from carrying out its regular licensing and supervisory activities, in 2013 Hanfa actively participated in the monitoring and preparatory process relating to the change of the almost entire legislative framework regulating business operations of its supervised entities. Those entities comprise investment firms, investment fund management companies, pension companies, investment and pension funds, insurance companies, reinsurance companies, pension insurance companies, the Retired Persons' Fund, the Fund for the Croatian Homeland War Veterans and Members of their Families, leasing companies, companies providing factoring services, the Zagreb Stock Exchange, the Central Depository and Clearing Company, securities issuers, brokers, investment advisors, tied agents, the Central Register of Insured Persons, certified actuaries, the Croatian Insurance Bureau, the Croatian Nuclear POOL, and insurance agents and brokers (including banks, housing savings banks, the Financial Agency and HP - Hrvatska pošta d.d. with respect to activities related to insurance representation business). In the course of 2013, Hanfa took part in the preparation of ten new laws and five amendments to existing laws, it adopted 55 new ordinances and 26 amendments to ordinances, and it issued 34 opinions, four decisions and two instructions.

Hanfa's activities over the previous year were once again marked by the cooperation with the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA), as well as by the alignment with the EU legislative framework.

Since 1 July 2013, Hanfa has been a full member of ESMA and EIOPA. The European System of Financial Supervisors, comprising, apart from ESMA and EIOPA, also the European Banking Authority (EBA) and the European Systemic Risk Board (ESRB), was established in response to the European crisis, with the aim of preventing further difficulties in the functioning of EU financial institutions and new financial crisis. Membership of these institutions includes voting rights and direct participation in the work and decision-making processes in ESMA and EIOPA, while Hanfa staff also participate in the work of ESRB as observers. Activities related to ESMA and EIOPA pose a significant challenge for the employees of Hanfa[1], considering that in 2013 they actively contributed to the work of a total of 12 committees and working groups in ESMA and ten committees and working groups of EIOPA. Only a smaller part of Hanfa's supervised entities (mandatory pension companies, leasing companies and companies providing factoring services) is not subject to EU regulation or related to ESMA's or EIOPA's activities. Membership of ESMA and EIOPA implies on-going work on the preparation of positions and opinions, analytical activities, and compilation of various data. A significant number of these activities are related to products or services currently not even existing in the Republic of Croatia, but only in highly developed markets. In spite of that, Hanfa is obliged to participate in the process of defining their operational aspects, keeping in mind

1 This implies an adequate number of employees having the necessary expertise, as well as the dedication and on-going adjustment by the staff to the new regulations and principles. As at 31 December 2013, Hanfa employed 142 people. Due to an increasing scope of activities, primarily related to tasks connected with the EU accession, and in order to be able to meet its obligations and complete its tasks in an adequate manner, Hanfa had to start hiring new employees.

their potential impact on the Croatian market. Furthermore, costs arising from the participation in the work of the said institutions, attendance at seminars and conferences, and annual membership fees represent a significant financial burden for Hanfa, as well.

In 2013 Hanfa continued enhancing its internal business processes (accounting, IT), the purpose of which was not only to speed up and optimise certain internal processes, but also to facilitate business operations for supervised entities and improve cooperation with ESMA and EIOPA (security requirements relating to the exchange of data, implementation of changes to reports, creation of a new, more functional web site). ESMA and EIOPA's requirements related to the improvement of the IT structure (exchange of a large amount of data and reports) had a direct impact on Hanfa's costs and expenditures.

Hanfa also kept working on the development of supervisory models with the aim of fully implementing risk-based supervision as a standard of conduct for supervisory authorities in EU Member States. These models imply an approach that places emphasis on the prevention, identification of risks (especially systemic risks) in a timely manner and the avoidance of negative outcomes. Such supervisory approach is supported by the fact the Croatian Parliament adopted the Act on the Financial Stability Council (Official Gazette 159/13), thus recognising the importance of preserving the financial stability of the system as a whole, through analytical work and early

Risk-based supervision is a structured process aimed at identifying the most critical risks Hanfa's supervised entities are exposed to. This supervisory approach enables the supervisory authority to allocate its resources where they are needed most. This way, companies not managing risks in an appropriate manner will be paid extra supervisory attention, whereas companies with adequate risk management systems will be subject to regular annual supervisory processes. It is a company's duty to control and manage identified risks before these risk become a threat to its own business activities, its clients, industry in general and legislative objectives of Hanfa.

While carrying out risk-based supervision, the supervisory authority must take into account the following supervisory phases: risk identification, risk assessment, risk mitigation and risk monitoring. The supervisory authority must apply its supervisory approach in a consistent manner to all companies and at all times. All the phases must take into account the proportionality principle, and the supervision itself must take account of market developments.

In order to ensure identification of risks and problems, risk-based supervision is based on data collected on a supervised company. The amount of data and details needed for the assessment phase depends on the size and complexity of business operations and on the company's business activities. The adequacy of the company's financial resources is also assessed, along with the ability to obtain financial assets in case of financial losses. A qualitative assessment is carried out through interviews, where members of the management board and other responsible persons provide answers on their managing activities and risk exposure. A risk-based supervisory procedure includes the assessment of the likelihood of identified risks materialising, and the possible impact of this on the market in general. For the purpose of assessing a company's total risk profile, the supervisory authority also takes account of the problems that have already materialised. In addition to the qualitative assessment, this supervisory approach also comprises quantitative indicators, and implies assignment of risk indicators in a certain period of time for each supervised entity.

Risk-based supervision primarily implies a future-oriented, advisory and consistent approach, aligned with best international practices. A good risk management practice promotes financial stability and ensures more efficient results for companies and their clients. The premise of risk-based supervision is that primary responsibility for prudent management and financial situation rests with the company's management board and directors. It is their duty to identify risks the company is exposed to, as well as to monitor and manage these risks. The supervisory authority assesses the company's ability to identify, monitor and control its exposure to risks.

The main objective of risk-based supervision is risk assessment and provision of recommendations to supervised entities. This process implies individual supervisory procedures and risk assessment, verification of the compliance with the legal framework, verification of supervised entities' capital adequacy, definition of the overall supervisory approach and frequency for a particular supervised entity, interpretation of legal requirements and preparation of guidelines for the industry, as well as total assessment of the market and systemic risks which may impact market stability.

Market analysis covers research and assessment of developments in the overall industry, with the aim of identifying individual problems and increasing or improving the frequency of supervision. This analysis enables the supervisory authority to integrate up-to-date information on industry's developments, new problems and trends which may have a negative impact on a company's risk profile, into its supervisory mechanism. This may lead to adoption of measures which relate to particular supervised entities, to revision of guidelines and requirements or even to changes in the regulatory framework.

detection and elimination of any threats and risks. Members of the Council include, apart from Hanfa's representatives, representatives of the Croatian National Bank, the Ministry of Finance of the Republic of Croatia and the State Agency for Deposit Insurance and Bank Rehabilitation.

Risk-based supervision involves on-going and effective activity of the supervisory authority in cooperation with supervised entities and the prevention of any conflicts or irregularities, thus differing from a supervisory model where the supervisory authority intervenes in the phase of sanctioning only.

All the industries within the non-banking financial sector share some common features[2], thus making some parts of Hanfa's supervisory activities uniform, as well. The alignment of supervised entities' business operations with regulations is verified in the course of on-site and off-site examinations, with on-site examinations being classified as either full-scope or targeted examinations. Supervisory activities are carried out pursuant to the Act on the Croatian Financial Services Supervisory Agency, special laws regulating business operations of entities supervised by Hanfa and subordinate regulations adopted under those laws, regulations governing entrepreneurial accounting and implementation of the financial reporting standards, and the law governing the prevention of money laundering and terrorist financing. Off-site supervision of supervised entities includes the analysis of financial and supervisory reports submitted to Hanfa within the prescribed deadlines, and monitoring, collection and verification of documentation, notifications and data delivered at Hanfa's special request, as well as data or findings obtained from other sources. On-site examinations are defined by the Annual On-Site Examination Plan, whereas off-site examinations are initiated on the basis of financial, statistical and supervisory reports received. Hanfa carries out on-going supervision of all entities subject to its supervision, thus having carried out 54 on-site examinations during 2013, of which 48 examinations were completed in the same year, and the remaining six on-site examinations are expected to be completed in 2014. In the previous year, Hanfa also completed seven on-site examinations initiated in 2012. Following the said examinations, Hanfa issued a total of 62 decisions in 2013.

In 2013, investment services and investment activities were provided and performed by nine investment firms, 16 credit institutions and six companies managing investment funds with public offering, all of them established in the Republic of Croatia. The Zagreb Stock Exchange recorded a total turnover amounting to HRK 3.8bn, which is a 2.6% decrease compared to 2012. The total value of transactions in the clearing and settlement system reached HRK 231.2bn.

There were 25 investment fund management companies established in the Republic of Croatia, managing 112 funds (86 open-ended investment funds (UCITS) and 26 alternative investment funds). The assets of UCITS totalled HRK 13bn, increasing by HRK 0.4bn in comparison with 2012, while alternative investment funds' assets amounted to HRK 2bn.

Four mandatory pension funds had a membership of 1,702,218. A total of HRK 5bn of net contributions were paid in mandatory pension funds, whose net assets rose by HRK 7.1bn relative to 2012, reaching HRK 58.2bn at the end of 2013. Rates of return of mandatory pension funds were lower compared with the previous year, due to the low deposit interest rates environment and lower returns on investments in debt securities. The rate of return of the MIREX index, which represents the average weighted value of accounting units of all mandatory pension funds, stood at 4.5%.

Six open-ended voluntary pension funds had a total of 204,546 members, whereas their net

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2 Apart from sharing general characteristics of the financial system, all legal persons subject to Hanfa's supervision are also subject to the subsidiary legislation, such as the Companies Act (Official Gazette 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12, 144/12 and 68/13), the Bankruptcy Act (Official Gazette 44/96, 29/99, 129/00, 123/03, 82/06, 116/10, 25/12 and 133/12), the Civil Obligations Act (Official Gazette 35/05, 41/08 and 125/11), the Accounting Act (Official Gazette 109/07 and 144/12) and other relevant laws. In addition to legal persons, Hanfa also supervises natural persons, namely brokers, investment advisors, tied agents, certified actuaries and authorised insurance brokers and agents.

assets amounted to HRK 2.2bn, rising by 11.1% in comparison with 2012. Sixteen closed-ended voluntary pension funds recorded net assets totalling HRK 494.6m.

There were 26 insurance companies and one reinsurance company established and operating in the Republic of Croatia in 2013. Insurance companies recorded a gross written premium reaching HRK 9.1bn (0.5% more than 2012), while the reinsurance company reported a gross written premium totalling HRK 397.4m (7.1% less than in 2012).

Total assets of 23 leasing companies operating in the Republic of Croatia fell by 11.3% relative to 2012, amounting to HRK 19.7bn. The leasing industry has been recording a decrease in the value of active contracts and a decline in assets for the fifth consecutive year. Even though 2013 saw an increase in the value of newly concluded contracts compared with 2012, this was mostly due to certain exceptional circumstances, rather than to the recovery of the leasing market.

Companies providing factoring services recorded their assets in the amount of HRK 8.1bn, which is a 13% increase relative to 2012.

Hanfa's Council is an advisory body comprising nine members (three of them being appointed by the Government of the Republic of Croatia, and five by associations of supervised entities at the Croatian Chamber of Economy, whereas the President of the Board of Hanfa is a member of the Council by virtue of his office). In 2013, the Council held four sessions, namely on 25 April, 17 June, 18 September and 11 December, discussing issued related to legal and regulatory changes in financial industries, situation in the Croatian financial market and improvements in relation to Hanfa's work.

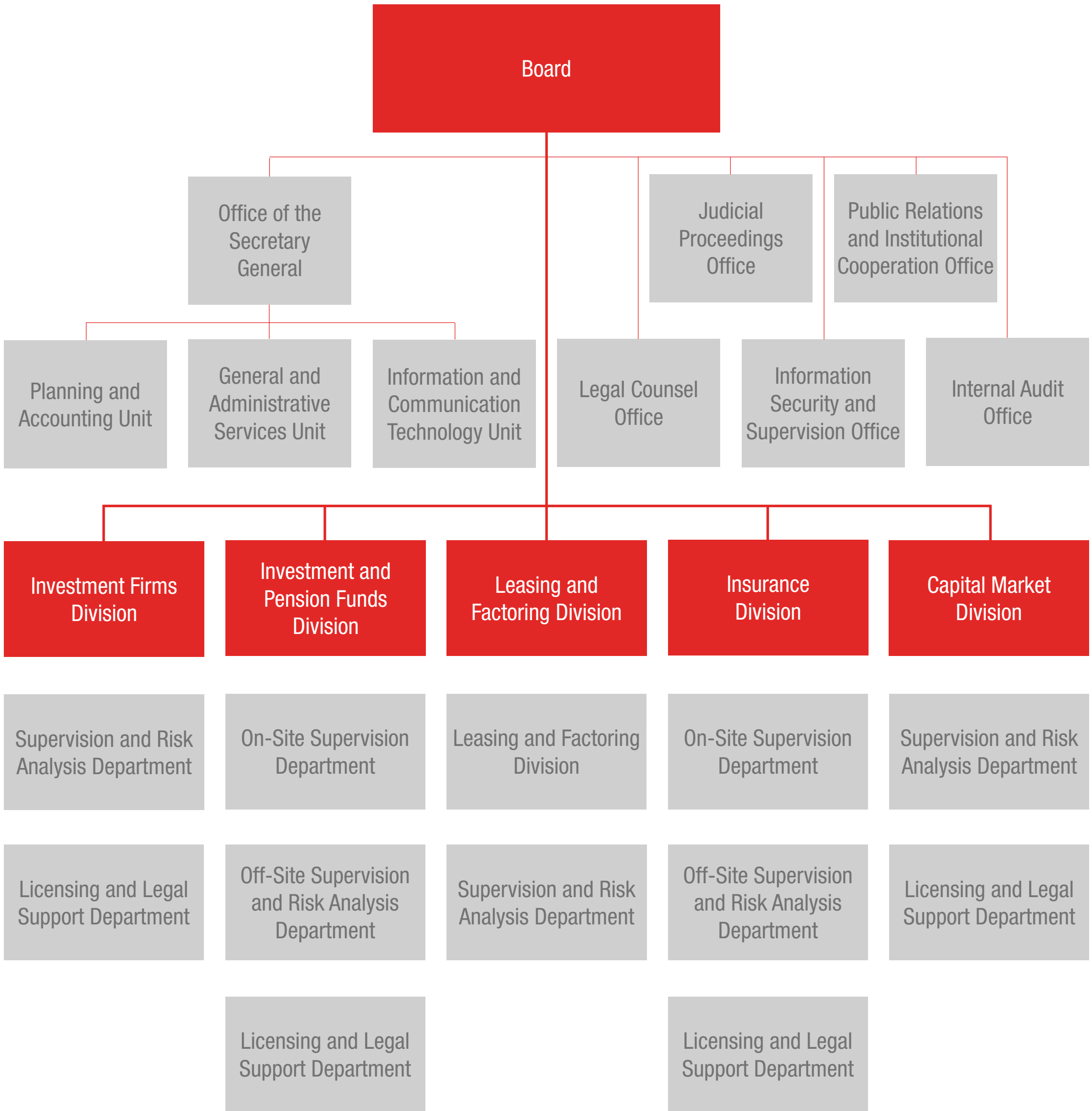
In 2013, Hanfa's Board held 71 sessions (of which 50 regular and 21 extraordinary), having adopted a total of 1,300 decisions.

Unstable business environment caused by the economic crisis makes us aware of the fact that activities of the supervisory authority should not place any additional burden on supervised entities in the non-banking financial sector, but clearly, no irregularities or illegal acts in the market should be allowed, either. In 2013, Hanfa accomplished its legally prescribed tasks and objectives successfully, and I am confident that it will continue to meet the challenges that lie ahead of it.

I would like to thank all Hanfa staff for their hard work, dedication and contribution to the achievement of the goals set for the year 2013.

Petar-Pierre Matek
President of the Board

Organisation Chart



Capital Market

1 Capital Market

1.1 Market Description

The continuing decline in economic activity, followed by a decrease in liquidity, had an impact on activities on the capital market, causing both a further drop in trading liquidity on the Zagreb Stock Exchange, which recorded a slight (1.2%) fall in total turnover, and a downward trend in share issuers' listings on the regulated market. An upward trend was recorded in the number of new admissions of certificates on the MTF and, for the first time, on the regulated market of the Zagreb Stock Exchange, which increased the supply of financial instruments on the Zagreb Stock Exchange. Capital market developments were also marked by pre-bankruptcy settlement procedures initiated against issuers of financial instruments on the Zagreb Stock Exchange, which was reflected in activities of financial instrument issuers on the capital market and led to more stringent transparency requirements for issuers and to suspensions of trading by the Zagreb Stock Exchange for certain securities. Issuers seemed reluctant to issue securities in order to raise money to finance their business operations, which caused a decline in the number of prospectuses published in 2013.

The accession of the Republic of Croatia to the European Union caused changes in the capital market regulatory framework, as well. Prior to the accession, all the relevant directives had already been implemented in the Croatian legislation, and as of 1 July 2013, all EU regulations, including those relating to the capital market, directly apply in the Republic of Croatia, too. Croatia's accession to the EU was followed by the entry into force of the provisions of the Capital Market Act (Official Gazette 88/08, 146/08, 74/09, 54/13 and 159/13) providing for the liberalisation of the capital market and cross-border cooperation. This means that certain provisions of the Capital Market Act allow supervised entities from the Republic of Croatia to participate in capital markets of EU Member States either through the free provision of services or through the establishment of a branch. Under the same conditions, entities from other Member States are allowed to participate in the Croatian capital market. As regards the approval of prospectuses, the Capital Market Act regulates the process of notification of approved prospectuses between the Republic of Croatia and EU Member States in the case of cross-border offering of securities and/or admission of securities on regulated markets of European Economic Area countries[3]. In order to adjust to the new regulatory environment,

Capital market is a financial market in which buyers and sellers trade in financial instruments, primarily shares and bonds, but also in other transferrable securities (e.g. structured securities) and derivatives (e.g. options, futures). The capital market in the Republic of Croatia comprises trading on the regulated market, multilateral trading facility (MTF) and over-the-counter (OTC) trading.

Capital market participants are issuers offering securities and/or whose securities are admitted to trading on a regulated market, capital market intermediaries (investment firms and credit institutions), investment and pension funds, and all natural and legal persons executing transactions on the capital market. The participants that also form the market infrastructure are:

- *Zagreb Stock Exchange (ZSE), as a market operator of the regulated market and MTF*
- *Central Depository and Clearing Company, as a central depository of dematerialised securities, operator of the clearing and settlement system and operator of the Investor Compensation Scheme*
- *Hanfa, as a supervisory and regulatory authority of the non-banking financial system.*

3 Article 3 point 25 of the Capital Market Act defines a Member State as "an EU Member State and a country signatory to the Agreement on the European Economic Area". European Economic Area countries are EU Member States and Norway, Iceland and Liechtenstein. Switzerland makes a part of the European single market on the basis of bilateral agreements with the EU.

the Zagreb Stock Exchange made significant amendments to the Rules of the Zagreb Stock Exchange, which were approved by Hanfa and entered into force in September 2013. These amendments cover new business processes which have been regulated since Croatia's entry into the European Union and relate to the cross-border cooperation of market operators and the provision of services in the Republic of Croatia by entities from other Member States and vice versa. The Zagreb Stock Exchange extended its opening hours in October 2013, in order to adjust to opening hours of foreign stock exchanges, especially for the purpose of trading in certificates, whose underlying assets are traded on certain stock exchanges even up to 24 hours a day.

One of the major changes in Hanfa's activities since Croatia's EU accession has been close cooperation with ESMA, related to, among other things, the submission of relevant data relating to the capital market, requests for ESMA's opinion prior to providing certain approvals to supervised entities or the participation of Hanfa staff in the work of ESMA's committees or working groups on pre- and post-trading transparency, market abuse, corporate reporting, legal framework analysis, etc., and in ESMA's Board of Supervisors. Certain types of data are subject to reporting requirements not only with respect to ESMA, but also with respect to other competent authorities in the European Union. Apart from this, in the course of 2013, ESMA recognised and analysed some financial innovations on the capital market, such as crowdfunding, a new collective form of financing a project whose leaders directly or via a crowdfunding platform (usually internet) provide a brief presentation of their project and invite all interested parties to finance it.

According to the data from the Zagreb Stock Exchange, the total turnover in all financial instruments amounted to HRK 3.8bn. The share of block trades[4] in the total turnover stood at 18.2%, while in 2012 it accounted for 15.6% of the total turnover. Block trades in shares recorded a significant increase (78.7%), whereas block trades in bonds fell by 14.8%. Looking at the turnover by types of financial instruments within the order book[5], the largest turnover was recorded by shares (71.4%), while bonds recorded a markedly lower turnover (5.9%). Trading in certificates continued, with an increase in the number of newly admitted certificates. The share of trades in certificates in the total turnover on the Zagreb Stock Exchange reached 4.5% during 2013.

As regards market trends, the most significant stock index, CROBEX®, grew by 3.1% compared to 2012, while the most important bond index, CROBIS®, fell by 4.4%.

On 22 February 2013, the Zagreb Stock Exchange started publishing new stock indices, namely the CROBEXplus index[6] (which comprises a larger number of stocks than the CROBEX® index, and differs from the CROBEX® index also in the calculation methodology, with all the stocks included in its composition accounting for the same share, while shares of the stocks included in the CROBEX® depend on their market capitalisation) and five sector indices called CROBEXindustrija, CROBEXkonstrukt, CROBEXnutris, CROBEXtransport and CROBEXturist, which follow the trends in the industrial production, construction industry, food production and manufacturing, transport and tourism. These indices allow investors to follow separate trends in individual economic activities on the regulated market of the Zagreb Stock Exchange. All the stocks comprised by the sector indices are also included in the composition of the CROBEXplus index.

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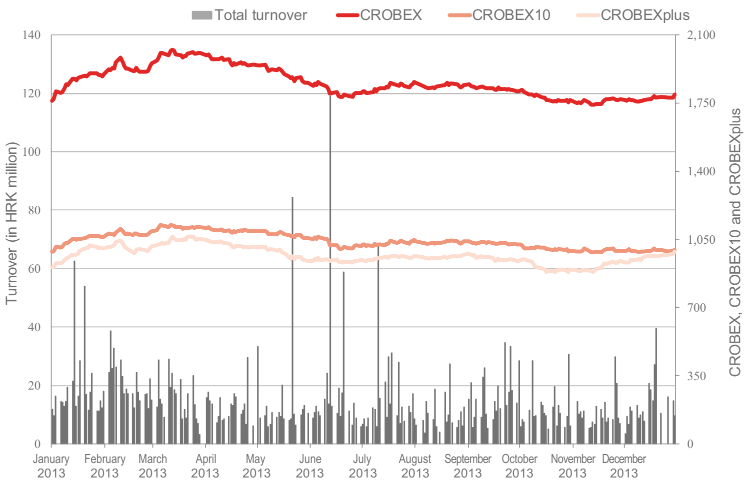
4 A block trade is a transaction in a financial instrument listed on the regulated market or admitted to trading on the MTF, which includes a member or members of the Zagreb Stock Exchange, it is arranged privately and concluded via the trading system of the Zagreb Stock Exchange, in accordance with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

5 Includes transactions on the Zagreb Stock Exchange apart from block trades and public auctions, which represent transactions outside the order book

6 The number of stocks in the composition of the CROBEXplus index is not limited, and the index may include any stock admitted to the regulated market whose number of trading days exceeds 70% of the total number of trading days in the preceding six-month period and whose free float market capitalisation is larger than HRK 10m.

The following charts present changes in the value of three stock indices (CROBEX, CROBEX10 and CROBEXplus) and two bond indices (CROBIS i CROBIStr) in 2013, and annual rates of return of the two bond indices in the 1998-2013 period.

Chart 1.1 Changes in the values of the CROBEX, CROBEX10 and CROBEXplus indices and in the ZSE turnover in 2013



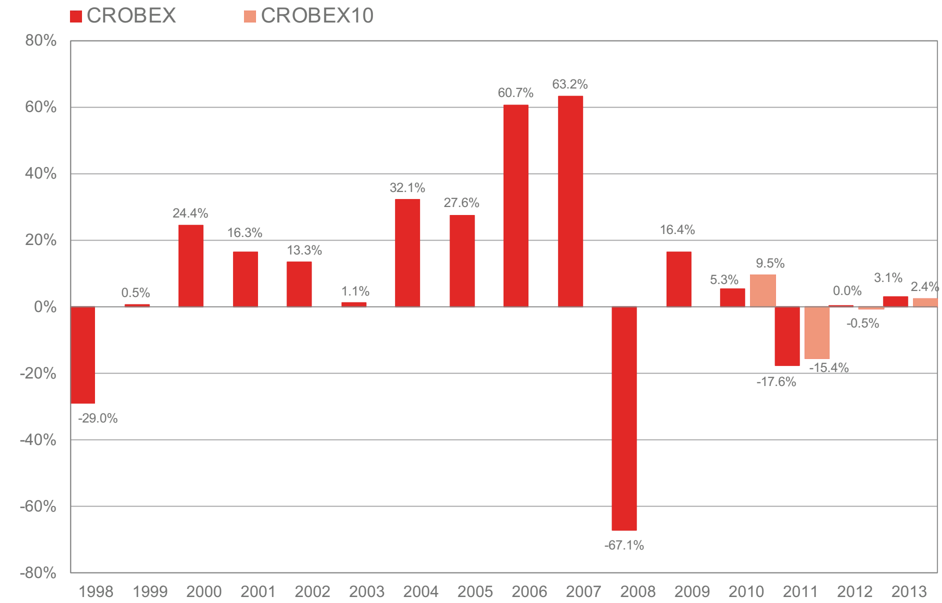
Source: Zagreb Stock Exchange

In 2013, the CROBEX index rose by 3.10%, while the CROBEX10 index grew by 2.10%. These indices recorded their highest values in March 2013 (on 13 March and 6 March respectively) reaching 2025.28 and 1126.94 points respectively. Their lowest values were recorded in November 2013 (on 13 November and 12 November respectively) and totalled 1740.44 and 985.15 points respectively.

The CROBEX index consists of 25 stocks admitted to trading on the regulated market of the Zagreb Stock Exchange, and traded over more than 90% of the total number of trading days within a six-month period preceding index review (on the basis of the highest mean of the share in the free float market capitalisation and the share in the order book turnover). The index base date is 1 July 1997 with a base level of 1,000. The CROBEX10 index is made up of 10 stocks from the CROBEX index composition with the highest mean of the share in the free float market capitalisation and in the turnover. The base level of this index was set at 1,000 as of 31 July 2009.

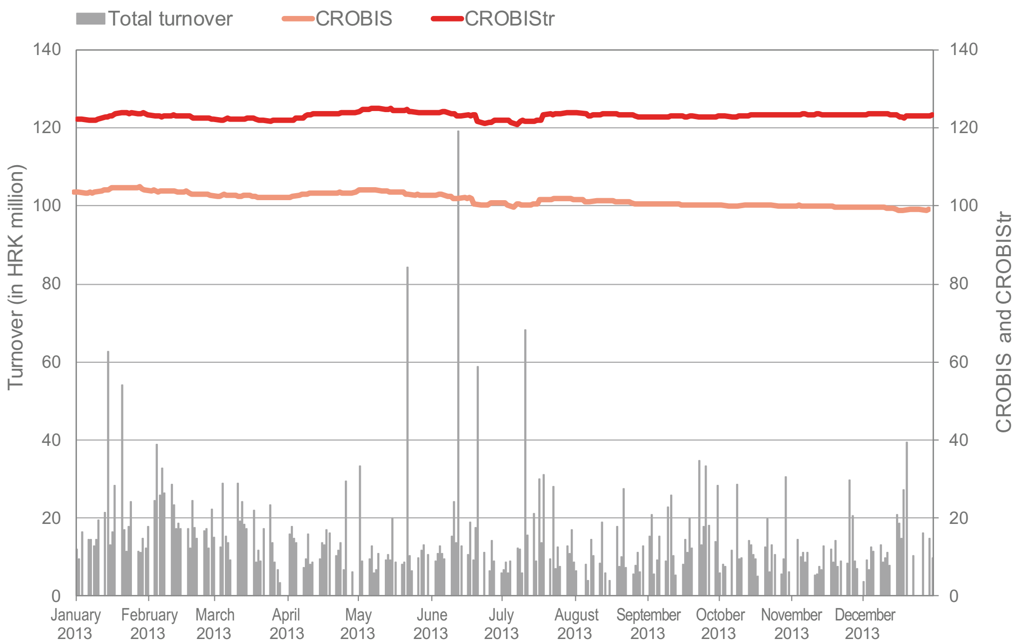
The CROBIS index consists of government bonds and government agencies bonds having a nominal value of the issue higher than EUR 75m, a maturity longer than 18 months and a fixed interest rate, with the principal payment occurring in a lump sum upon maturity. The index base date is 30 September 2002. The CROBIStr index is a total return index, including both interest accrued and interest paid. The CROBIStr index composition equals that of the CROBIS index, and its base date is 1 December 2011.

Chart 1.2 Annual rates of return of the CROBEX index in the 1998-2013 period and the CROBEX10 index in the 2010-2013 period



Source: Zagreb Stock Exchange

Chart 1.3 Changes in the values of the CROBIS and CROBIStr indices and and in the ZSE turnover in 2013



Source: Zagreb Stock Exchange

The CROBIS index declined by 4.42%, while the CROBIStr rose by 0.93%. A total of 56.3% of the turnover was recorded in the first, and 43.7% in the second half of the year. This data shows that the accession of the Republic of Croatia to the European Union was followed by a slowdown in capital market activities.

The year 2013 saw ten listings of financial instruments on the Official Market and ten listings of financial instruments on the Regular Market. In the same period, 14 financial instruments were removed from the Official and 22 from the Regular Market. Broken down by type of financial instruments, out of 36 financial instruments removed from the regulated market in 2013, a total of 19 shares were removed from trading, seven bonds and nine commercial papers became due, while the price of one certificate hit the knock-out barrier.

MTF-Fortis recorded three new admissions to trading (shares), while MTF-Alter recorded as many as 56 new admissions to trading (certificates). Two removals from trading were reported by MTF-Fortis and 52 by MTF-Alter. There were no transfers from the regulated market to the MTF or vice versa[7].

7 Stocks of the company Riviera Adria d.d. from Poreč with the ticker symbol RIVP-R-a were removed from trading on the Regular Market on 16 August 2013, and were admitted to trading on MTF-Fortis on 13 November 2013. This was recorded as a removal from trading from the Regular Market and a new admission to trading on the MTF-Fortis.

1.1.1 Zagreb Stock Exchange

In the course of 2013, the Zagreb Stock Exchange was the only operator of the regulated market and MTF operator[8] in the Republic of Croatia[9].

Table 1.1 Number of financial instruments on the regulated market and MTF as at 31 December 2013

Type of market	Financial instruments	31 Dec 2013	Change relative to 2012
Regulated market	**Shares**	**181**	-9.50%
	Official Market	22	0.00%
	Regular Market	159	-10.70%
	Bonds (government, corporate, municipal)	**45**	-2.20%
	Official Market	43	-2.30%
	Regular Market	2	0.00%
	Commercial papers	**6**	-25.00%
	Official Market	4	-20.00%
	Regular Market	2	-33.30%
	Structured products	7	n/a
	Official Market	0	n/a
	Regular Market	7	n/a
MTF	**Shares**		
	MTF-Fortis	27	3.80%
	Structured securities		
	MTF-Alter	20	25.00%

Source: Zagreb Stock Exchange

8 Pursuant to the latest amendments to the Rules of the Zagreb Stock Exchange, the MTF is divided into the MTF-Fortis, MTF-Alter and MTF-X. As of the day of entry into force of the new rules, financial instruments admitted to trading on the Domestic MTF are considered to have been admitted to trading on the MTF-Fortis, and financial instruments admitted to trading on the International MTF are considered to have been admitted to trading on the MTF-Alter

9 Differences between the regulated market and the MTF refer to:
- obligation to draw up a prospectus when securities are admitted to trading: when securities are admitted to trading on the regulated market, issuers are obliged to draw up and publish a prospectus which will be approved by Hanfa and which contains all information necessary to make an assessment of the assets and liabilities, financial position, profit and losses, prospects of the issuer and of any guarantor, and of the rights attaching to such securities, in order to enable investors to make an informed decision regarding the purchase of the securities, while no such obligation is imposed on issuers whose securities are admitted to trading on the MTF and
- level of issuer transparency (obligation to disclose regulated information to the public): issuers whose securities are admitted to trading on the regulated market are obliged to disclose to the public all regulated information (including inside information) after the admission of the securities to the regulated market, while no such obligation is imposed on issuers whose securities are admitted to trading on the MTF.

A regulated market is a multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments, in the system and in accordance with its non-discretionary rules, in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with the provisions of the Capital Market Act.

A multilateral trading facility is a multilateral system, operated by an investment firm or a market operator, which brings together multiple third-party buying and selling interests in financial instruments, in accordance with nondiscretionary rules, in a way that results in a contract between the contracting parties.

Regulated information is all the information that, pursuant to the Capital Market Act, must be publicly disclosed by the issuer or a person who listed the issuer's securities on the regulated market without the issuer's consent, such as financial statements and management reports, changes in the proportion of voting rights, proposals for decisions taken in a general meeting, inside information, etc. Entities obliged to submit and publicly disclose regulated information are the following:
- ***issuers whose securities are admitted to trading on the regulated market of the Zagreb Stock Exchange***
- ***natural persons and legal entities who reach, exceed or fall below, directly or indirectly, the thresholds of the voting rights in the share issuer prescribed by the Capital Market Act, and***
- ***persons performing managerial functions in the issuer, and persons having close links with them.***

In November 2013, certificates were admitted to the regulated market of the Zagreb Stock Exchange for the first time, raising the level of issuer transparency and providing more information to investors needed to make an investment decision regarding these structured securities.

Certain stocks admitted to the regulated market or the MTF operated by the Zagreb Stock Exchange have never been traded yet. According to the ZSE data, until 31 December 2013 no transactions had been concluded in 14 stocks admitted to the regulated market and in one stock admitted to trading on the MTF. In 2013, no transactions were concluded in 42 stocks from the regulated market and three stocks from the MTF.

During 2013, the Zagreb Stock Exchange carried out the suspension of trading in 37 stocks, of which ten suspensions were caused by the publication of price sensitive information during the pre-bankruptcy settlement procedure, namely:

- notification relating to the hearing on voting on the financial restructuring plan,
- notification relating to the submission of the proposal to initiate a pre-bankruptcy settlement procedure and
- notification relating to the decision of the Commercial Court on the rejection of the proposal to initiate pre-bankruptcy proceedings.

The remaining suspensions were caused by:

- publication of price sensitive information (13 suspensions, of which four were caused by the publication of information regarding the bankruptcy),
- takeover bids (eight suspensions),
- corporate action relating to the squeeze out of minority shareholders (four suspensions),
- inability to pay bond interest (two suspensions) and
- newspaper articles ("Banks losing a historic litigation over Swiss francs").

In the same period, the Zagreb Stock Exchange also carried out the suspension of trading in nine bonds, of which:

- three suspensions were caused by the publication of price sensitive information during the pre-bankruptcy settlement procedure, namely the notification relating to the hearing on voting on the financial restructuring plan,
- four suspensions were caused by the inability to pay bond interest and
- two suspensions were caused by the said newspaper articles.

The downward trend in the number of Zagreb Stock Exchange members was halted in 2012, with the membership having ended for one member only, while 2012 and 2011 saw the membership ending for seven and six members respectively. As at 31 December 2013, the Zagreb Stock Exchange had a membership of 21.

ZSE Member is an investment firm or credit institution which fulfils the membership criteria in accordance with relevant provisions of the Capital Market Act and the ZSE Rules, and which has concluded a membership agreement with the ZSE. A decision on admission to membership is adopted by the ZSE. In order to acquire membership status, a member agrees irrevocably to apply the ZSE Rules and other ZSE acts.
A person who fulfils specific criteria defined in Article 7 of the ZSE Rules may become a member with limited trading rights.

The amended Rules of the Zagreb Stock Exchange divided activities related to the provision of liquidity according to types of financial instruments into activities of specialists for shares and activities of market makers for structured products. By the end of 2013, the Zagreb stock Exchange had concluded contracts with specialists for seven stocks, with specialist activities for four stocks being performed by two members each.

Specialist is a ZSE member which, pursuant to the agreement concluded with the ZSE, assumes special obligations related to the maintenance of liquidity of a particular share for a period of time in the course of the main trading session by simultaneously quoting bid and ask prices.

1.1.2 Central Depository and Clearing Company

In 2013, the Central Depository and Clearing Company (hereinafter: CDCC) was the only entity in the Republic of Croatia authorised to manage the central depository of dematerialised securities, operate the clearing and settlement system for transactions concluded on the regulated market and MTF or outside the regulated market and MTF (OTC transactions) and perform other activities pursuant to Article 506 of the Capital Market Act (e.g. assign unique identification numbers to dematerialised securities – ISIN and CFI codes). The operation of the CDCC is governed by the Capital Market Act and by internal documents approved by Hanfa[10].

Market maker is a ZSE member which, pursuant to the agreement concluded with the ZSE, assumes special obligations related to the maintenance of liquidity of a particular structured product for a period of time in the course of the main trading session by simultaneously quoting bid and ask prices.

Table 1.2 Number of deposited securities and their market value

	31 Dec 2013	Change relative to 2012
Deposited securities - total	1,098	-0.54%
Shares	936	-1.37%
Bonds	61	3.39%
Other	101	5.21%
Market value - total (in HRK bn)	325.2	0.71%
Shares (in HRK bn)	230.6	-1.75%
Bonds (in HRK bn)	65.5	5.56%
Other (in HRK bn)	29.1	11.07%

Source: CDCC

Table 1.3 Ownership structure of all securities deposited with the CDCC

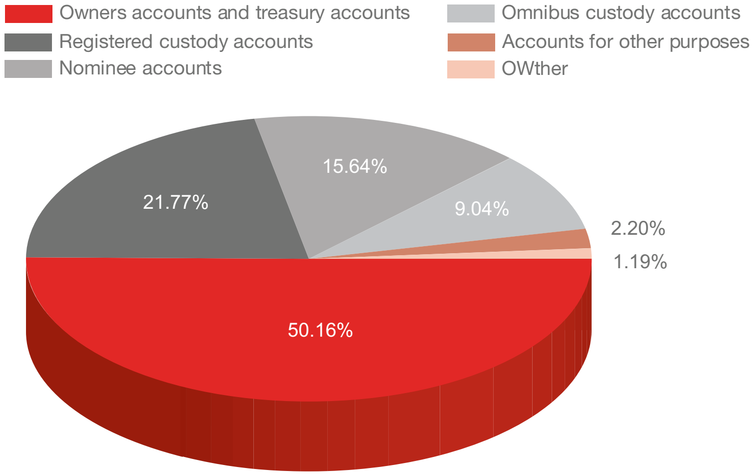
Category	31 Dec 2012	31 Dec 2013
Domestic legal persons	50.00%	51.10%
Foreign persons*	29.00%	27.10%
Domestic natural persons	7.00%	7.40%
Other	14.00%	14.50%

* Of which foreign legal persons with a 97.96% share and foriegn natural persons with a 2.04% share

Source: CDCC

10 CDCC Rules and Instructions

Chart 1.4 Types of accounts



Source: CDCC

The clearing and settlement system, operated by the CDCC, includes the preparation of a transaction involving the transfer of funds or securities and the transfer itself. In 2013, the total transaction value in the clearing and settlement system amounted to HRK 231.2bn, declining by 12.0% compared to 2012, when it reached HRK 262.8bn.

The CDCC provides depository members with services relating to corporate actions, or activities relating to the exercise of rights attaching to securities, changes related to securities or status changes of the issuer. In 2013, the CDCC carried out a total of 1,652 corporate actions, which is a 6.5% rise compared to 1,551 corporate actions carried out in 2012. Out of the 18 types of corporate actions carried out, most were related to general assemblies (41.6%), removal of securities (9.9%), maturity of the principal (9.6%), calculation and payment of cash dividend (5.9%), increase in the initial capital (5.1%) and interest maturity (4.9%).

On 31 December 2013, Hanfa received an application for authorisation from the CDCC to provide services of a central counterparty in accordance with 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[11] (hereinafter: EMIR). The provision of services of a central counterparty includes contractual settlements, while a failure to align with the provisions of EMIR would allow the CDCC to carry out trade-for-trade settlements only, in which transactions depend solely on counterparties with no guarantee of transaction settlement. If authorised, the CDCC would act as central counterparty and become a buyer to each seller and a seller to each buyer, and would provide a guarantee for transaction settlements with its own funds, which contributes to the security of the post-trade sector and reduces the systemic risk.

Central counterparty is a legal person that interposes itself between the counterparties to the contracts traded on one or more financial markets, becoming the buyer to every seller and the seller to every buyer.

11 Regulation (EU) No 648/2012 OJ L 201

Pursuant to 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 54/13; hereinafter: EMIR Implementing Act), Hanfa is authorised to assess whether the application is complete, to make a risk assessment of the central counterparty, to form a college which takes a decision regarding the application and to issue authorisation (in the case of a positive opinion of the college).

1.1.3 Issuers

Market capitalisation of issuers whose securities are admitted to the regulated market or MTF on the Zagreb Stock Exchange totalled HRK 183.8bn at the end of 2013, falling by 4.1% relative to 2012, when it stood at HRK 191.6bn. Broken down by types of financial instruments, market capitalisation of shares accounted for 64.75% of the total market capitalisation of Zagreb Stock Exchange issuers (a 6.9% decline compared to the amount of market capitalisation in 2012). Market capitalisation of shares was followed by market capitalisation of bonds in the amount of 34.98% (a 3.7% rise relative to 2012), and market capitalisation of certificates totalling 0.27% (a 72.1% decrease compared to 2012).

The number of share issuers on the regulated market continued its downward trend, whereas the trend was opposite on the MTF. The number of bond issuers on the regulated market grew by 16.7%. As previously mentioned, in 2013 certificates were listed by one issuer on the regulated market, as well.

Table 1.4 Number of issuers on the regulated market and MTF as at 31 December 2012 and 2013

Number of issuers	31 Dec 2012	31 Dec 2013	Change
Regulated market			
Shares	184	165	-10.30%
Official market	21	21	0.00%
Regular market	163	144	-11.70%
Bonds (government, corporate, municipal)	18	21	16.70%
Official market	16	19	18.80%
Regular market	2	2	0.00%
Commercial papers	4	3	-25.00%
Official market	2	1	-50.00%
Regular market	2	2	0.00%
Structured products	0	1	100.00%
MTF			
Shares	26	27	3.85%
Structured securities	1	1	0.00%

Source: Zagreb Stock Exchange

During 2013, a total of 19 share issuers were delisted, thus contributing to the downward trend in the number of issuers on the regulated market from the previous years. The following were the reasons for delisting:

- decision of the general assembly on delisting (eight issuers),
- bankruptcy of the issuer (six issuers),
- squeeze-out of minority shareholders (four issuers),
- transformation into a limited liability company (one issuer).

1.2 Hanfa's Activities

Hanfa's activities in the capital market were primarily directed at investor protection by ensuring fair, orderly and effective trading and a transparent and efficient market, as well as at reducing systemic risk.

During 2013, Hanfa's activities were primarily related to the establishment of cooperation with ESMA. Hanfa's employees became members of a large number of ESMA's committees and working groups, participating actively in their work, which involves following amendments to the existing legislation governing capital markets on an on-going basis and participating in the preparation of various documents and non-legislative acts whose adoption falls within ESMA's competence. They also took part in the process of harmonising and improving working practices of competent authorities on the European capital market, all with the aim of contributing to the development of the Croatian capital market, and in particular to the development of new products and services offered.

As regards Hanfa's activities aimed at issuers, the fourth educational seminar for issuers whose securities are admitted to trading on the regulated market of the Zagreb Stock Exchange was held in June 2013. As in the previous year, the seminar was organised by the Zagreb Stock Exchange, Hanfa and the CDCC. Hanfa's representatives presented news related to:

- the application of EU legislation following the accession of the Republic of Croatia to the European Union
- amendments to the Capital Market Act with respect to transparency obligations of issuers and
- amendments to the Capital Market Act with respect to preparation and publication of prospectuses.

The Zagreb Stock Exchange provided issuers with information on specialists and market makers as liquidity providers, and on the structuring of activities relating to the payment of dividends.

The CDCC presented its services called "Issuer portal: a new on-line service for issuers" and "My e-account: on-line service for shareholders and the advantages it offers to issuers", the improvements it made with respect to the dividend payment service, and the further service improvement plan.

The seminar was attended by representatives of around 150 issuers. The issuers were invited to address their questions and proposals to the organisers of the seminar for the purpose of continuing the cooperation and clarifying any existing issues.

During the previous year, Hanfa provided the investing public with timely information on its website regarding the adoption of new regulations and amendments to the existing regulations. Since Croatia's entry into the European Union, Hanfa has been participating actively in the process of analysing the existing EU legislation and in the preparatory process involving the adoption of new regulation governing capital markets by taking part in the work of ESMA's committees and by cooperating with the Ministry of Finance of the Republic of Croatia and the Mission of the Republic of Croatia to the European Union on an on-going basis.

In 2013, Hanfa prepared its third Annual Report on Corporate Governance of Issuers whose Securities are Admitted to Trading on the Regulated Market in the Republic of Croatia, which contributes to a more complete overview and to the development of corporate governance in Croatia. Corporate governance in general is becoming increasingly important, particularly in the wake of the last financial crisis, as some of its aspects have proved to be one of the triggers for the crisis. The report contains data on all issuers of shares and bonds on the regulated market of the Zagreb Stock Exchange and can be considered as an indicator of trends in corporate governance in the Republic of Croatia. The report is available on the web site of Hanfa.

1.2.1 Regulatory Activities

The year 2013 was marked by changes in the legislation regulating capital markets, for the purpose of which Hanfa cooperated closely with several ministries in the process of preparing acts regulating capital markets, in particular by taking part in the work of working groups for the preparation of acts, and in ensuring legal basis in general for direct application of regulations, guidelines, recommendations and technical standards of European supervisory authorities in the territory of the Republic of Croatia.

The first half of 2013 saw the adoption of amendments to the Capital Market Act, made for the purpose of complete alignment of the act with EU regulations by the day of entry of the Republic of Croatia into the European Union. Furthermore, as EU regulations started to apply in the Republic of Croatia for the first time, Hanfa participated in the implementation of EMIR and of Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps[12] (hereinafter: Short Selling Regulation), implemented upon the adoption of acts on the said regulations. The second half of 2013 saw the adoption of new amendments to the Capital Market Act, made with the aim of further aligning the act with EU regulations and standards, as well as the adoption of amendments to the Act on the Takeover of Joint-Stock Companies (Official Gazette 109/07, 36/09, 108/12, 90/13 – Croatian Constitutional Court decision No. U-I-4469/2008 etc., 99/13 – Croatian Constitutional Court decision No. U-I-2470/2010 etc.), resulting from the need to improve the legal framework regulating the takeover of joint-stock companies with respect to various issues, and from the need to eliminate obstacles reported during the process of implementation of the act in practice.

Within the meaning of the Short Selling Regulation, short sale in relation to a share or debt instrument is any sale of the share or debt instrument which the seller does not own at the time of entering into the agreement to sell, including such a sale where at the time of entering into the agreement to sell the seller has borrowed or agreed to borrow the share or debt instrument for delivery at settlement.

In 2013, a total of five legal acts and ten subordinate regulations governing capital markets were adopted. The following were the acts adopted and published in the Official Gazette in 2013:

1. Act on Amendments to the Capital Market Act (Official Gazette 54/13)
2. 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 54/13)
3. Act Implementing Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps (Official Gazette 54/13)
4. Act on Amendments to the Act on the Takeover of Joint-Stock Companies (Official Gazette 148/13)
5. Act on Amendments to the Capital Market Act (Official Gazette 159/13).

The following were subordinate regulations adopted and published in the Official Gazette in 2013:

1. Ordinance on the structure and contents of semi-annual and annual financial statements of the Investor Protection Scheme (Official Gazette 155/13)
2. Ordinance on the form, content, deadlines and manner of submitting reports on transactions and trading in financial instruments executed on the regulated market managed by the stock exchange (Official Gazette 155/13)
3. Ordinance on the structure and contents of annual financial reports of the stock exchange (Official Gazette 155/13)

12 Regulation (EU) No 236/2012, OJ L 86

4. Ordinance on the structure and contents of annual financial statements of the central clearing and depository company (Official Gazette 155/13)
5. Ordinance on the type of admitted financial instruments and value of transactions subject to the obligation to report OTC transactions to the stock exchange (Official Gazette 85/13)
6. Ordinance amending the Ordinance on disclosure of inside information which directly concerns the issuer and on determining the legitimate interests of the issuer for the delay in disclosure (Official Gazette 85/13)
7. Ordinance amending the Ordinance on the form, type and number of copies of mandatory attachments to the application for the approval of the prospectus and on mandatory content of the application (Official Gazette 85/13)
8. Ordinance on the conditions for performing the function and on the procedure for granting approval for the position of a member of the management board of the stock exchange (Official Gazette 117/13)
9. Ordinance on the content of the application and documents for granting authorisation to the stock exchange (Official Gazette 117/13)
10. Ordinance on the content of the application and accompanying documents for granting approval to the central clearing and depository company (Official Gazette 117/13)

Hanfa's regulatory activities also include providing opinions on the implementation of acts whose application falls within Hanfa's competence. The opinions are provided at the request of parties to proceedings or persons who have proved their legal interest. In accordance with the competence referred to in Article 15 point 9 of the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 140/05 and 12/12), in 2013 Hanfa issued six opinions relating to the application of provisions of the Capital Market Act and ten opinions relating to the application of provisions of the Act on the Takeover of the Joint-Stock Companies. This number presents a significant increase compared with 2012, when Hanfa issued four opinions relating to the application of provisions of the Capital Market Act and three opinions relating to the application of provisions of the Act on the Takeover of the Joint-Stock Companies.

1.2.1.1 Amendments to the Capital Market Act

The first amendments to the Capital Market Act, contained in the Act on Amendments to the Capital Market Act (Official Gazette 54/13), were part of the process of the continuous alignment with the acquis communautaire, whose purpose was to ensure total integration of the financial market of the Republic of Croatia into the single European market and to guarantee the uniform application of legal provisions in the Republic of Croatia and other Member States. The amendments entered into force on the day of accession of the Republic of Croatia to the European Union, and, with respect to transparency requirements concerning information on issuers whose securities are admitted to trading on the regulated market, market abuse and issuance of prospectuses, relate to the alignment with Directive 2010/73/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading and 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market[13] and with Directive 2010/78/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC in respect of the powers of the European Supervisory Authority (European Banking Authority), the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority)[14].

13 Directive 2010/73/EU, OJ L 327
14 Directive 2010/78/EU, OJ L 331

The second amendments to the Capital Market Act, contained in the Act on Amendments to the Capital Market Act (Official Gazette 159/13), entered into force on 1 January 2014 and were aimed at further alignment of the provisions of the said act with respect to practical implementation of EMIR, the improvement of the existing legal provisions regulating business operations of the central depository and clearing company and the clearing and settlement system for transactions in financial instruments, and more detailed regulation of the manner of determining fair compensation in the process of removal of securities from regulated markets in the period of low market liquidity.

1.2.1.2 EMIR Implementing Act

On 16 August 2012, the provisions of EMIR entered into force in EU, and became applicable to Hanfa's supervised entities on the day of Croatia's EU entry. Apart from having been integrated in the Capital Market Act, EMIR has also been implemented into the national legislation through the adoption of the EMIR Implementing Act, which designates Hanfa and the Croatian National Bank as competent authorities for oversight of the implementation of EMIR in the Republic of Croatia, in accordance with the existing distribution of competences. With respect to the implementation of EMIR, Hanfa supervises central counterparties with their registered offices in the Republic of Croatia, financial central counterparties (except for credit institutions, supervised by the Croatian National Bank with regard to EMIR, as well) and non-financial central counterparties representing Hanfa's supervised entities. Apart from supervising its supervised entities in the narrower sense (investment firms, insurance companies, pension and investment funds, etc.), Hanfa is also responsible for the supervision of all companies in the Republic of Croatia (except for credit institutions) having derivatives in their portfolios. This has led to an increase in the number of Hanfa's supervised entities, resulting from the definition of "a non-financial counterparty" contained in EMIR, according to which a non-financial counterparty is any undertaking (a category broader than that of a legal person[15]) established in an EU Member State.

EMIR covers the following three areas:

1. regulation of obligations of financial and non-financial counterparties in OTC transactions
2. authorisation, operating conditions and supervision of central counterparties
3. authorisation, operating conditions and supervision of trade repositories (ESMA's area of competence).

With respect to supervision of the implementation of EMIR, Hanfa carries out the following activities:

- supervises financial and non-financial counterparties with regard to the application of risk-mitigation techniques, application of intragroup exemptions and obligation to report to trade repositories
- receives data from financial counterparties on disputes relating to transactions in OTC derivatives, valuation of such contracts or exchange of collaterals whose amount or value is higher than EUR 15m and which last for at least 15 working days
- collects data on groups of non-financial counterparties which have exceeded the clearing threshold referred to in Article 10 of EMIR
- adopts decisions on authorisation of central counterparties and supervises authorised companies.

15 In certain circumstances, a natural person may be classified as an undertaking, as well – when a natural person is engaged in an economic activity, that is an activity consisting in offering goods or services on a given market. This is the position taken also by the European Court of Justice (explanation available on the website of the European Commission).

Hanfa published all relevant data relating to EMIR on its website, including instructions for the application of that regulation. It also prepared templates intended for non-financial counterparties for submission of notifications relating to the cases where positions exceed or fall below the clearing threshold. The website also provides access to a presentation summarising main obligations of central counterparties under EMIR and providing answers to frequently asked questions.

After the entry into force of EMIR, at the end of 2013 the CDCC initiated the process of its authorisation as central counterparty pursuant to EMIR. For that purpose, it established a subsidiary SKDD-CCP Smart Clear d.d., Zagreb, which submitted an application to Hanfa for authorisation to provide services of a central counterparty. In accordance with the EMIR Implementing Act, the process of authorising SKDD-CCP Smart Clear d.d. also involves, apart form Hanfa, a college of supervisors which includes ESMA, too.

1.2.1.3 Act Implementing the Short Selling Regulation

The Shot Selling Regulation entered into force in EU Member States on 1 November 2012, and has applied in the Republic of Croatia since 1 July 2013. The regulation has been implemented into the national legislation through the adoption of the Act Implementing the Short Selling Regulation. In accordance with Article 3 of the Act Implementing the Short Selling Regulation, the competent authorities for implementation of the Short Selling Regulation and the Act Implementing the Short Selling Regulation are Hanfa and the Croatian National Bank (with respect to supervision of implementation of the Short Selling Regulation in credit institutions).

At the height of the financial crisis in 2008, regulators in several EU Member States, USA, Japan and third countries adopted emergency measures to restrict or ban naked short selling in some or all financial instruments, due to concerns that such transactions could lead to a new drop in prices of financial instruments at a time of considerable financial instability. However, those measures were divergent and pointed up the need to adopt and implement a common regulatory framework in this area at the EU level.

The objective of the Short Selling Regulation was to enhance transparency relating to reporting on short positions held by investors in certain financial instruments, to reduce settlement risk and other risks connected with short selling, and to provide for a common framework for coordinated action at the EU level. For the purpose of facilitating the application of the Short Selling Regulation, Hanfa published on its website information relating to the said regulation, as well as the instructions for its application. It also prepared templates for the submission of notifications of significant net short positions in shares and sovereign debt and of uncovered positions in sovereign credit default swaps[16], including templates for invalidating notifications submitted incorrectly. Hanfa keeps a record of received notifications of significant net short positions in shares and sovereign debt, a record of uncovered positions in sovereign credit default swaps and a record of holders and potential holders of significant net short positions. On its website Hanfa publishes current and historical data on significant net short positions in shares. During 2013, Hanfa received no notifications of significant net short positions in shares, while it received one notification of significant net short position in sovereign debt. In accordance with the provisions of the Short Selling Regulation and delegated regulations, Hanfa submits aggregate data on significant net short positions to ESMA on a quarterly basis.

16 Credit Default Swap – CDS

1.2.1.4 Amendments to the Act on the Takeover of Joint-Stock Companies

Amendments to the Act on the Takeover of Joint-Stock Companies entered into force on 15 December 2013, bringing about significant changes in the process of takeover of joint-stock companies, which have a substantial impact on Hanfa's powers with respect to application and supervision of application of that act. One of more significant amendments to the act is the reduction of the term offeree company to only those joint-stock companies whose shares are admitted to trading on the regulated market. In this regard, the Republic of Croatia aligned its regulations containing a definition of the said term with the corresponding regulations of most EU Member States, according to which, pursuant to Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids[17], this term relates only to those joint-stock companies whose shares are admitted to trading on the regulated market. The following are some other, equally relevant, amendments to the Act on Takeover of Joint-Stock Companies:

- introduction of a single threshold totalling 25% of shares of the offeree company, which triggers the obligation to publish a takeover bid in case it is exceeded
- introduction of the obligation to inform Hanfa of the use of exemption from the obligation to publish a takeover bid
- introduction of a new exemption from the obligation to publish a takeover bid in the case where shares are acquired in connection with the recovery of the offeree company
- introduction of an obligation of the offeror to draw up a feasibility study on the assessment of the fair value of the offeree company's shares if they are illiquid
- postponement of legal of effects of Hanfa's decisions until they become legally binding and
- repeal of the provision eliminating voting rights when a person falls to the level of or below 25% of shares of the offeree company.

The Constitutional Court of the Republic of Croatia adopted Decision U-I/4469/2008 etc. on 8 July 2013 and Decision U-I/2470/2010 etc. on 9 July 2013, based on which the provisions of Article 13 paragraph 3 and Article 61 paragraphs 2 and 3 of the Act on the Takeover of Joint-Stock Companies ceased to be valid, which made the said act aligned with the legal point of view of the Constitutional Court contained in these decisions.

1.2.2 Licensing

Apart from the said amendments to the legislation, the year 2013 was also marked by difficult operating conditions for supervised entities caused by a decline in economic activity and more stringent organisational requirements imposed by the new regulations.

Within the framework of its licensing activities regulated by the Capital Market Act, Hanfa grants authorisations to the operator of the regulated market and operator of the clearing and/or settlement system and authorisations to provide clearing services as the central counterparty in accordance with EMIR, it approves internal acts of those operators (rules and price lists) and fees charged by the operator of the Investor Compensation Scheme, it issues and revokes approval for the acquisition of their qualifying holdings, and it issues and revokes approval for the appointment of the management board member of the stock exchange and the central depositary and clearing company and of management board member of companies belonging to the same group.

Furthermore, pursuant to the provisions of the Capital Market Act, Hanfa issues approvals to issuers for prospectuses relating to public offerings and listings of securities, and in accordance with the provisions of the Act on the Takeover of Joint-Stock Companies, it issues approvals for the publication of takeover bids.

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17 Directive 2004/25/EC, OJ L 142

Licensing procedures in the field of capital market are related to various cases handled by Hanfa pursuant to the provisions of the General Administrative Procedure Act (Official Gazette 47/09). In accordance with Article 84 paragraph 4 of that Act, in 2013 Hanfa adopted eight decisions rejecting applications, one decision rejecting a complaint relating to Hanfa's notification on initiation of ex officio proceedings and rejecting the application for initiation of renewal of the proceedings, one decision rejecting a complaint relating to Hanfa's notification on initiation of ex officio proceedings and one decision accepting a complaint submitted.

1.2.2.1 Zagreb Stock Exchange and CDCC

In 2013, Hanfa issued approval for the Rules of the Zagreb Stock Exchange, and approved amendments (twice) to the Price List of the Zagreb Stock Exchange. The amendments to the Rules primarily covered remote membership and membership with limited trading rights (execution of transactions on one's own account) for professional investors other than investment firms or credit institution (approach to a new "type" of members such as pension funds), redefinition of the MTF and enhanced transparency of reporting on an MTF, coordination of corporate actions at the level of the Republic of Croatia with accepted standards of the European Union, requirements for the admission of structured products, reporting of OTC transactions and alignment of the Rules with the 2013 amendments to the Capital Market Act in general.

The first amendments to the Price List of the Zagreb Stock Exchange mostly covered charges for the admission of structured securities to trading on the International MTF. The second amendments to the Price List of the Zagreb Stock Exchange related to the introduction of two new types of charges, namely an annual charge for historical data on transactions and offers for all financial instruments and annual charge for historical data on transactions and offers for one financial instrument, and to the alignment with the Rules of the Zagreb Stock Exchange adopted in 2013 in terms of terminology.

In 2013, Hanfa issued approval for amendments to the Rules of the CDCC and for amendments to the Instructions of the CDCC, which mostly related to the alignment of these acts with the Decision of the Zagreb Stock Exchange on trading hours and the schedule of individual types of trading, which entered into force on 16 October 2013. In addition, Hanfa issued a decision to the CDCC as operator of the Investor Protection Scheme approving a fee for operating the Scheme for the year 2013.

In 2013, Hanfa received no applications for approval to acquire a qualifying holding of the Zagreb Stock Exchange or the CDCC, nor has it received any applications for approval of members of the Management Board of the Zagreb Stock Exchange or the CDCC.

1.2.2.2 Prospectuses

Hanfa approves prospectuses and their supplements relating to public offering of securities and to admission of securities to the regulated market. The Capital Market Act does not permit public offering of securities or admission of securities to trading on the regulated market in the territory of the Republic of Croatia if a valid prospectus has not been published prior to the public offer or the admission of securities, except for in the cases prescribed by Articles 351, 352 and 353 of the Capital Market Act. After the entry into force of the amendments to the Capital Market Act on 1 July 2013, Article 354 of that act lays down the obligation for the issuer, offeror or person asking for the admission to trading on the regulated market in the Republic of Croatia to inform Hanfa in the case where requirements are met for the use of exemption from the obligation to publish a takeover bid, not later that within three working days prior to the commencement of the public offering conducted in the Republic of Croatia or prior to the submission of the application for admission of securities on the regulated market. This ensures efficient supervision by Hanfa of the Croatian capital market with respect to the issue of securities and their admission to the regulated market. After 1 July 2013, Hanfa received nine notifications relating to the use of exemption from the obligation to publish a prospectus when securities are issued or offered to the public, and seven notifications relating to exemption from application of the provisions of the Capital Market Act with respect to prospectuses pursuant to Article 342 of the Capital Market Act. In the same period, Hanfa received two notifications relating to the use of exemption from the obligation to publish a prospectus when securities are admitted to the regulated market.

In 2013, as opposed to a large number of notifications related to the use of exemption from the obligation to publish a prospectus when securities are issued, no application was submitted to Hanfa for approval of such a prospectus, which is a decline in comparison with 2012, when Hanfa approved three prospectuses. The increase in the number of situations where exemption from the obligation to publish a prospectus was used and a decrease in the number of approved prospectuses were primarily due to the amendments to the Capital Market Act laying down exemptions from the obligation to publish a prospectus, mostly aimed at facilitating the process of raising capital on the capital market for companies. Some of these amendments were an increase (from 100 to 150) in the number of investors other than qualified investors who an offer needs to be addressed to for the issuer to be allowed to use the exemption to publish a prospectus; an increase in the amount paid by investors for securities offered from EUR 50,000 to EUR 100,000 in kuna equivalent, per investor, for each individual offer; or "an extension" of the exemption relating to an offer of securities allotted or to be allotted in connection with a merger to situations where companies split up.

In the course of 2013, Hanfa approved eight applications for approval of a prospectus when securities are admitted to trading, of which four applications were related to the approval of a prospectus when shares are admitted and four applications were related to the approval of a prospectus when bonds are admitted to trading on the regulated market of the Republic of Croatia. This number represents a rise in comparison with 2012, when there were six prospectuses approved when securities were admitted to trading on the regulated market of the Zagreb Stock Exchange. Articles 380 and 381 of the Capital Market Act prescribe that the prospectus and the supplement to the prospectus approved by the competent authority of the home Member State[18] in the case where the Republic of Croatia is a host Member State[19] have an effect equivalent to that of the prospectus and the supplement to the prospectus approved by Hanfa, provided that the notification procedure relating to the prospects and the supplement to the prospectus referred to in Article 381 of the Capital Market Act has been carried out. The prospectus and the supplement to the prospectus approved by Hanfa have the same effect in another Member State when the Republic of Croatia is a home Member State of the issuer and Hanfa has, at the request of the issuer or the person responsible for drawing up the prospectus, provided the competent authority of the host Member State with a notification relating to the approval of the prospectus and the supplement to the prospects, accompanied by a

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18 Pursuant to Article 343 point 12 of the Capital Market Act, a home Member State is
"a) for all Community issuers of securities which are not mentioned in subpoint b) of this point, the Member State where the issuer has its registered office
b) for any issues of non-equity securities:
– whose denomination per unit amounts to at least EUR 1,000 in kuna equivalent, or
– giving the right to acquire any transferable securities or to receive a cash amount, as a consequence of their being converted or the rights conferred by them being exercised, provided that the issuer of the non-equity securities is not the issuer of the underlying securities or an entity belonging to the group of the latter issuer, the Member State where the issuer has its registered office, or where the securities were or are to be admitted to trading on a regulated market or where the securities are offered to the public, at the choice of the issuer, the offeror or the person asking for admission, as the case may be. This provision is applied appropriately to non-equity securities in a currency other than euro, provided that the value of such minimum denomination is nearly equivalent to EUR 1,000 in kuna equivalent.
c) for all issuers of securities incorporated in a third country, which are not mentioned in subpoint b) of this point, the Member State where the securities are intended to be offered to the public for the first time or where the first application for admission to trading on a regulated market is made, at the choice of the issuer, the offeror or the person asking for admission, as the case may be, subject to a subsequent election by issuers incorporated in a third country if the home Member State was not determined by their choice."

19 Pursuant to Article 343 point 13 of the Capital Market Act, a host Member State is "the Member State where an offer to the public is made or admission to trading is sought, when different from the home Member State".

certificate of approval of the prospectus, a copy of the prospectus approved and a translation of the summary, if needed. The notification procedure relating to approved prospectuses and supplements to prospectuses is laid down in Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC[20] (Prospectus Directive). The provisions of this directive have been implemented into national legislations of each Member State, thus ensuring harmonisation of their notification procedures, which enables cross-border offers and admission to trading on regulated markets of several Member States with minimum extra costs borne by the issuer. On its website, Hanfa keeps and regularly up-dates a list of notifications relating to approved prospectuses and supplements to prospectuses received from other Member States, along with links to any of the documents.

In 2013, Hanfa received notifications from competent authorities of other Member States with respect to three base prospectuses relating to issues of structured securities, as well as notifications relating to four supplements to the said prospectuses. On the other hand, it received no applications from issuers whose home Member State is the Republic of Croatia relating to the notification of other Member States with respect to approved prospectuses and/or supplements to prospectuses.

1.2.2.3 Takeover bids

In 2013, Hanfa approved a total of 13 applications to publish a takeover bid, ten of which were related to approval to publish a mandatory takeover bid and three were related to approval to publish a voluntary takeover bid. Hanfa issues approval to publish a takeover bid after it has established, within the procedure of approval of an application, that the application is complete, i.e. that the following requirements have been met: the offeror has submitted a takeover bid, all the documents referred to in the Act on the Takeover of Joint-Stock Companies and additional documentation requested by Hanfa; data contained in the takeover bid and documents attached to the application are complete and authentic; and the price referred to in the takeover bid is determined in accordance with the Act on the Takeover of Joint-Stock Companies.

A takeover bid is a public offer, mandatory or voluntary, made to all shareholders of the offeree company to acquire all shares carrying voting rights, subject to the conditions and in the manner stipulated by the Act on the Takeover of Joint-Stock Companies.

The amendments to the Act on the Takeover of Joint-Stock Companies that entered into force at the end of 2013 laid down the obligation of persons exempt from the obligation to publish a takeover bid to notify Hanfa of the use of exemption from the said obligation. Hanfa is authorised to adopt a decision determining that no exemption may be used in a given case or that an exemption is being misused, in which case the acquirer is obliged to publish a takeover bid under the terms and conditions and in the manner prescribed by the Act on the Takeover of Joint-Stock Companies. This facilitates Hanfa's supervisory procedure related to takeover of offeree companies in cases where acquirers of offeree companies' shares are exempt from the obligation to publish a takeover bid and from other obligations prescribed by the Act on the Takeover of Joint-Stock Companies.

The year 2013 saw a rise in the total number of approved applications to publish a takeover bid relative to 2012, when Hanfa approved ten applications. Most of the applicants had been holders of shares in offeree companies before the obligation to publish a takeover bid arose and wanted to launch a new takeover bid and increase their holdings in the initial capital of the offeree company, thus also increasing the number of votes and enhancing their control at the general meeting of the offeree company.

20 Directive 2003/71/EC, OJ L 345

On the basis of the takeover bids published in 2013, the shareholders who had deposited their shares properly during the takeover procedures were paid a total amount of HRK 461m, which is a significant increase compared to the previous year, when shareholders were paid HRK 181m.

Table 1.5 Number of approved bids and amounts paid in 2012 and 2013 (in HRK thousand)

Takeovers	2012	2013
Mandatory bid	7	9
Voluntary bid	3	4
Total takeovers	10	13
Amounts paid	180,782	460,762

Source: Hanfa

1.2.3 Supervision

Hanfa carries out supervision of the Zagreb Stock Exchange, Central Clearing and Depository Company and issuers whose securities are admitted to trading on the regulated market or MTF operated by the Zagreb Stock Exchange. In 2013, Hanfa enhanced its supervisory procedures by developing risk-based supervision models for each supervised entity. The models consist of the assessment of impact and probability or net risk (based on data on gross risk and control risk) for each individual risk element, and then for a group of risks, on the basis of which a final assessment of the supervised entity's risk is made. The objective of these models is to assess risks of supervised entities in accordance with legal objectives and principles, in order for Hanfa's resources to be used in an efficient and economical manner and for Hanfa's supervisory activities to be focused on those segments of supervised entities' business operations with the highest risks. This supervisory approach also produces the effect of proportionality, as regulatory activities become proportionate to the benefits, thus preventing any additional regulatory requirements from being imposed on supervised entities.

1.2.3.1 Supervision of the Zagreb Stock Exchange

Pursuant to the powers laid down in Articles 339 and 341 of the Capital Market Act, Hanfa is responsible for supervision of operation of the Zagreb Stock Exchange and for verification of the alignment of its business operations with the Capital Market Act, regulations adopted under that act and its own acts, as well as for supervision of trading.

Hanfa carries out off-site and on-site supervision of business operations of the Zagreb Stock Exchange. Off-site supervision is carried out over the whole year by collecting reports the Zagreb Stock Exchange is obliged to submit to Hanfa pursuant to Articles 280 to 338 of the Capital Market Act, which relate to the functioning of the regulated market or stock exchange as market operator in accordance with Hanfa's authorisation, and pursuant to Articles 120 to 133, which relate to the operation of the MTF. Within the framework of off-site supervision, Hanfa receives the following reports from the Zagreb Stock Exchange:

- annual financial statements, annual reports and audit reports (on a yearly basis)
- notification of the intention to outsource and manner of outsourcing business processes crucial to its operation or the operation of the regulated market (at the moment of appearance)
- notification of any received application for admission of financial instruments to trading on the Official or Regular Market, and of the decision of the Zagreb Stock Exchange regarding the admission or the rejection of the application for admission (at the moment of the reception of the application or of the adoption of the decision)
- list of members, regularly updated (after the exclusion of any of the members)

- with respect to its role as MTF operator, data on all changes in the trading system, availability of data on the supply and demand and trading data intended for users and the public, expected users of the system, financial instruments to be traded within the system, mechanism for and manner of settling transactions, measures ensuring the fulfilment of requirements laid down in the Capital Market Act and regulations adopted under this act
- report on any significant breaches of the Rules of the Zagreb Stock Exchange and MTF, disorderly trading conditions or behaviour that may involve market abuse
- data on ownership structure and all the changes in the ownership structure (on a monthly basis)
- data on all the changes of Management Board members and Supervisory Board members
- report on the acquisition or disposal of financial instruments by members of the Management or Supervisory Board, employees, etc. (on a monthly basis).

Hanfa analyses all data collected and, where necessary, requires additional explanations or data from the Zagreb Stock Exchange. Where any illegalities or irregularities are established, Hanfa takes appropriate supervisory measures.

In 2013, Hanfa carried out on-site examination of all business operations of the Zagreb Stock Exchange, covering the following areas:

- organisational structure
- alignment of all internal acts with business processes
- efficiency, measures and procedures of the Zagreb Stock Exchange ensuring orderly, continuous and efficient trading and the application of effective security measures in case of any disturbances of the system
- internal control system
- process of admission to trading/removal from trading on the regulated market and admission to trading/removal from trading on the MTF
- work of all committees and working groups established by the Zagreb Stock Exchange
- financial operating results and all other relevant processes of the Zagreb Stock Exchange.

Hanfa also carries out off-site supervision of trading in financial instruments on the regulated market and MTF for the purpose of ensuring orderly and fair trading and with the aim of establishing whether there are any activities on the part of capital market participants that constitute market abuse (insider dealing and market manipulation). This is an essential part of the overall capital market supervisory procedure and implies monitoring of real-time trade (placing, changing and cancelling orders, executing transactions, issuers' notifications, messages, observation segment, volatility interruption, suspension of trading, etc.) by means of a special surveillance system. Daily supervisory activities include the analysis of share transactions deviating from regular prices and trading volumes. In the case of an unusual transaction, the identity of the participants is established and, where appropriate, a special focus is placed on some of them and further measures are taken for the purpose of investigating suspicions of market abuse. In 2013, Hanfa made 59 trading analysis, with three of them having resulted in a suspicion of market abuse.

Pursuant to Article 291 paragraph 8 of the Capital Market Act, the Zagreb Stock Exchange is obliged to provide Hanfa with reports containing data on transactions in financial instruments executed on the regulated market operated by the stock exchange. The reports are collected and processed for the purpose of preparing trade analyses and establishing suspicions of market abuse. In addition to that, the Zagreb Stock Exchange and other authorised capital market participants (investment firms and credit institutions) are obliged, in accordance with the Ordinance on market manipulation and the obligation to report suspicions of market abuse (Official Gazette 05/09), to notify Hanfa without delay of any reasonable suspicions that a transaction might constitute insider dealing or market manipulation. In 2013, Hanfa received six reports relating to suspicions of market abuse, five of which were filed by the Zagreb Stock Exchange and one by an investment firm. In the same period, it also received two reports relating to suspicions of insider dealing, filed by the Zagreb Stock Exchange. On the basis of the reports, Hanfa takes further investigative actions and imposes supervisory measures or files relevant reports to competent authorities if any illegalities or irregularities are established.

1.2.3.2 Supervision of the Central Depository and Clearing Company

Pursuant to Article 538 of the Capital Market Act, Hanfa is responsible for supervision of the CDCC with respect to all activities carried out by the CDCC.

Hanfa carries out off-site and on-site supervision of the CDCC's business operations. Off-site supervision is carried out over the whole year by collecting reports the CDCC is obliged to submit to Hanfa pursuant to the provisions of the Capital Market Act, relating to:

- monthly report on its operation
- changes in the Management and Supervisory Board, and holders of qualifying holdings in the CDCC
- annual financial statements, annual reports and audit reports
- report on the acquisition or disposal of financial instruments by members of the Management or Supervisory Board or employees of the CDCC
- changes in the membership, cessation of membership and an up-dated membership list
- notification of any failure on the part of participating members to fulfil the obligations with respect to clearing and settlement of transactions on the regulated market and/or MTF, and of any serious breaches of the rules of the CDCC on the part of participating members.

On the basis of data collected from the said reports or notifications, including data received from other sources, Hanfa requires, where necessary, further explanations or additional data from the CDCC and, if appropriate, takes appropriate supervisory measures.

In 2013, Hanfa carried out on-site examination of all business operations of the CDCC, and monitored preparations of the CDCC for the alignment of its operation with the EMIR Regulation on an on-going basis.

1.2.3.3 Supervision of Issuers

Hanfa's supervisory activities, as regards issuers, cover:

- the fulfilment of issuers' obligation to disclose regulated information pursuant to Article 446 of the Capital Market Act, with a special emphasis on disclosure of inside information and potential market abuse in accordance with Article 480 of the Capital Market Act, for the purpose of detecting and preventing activities that constitute market abuse and
- activities during takeover procedures in accordance with Article 47 paragraph 1 of the Act on the Takeover of Joint-Stock Companies.

In 2013, there were 259 cases handled by Hanfa in connection with submission of regulated information by certain issuers, of which 62 cases related to submission of information on acquisition and disposal of shares, and 197 cases related to submission of all other regulated information (including notifications with respect to inside information).

Pursuant to the provisions of Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC[21] (Transparency Directive), Hanfa ensures that the issuer, or the person who has applied for admission to trading on a regulated market without the issuer's consent, discloses regulated information in a manner ensuring fast access to such information on a non-discriminatory basis and makes it available to the officially appointed mechanism for the central storage of regulated information. For that purpose, Hanfa maintains the Officially Appointed Mechanism (hereinafter: OAM). Within the framework of off-site examinations of issuers, Hanfa verifies the content, form and time limit for the submission of regulated information to the OAM[22], as well as the fulfilment of the obligation to disclose regulated information, comparing this data afterwards with data available from other sources (media, Official Gazette, register of companies, etc.)

By monitoring disclosure of regulated information, Hanfa also monitors changes in the ownership structure of issuers and establishes any obligations to publish a takeover bid, as well as other circumstances or corporate actions that might be relevant for issuers and the market in general.

Considering the fact that issuer obligations on the regulated market may be affected by amendments to regulations other than the Capital Market Act, in 2013 Hanfa was in regular communication with issuers also regarding disclosures referred to in the Financial Operations and Pre-Bankruptcy Settlement Act (Official Gazette 108/12, 144/12, 81/13 and 112/13), for the purpose of ensuring transparency on the regulated market and on-going education of issuers with respect to requirements laid down in the Capital Market Act. Experience has shown that a certain number of issuers have failed to understand correctly the manner in which the investment public is to be informed of the conduct of pre-bankruptcy settlement proceedings, and failed to assess properly the importance of this information for investors. Issuers are obliged to disclose all price sensitive information in the manner and within time limits referred to in Articles 395 to 487 of the Capital Market Act, ensuring that the information is complete, true and accurate, and includes data related to pre-bankruptcy settlement proceedings. For the purpose of providing explanation on the application of the Capital Market Act and issuer obligations, on 8 March 2013, Hanfa published a statement on its website containing explanation for issuers with respect to the manner in which they should disclose information on pre-bankruptcy settlement proceedings (e.g. initiation of the proceedings, financial restructuring plan, operational restructuring plan, reports, etc.)

In addition, in the course of the previous year, Hanfa sent out official letters to issuers warning them of the manner in which regulated information is to be disclosed in cases where pre-bankruptcy proceedings are carried out, thus contributing to issuer transparency as regards provision of information to the public related to pre-bankruptcy settlement proceedings.

Where it establishes illegalities or irregularities in respect of disclosure of regulated information, Hanfa is authorised to impose adequate supervisory measures on issuers, ranging from the request to submit and/or disclose information to public warnings and concrete measures aimed at improving the procedure for disclosing regulated information. In 2013, Hanfa adopted eight decisions imposing supervisory measures on issuers on the regulated market related to disclosure of regulated and inside information.

Pursuant to Article 47 paragraph 1 of the Act on the Takeover of Joint-Stock Companies, Hanfa supervises application of its provisions, and pursuant to Article 48 paragraph 1 of that act, where irregularities and/or illegalities are established, it adopts decisions ordering actions aimed at eliminating illegalities or orders measures laid down by the said act.

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21 Directive 2004/109/EC, OJ L 390

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

Within the framework of its supervisory proceedings and with respect to the said provisions, in 2013 Hanfa adopted a decision determining the obligation to publish a takeover bid and ordering the acquirer of shares of the offeree company to publish the takeover bid relating to the acquisition of the offerre company. Following a prior decision determining the obligation to publish a takeover bid, Hanfa adopted four decisions approving the application for the postponement of legal effects of Hanfa's decision until the final court's decision, pursuant to Article 17 paragraphs 2 and 3 of the Administrative Disputes Act (Official Gazette 20/10 and 143/12). In three cases Hanfa imposed supervisory measures on participants in the takeover procedure, adopting two decisions ordering alterations to the opinion of the management board of the offeree company due to their failure to align the content of the opinion with Article 41 of the Act on the Takeover of Joint-Stock Companies, and one decision determining that the offeror communicated with the public during the takeover procedure contrary to the provisions of Article 4 of the Act on the Takeover of Joint-Stock Companies, which was why the offeror was ordered to take steps aimed at eliminating illegalities.

1.2.4 Cooperation with ESMA

Until the day of accession of the Republic of Croatia to the European Union, Hanfa's employees had prepared intensively for upcoming amendments to regulations and changes in the operation of the competent authority. As of 1 July 2013, Hanfa has been a full member of ESMA, thus assuming formal obligations that need to be fulfilled with respect to submission of regulated information to ESMA, requesting ESMA's opinion prior to providing approvals to supervised entities and participation in committees and working groups of ESMA, in particular in ESMA's Board of Supervisors. Pursuant to Article 29 paragraph 1 of Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC[23], ESMA carries out, at a minimum, the following activities:

a) providing opinions to competent authorities
b) promoting an effective bilateral and multilateral exchange of information between competent authorities, with full respect for the applicable confidentiality and data protection provisions provided for in the relevant EU legislation
c) contributing to developing high-quality and uniform supervisory standards, including reporting standards, and international accounting standards
d) reviewing the application of the relevant regulatory and implementing technical standards adopted by the European Commission, and of the guidelines and recommendations issued by ESMA and proposing amendments where appropriate
e) establishing sectoral and cross-sectoral training programmes, facilitating personnel exchanges and encouraging competent authorities to intensify the use of secondment schemes and other tools.

Hanfa's employees participate in the work of ESMA's committees and working groups, primarily via websites and electronic mail, but also by attending committee meetings in person. Certain committees have been established for the purpose of providing technical advice to the European Commission and preparing technical standards, guidelines and recommendations relating to certain provisions contained in some directives or regulations applicable to activities and participants on the capital market.

23 Regulation (EU) No 1095/2010, OJ L 331

The following were committees connected with the functioning of the capital market:

- Market Integrity Standing Committee (MISC) – in charge of issues relating to market surveillance, in particular with respect to market abuse investigations, implementation and application of regulations in practice, and exchange of information among supervisory authorities. The committee prepares technical standards and guidelines relating to market integrity. It is responsible for application of Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003 on insider dealing and market manipulation (market abuse)[24] and the Short Selling Regulation.
- Secondary Market Standing Committee (SMSC) – undertakes ESMA's work relating to the structure, transparency and efficiency of secondary markets for financial instruments, including trading platforms and OTC markets (regulated markets, MTFs, systematic internalisers, other organised trading platforms and activity of intermediaries in trading platforms)
- Corporate Finance Standing Committee (CFSC) – responsible for developing all of ESMA's work relating to the Prospectus Directive and Corporate Governance. Additionally, it carries out ESMA's work with regard to major shareholding disclosures under the Transparency Directive[25], except in relation to how such disclosures are stored. The committee includes the Takeover Bids Network, a permanent working group in charge of the exchange of information on practices and application of the Takeover Bid Directive that promotes a common supervisory culture across EEA.
- Corporate Reporting Standing Committee (CRSC) – conducts all ESMA's work on issues related to accounting, audit, periodic reporting and storage of regulated information. The committee monitors regulatory developments in this area, including the international standards and periodic reporting under the Transparency Directive.
- Post Trading Standing Committee (PTSC) – undertakes ESMA's work relating to clearing and settlement of transactions in financial instruments, including the roles of financial market infrastructures and any other entities providing post-trading services. The committee is responsible for the implementation of EMIR.

Hanfa's employees who participate in the work of the committees, sub-committees or working groups receive all relevant materials and written correspondence and provide their opinion on a certain issue, problem, new product or service or on proposals of amendments to existing regulations.

1.2.4.1 Notification of Suspension or Removal of Instruments from Trading to ESMA and Competent Authorities of other Member States

Pursuant to Article 41 of Directive 2004/39 (MiFID), the Zagreb Stock Exchange is obliged to adopt a decision on suspension or removal of a financial instrument from trading with the aim of complying with investor protection rules or when that financial instrument no longer complies with the Rules of the Zagreb Stock Exchange. The Zagreb Stock Exchange must also make this decision public and communicate it to Hanfa without delay. Hanfa is then obliged to inform competent authorities of other Member States and ESMA. Furthermore, in accordance with the same Article of MiFID, Hanfa may adopt a decision suspending or removing a financial instrument form trading for the purpose of investor protection or ensuring regular and orderly trading on the regulated market. Hanfa makes that decision public without delay and communicates this information to competent authorities of all EU Member States and ESMA. In the period from 1 July

24 Directive 2003/6/EC, OJ L 96

25 Directive 2004/109/EZ, OJ L 390

2013 to the end of 2013, Hanfa submitted 37 notifications to ESMA and competent authorities of other Member States, of which ten notifications related to removal of instruments from trading and 27 notifications related to suspensions of instruments from trading, due to a failure to disclose inside information of the issuer of a financial instrument.

1.2.4.2 Submission of Data – MiFID Database

Pursuant to the provisions of MiFID and Regulation (EC) No 1287/2006 of 10 August 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards record-keeping obligations for investment firms, transaction reporting, market transparency, admission of financial instruments to trading, and defined terms for the purposes of that Directive[26], Hanfa is obliged to submit data to ESMA. ESMA collects all the data and publishes them in the MiFID Database, which contains information regarding shares traded on EU regulated markets, MTF, regulated markets and central counterparties, as required under MiFID. This database is a compilation of information from all EU national competent authorities, who are responsible for its content.

In accordance with Article 33 paragraph 1 of Regulation (EC) No 1287/2006, in respect of each share that is admitted to trading on the regulated market, Hanfa as the relevant competent authority for that share must ensure that the following calculations are made in respect of that share promptly after the end of each calendar year:

a) the average daily turnover
b) the average daily number of transactions.

In addition, pursuant to Article 34 paragraph 1 of Regulation (EC) No 1287/2006, on the first trading day of March of each year, Hanfa in relation to each share for which it is the relevant competent authority that was admitted to trading on the regulated market of the Zagreb Stock Exchange at the end of the preceding calendar year, must ensure the publication of the following information:

a) the average daily turnover and average daily number of transactions
b) the free float and average value of the orders executed.

26 Regulation (EC) No 1287/2006, OJ L 241

Investment Firms

2 Investment Firms

2.1 Market Description

In accordance with the Capital Market Act (Official Gazette 88/08, 146/08, 74/09, 54/13 and 159/13), investment services and investment activities[27] and related ancillary services may be performed in the Republic of Croatia by investment firms, credit institutions and companies managing open-ended investment funds with public offering, with the latter being authorised only for the provision of the services of investment advice and portfolio management.

As at 31 December 2013, there were nine investment firms, 16 credit institutions and six companies managing open-ended investment funds with public offering providing investment services and performing investment activities. In comparison with 31 December 2012, the number of legal persons providing investment services and performing investment activities did not change significantly.

Table 2.1 Number of active investment firms, credit institutions providing investment services and performing investment activities and companies managing open-ended investment funds with public offering

Date	Investment firms	Credit institutions	Companies managing investment funds with public offering
31 December 2009	23	21	5
31 December 2010	18	21	6
31 December 2011	13	20	6
31 December 2012	10	19	6
31 December 2013	9	16	6

Source: Hanfa

The prolonged recession, a sharp fall in the turnover on the Zagreb Stock Exchange and growing operating costs for investment firms caused by the need to align their operation with new EU regulations resulted in a significant decline in the number of investment firms over the last five

27 The following are investment services and activities referred to in Article 5 paragraph 1 of the Capital Market Act:
1. reception and transmission of orders in relation to one or more financial instruments
2. execution of orders on behalf of clients
3. dealing on own account
4. portfolio management
5. investment advice
6. underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis
7. placing of financial instruments without a firm commitment basis
8. operation of multilateral trading facilities.

The following are ancillary services referred to in Article 5 paragraph 2 of the Capital Market Act:
1. safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management
2. granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
3. advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings
4. foreign exchange services where these are connected to the provision of investment services
5. investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments
6. services related to services referred to in paragraph 1 point 6 of Article 5
7. investment services and activities as well as ancillary services referred to in Article 5 related to the underlying of the derivatives referred to in Article 3 paragraph 1 point 2 subpoint d indents 2, 3, 4 and 7 of the Capital Market Act where these are connected to the provision of investment or ancillary services.

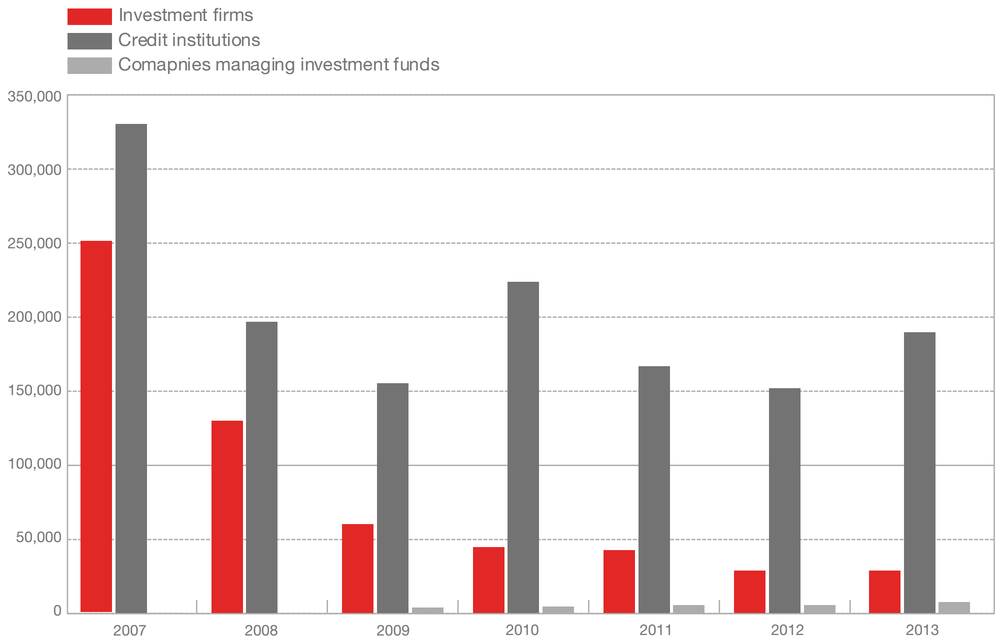
years. For the purpose of lowering their operating costs, some investment firms and credit institutions ceased performing some of the investment activities and services which had become less attractive to investors and thus less profitable. More precisely, in 2013, two credit institutions stopped providing investment services and performing investment activities and related ancillary services defined by the Capital Market Act at their own request. One credit institution lost its authorisation following the decision of the Croatian National Bank on the initiation of bankruptcy proceedings against the credit institution. An investment firm ceased to provide investment services and perform investment activities and ancillary services after the status change had been carried out by an acquisition. In 2013, companies managing investment funds with public offering authorised to provide investment services and perform investment activities recorded no changes in this regard compared to 2012.

Income from Provision of Investment Services and Performance of Investment Activities[28]

In 2013, investment firms, credit institutions and other legal persons authorised in accordance with the Capital Market Act to provide investment services and perform investment activities generated income from these operations in the amount of HRK 222.1m, which is an 18.6% increase in comparison with the previous year.

As much as 83.1% of the total income from provision of investment services and performance of investment activities was recorded by credit institutions, which is a 20.5% rise relative to 2012, primarily due to a rise in income from placing of financial instruments without a firm commitment basis. Investment firms generated income from provision of investment services and performance of investment activities, exclusive of dealing on own account, in the amount of HRK 27.8m, which represents a 3.6% fall in relation to the year before.

Chart 2.1 Total income of legal persons authorised to provide investment services and perform investment activities from 2007 to 2013 (in HRK thousand)



Source: Hanfa

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

In 2013, the largest part (63.5%) of income from investment services and activities reported by investment firms was generated from the reception and transmission of orders and execution of orders on behalf of clients, which represents a 3.3% increase compared to 2012. The major part of income generated by credit institutions was accounted for by income from safekeeping and administration of financial instruments for the account of clients, including custodianship and income from placing of financial instruments without a firm commitment basis.

Table 2.2 Total income from provision of investment services and performance of investment activities in 2012 and 2013 (in HRK thousand)

Investment service or activity	2012			2013		
	Investment firms	Credit institutions	Companies managing investment funds	Investment firms	Credit institutions	Companies managing investment funds
Income from reception and transmission of orders and income from execution of orders on behalf of clients	17,083	16,052	0	17,651	13,512	0
Income from portfolio management	1,554	469	5,251	1,801	478	9,754
Income from placing of financial instruments without a firm commitment basis	4,359	45,702	0	659	57,831	0
Income from underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis	0	8,065	0	0	31,262	0
Income from investment advice	31	0	72	98	0	120
Income from safekeeping and administration of financial instruments for the account of clients, including custodianship	180	73,237	0	590	75,231	0
Income from granting credits or loans to an investor to allow him to carry out a transaction	1,614	2,793	0	1,048	2,086	0
Income from advice to undertakings on capital structure, industrial strategy and related matters	3,990	6,792	0	5,932	4,057	0
Total income	**28,811**	**153,111**	**5,324**	**27,779**	**184,456**	**9,874**

Source: Hanfa

Assets under Management and Custody of Financial Instruments

As at 31 December 2013, total assets under custody reached HRK 55.7bn, recording a 5.9% decline compared with the previous year, which was primarily recorded by credit institutions.

The total value of assets managed by all legal persons authorised to provide investment services and perform investment activities amounted to HRK 1.1bn, increasing by 60.3% relative to 2012. The increase primarily related to assets managed by companies managing open-ended investment funds.

Table 2.3 Assets under management and custody of financial instruments as at 31 December 2012 and 31 December 2013 (in HRK thousand)

	31 Dec 2012		31 Dec 2013	
	Assets under management	Custody of financial instruments	Assets under management	Custody of financial instruments
Investment firms	97,004	115,526	90,877	276,300
Credit institutions	43,611	59,008,082	42,035	55,376,723
Companies managing investment funds	613,121	0	982,594	0
Total	**753,737**	**59,123,609**	**1,115,507**	**55,653,023**

Source: Hanfa

As regards the turnover in capital markets, in 2013 investment firms recorded income amounting to HRK 5.1bn in the domestic capital market (an 8.0% rise compared with the previous year) and HRK 2.8bn in foreign capital markets (a 32.9% rise compared with the previous year).[29]

2.2 Hanfa's Activities

2.2.1 Regulatory Activities

Hanfa undertakes on-going activities aimed at enhancing the legislative framework for the provision of investment services and performance of investment activities and ancillary services. As at 1 July 2013, the day of the accession of the Republic of Croatia to the European Union, the Act on Amendments to the Capital Market Act (Official Gazette 54/13) entered into force, based on which Hanfa adopted numerous subordinate regulations governing operation of investment firms and credit institutions providing investment services and performing investment activities and related ancillary services.

29 According to data submitted to Hanfa by investment firms in reports on recorded turnover and calculated income based on the provision of investment services

The following directives were implemented into the Capital Market Act in 2013:

1. Directive 2010/76/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies[30]
2. Directive 2010/78/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC in respect of the powers of the European Supervisory Authority (European Banking Authority), the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority) (Omnibus I)[31]
3. Directive 2009/111/EC of the European Parliament and of the Council of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management[32]
4. Directive 2011/89/EU of the European Parliament and of the Council of 16 November 2011 amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC as regards the supplementary supervision of financial entities in a financial conglomerate[33].

The said directives regulate basic capital requirements, giving Member States sufficient leeway as regards capital requirements calculation.

During 2013, Hanfa adopted the following subordinate regulations governing operation of companies authorised to provide investment services and perform investment activities:

1. Ordinance amending the Ordinance on liquidity of investment firms (Official Gazette 30/13)
2. Ordinance amending the Ordinance on supervisory reports for legal persons authorised to provide investment services and perform investment activities (Official Gazette 30/13)
3. Ordinance amending the Ordinance on the structure and content of annual financial statements of investment firms (Official Gazette 30/13)
4. Ordinance amending the Ordinance on reporting on capital adequacy of investment firms (Official Gazette 30/13)
5. Ordinance amending the Ordinance on reporting on capital adequacy of investment firms (Official Gazette 30/13)
6. Ordinance amending the Ordinance on disclosure of information by investment firms (Official Gazette 85/13)
7. Ordinance amending the Ordinance on capital adequacy of investment firms (Official Gazette 85/13)
8. Ordinance amending the Ordinance on investment firms' capital (Official Gazette 85/13)
9. Ordinance on terms and conditions and on the procedure for granting approval for members of the management board of an investment firm (Official Gazette 117/13)
10. Ordinance on issuing authorisation to investment firms and on terms and conditions for issuing broker and investment advisor authorisation (Official Gazette 117/13)
11. Ordinance on organisational requirements for providing investment services and performing investment activities and ancillary services (Official Gazette 42/13)
12. Ordinance on issuing authorisation to tied agents (Official Gazette 117/13).

30 Directive 2010/76/EU, OJ L 329
31 Directive 2010/78/EU, OJ L 331
32 Directive 2009/111/EC, OJ L 302
33 Directive 2011/89/EU, OJ L 326

Hanfa's working group for implementation and application of the Capital Requirements Directive IV Package worked on the Amendments to the Capital Market Act (Official Gazette 159/13), that entered into force on 1 January 2014, with the aim of aligning the national legislative framework with EU regulations, achieved through the implementation of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC[34]. In addition, 1 January 2014 saw the entry into force of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012[35], which is directly applicable in all Member States and regulates the subject matter covered in the directive in more detail. The contents of the regulation and directive regulate qualitative and quantitative aspects of capital adequacy and capital requirements of credit institutions and investment firms. The CRD IV Package lays down a uniform method of calculating capital and capital requirements specified in regulatory and implementing technical standards for the purpose of achieving better comparability at the EU level, at the same time requiring investment firms to increase the quality of capital held, with the aim of providing insurance in times of crisis.

In 2013, Hanfa established a working group for improving systems for collecting data from investment firms and credit institutions on executed transactions in financial instruments admitted to regulated markets pursuant to Article 113 of the Capital Market Act. The working group produced a new XML Schema for submission of data on executed transactions, applicable since 1 February 2014.

In accordance with provisions of the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 140/05 and 12/12) authorising Hanfa to issue opinions on implementation of the Capital Market Act, six opinions were issued relating to operation of investment firms.

2.2.2 Education of Brokers and Investment Advisors

Hanfa organises and carries out the education programme and examinations of professional knowledge required to obtain broker's and investment advisor's licence pursuant to provisions of the Capital Market Act and Ordinance on the requirements for the acquisition and examination of professional knowledge needed to obtain broker's and investment advisor's licence (Official Gazette 80/10).

The education programme for acquisition of professional knowledge required to obtain broker's and investment advisor's licence did not take place in 2013 due to an insufficient number of candidates who applied for the programme.

Every examination cycle for brokers and advisors consists of two examination terms, with the second examination term being available only to those candidates who took the examination in the first examination term and failed it.

Within two examination terms of the first examination cycle organised for brokers by Hanfa in 2013, the examination was taken by a total of 19 candidates, whose success rate was 79%.

At the end of 2013, Hanfa organised the second examination cycle for brokers. The examination was taken by 28 candidates within the first examination term and their success rate was 79%.

34 Directive 2013/36/EU, OJ L 176

35 Regulation (EU) No 575/2013, OJ L 176

Those candidates who failed this examination will be able to take it again within the second examination term organised in 2014.

The examination of professional knowledge required to obtain investment advisor's licence was taken and passed by 15 candidates within two examination terms organised in 2013.

Table 2.4 Number of candidates taking the examination of professional knowledge needed to obtain broker's and investment advisor's licence over the last four years

	2010	2011	2012	2013
Brokers	83	48	25	47
Investment advisors	57	29	17	15

Source: Hanfa

2.2.3 Licensing

In accordance with the Capital Market Act, Hanfa issues and withdraws authorisations from investment firms, brokers, investment advisors and tied agents of investment firms, and approvals for management board members of investment firms and acquirers of qualifying holdings in investment firms.

On 1 July 2013, the Act on Amendments to the Capital Market Act repealed the provision of Article 27 paragraph 1 point 4 of the Capital Market Act, pursuant to which Hanfa had issued decisions withdrawing authorisations from brokers and investment advisors due to termination of employment (the so-called administrative withdrawal), with the said provision having been replaced by Article 27a. The purpose of the Amendments to the Capital Market Act was to decrease the number of administrative procedures carried out by Hanfa within the framework of its ordinary business operations. Pursuant to the new article, Hanfa no longer issues confirmatory decisions on the withdrawal of authorisation based on the termination of employment contract, except at a specific request of the party involved. Withdrawal of authorisation is recorded in the Register of Brokers and Investment Advisors (hereinafter: the Registers), maintained by Hanfa pursuant to Article 24 paragraph 9 of the Capital Market Act.

Hanfa also issues prior approval to credit institutions confirming the fulfilment of requirements for the provision of investment services and related ancillary services referred to in Article 5 of the Capital Market Act, with the final authorisation for the provision and performance of investment services and activities referred to in the Capital Market Act being granted by the Croatian National Bank.

Pursuant to Article 19 of the Capital Market Act, the authorisation to provide and perform investment services and activities ceases to be valid for a credit institution upon the delivery of a decision withdrawing authorisation from the credit institution, or as of the day the authorisation ceases to be valid ex lege, pursuant to the Credit Institutions Act (Official Gazette 117/08, 74/09, 153/09, 108/12, 54/13 and 159/13).

Hanfa issues authorisations for status changes to investment firms involved in such a change.

In 2013, two status changes of investment firms were carried out, namely the status change relating to disposal by acquisition and merger of two investment firms. After the status change relating to merger had been carried out, the merged firm ceased to operate, i.e. to provide and perform investment services and activities and related ancillary services, and its employees became employees of the acquiring firm.

Six new authorisations for investment advisors and three new authorisations for brokers were recorded in the Registers in 2013.

Pursuant to the provisions of the Capital Market Act, in the first half of 2013 Hanfa withdrew 27 authorisations from brokers and eight authorisations from investment advisors due to the fact that they ceased to perform broker or investment advisor's activities in investment firms or credit institutions.

Reductions in operational costs by investment firms and credit institutions caused by negative developments in the capital market in the last several years led to a decrease in the number of brokers and investment advisors in investment firms and credit institutions in 2013.

Since the day of entry into force of the Amendments to the Capital Market Act, five authorisations issued to brokers and three authorisations issued to investment advisors have ceased to be valid due to the termination of employment contract related to broker and investment advisor's activities.

According to the provisions of the Capital Market Act, tied agents are natural or legal persons which, based on Hanfa's authorisation and on behalf of an investment firm, provide promotional services for the investment firm related to its services, offer the investment firm's services, receive and transmit orders of clients or prospective clients, place financial instruments and provide advice to clients in respect of financial instruments offered by the investment firm.

In 2013, Hanfa issued authorisations for tied agents of investment firms to three legal persons, while two authorisations ceased to be valid at the request of the tied agents.

Table 2.5 Comparative overview of authorisations issued and withdrawn in 2012 and 2013

Cases	2012	2013
Issued authorisations		
Investment firms	0	0
Brokers	7	3
Investment advisors	8	6
Tied agents	9	3
Withdrawn authorisations / end of operation		
Investment firms	3	1
Brokers	37	27
Investment advisors	18	8
Tied agents	0	2

Source: Hanfa

In order to fulfil legal requirements regarding capital adequacy, one investment firm reduced, at its own request, its scope of activities relating to provision and performance of investment services and activities, which was followed by a decision issued by Hanfa.

Hanfa also issued one decision granting exemption to one investment firm from the application of Article 5 paragraphs 3 and 4 of the Ordinance on the organisational requirements for provision of investment services and performance of investment activities (Official Gazette 05/09 and 42/13), thus enabling persons included in the compliance function to be also included in the provision and performance of investment services and activities they supervise. This provided investment companies with the possibility of being aligned with legal regulations, even in the current demanding business environment.

Hanfa issued ten authorisations for the position of member of management board of the investment firm, of which nine authorisations were issued for the purpose of extending terms of office of existing management board members, and one authorisation was issued to a new management board member.

In the case where certain conditions prescribed by the provisions of the Capital Market Act are met, for instance, if management board members cease to fulfil the requirements for the position of management board member based on which they had obtained Hanfa's authorisation, or if they violate the provisions on the ban relating to trade, execution of transaction, or giving trade orders based on inside information or in a manner which would constitute market manipulation, or in the case of a serious and continuous breach of the provisions of the Capital Market Act or subordinate regulations adopted under that act, Hanfa withdraws authorisation for the position of investment firm management board member. Since none of the management board members ceased to fulfil the requirements for management board member, and since there were no violations of legal provisions by the management board members, in 2013 Hanfa did not withdraw any such authorisation.

Table 2.6 Comparative overview of authorisations for management board members issued and withdrawn in 2012 and 2013

Cases	2012	2013
Approvals for management board members	6	10
Withdrawal of approvals from management board members	0	0

Source: Hanfa

In 2013, Hanfa issued five prior approvals to credit institutions confirming the fulfilment of conditions for the provision of investment services and related ancillary services referred to in Article 5 of the Capital Market Act.

Most of the prior approvals related to the extension of the existing authorisation to include investment activity of dealing on own account. However, credit institutions also expanded their business operations to include investment services relating to reception and transmission of orders in relation to one or more financial instruments, portfolio management, investment advice, underwriting of financial instruments and / or placing of financial instruments on a firm commitment basis and related ancillary services.

In 2013, two credit institutions ceased, at their own request, to provide investment services and perform investment activities and related ancillary services referred to in the Capital Market Act, and the final decision on the withdrawal of authorisation for the provision and performance of investment services and activities and related ancillary activities referred to in the Capital Market Act was adopted by the Croatian National Bank. Authorisation issued to one credit institution ceased to be valid in accordance with the Credit Institutions Act upon the decision adopted by the Croatian National Bank on the initiation of the bankruptcy proceedings against this credit institution.

Table 2.7 Issuance of prior approvals to credit institutions and termination of authorisations

Cases	2012	2013
Prior approvals issued to credit institutions	1	5
End of validity of the athorisation for credit institutions	2	3

Source: Hanfa

Pursuant to the General Administrative Procedure Act (Official Gazette 47/09), Hanfa terminated four proceedings initiated before Hanfa, relating to reduction of the scope of investments services and activities or to withdrawal of authorisations from brokers and investment advisors.

Amendments to the Capital Market Act allowed investment firms for the first time to carry out other activities beside the provision of investment services and performance of investment activities and related ancillary services referred to in Article 5 of the Capital Market Act, provided they have obtained a special prior approval from Hanfa. However, Hanfa has not issued any such decision so far.

Due to a reduction in investment services and investment activities provided and performed in the capital market, the amendments to the Capital Market Act enabled investment firms to carry out some other activities related to financial services, including activities related to financial education.

The most significant change after the accession of the Republic of Croatia to the European Union was the possibility offered to investment firms and credit institutions having their registered offices in EU Member States or signatory countries to the Agreement on the European Economic Area of directly providing financial services and performing investment activities and related ancillary activities (passporting). Such firms may provide and perform investment services and activities and related ancillary services without establishing a branch or a new legal entity in the Republic of Croatia. At the same time, Croatian investment firms may on the reciprocity principle provide their investment services in the territories of the said countries.

In accordance with Article 146 of the Capital Market Act, an investment firm having its registered office in a Member State may start to provide and perform investment services and activities after Hanfa has received a notification from the competent authority of the Member State in which the investment firm has its registered office.

In 2013, Hanfa received 54 notifications from competent authorities of investment firms having their registered offices in Member States and wishing to provide investment services directly in the territory of the Republic of Croatia.

It should also be pointed out that none of the investment firms having their registered office in the Republic of Croatia submitted a notification informing Hanfa of their intent to provide investment services and perform investment services directly in another Member State. Should Hanfa receive any such notification, the notification will be forwarded, along with the accompanying programme of operations and the description of the type and volume of services planned to be offered directly in the Member State, to the competent authority of the Member State, and the investment firm which submitted the notification will be informed thereof.

Table 2.8 Number of investment firms having their registered offices in Member States allowed to provide investment services and perform investment activities directly in the Republic of Croatia

Member State	Number of investment firms
UK	44
Malta	2
Slovenia	2
Luxembourg	2
Denmark	1
Romania	1
Bulgaria	1
Germany	1
Total	54

Source: Hanfa

2.2.4 Supervision

Hanfa supervises business operations of investments firms, credit institutions and companies managing open-ended investment funds with public offering with respect to provision of investment services and performance of investment activities referred to in Article 5 of the Capital Market Act. In addition to supervising authorised entities, Hanfa also supervises entities and persons providing investment services contrary to the provisions of the Capital Market Act. Supervisory examinations are carried out pursuant to the Act on the Croatian Financial Services Supervisory Agency, Capital Market Act and regulations adopted under these acts. The main purpose of supervision of investment firms and credit institutions is to verify the compliance of their business operations with the provisions of the Capital Market Act, regulations adopted under that act, as well as with their own rules, standards and rules of profession. Examination of compliance of investment firms and credit institutions is carried out in the course of on-site and off-site examinations. On-site examinations may be full-scope or targeted examinations. After an on-site examination has been completed, Hanfa's employees draw up a report with a detailed description of findings, and delivered it to the supervised entity. Where appropriate, in case any violations and irregularities are identified, a report is also drawn up within an off-site examination, and is delivered to the supervised entity, which may raise an objection to the report. Where any violations or irregularities are established within an examination, Hanfa may issue a decision ordering the supervised entity to take measures for their elimination; it may issue a decision ordering measures for the management board and issue a public warning; it may temporarily prohibit performance of business activities or withdraw the authorisation; and where it establishes circumstances pointing to the existence of a misdemeanour or a criminal offence, Hanfa brings charges to the competent authority.

2.2.4.1 On-Site Supervision

In 2013, Hanfa initiated 11 on-site examinations of investment firms and credit institutions. Five full-scope on-site examinations and one targeted on-site examination were carried out in investment firms, while four full-scope examinations and one targeted on-site examination were carried out in credit institutions.

Following the on-site examinations carried out in 2013, Hanfa issued seven decisions ordering measures aimed at improving business conduct, and at eliminating violations and irregularities. Most of the measures aimed at eliminating violations and irregularities were issued as a result of a breach of provisions of the Capital Market Act and ordinances adopted under this act, as well as of a breach of the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 25/12), and were related to:

- ensuring physical separation of organisational units,
- introduction and improvement of the work of an independent compliance function,
- revision and updating of internal acts in line with the Capital Market Act and relevant ordinances,
- alignment of contracts concluded with external service providers with the Capital Market Act and relevant ordinances,
- storage, production and safekeeping of back-up documentation copies outside of firms' premises,
- ensuring an appropriate location for data server,
- compilation of a list and record keeping of transactions by relevant persons,
- carrying out suitability and appropriateness assessment when providing investment services,
- carrying out client due diligence when establishing a business relationship,
- monitoring clients' business activities in the period when the service is provided,
- preparation of annual education programmes on the prevention of money laundering and terrorist financing,
- ensuring objective and independent reports by internal audit regarding measures for the prevention of money laundering and terrorist financing.

In addition to supervising authorised investment firms and credit institutions, Hanfa carries out, on its own initiative or in coordination with other supervisory authorities (Financial Inspectorate, Taxing Authority, Anti-Money Laundering Office, etc.) supervision of persons lacking authorisation to provide investment services and perform investment activities contrary to the provisions of the Capital Market Act.

One of Hanfa's task, as laid down in the Act on the Croatian Financial Services Supervisory Agency, is making the public acquainted with how the financial system functions, which includes raising awareness of the benefits and risks pertaining to various types of investments and financial transactions. In line with this, in 2013 Hanfa issued two warnings for the public on its web site regarding activities of firms in the Republic of Croatia which were offering services to investors contrary to the provisions of Capital Market Act.

2.2.4.2 Off-Site Supervision

Within the framework of off-site supervision, Hanfa collects, analyses and processes investment firms' monthly reports on the net liquid asset indicator and quarterly reports of investment firms, credit institutions and companies managing open-ended investment funds on income and expenses arising from the provision of investment services and performance of investment activities, and on the management of clients' assets. Investment firms are obliged to submit their financial statements on a quarterly basis (statement of financial position, statement of comprehensive income, statement of cash flows, statement of changes in equity and notes).

In addition, investment firms referred to in Articles 32 and 35 of the Capital Market Act are obliged to submit to Hanfa their reports on capital adequacy on a monthly basis. For the purpose of carrying out off-site supervision and protecting client's assets, Hanfa obliged its supervised entities to submit the following forms: general data on transaction accounts, report on clients' funds, report on transactions in business purpose accounts, report on realised volume and calculated income from the provision of investment services and given/taken credits and loans, and report on portfolio management, clients' asset structure and fees. The frequency of the submission depends on the type of reports (on a monthly or weekly basis, or upon a change), and the forms allow Hanfa to monitor business operations of its supervised entities more efficiently, placing a special emphasis on the protection of clients' assets.

Following the off-site examinations carried out in 2013, Hanfa issued two decisions ordering measures relating to capital adequacy (maintenance of sufficient capital level) and risk management, with special emphasis on liquidity risk management.

Annual Financial Statements of Investment Firms

According to the aggregate statement of financial position, total assets of the nine investment firms decreased by HRK 48.7m or 15.5% in comparison with aggregate assets of the ten investment firms on the same day in the previous year. This is, among other reasons, due to a significant decline in financial assets recorded by two largest investment firms. Total financial assets fell from HRK 153.5m as at 31 December 2012 to HRK 81.4m as at 31 December 2013. As regards the liability structure, total liabilities decreased to HRK 155.0m, while they amounted to HRK 193.2m on the same day of the previous year. The 2013 decrease in total liabilities was due to a decline in liabilities for credits, loans and advances received (a HRK 15.8m decrease) and liabilities for fees related to transactions in financial instruments (a HRK 12.9m decline).

Table 2.9 Statement of financial position of investment firms as at 31 December 2012 and 31 December 2013 (in HRK thousand)

	Assets	31 Dec 2012	31 Dec 2013	change in %
1	Intangible, tangible assets and long-term investments	44,219	44,025	-0.44
2	Cash and receivables	117,241	140,948	20.22
3	Financial assets	153,530	81,362	-47.01
	Total assets	**314,991**	**266,334**	**-15.45**
	Liabilities			
1	Capital and reserves	121,807	111,337	-8.60
2	Payables	193,184	154,997	-19.77
	Total liabilities	**314,991**	**266,334**	**-15.45**

Source: Hanfa

In 2013, five investment firms generated a profit totalling HRK 4.9m, whereas four investment firms reported a loss reaching HRK 942.9 thousand.

The most significant share in the income structure was accounted for by income from fees and commissions for investment services provided, amounting to 51.7% of the total income. In the 2013 cost structure, the largest share was made up of staff costs (23.0% of total costs), expenses on fees and commissions for investment services provided (21.6% of total costs) and other costs (20.7% of total costs).

Table 2.10 Statement of comprehensive income of investment firms in 20112 and 2013 (in HRK thousand)

		31 Dec 2012	31 Dec 2013	change in %
1	Net income/expenses on fees and commissions	16,088	17,299	7.53
2	Net realised and unrealised income/expenses on financial assets	11,087	5,436	-50.97
3	Net interest income/expenses	-3,082	1,475	
4	**Net exchange rate differences**	435	822	88.81
5	Total other income	1,945	2,884	48.26
6	Total other costs	27,080	23,579	-12.93
	Total income	**55,688**	**54,361**	**-2.38**
	Total costs	**56,295**	**50,023**	**-11.14**
	Pre-taxs profit or loss	**-607**	**4,338**	
	Profit tax	476	395	-16.92
	Profit or loss	**-1,083**	**3,943**	
	Other comprehensive income	**-3,361**	**-11,976**	**256.28**
	Total comprehensive income	**-4,444**	**-8,033**	**80.75**

Source: Hanfa

In 2013, the largest profit was reported by Auctor d.o.o. and Interkapital vrijednosni papiri d.o.o., while the most significant loss was generated by Antea brokeri d.o.o. and Rast d.o.o.

Capital Adequacy of Investment Firms

Within its field of competence, Hanfa supervises capital adequacy of investment firms, which includes, among other things, supervision of risk management procedures established by investment firms. Investment firms are obliged to manage, on a continuous basis, the risks they are exposed to in their business operations, arising from the business relationship between an investment firm and a client or from other business activities of the firm.

The management board of the investment firm is responsible for establishing an adequate, efficient and effective financial management and control system, which also implies the responsibility for the establishment and development of the risk management process. Risk management consists of a set of activities and methods for identifying, measuring, monitoring and reporting on risks. Investment firms are exposed to operational risk, credit risk, market risks and liquidity risk. Operational risk is the risk of loss that may be incurred due to inadequate organisational, human resources or technical conditions within the investment firms, but may also arise indirectly from certain events occurring outside the firm. Credit risk is the risk of incurring losses due to a failure of an entity to fulfil its financial obligations towards the investment firm. Market risk is a set of different risk categories which include position risk, settlement risk, counterparty risk, currency risk, commodity risk and risk of exceeding permitted exposures.

Taking account of the specificities of each risk, the investment firm is obliged to develop adequate policies and procedures for identifying, measuring and monitoring those risks. Besides, capital of the investment firm[36] must at all times be sufficient to cover all the risks the investment firm is exposed to in its regular business activities.

Table 2.11 Investment firms' capital adequacy as at 31 December 2012 and 31 December 2013 (capital in HRK thousand)

Investment firm	31 December 2012			31 December 2013		
	Minimum capital	Capital according to the Ordinance	Capital adequacy	Minimum capital	Capital according to the Ordinance	Capital adequacy
Agram Brokeri d.d.	6,000	8,396	9.08	6,000	7,583	7.69
Aktiv Broker d.o.o.	1,000	1,002	2.78	1,000	774	2.15
Antea Brokeri d.o.o.	1,000	963	4.39	1,000	797	3.48
Auctor d.o.o.	6,000	91,603	4.39	6,000	63,713	3.24
Credos d.o.o.	1,000	1,005	4.62	1,000	1,289	7.82
Fima Vrijednosnice d.o.o.	6,000	6,113	5.49	1,000	3,913	4.76
Hita Vrijednosnice d.d.	1,000	1,895	3.84	1,000	2,569	4.87
Interkapital Vrijednosni Papiri d.o.o.	6,000	8,585	2.43	6,000	8,379	3.68
Rast d.o.o.	1,000	1,526	5.76	1,000	1,373	6.53

Source: Hanfa

36 Items included in the investment firm's capital had been defined in Articles 157 to 160 of the Capital Market Act until 31 December 2013. Now they are laid down in Regulation (EU) No. 575/2013.

As at 31 December 2013, two investment firms failed to meet the minimum capital requirements, which resulted in adequate measures, prescribed by law, having been taken. All investment firms reported a capital adequacy ratio (ratio of capital to the sum of capital requirements) higher than the prescribed minimum ratio (1).

While in the previous years the most significant risk for investment firms was operational risk, in 2013 the most significant risk they were exposed to was liquidity risk, resulting from weaker business activity and, consequently, lower income, which made it difficult for investment firms to generate funds to cover operating expenses, forcing them to search for new sources of funding in the form of loans and additional contributions from owners. In addition, some investment firms reported problems of maintaining the minimum prescribed capital level due to cumulative losses recorded over the previous years.

2.2.5 Cooperation with ESMA

Hanfa has been a full member of ESMA since 1 July 2013[37]. Hanfa's employees participate in the work of ESMA's committees and working groups on-line and by attending committee meetings. These committees have been established with the aim of providing technical advice to the European Commission and of preparing technical standards, guidelines and recommendations related to provisions of a particular directive or regulation applicable to activities and participants in the capital market.

In 2013, Hanfa's employees participated in the following committees and working groups related to the provision of investment services and performance of investment activities:

- Committee for Economic and Market Analysis (CEMA), which covers the area of financial markets monitoring and analysis, and cost-benefit analysis and impact assessment for the purpose of better market regulation and supervision.
- Financial Innovation Standing Committee (FISC), which coordinates the national supervisory authorities' treatment and response to new financial activities. In monitoring financial activities, the committee may advise ESMA to adopt guidelines and recommendations with the aim of promoting regulatory convergence, to issue warnings or conduct any regulatory action needed to prevent financial innovation from causing customer detriment or threatening financial stability. The committee also collects, analyses and reports on investor trends.
- Investor Protection Intermediaries Standing Committee (IPISC), which is responsible for issues relating to investment services and activities by investment firms and credit institutions. Particular regard is made to investor protection, including the conduct of business rules, distribution of investment products, investment advice and suitability. The committee fosters supervisory convergence among national supervisory authorities in the area of investment services and activities. It is also in charge of MiFID provisions applicable to investment services and investment activities.
- Credit Rating Agencies Technical Committee (CRA Technical Committee) is in charge of registration and supervision of credit rating agencies in the European Union on behalf of ESMA. The committee is also responsible for the implementation of Regulation (EC) No 1060/2009 of the European Parliament and of the Council on credit rating agencies[38].

37 Described in more detail in Chapter 1.3
38 Regulation (EC) No 1060/2009, OJ L 302

Investment Funds

3 Investment Funds

3.1 Description of the Market

There are two types of investment funds in the Republic of Croatia: open-ended investment fund with public offering (hereinafter: UCITS) and alternative investment fund (hereinafter: AIF), which may be of an open-ended or a closed-ended type.

UCITS has no legal personality, and is established by a management company which manages the fund in its own name and for the account of holders of units in those assets, pursuant to provisions of the Act on Open-Ended Investment Funds with Public Offering (Official Gazette 16/13, hereinafter: ZOIFJP), prospectus and fund rules. UCITS are established for the purpose of raising cash by offering units in the fund through a public offering to all interested investors. Funds collected from investors are invested in transferable securities or other types of liquid financial assets, while observing the principle of risk distribution. Depending on changes in the value of assets in the UCITS, investors earn a return and, in addition to the right to a proportional share in the fund's profit, may require the redemption of units and thus exit the fund. The procedure for submitting the application for redemption of units and the procedure for redeeming units are defined in the prospectus and rules of each UCITS, which are in line with limitations laid down in ZOIFJP. Each investor in need of liquid funds can easily have their financial assets at their disposal shortly after submitting the application for redemption of units. Taking account of the significance and development of UCITS in the European Union, and of the fact that they are available to all investors, they have been paid close attention with respect to alignment of regulations governing their operation. Their activities are regulated by an EU directive transposed by all Member States in their national legislation, which made business operations of UCITS harmonised in the entire territory of the European Union.

AIF is an investment fund established for the purpose of raising capital through a public or private offering, and investing it in various types of assets in line with a defined investment policy and in order to generate returns for investors. In the Republic of Croatia, AIFs may be established as funds with a public offering, of an open-ended or a closed-ended type, or as funds with a private offering. Open-ended AIFs are separate assets with no legal personality, established by an alternative investment fund manager (hereinafter: AIFM), which manages the AIF in its own name for the collective account of unit-holders in those assets, in accordance with the Act on Alternative Investment Funds

Investment funds are undertakings for collective investments, established and managed by investment companies. The only aim and purpose of investment funds is to raise capital through a private or public offering and to invest it in various types of assets in accordance with a defined investment strategy. The main advantages of investment funds for investors are joint market appearance, which leads to lower costs compared to individual investments, easier access to various financial instruments and markets, professional management, availability and diversification of investments even with smaller amounts of money, simple payments and fast payouts.

The taking up and pursuit of business of investment funds and management companies, the issue and sale of units and shares, repurchase of units, marketing activities, activities carried out for funds by third parties and supervision of business operations of funds, management companies, depository banks and persons engaged in the sale of units and shares are regulated by the Act on Open-Ended Investment Funds with Public Offering and Alternative Investment Funds Act, which entered into force on 1 July 2013.

An investment fund may be of a closed-ended or an open-ended type. In the Republic of Croatia, open-ended investment funds are established as persons without legal personality, whereas closed-ended investment funds are legal persons, with the basic difference between them lying in investor redemption rights: investors in an open-ended investment fund may request the redemption of all or part of their units in the fund under conditions provided in the fund's prospectus and statute, after which the management company is obliged to redeem their units. On the other hand, shares of closed-ended investment funds are traded on a stock exchange and may be acquired or disposed depending on the supply and demand and conditions on financial markets.

(Official Gazette 16/13, hereinafter: ZAIF), prospectus and/or fund rules. Units of an open-ended AIF are redeemed in the manner and under the conditions defined in the prospectus and/or fund rules, at the request of unit holders, directly or indirectly, from its assets. A closed-ended AIF is a legal person established as joint-stock company or a limited liability company by an AIFM, which manages it in its name and for its account in line with ZAIF provisions, prospectus, where applicable, rules and statute or articles of association of that AIF, whose units are not redeemable from the assets of the closed-ended AIF, but are traded in accordance with legal provisions. A closed-ended AIF may be managed by the external or internal AIFM. Apart from closed-ended investment funds for investments in securities, there are also closed-ended investment funds for real estate investments.

AIFs with private offering include basic AIFs with private offering and special types of AIFs with private offering, which include venture capital funds and economic cooperation funds, currently operating in the Republic of Croatia.

Basic AIFs with private offering are alternative investment funds which may be offered to investors considered to be professional investors pursuant to the act regulating the capital market or treated as professional investors at their own request, and to qualified investors.

Venture capital funds with private offering are established by a management company with the aim of collecting cash through a private offering of fund units. Those assets are then invested in line with investment goals and investment limitations defined in the fund's prospectus, and its unit holders have the right, in addition to the right to a proportional share in the fund's profit, to require the redemption of their units, and thus to exit the fund.

The government of the Republic of Croatia participated in the establishment of economic cooperation funds along with interested private investors, with the aim of fostering development of economy, preserving the current and creating new jobs and strengthening the existing and setting up new economic entities by means of ownership restructuring through the investment of additional capital.

Each open-ended and closed-ended investment fund operating in the Republic of Croatia must have a depository, which carries on a series of activities for the fund, involving safekeeping of separate fund assets, keeping of separate accounts for the fund's assets, and other activities in accordance with provisions of ZOIFJP and ZAIF. Duties of depositories in the Republic of Croatia are carried out by credit institutions. Assets of the fund in custody with a depository are neither included in the depository's assets, bankruptcy estate or liquidation value, nor can they be used in the execution procedure with respect to receivables from the depository.

A management company may establish and simultaneously manage several UCITS and AIFs.

3.2 Management Companies

UCITS and AIFs are managed by UCITS management companies or AIF management companies, established either as a limited liability company or a joint stock company, whose main activity is the establishment and management of UCITS according to ZOIFJP, or establishment and management of AIFs according to ZAIF. In addition to establishing and managing UCITS and AIFs, UCITS management companies may carry out activities relating to portfolio management in accordance with provisions of the act regulating capital market, activities relating to establishment and management of voluntary pension funds, activities relating to provision of investment advice with respect to financial instruments defined by the act regulating capital markets, and activities relating to safekeeping and administration with respect to investment fund units. AIF management companies may establish and manage AIFs and UCITS. Furthermore, along with credit institutions related to management companies and other legal and natural persons which have concluded contracts on distribution of fund units with management companies, management companies are among major distributers of units in UCITS and AIFs in the Republic of Croatia.

As at 31 December 2013, there were 25 registered companies managing investment funds, two companies fewer than in 2012. Out of the 25 management companies operating in 2013, 14 companies were domestically owned, nine were owned by foreign financial institutions, and two were partly foreign owned. Management companies making a part of a banking group managed most of UCITS assets. More precisely, at end-2013, nine management companies making a part of a banking group managed 92% of UCITS assets, while four management companies making a part of a banking group managed 30.6% of AIF assets.

In 2013, management companies realised an after-tax profit totalling HRK 55.7m and growing by 30.46% compared to 2012. The largest share in total income of management companies was accounted for by management fees reaching HRK 223.9m. 2013 saw a rise in financial income and expenditure amounting to HRK 8.8m due a decrease in the item relating to financial instrument value depreciation. Comprehensive income also rose, due to unrealised income from financial assets available for sale, or to an increase in the value of assets in their portfolios.

3.2.1 Open-Ended Investment Funds with Public Offering

As at 31 December 2013, there were 86 registered UCITS in the Republic of Croatia, of which 23 cash funds, eight bond funds, 16 balanced funds and 39 equity funds.

Table 3.1 Comparison of the number of UCITS as at 31 December 2012 with that as at 31 December 2013

UCITS	31 Dec 2012	31 Dec 2013
Cash	23	23
Bond	8	8
Balanced	18	16
Equity	47	39
Total	**96**	**86**

Source: Hanfa

In 2013, the assets continued to fall, resulting in continued consolidation of the investment fund market. The number of UCITS decreased from 96 at the end of 2012 to 86 at the end of 2013. The number of cash funds held steady, with one fund having started operating, and one having been merged with another fund under the same management company. The same situation was reported by bond funds. Two balanced funds merged under the same management company into a newly established balanced fund, while one balanced fund was acquired by an equity fund managed by the same management company. The number of equity funds decreased by eight, since those funds were acquired by the existing funds managed by the same management companies.

UCITS Assets

Table 3.2 Net assets of UCITS as at 31 December 2012 and 31 December 2013 (in HRK thousand)

	31 Dec 2012	Share	31 Dec 2013	Share	Absolute change	Percentage change	Paid in in 2013	Paid out in 2013
UCITS	**12,615,617**		**13,035,257**		**419,641**	**3.33%**	**24,340,173**	**24,006,945**
Cash	9,124,521	72.33%	9,797,924	75.16%	673,402	7.38%	527,907	567,073
Bond	446,683	3.54%	386,430	2.96%	-60,253	-13.49%	21,236,966	20,715,544
Balanced	1,107,755	8.78%	933,254	7.16%	-174,501	-15.75%	202,822	324,477
Equity	1,936,657	15.35%	1,917,649	14.71%	-19,008	-0.98%	2,372,478	2,399,852

Source: Hanfa

In 2013, UCITS assets increased by HRK 0.4bn, amounting to HRK 13.0bn at the end of the year. The structure of those assets was dominated by cash funds, whose share in the total assets keeps growing year after year. Due to positive returns of cash funds and to investors' inclination to invest in cash funds as in funds incurring lower risks, payments into these funds were higher than the payouts. The average annual rate of return of cash funds, observed in the currency of the fund unit, amounted to 1.5%, ranging from 0.3% to 3.5%.

In spite of positive sentiments in international capital markets in 2013, this did not reflect on the local market, which continued to feel the consequences of the economic downturn. Assets of other types of funds declined over the year, due to the fact that more assets were withdrawn from the funds than paid in. Investors withdrew most of their assets from bond funds, whose average annual rate of return totalled -0.6%, due to low interest rates on the domestic, but also on foreign bond markets, and due to the price movement of securities in their portfolio. The rate of return of bond funds ranged from -4.8% to 5.9%.

More assets were withdrawn from than paid into balanced funds, as well, and their rates of return ranged from -11.9% to 9.8%. Most of balanced funds, eight out of 14, recorded a positive rate of return; however, since negative rates of return were higher in absolute value, the average rate of return of balanced funds stood at -1.5%.

The average rate of return of equity funds reached 4.2%, and their rates of return ranged between -18.6% and 28.7%. Positive rates of return and, in comparison to balanced and bond funds, significantly smaller withdrawal of funds, were reported by equity funds, owing to investors who recognised positive trends on major capital markets, growth in foreign market indices and stable environment on global financial markets.

3.2.2 Alternative investment funds

Table 3.3 Comparison of the number of AIFs as at 31 December 2012 with that as at 31 December 2013

AIF	31 Dec 2012	31 Dec 2013
Private offering	**25**	**22**
basic	18	15
venture capital	3	3
venture capital - ECF	4	4
Public offering	**7**	**4**
closed-ended real estate	4	1
closed-ended	3	3
Total	**32**	**26**

Source: Hanfa

As at 31 December 2013, there were 26 registered AIFs, of which 22 with private offering and four with public offering. As in the case of UCITS funds, AIFs continued their consolidation trend. The number of basic AIFs with private offering decreased (18 at end-2012, compared to 15 at end-2013): three AIFs were wound up, one was merged with a UCITS under the management of the same management company, and one new AIF was established.

At end-2013, there were three registered venture capital funds with private offering and four economic cooperation funds, their number not having changed compared to the previous year. Four alternative investment funds for real estate investments had existed until 1 July 2013, in accordance with Article 325 of ZAIF, stipulating that investment funds established in the form of a closed-ended investment fund with public offering under the Investment Funds Act (Official Gazette 150/05) and undergoing winding-up proceedings cease to be investment funds within the meaning of ZAIF if, until the entry into force of ZAIF, the winding-up proceedings have not been finalised. As at 31 December 2013, their number fell to one.

AIF Assets

Table 3.4 Net assets of AIFs as at 31 December 2012 and 31 December 2013 (in HRK thousand)

AIF	31 Dec 2012	Share	31 Dec 2013	Share	Absolute change	Percentage change
Private offering	**764,445**	**31.88%**	**692,873**	**33.38%**	**-71,572**	**-9.36%**
basic	346,588	14.45%	221,821	10.69%	-124,767	-36.00%
venture capital	168,778	7.04%	134,990	6.50%	-33,788	-20.02%
venture capital - ECF	249,079	10.39%	336,061	16.19%	86,983	34.92%
Public offering	**1,633,339**	**68.12%**	**1,382,932**	**66.62%**	**-250,406**	**-15.33%**
closed-ended	1,285,090	53.59%	1,254,868	60.45%	-30,221	-2.35%
closed-ended real estate	348,249	14.52%	128,064	6.17%	-220,185	-63.23%
Total AIF	**2,397,784**	**100.00%**	**2,075,805**	**100.00%**	**-321,979**	**-13.43%**

Source: Hanfa

Assets of basic AIFs with private offering fell by 36.0%, due to a decrease in the number of funds, but also to negative market developments. The average annual rate of return of basic AIFs amounted to 2.1%, with all the rates ranging from -5.3% to 13.8%.

Assets of closed-ended AIFs with public offering decreased by 2.4%, the decrease having been caused by a decline in assets of the largest closed-ended AIF, while the remaining two funds increased their assets.

Assets of venture capital funds went down by 20.0%, primarily due to a decrease in the value of investments recorded by one fund, while assets of economic cooperation funds rose by 34.9%, mostly due to new investments.

Assets of closed-ended real estate AIFs decreased by 63.2%, as a result of a decline in the number of funds: three closed-ended investment funds undergoing winding-up proceedings were not considered investment funds under ZAIF any more, since the winding-up proceedings had not been finalised until ZAIF entered into force.

Investments of UCITS and AIFs

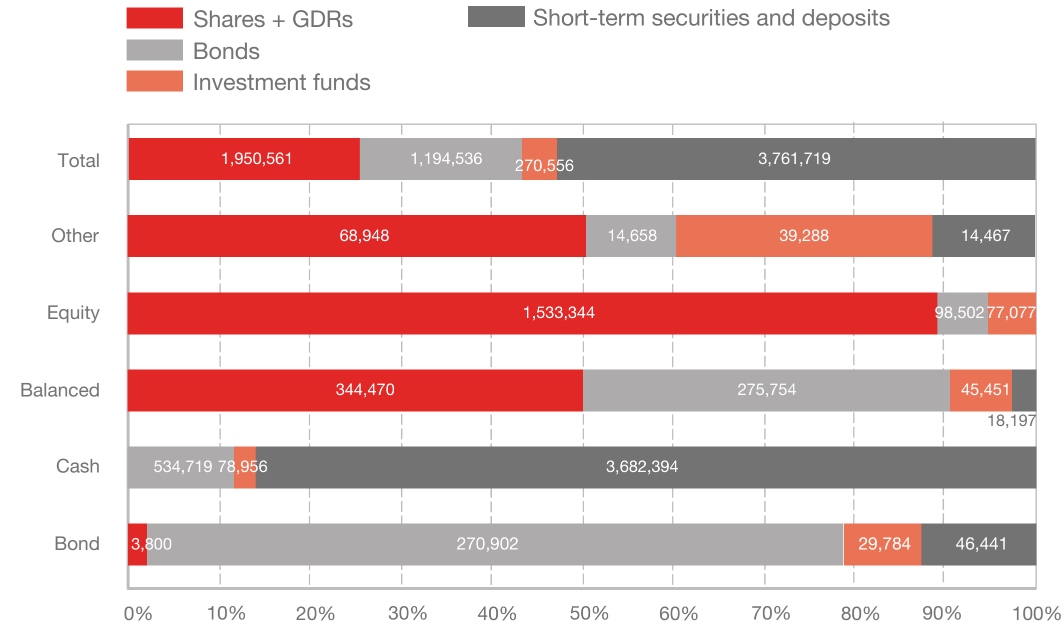
Permitted investments by each investment fund, including the most important limitations on investments, are defined in ZOIFJP and ZAIF and in ordinances on permitted investments and investment limitations, while management companies draw up prospectuses defining their investment goals and strategy and prescribing investments limitations in more detail.

As at 31 December 2013, the share of net assets of UCITS invested in shares amounted to 15%. Equity funds invested 81.4% (HRK 0.4bn) of their assets in shares (the largest part relating to foreign shares), and balanced funds invested 41.8% of their assets in shares (with equal investments in domestic and foreign shares). Foreign shares were dominated by those of issuers from USA (10.8% of all shares held by UCITS), followed by those of issuers from Serbia, Slovenia and United Kingdom. UCITS invested HRK 1.2bn or 9.2% of their net assets in bonds, with 62.8% of all investments relating to domestic government bonds. In absolute amounts, most assets (HRK 0.3bn or 31.3% of their net assets) were invested in bonds by balanced funds, while the largest share of investments in bonds was recorded, as expected, by bond funds (69.7% or HRK 0.3bn).

As regards foreign bonds, UCITS made most of their investments in Ireland and Russia, primarily in corporate bonds. Slovenian and UK government bonds were predominant among foreign government bonds.

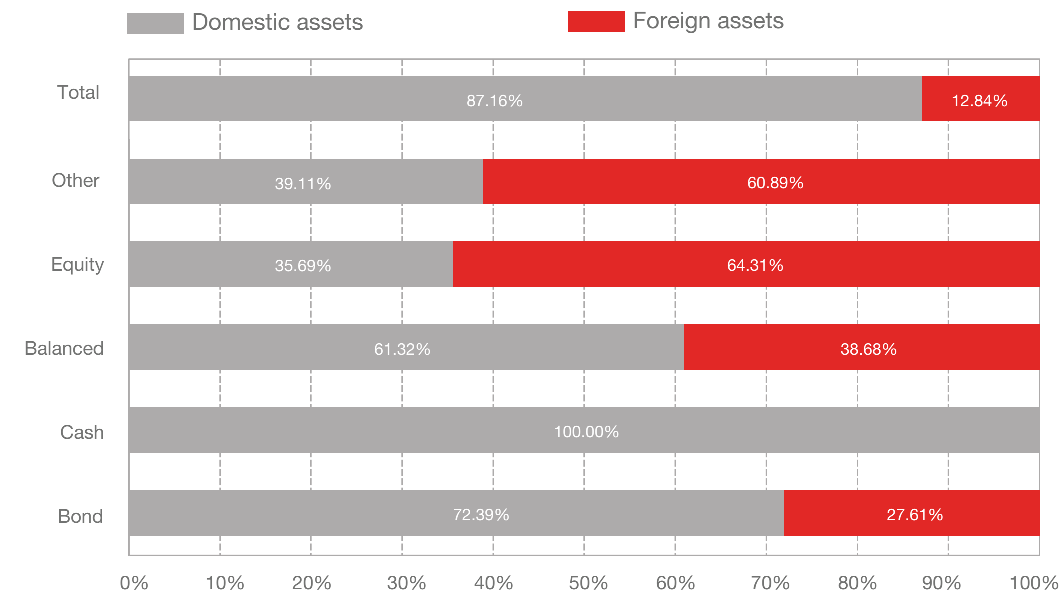
Cash funds accounted for the largest share in total assets of UCITS, and since they primarily invested in deposits, investments in deposits dominated the UCITS investment structure.

Chart 3.1 UCITS investment structure as at 31 December 2013 (in HRK thousand)



Source: Hanfa

Chart 3.2 Share of domestic and foreign assets in UCITS net assets as at 31 December 2013



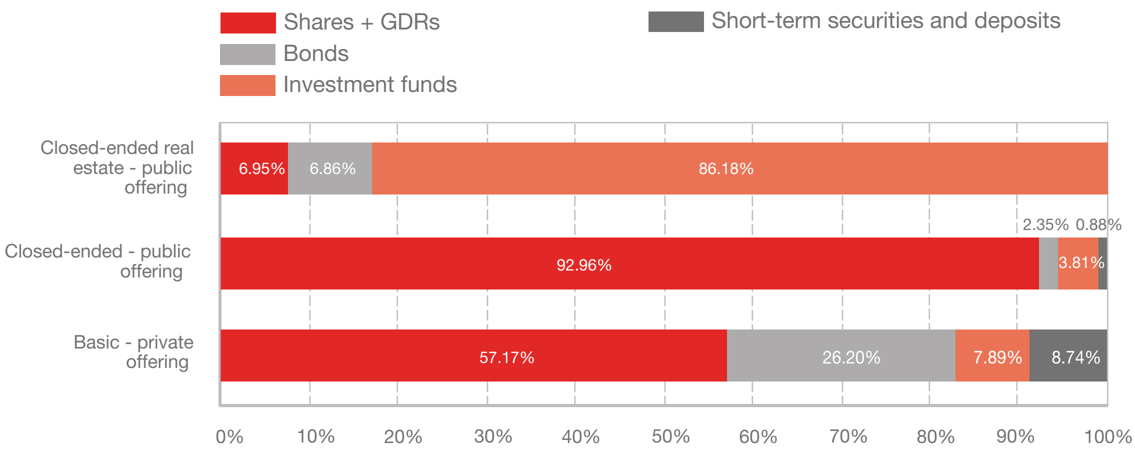
Source: Hanfa

As at 31 December 2013, basic AIFs reported having invested HRK 104m or 46.9% of their net assets in shares, of which the largest part (32.3%) was invested in domestic shares, and 14.6% in foreign shares. As in UCITS, investments in shares from USA were predominant and followed by shares of issuers from Serbia, Montenegro and Slovenia. Second largest category of assets invested in by AIFs were bonds in the amount of HRK 51.6m (23.3%), of which 14.6%

was invested in domestic government bonds, and the remaining part in domestic and foreign corporate bonds. Investments in funds amounted to 6.5% and in short-term securities to 7.2% of net assets.

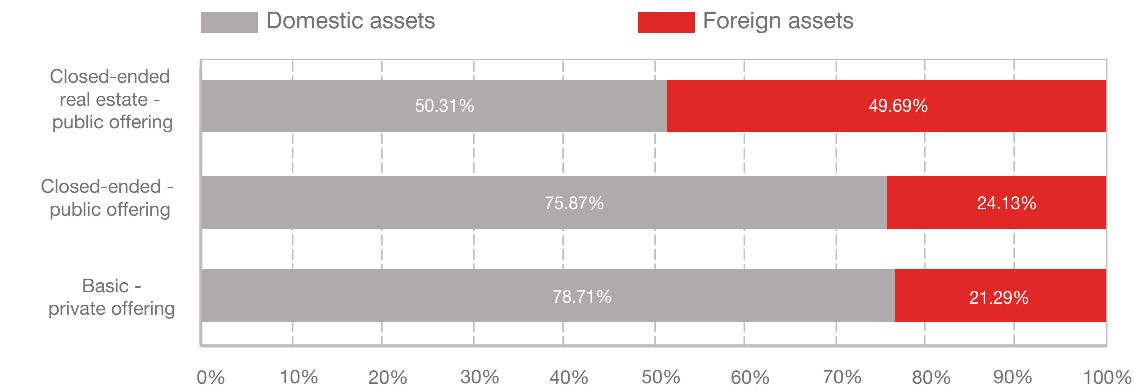
As at 31 December 2013, closed-ended AIFs with public offering reported having invested 92.96% (HRK 1.22bn) of their net assets in shares, of which 72.67% in domestic shares. Foreign shares were dominated by shares of issuers from Austria, Slovenia, Czech Republic, France and Bosnia and Herzegovina. Investments in domestic corporate bonds reached only 2.5% of net assets, while investments in short-term securities amounted to less than 0.5% of net assets. About 4.0% of net assets were invested in funds, of which 3% in domestic funds.

Chart 3.3 AIF investment structure as at 31 December 2013



Source: Hanfa

Chart 3.4 Share of domestic and foreign assets in AIF net assets as at 31 Deceber 2013



Source: Hanfa

3.2.3 Funds Established under Special Acts

The Fund for Croatian Homeland War Veterans and Members of their Families (hereinafter: HB Fund) and the Retired Persons' Funds are funds established under special acts: the Act on the Fund for Croatian Homeland War Veterans and Members of their Families (Official Gazette 163/03, 82/04 and 41/08) and the Act on Retired Persons' Fund (Official Gazette 93/05, 41/07, 90/11 and 119/11).

The HB Fund is an open-ended investment fund established by the Government of the Republic of Croatia for the purpose of increasing the value of its assets for the benefit of Croatian Homeland War veterans and members of their families. Pursuant to the Act on the HB Fund, net profit of the fund is split into three parts. One third of the profit is reinvested, i.e. kept in the HB Fund. The second third is aimed at improving the status of Croatian Homeland War veterans and members of their families, and the Management Board of the HB Fund, following the approval of the Government of the Republic of Croatia, adopts a special decision relating to the purpose of this part of the profit (used for financing the Foundation of Croatian Homeland War Veterans and Members of their Families, as well as the Fund for Scholarships for Croatian Homeland War Veterans and Members of their Families). The third part is paid to each fund member as a dividend proportionate to the number of units in the HB fund.

In 2013, the net assets of the HB Fund, which is managed by Erste Invest d.o.o., decreased by 14.3% in comparison to the previous year, primarily due to a decline in the value of financial assets and costs of redemption of units.

The Retired Persons' Fund was established by the Government of the Republic of Croatia, and it regulates the manner of compensating its members, i.e. old-age, anticipatory, disability and survivor's pension beneficiaries, eligible for pension pursuant to the Act on Basic Rights Arising from Pension and Disability Insurance (Official Gazette 53/91) and the Act on Pension and Disability Insurance (Official Gazette 26/83, 5/86, 42/87, 34/89, 57/89, 40/90, 9/91, 26/93, 44/94 and 59/96) with respect to the period from 1 September 1993 to 31 December 1998. The fund is closed to any other members or investors except for heirs of the first rank of fund members.

In 2013, net assets of the Retired Persons' Fund, which is managed by HPB Invest d.o.o., decreased by 1.9% compared with the previous year.

Table 3.5 Investment funds established under special acts as at 31 December 2012 and 31 December 2013 (net assets in HRK thousand)

Investmnet fund	Net assets 31 Dec 2012	Net assets 31 Dec 2013
Fund for Croatian Homeland War Veterans and Members of their Families	1,133,914	971,704
Retired Persons' Fund	197,040	193,393

Source: Hanfa

3.3 Hanfa's Activities

Supervision of investment fund management companies, as well as supervision of UCITS and AIFs falls within the scope Hanfa's competence. These supervised entities are obliged to operate in line with ZOIFJP, ZAIF, Capital Market Act (Official Gazette 88/08, 146/08, 74/09, 54/13 and 159/13), Accounting Act (Official Gazette 109/07 and 54/13), Companies Act (Official Gazette 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12, 144/12 and 68/13) Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 25/12) and other relevant regulations and subordinate regulations.

3.3.1 Regulatory Activities

The legal reform of the existing investment fund management system was finalised in 2013 through the implementation of ZOIFJP and ZAIF, which drew a clear distinction between UCITS and other types of funds, the so-called AIFs.

The said acts ensured a higher level of investor protection by defining a common framework for authorisation and supervision of UCITS and AIF management companies. They prescribed in more detail, among other issues, organisational requirements for management companies, requirements regarding the establishment of internal audit and other internal control mechanisms, including the compliance function. They also emphasised obligations and requirements with respect to the establishment of a comprehensive and effective risk management system for companies and funds managed by those companies, including risk management strategies, policies, procedures, measures and techniques, as well as requirements with respect to the establishment of a liquidity management system, all with the aim of adequately identifying and managing all risks a company or a fund may be exposed to.

3.3.1.1 Act on Open-Ended Investment Funds with Public Offering

The new ZOIFJP enhanced the existing legal framework and brought it into line with acquis communautaire, namely with Directive 2009/65/EC[39] of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), along with implementing regulations and directives of the European Commission[40].

The provisions of ZOIFJP laid down the conditions for the establishment and operation of investment funds and investment fund management companies, and regulated the issuance and redemption of units in investment funds, marketing of units, delegation of tasks to third parties and supervision of activities and operation of investment funds, investment fund management companies, depositories and persons offering units in investment funds. They also enabled and defined cross-border activities regarding investment fund management and cross-border marketing and sale of units in UCITS funds, directly or indirectly, through a master-feeder investment fund structure.

Following the adoption of ZOIFJP, in the second half of 2013, Hanfa worked on the adoption of and amendments to subordinate regulations, i.e. ordinances prescribing in more detail conditions for the establishment, operation, winding-up and end of business activities of investment funds and investment fund management companies, and regulating prospectus and rules of UCITS, marketing and notification of fund members, type and amount of capital of the management company, delegation of tasks to third parties, permitted investments and investment limitations for UCITS, marketing of units in UCITS, supervision of operation and activities of UCITS, organisational requirements for UCITS, manner of submission and structure of their financial statements, method for determining UCITS net asset value, and requirements for the position of management board and supervisory board member of the management company. Hanfa's Board adopted the following 21 ordinances:

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39 Directive 2009/65/EC, OJ L 302

40 Directive 2010/43/EC, OJ L 176, Directive 2010/44/EC, OJ L 176, Directive 2010/78/EC, OJ L 331, Regulation (EU) No. 583/2010, OJ L176, Regulation (EU) No. 584/2010, OJ L 176

1. Ordinance on permitted investments and investment limitations relating to UCITS (Official Gazette 85/13)
2. Ordinance on master and feeder UCITS (Official Gazette 85/13)
3. Ordinance on notification as regards the marketing of units of UCITS in another Member State (Official Gazette 85/13)
4. Ordinance on the notification of unit-holders as regards UCITS mergers (Official Gazette 85/13)
5. Ordinance on organizational requirements for UCITS management companies (Official Gazette 85/13)
6. Ordinance on the contents and manner of keeping the register of UCITS and UCITS management companies (Official Gazette 90/13)
7. Ordinance on issuing authorisation to and on acquisition of qualifying holdings in UCITS management companies (Official Gazette 90/13)
8. Ordinance on the authorisation for the establishment, prospectus and rules of UCITS funds (Official Gazette 90/13)
9. Ordinance on the conditions for membership of the management and supervisory board of UCITS management companies (Official Gazette 90/13)
10. Ordinance on delegating activities relating to management of UCITS (Official Gazette 90/13)
11. Ordinance on liquidation and dissolution of UCITS (Official Gazette 90/13)
12. Ordinance on carrying out tasks of the UCITS depositary (Official Gazette 93/13)
13. Ordinance on compensating investors in UCITS and/or compensating UCITS (Official Gazette 100/13)
14. Ordinance on units in UCITS (Official Gazette 100/13)
15. Ordinance on the conditions for offering units in UCITS (Official Gazette 100/13)
16. Ordinance on marketing and other information for investors in UCITS (Official Gazette 100/13)
17. Ordinance on delegating activities of UCITS management companies (Official Gazette 100/13)
18. Ordinance on determining the net asset value of UCITS and the price of UCITS units (Official Gazette 100/13)
19. Ordinance on the form and amount of capital of UCITS management companies (Official Gazette 100/13)
20. Ordinance on the structure and contents of financial reports and other reports of UCITS management companies (Official Gazette 100/13)
21. Ordinance on the structure and contents of annual and half-yearly reports and other reports of UCITS (Official Gazette 100/13)

These ordinances, adopted within the prescribed period, represent all subordinate regulations whose adoption was stipulated by ZOIFJP.

3.3.1.2 Alternative Investment Funds Act

The new legal framework for AIFs regulated all other types of investment funds established for the purpose of raising funds through a public or private offering and investing those funds in different types of assets in line with a defined investment strategy and goals of the AIFs. Amendments to the previous legislation were also necessary for the purpose of aligning with acquis communautaire, namely with Directive 2011/61/EU[41] of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010.

41 Directive 2011/61/EU, OJ L 174

The new ZAIF ensured a higher level of investor protection in comparison with the previous act, by defining a common framework for authorisation and supervision of AIFMs and AIFs. In addition, ZAIF provided for a more liberal regulatory regime for business activities of AIFMs, keeping in mind that investors in AIFs are professional investors with sufficient capital, experience and knowledge to be able to make independent decisions regarding their investments and related risks. Nevertheless, in certain cases, and following prior approval of Hanfa, certain AIF units may also be offered to retail investors.

The scope of ZAIF covered entities managing AIFs within the framework of their regular operations, irrespective of whether they manage an AIF of an open-ended or closed-ended type, of its legal form, and of whether units/shares of AIF with public offering are admitted or traded on a regulated market. ZAIF also applies to entities raising funds from investors with the aim of investing those funds in line with a defined investment policy, which is more liberal regarding investment limitations for AIF assets, considering the profile of majority of AIF investors (professional investors).

Besides, ZAIF additionally simplified direct or indirect cross-border sale of fund units (master-feeder fund structure) and delegation of certain business activities from management companies to third parties, and it provided for enhanced regulation of depository activities. The purpose of Directive 2011/61/EU (and consequently of ZAIF) was to ensure new provisions clearly defining and increasing responsibility of all financial market participants, including responsibility of depositories and management companies, all with the aim of preventing events and causes which may lead to a financial crisis.

This act also defined terms and conditions under which authorised EU AIFMs are allowed to market non-EU AIFs to professional investors in the European Union, as well as terms and conditions under which authorised non-EU AIFMs may manage EU AIFs and/or market AIFs to professional investors in the European Union with a passport.

ZAIF also ensured the possibility of exchanging information with other competent authorities of the Republic of Croatia and European Union, and included misdemeanour provisions aimed at its efficient implementation.

The purpose of ZAIF was to enable marketing of fund units in the Croatian market, which should result in a more favourable investment climate, and consequently in positive economic effects, both as regards investors and the market as a whole.

ZAIF provided for the adoption of a number of subordinate regulations, aimed at regulating its scope in more detail. As a result, in 2013, 12 new subordinate regulations were adopted:

1. Ordinance on issuing authorisation for marketing units of AIFs to retail investors in the Republic of Croatia (Official Gazette 105/03)
2. Ordinance on requirements for membership of the management and supervisory board of an AIFM and for membership of the supervisory board of a closed-ended AIF with external manager (Official Gazette 105/13)
3. Ordinance on status changes of open-ended AIFs (Official Gazette 105/13)
4. Ordinance on contents and method of keeping the register of AIFMs and AIFs (Official Gazette 105/13)
5. Ordinance on granting approval for the establishment and operation of AIF and on granting approval to AIF rules (Official Gazette 105/13)
6. Ordinance on issuing authorisation for operation and for acquisition of a qualifying holding in an AIFM (Official Gazette 105/13)
7. Ordinance on types of alternative investment funds (Official Gazette 105/13)
8. Ordinance on the structure and contents of annual and semi-annual reports and other reports of alternative investment fund (Official Gazette 142/13)
9. Ordinance on the structure and contents of annual and semi-annual financial statements and other reports of AIFMs (Official Gazette 142/13)

10. Ordinance on determination of the net asset value and unit price of alternative investment funds (Official Gazette 149/13)
11. Ordinance on terms and conditions for marketing units of AIFs with private offering (Official Gazette 160/13)
12. Ordinance on additional organisational requirements for AIFMs (Official Gazette 160/13)

These subordinate regulations prescribed in more detail the establishment and the operation AIFs, organisational requirements for AIFMs, marketing of AIF units to retail investors in the Republic of Croatia and the procedure for approving AIF rules, structure and contents of annual and semi-annual financial statements and other reports by AIFMs and AIFs, the method for determining net asset value of AIFs and price of AIF units, requirements for membership of the management and supervisory board of AIFMs and supervisory board of closed-ended AIFs with external managers and types of AIFs.

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

In 2013, Hanfa participated in the preparation of the new Act on the Fund of Croatian Homeland War Veterans and Members of their Families, whose drafting will continue in 2014.

3.3.1.4 Notifications from EU Member States

The day of the accession of the Republic of Croatia to the European Union was also the day of entry into force of new legislative provisions enabling providers of financial services authorised by competent supervisory authorities of EU Member States to offer their services directly in the territory of the Republic of Croatia (passporting). Corresponding EU directives implemented in the Croatian legislation enable Croatian financial service providers to provide their services in other EU Member States under the same terms and conditions.

On its website, Hanfa publishes a list of service providers from other Member States which, in line with the procedure prescribed by law, have submitted a notification of their intent to provide services in the Republic of Croatia. In 2013, four investment fund management companies submitted such notifications.

Cross-border provision of services relating to investment funds on the basis of the so-called “single passport” is permitted to fund management companies from EU Member States, and under certain conditions, to AIFMs from third countries carrying out their business activities in the Republic of Croatia.

3.3.2 Licensing

In 2013, Hanfa’ conducted procedures and activities related to licensing and granting approval to companies, management board members and employees of supervised entities, as well as activities involving approval of other operations and acts related to the fund industry which require Hanfa’s prior approval. In addition, entry into force of ZOIFJP was followed by intensive work relating to the alignment of management companies’ business activities with the new legal framework. This implied the study and analysis of documentation and information on business activities of companies, key investor information, prospectuses and rules of UCITS, including off-site supervision. Licensing procedures primarily related to licensing of management board members.

In 2013, Hanfa provided answers, on an on-going basis, to various inquiries related to investment funds and consumer protection. Furthermore, it carried out research and analysis of best practises in the area of investment funds in the European Union. During the previous year, Hanfa also successfully cooperated with domestic, foreign and international institutions as well as with supervisory and regulatory authorities with respect to investment funds for the purpose of developing and introducing new analytical and supervisory techniques, exchanging experience and improving, adjusting and harmonising relevant regulations.

Table 3.6 Comparison of the number of cases relating to licensing procedures with respect to the operation of investment fund management companies in 2012 with that in 2013

Licensing procedures	2012	2013
Withdrawn authorisations from management companies	3	1
Authorisation for establishment and operation of the fund	0	3
Approval for selection of a depository bank	0	5
Approval for change of the depository bank	4	3
Winding up	1	4
Merger / acquisition	4	8
Approval to management board members	18	15
Approval of the prospectus and amended prospectus	28	23
Approval of the statute and amended statute	9	7
Marketing communications	3	3
Approval of the ordinance on conflicts of interest	2	1
Approval for delegation of tasks to third parties	3	3
Approval for fund rules		53
Approval for acquisition of a qualifying holding in the management company	0	1

Source: Hanfa

3.3.3 Supervision

Within the framework of its regular activities, Hanfa carries out on-going on-site and off-site supervision of investment fund management companies.

In 2013, the focus of supervisory activities was on off-site examinations, whose aim was to verify the process of alignment of investment fund management companies with the provisions of ZOIFJP and ZAIF and regulations adopted under these two acts, which entered into force on 1 July 2013.

Off-site supervision of investment funds involves collection of daily, periodical and annual reports on investment funds' business operations, annual financial statements of investment fund management companies and investment funds audited by an independent certified auditor, and financial and supervisory interim reports. It also implies collection of other information relevant for business operations of investment fund management companies and investment funds. These reports are then analysed with the aim of verifying whether supervised entities carry out their business operations in line with the provisions of the Investment Funds Act, ZOIFJP, ZAIF and subordinate regulations adopted under these acts, in line with other acts and risk management rules, and in line with their own rules and standards prescribed by the statute and prospectus, and rules of profession, in the manner which ensures orderly business conduct and implementation of measures and activities aimed at eliminating established violations and irregularities, paying special attention to compliance with ZOIFJP and ZAIF and accompanying subordinate regulations. Therefore, the 2013 off-site supervision covered verification of compliance with investment limitations, qualitative and quantitative risk assessment, calculation of net asset value per unit, disclosure of information in financial statements, alignment of accounting policies with legal provisions, publication of information relevant to investors on web sites and in monthly reports, and the alignment of prospectuses with the provisions of ZOIFJP and ZAIF.

In 2013, a total of 39 reports were drawn up on irregularities and violations established during off-site examinations of investment fund management companies. After a serious breach of legal provisions had been established and recorded in supervisory reports relating to several companies, Hanfa issued six decisions ordering elimination of such irregularities and violations. Other supervisory reports contained warnings for supervised entities with respect to their failure to align with certain legal provisions. Upon the receipt of the reports, the said irregularities were eliminated.

On-site supervision of management companies and their investment funds is carried out pursuant to the provisions of ZOIFJP[42] and ZAIF, and with the Capital Market Act for companies carrying out activities relating to investment advice and portfolio management. This involves examination of institutional acts of investment fund management companies and investment funds, decision making process regarding investments, accounting activities and preparation of financial statements of management companies and investment funds, trading and settlement operations, internal procedures and policies, organisation of activities related to investment fund management, and organisational structure of management companies and of persons related to management companies and investment funds.

In addition, on-site examination of management companies providing services and performing activities relating to investment advice and portfolio management pursuant to the Capital Market Act includes inspection of their compliance with general organisational requirements and business conduct requirements during the provision of services to clients in line with the said act and accompanying subordinate regulations. As opposed to off-site examinations, on-site examinations imply visits to supervised entities' premises by Hanfa's employees, where they have a direct access in business documentation and conduct interviews with relevant management company staff to determine whether all day-to-day business processes within the management company are carried out in line with internal procedures.

In 2013, Hanfa completed three full-scope on-site examinations of management companies initiated in 2012, and adopted two decisions aimed at eliminating violations and irregularities established. Pursuant to the Act on the Fund for Croatian Homeland War Veterans and Members of their Families (Official Gazette 163/03, 82/04 and 41/08), it carried out a full-scope on-site examination of the Fund for Croatian Homeland War Veterans and Members of their Families. Due to the fact that new ZOIFJP and ZAIF entered into force on 1 July 2013, with the alignment period lasting until 1 July 2014, this period is to be used by investment fund management companies to comply with the new legal framework. Therefore, more intense on-site supervision of investment fund management companies is planned for the year 2014.

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42 Until 1 June 2013, Investment Funds Act

3.3.4 Cooperation with ESMA

Within the framework of its regular activities, Hanfa continuously cooperates and exchanges information with ESMA, thus having actively participated in the previous year in discussions aimed at improving efficiency of supervision of UCITS and AIFs. The cooperation takes place through the Board of Supervisors, standing committees and working groups, with Hanfa's employees participating in the Investment Management Standing Committee (IMSC). This committee elaborates advice to the European Commission and prepares technical standards and guidelines and recommendations related to Directive 2009/65/EU and Directive 2011/61/EU and provides guidelines regarding implementation of directives which regulate UCITS and AIFs. Hanfa's participation in this committee involves provision of analyses and comments on documentation delivered.

Pension Funds and Pension Insurance Companies

4 Pension Funds and Pension Insurance Companies

4.1 Description of the Market

The pension reform in the Republic of Croatia was initiated in 1999 with the aim of creating personal assets as the basis for the payment of future retired persons' pensions. This was due to unfavourable demographic trends and the government's inability to finance future pensions from the State Budget. Pension systems based on intergenerational solidarity in which the current employees finance pensions of the current retired persons are not capable of coping with a decreasing number of persons paying in their contributions and an increasing number of persons receiving pensions.

Pension funds, which make Pillar 2 and Pillar 3 of the pension insurance system, are funds of a special type, i.e. they are separate assets with no legal personality, established for the purpose of raising funds through contributions of fund members, and investing those funds with the aim of increasing the value of the fund and ensuring payment of pensions to fund members. At the moment of retirement, pension fund members withdraw funds from their personal accounts managed by the Central Registry of Insured Persons (REGOS), and transfer them to one of the registered pension insurance companies, which will provide them with pensions, calculated on the basis of actuarial assumptions and on the amount of funds transferred.

The pension system of the Republic of Croatia is established as a three-pillar system. Pillar 1 is a mandatory pillar, based on intergenerational solidarity system and falls within the scope of competence of the Croatian Pension Insurance Institute. Pension insurance based on individual capitalised savings is comprised of Pillar 2 (mandatory) and Pillar 3 (voluntary). Pillar 2 is mandatory for any person under 40 years of age at the moment of becoming a mandatory pension scheme member pursuant to the Pension Insurance Act (Official Gazette 157/13), whereas membership of Pillar 3 depends on insured persons' intention to invest in their future pensions. Pillars 2 and 3 are supervised by Hanfa in accordance with the Mandatory and Voluntary Pension Funds Act.

Pension funds are managed by pension fund management companies, and pension fund assets are kept in a separate account with the custodian bank chosen by the management company. Assets of pension funds cannot be used in the execution procedure based on liabilities of the custodian bank, nor can they be a part of the custodian bank's bankruptcy estate.

4.1.1 Mandatory Pension Funds

Every insured person may select their mandatory pension fund within three months after becoming a mandatory pension scheme member. The selection can be made at a REGOS counter operating at the Financial Agency (FINA), after they have presented any of their identification documents containing their picture and their taxpayer identifying number. If a person fails to make this selection, REGOS will allocate them, in line with its powers and with the Ordinance on the manner of allocating insured persons to mandatory pension funds and informing them of the allocation (Official Gazette 118/01 and 145/12) to one of the mandatory pension funds.

Until the moment of allocation, contributions received are kept in an interim account with REGOS and still belong to the insured person. In 2013, only 2,869 out of the total of 53,825 persons selected a fund themselves, and almost 95% of new pension fund members were allocated by REGOS, which points to a low participation of insured persons in the selection of a pension fund which will manage their assets and to a lack of care for their own pensions.

Table 4.1 Mandatory pension fund (OMF) membership

Mandatory pension fund	AZ OMF	Erste Plavi OMF	PBZ CO OMF	Raiffeisen OMF	Total
Balance as at 31 Dec 2012	**594,409**	**254,619**	**294,561**	**509,213**	**1,652,802**
First registrations	306	213	334	251	1,104
Subsequently completed registrations	467	370	663	265	1,765
Allocation by REGOS	18,327	7,854	9,085	15,690	50,956
Total number of new members	**19,100**	**8,437**	**10,082**	**16,206**	**53,825**
Transfers to another OMF	90	60	159	163	472
Transfers from other OMFs	188	182	34	68	472
Net change	**98**	**122**	**-125**	**-95**	**0**
Total termination of membership	**1,495**	**613**	**847**	**1,454**	**4,409**
Balance as at 31 Dec 2013	**612,112**	**262,565**	**303,671**	**523,870**	**1,702,218**
Annual change	**2.98%**	**3.12%**	**3.09%**	**2.88%**	**2.99%**

Source: REGOS

Pursuant to the Contributions Act (Official Gazette 84/08, 152/08, 94/09, 18/11, 22/12, 144/12 and 148/13), contributions within the framework of mandatory pensions insurance based on individual capitalised savings total 5% of the employee's gross salary. This amount is paid by the employer into the interim account held at REGOS. REGOS processes and verifies the payment, and after deducting the entry fee, forwards the funds from the interim account to the personal account of the employee in his mandatory pension fund. The pension company invests those funds in capital markets in various types of financial assets and generates return solely in the interest of the pension fund member.

A mandatory pension company may manage only one mandatory pension fund. In 2013, there were four mandatory pension companies managing four mandatory pension funds, their number not having changed compared to the previous year:

- AZ obvezni mirovinski fond managed by Allianz ZB d.o.o. društvo za upravljanje obveznim mirovinskim fondom
- Erste Plavi obvezni mirovinski fond managed by Erste d.o.o. društvo za upravljanje obveznim mirovinskim fondom
- PBZ Croatia osiguranje obvezni mirovinski fond managed by PBZ Croatia osiguranje d.d. za upravljanje obveznim mirovinskim fondom and
- Raiffeisen obvezni mirovinski fond managed by Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.d.

Two pension companies were directly owned by foreign financial institutions, one was in indirect foreign ownership, while one had equal shares of foreign and domestic ownership.

Assets of Mandatory Pension Funds

Table 4.2 Net assets of mandatory pension funds as at 31 December 2012 and 31 December 2013 (in HRK thousand)

	31 Dec 2012	31 Dec 2013	Absolute change	Percentage change
AZ OMF	20,539,030	23,302,721	2,763,690	13.46%
Erste Plavi OMF	6,853,093	7,826,152	973,058	14.20%
PBZ/CO OMF	8,353,032	9,625,687	1,272,655	15.24%
Raiffeisen OMF	15,388,570	17,483,144	2,094,574	13.61%
Total	**51,133,725**	**58,237,703**	**7,103,978**	**13.89%**

Source: Hanfa

As at 31 December 2013, net assets of mandatory pension funds amounted to HRK 58.2bn, increasing by 13.89% or HRK 7.1bn in comparison to the previous year. The total increase was the result of a rise in contributions in the amount of HRK 5.01bn, while the rest was due to generated returns. The largest market share in net assets was reported by AZ obvezni mirovinski fond (40.01%), followed by Raiffeisen obvezni mirovinski fond (30.02%), PBZ Croatia osiguranje obvezni mirovinski fond (16.53%) and Erste obvezni mirovinski fond (13.44%).

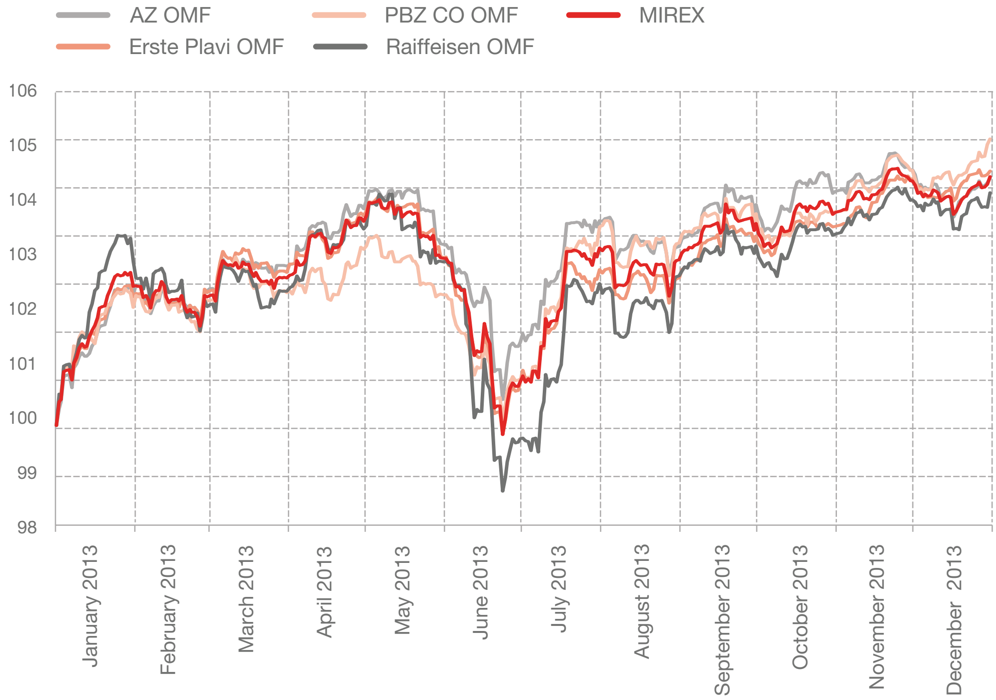
Table 4.3 Payment of contributions to mandatory pension funds in 2013 (in HRK thousand)

Mandatory pension fund	AZ OMF	Erste Plavi OMF	PBZ CO OMF	Raiffeisen OMF	Total
Net contributions	1,928,394	681,830	885,787	1,519,124	5,015,136
Payments form other OMFs	9,952	7,338	691	3,358	21,339
Disbursements to other OMFs	3,454	2,271	8,731	6,677	21,132
Disbursments of funds upon adjustments	2,380	937	1,083	1,972	6,372
Disbursements of funds upon the closure of personal accounts	99,479	35,057	51,719	82,964	269,220

Source: REGOS

In 2013, mandatory pension funds achieved rates of return ranging from 4.2% to 5.1%, while the rate of return of the MIREX index, which represents the average weighted value of accounting units of all mandatory pension funds, stood at 4.5%. The rates of return were lower when compared to the previous year, as the result of lower interest rates on deposits and lower rates of return on investments in debt securities.

Chart 4.1 Values of accounting units and the MIREX index in 2013



Source: Hanfa

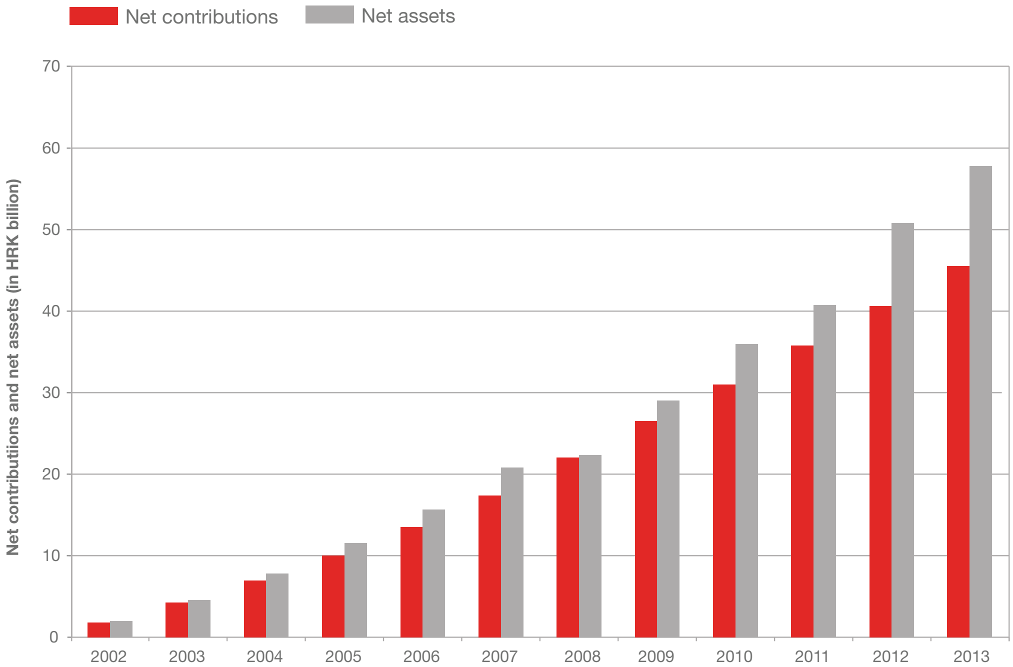
Table 4.4 Values of accounting units and rates of return of mandatory pension funds

Mandatory pension fund	Value of accounting units		Mandatory pension funds' rates of return	
	31 Dec 2012	31 Dec 2013	2013	Annualised rates of return since the beginning of operation
AZ OMF	181.1034	189.1238	4.43%	5.61%
Erste Plavi OMF	182.5308	190.8593	4.56%	5.69%
PBZ/CO OMF	162.0964	170.4323	5.14%	4.67%
Raiffeisen OMF	176.6198	184.0084	4.18%	5.36%
MIREX	176.8405	184.7320	4.46%	5.40%

Source: Hanfa

Due to a continuous increase in the number of pension fund members and in the amount of payments into mandatory pension funds, net assets continue to grow year after year, being larger than the sum of total payments due to the generated return.

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



Source: Hanfa

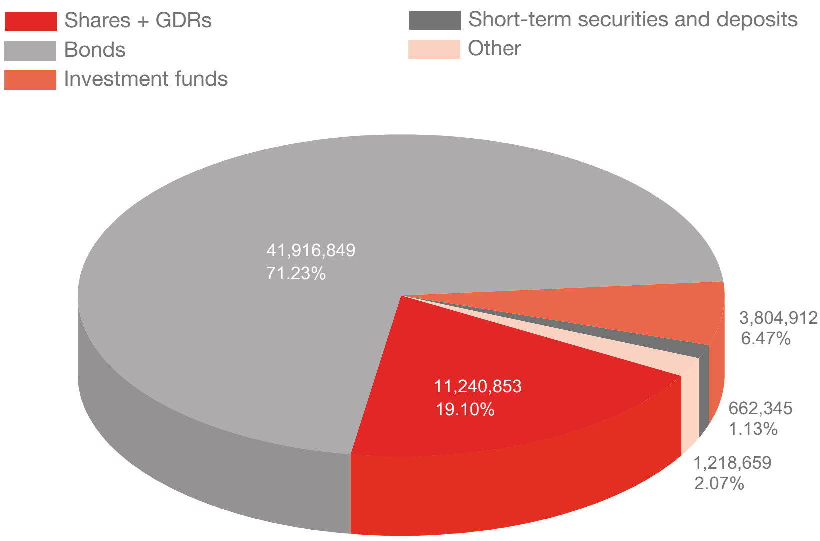
In order to ensure greater safety and protection of mandatory pension fund members' assets, the Mandatory and Voluntary Pension Funds Act (Official Gazette 49/99, 63/00, 103/03, 177/04, 71/07, 124/10, 14/11 and 51/20, hereinafter: ZODMF) provides for a guaranteed return and guarantee deposit. In January each year, Hanfa calculates the guaranteed return for the preceding calendar year and adopts a decision on its level. The guaranteed rate of return of mandatory pension funds equals the reference rate of return, calculated as the weighted arithmetic mean of average annual rates of return for all mandatory pension funds, for the period of the three preceding calendar years, reduced by six percentage points. Should the annual rate of return of a mandatory pension fund be lower than the guaranteed rate of return over three years, which has not happened so far, the pension company would be obliged to pay the balance up to guaranteed return into the pension fund using the guarantee deposit and funds of the pension company. In the first quarter of every year, the guarantee deposit is aligned with the consumer price index of the Croatian Bureau of Statistics, pursuant to the decision adopted by Hanfa. These assets cannot be used in the execution procedure, nor are they included in the custodian bank's bankruptcy estate.

The guarantee deposit is an amount kept in a special account opened with the custodian bank, in which a pension company is obliged to hold HRK 1m for each increment of 10,000 members above 50,000 members of a mandatory pension fund.

As at 31 December 2013, the required guarantee deposit amounted to HRK 72.6m for AZ obvezni mirovinski fond, HRK 25.8m for Erste Plavi obvezni mirovinski fond, HRK 31.5m for PBZ Croatia osiguranje obvezni mirovinski fond, and HRK 60.8m for Raiffeisen obvezni mirovinski fond.

Mandatory pension companies are obliged to invest mandatory pension fund assets in securities and money market instruments as permitted by the ZODMF, taking into account the prescribed investment limitations and ensuring the quality and profitability of the entire portfolio, while maintaining an adequate liquidity level and mitigating risks. At the end of 2013, pension fund assets were mostly invested in the domestic market (71.01% of total assets), primarily in domestic government bonds, whereas foreign investments were mostly made in shares and investment funds.

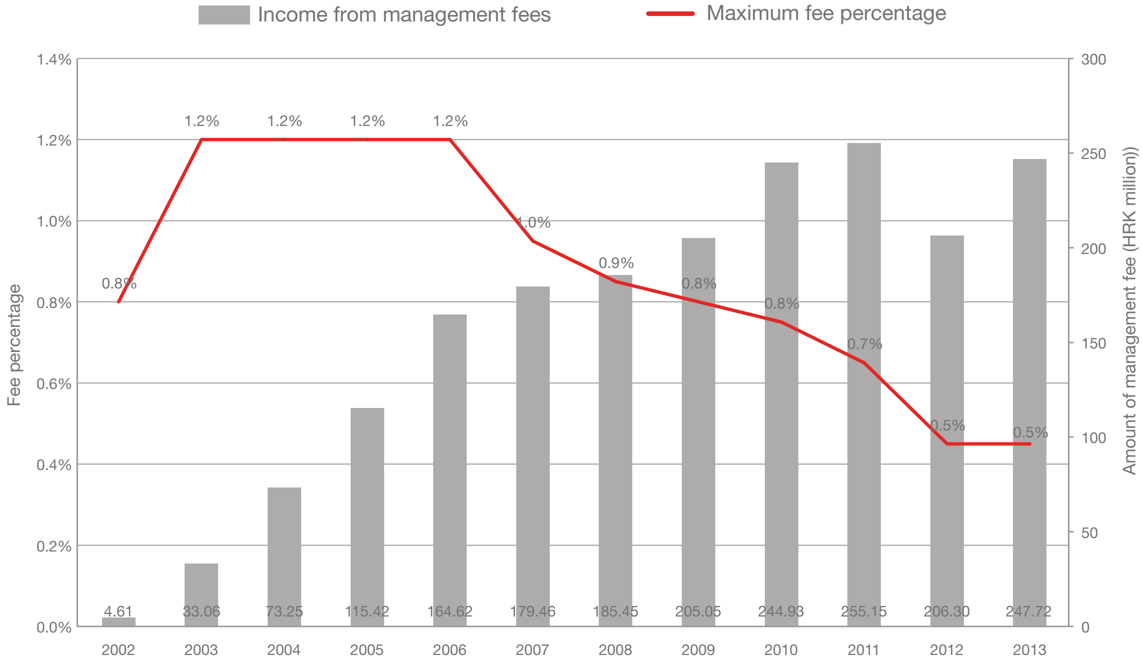
Chart 4.3 Investment structure of mandatory pension funds (in HRK thousand)



Source: Hanfa

In 2013, mandatory pension companies recorded a profit after tax in the amount of HRK 132.1m, which is an 18.5% growth compared to 2012. This was mostly due to an increase in income from management fees, which grew by HRK 41.4m or 20.1%. The highest level of this fee was set at 0.45% by the Decision on the maximum percentage of the management fee charged by mandatory pension companies for 2013, adopted by Hanfa. This decision was in line with the Draft Mandatory Pension Fund Act, which will define the calculation of the management fee after its entry into force. At the moment of adoption of the decision on the maximum percentage of the management fee, this act was undergoing the adoption procedure and was expected to enter into force in 2013, which is why Hanfa did not change the prescribed amount of the fee. In 2013, mandatory pension companies reported unrealised losses on financial assets available for sale (HRK -0.9m), while in 2012 they recorded unrealised profit from financial assets available for sale (HRK 4.8m), which had an impact on their comprehensive income.

Chart 4.4 Mandatory pension companies' management fees



Source: Hanfa

Profitability of own funds or return on equity (ROE) is a ratio of after-tax profit or loss of the accounting period to equity. In 2013, mandatory pension companies reported ROE ranging from 16.3% to 39.0%, with the profitability varying depending on the asset size of the mandatory pension fund managed by each company: with high fixed management costs, larger assets under management lead to a higher profitability of mandatory pension companies.

Profitability of assets or return on assets (ROA) represents a ratio of after-tax profit or loss of the accounting period to total assets. In 2013, mandatory pension companies' ROA ranged from 15.3% to 36.4%.

4.1.2 Mandatory Pension Funds

A voluntary pension fund may be of an open-ended type, with its membership being open to any citizen of the Republic of Croatia, or of a closed-ended type, with its membership consisting of persons employed with an employer acting as a sponsor of the pension fund, or members of trade unions, or members of associations of self-employed persons acting as sponsors of the pension fund. Voluntary pension funds provide pension insurance on a voluntary basis, based on individual capitalised savings in accordance with ZODMF, statute and the prospectus of the fund.

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

In 2013, there were six open-ended voluntary pension funds (hereinafter: ODMF) and 17 closed-ended voluntary pension funds (hereinafter: ZDMF), which were managed by four voluntary pension companies. Compared to the previous year, the number of ODMFs remained unchanged, while the number of ZDMFs decreased by one, as ZDMF Sindikat pomoraca Hrvatske was merged with another ZDMF.

There were 13,552 ODMF fund members more in 2013 than in the previous year, but gross contributions declined by HRK 10m.

Table 4.5 Open-ended voluntary pension fund membership

Fund	31 Dec 2012	31 Dec 2013	Change
AZ Benefit ODMF	22,178	23,397	1,219
AZ Profit ODMF	73,517	80,055	6,538
Croatia osiguranje ODMF	18,576	19,763	1,187
Erste Plavi Expert ODMF	17,010	17,403	393
Erste Plavi Protect ODMF	11,512	13,921	2,409
Raiffeisen ODMF	48,201	50,007	1,806
Total	**190,994**	**204,546**	**13,552**

Source: Hanfa

Table 4.6 Gross contributions of members of open-ended voluntary pension funds (in HRK thousand)

Fund	Gross contributions in 2012	Gross contributions in 2013	Change in %
AZ Benefit ODMF	41,001	41,245	0.60%
AZ Profit ODMF	114,491	120,580	5.32%
Croatia osiguranje ODMF	19,091	19,939	4.44%
Erste Plavi Expert ODMF	17,998	17,404	-3.30%
Erste Plavi Protect ODMF	14,309	18,557	29.69%
Raiffeisen ODMF	75,768	74,333	-1.89%
Total	**282,658**	**292,058**	**3.33%**

Source: Hanfa

As at 31 December 2013, net assets of ODMFs amounted to HRK 2.2bn, or to an average of HRK 10.8 thousand per ODMF member. An 11.1% growth in comparison with the previous year was a result of contributions paid in and of the realised return. Each ODMF had a positive rate of return in 2013, ranging from 2.0% to 4.9%. At the end of 2013, 88.0% of ODMF assets were invested in domestic securities and deposits, while foreign investments were mostly made in shares and investment funds.

Table 4.7 Net assets of ODMFs as at 31 December 2012 and 31 December 2013 (in HRK thousand)

Fund	31 Dec 2012	31 Dec 2013	Absolute change	Percentage change
AZ Benefit ODMF	178,858	202,061	23,203	12.97%
AZ Profit ODMF	830,130	928,887	98,757	11.90%
Croatia osiguranje ODMF	128,629	141,654	13,025	10.13%
Erste Plavi Expert ODMF	129,009	142,961	13,952	10.81%
Erste Plavi Protect ODMF	59,715	72,966	13,252	22.19%
Reiffeisen ODMF	661,075	719,588	58,512	8.85%
Total	**1,987,416**	**2,208,116**	**220,700**	**11.10%**

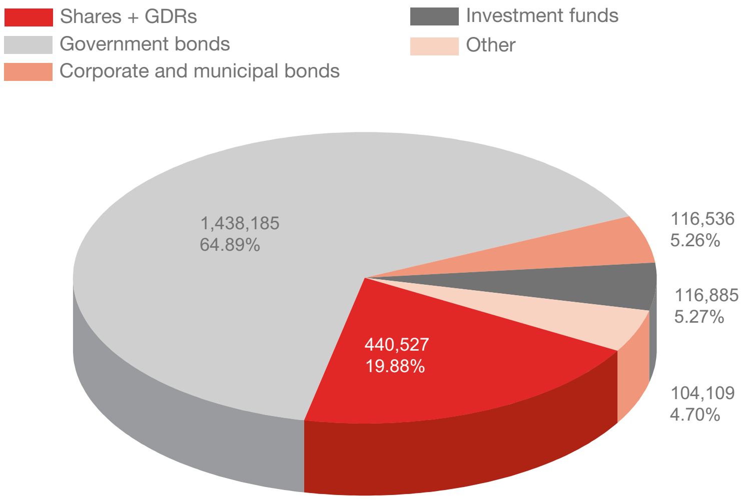
Source: Hanfa

Table 4.8 Rates of return of ODMFs

Fund		Rates of return of ODMFs	
	Beginning of operation	2013	Annualised rates of return since the beginning of operation
AZ Benefit ODMF	3 December 2003	1.95%	6.99%
AZ Profit ODMF	29 September 2003	2.11%	7.85%
Croatia osiguranje ODMF	29 October 2003	3.07%	3.01%
Erste Plavi Expert ODMF	14 March 2005	3.37%	5.38%
Erste Plavi Protect ODMF	14 March 2005	2.78%	5.65%
Reiffeisen ODMF	6 August 2002	4.85%	5.09%

Source: Hanfa

Chart 4.5 Investment structure of ODMFs in 2013 (HRK thousand)



Source: Hanfa

At 31 December 2013, net assets of closed-ended voluntary pension funds (ZDMFs) amounted to HRK 494.6m, or to an average of HRK 21.8 thousand per ZDMF member. Each ZDMF recorded a positive rate of return in 2013, ranging from 2.0% to 5.2%.

Table 4.9 Main indicators for ZDMFs

Data	31 Dec 2012	31 Dec 2013
Total membership of ZDMFs	23,146	22,685
Total contributions to ZDMFs (in HRK thousand)	94,701	82,535
Total assets of ZDMFs (in HRK thousand)	441,855	494,615

Source: Hanfa

Table 4.10 Values of accounting units and rates of return of ZDMFs

Voluntary pension company	Closed-ended voluntary pension fund	Value of accounting units		ZDMF rates of return	
		31 Dec 2012	31 Dec 2013	2013	Annualised rates of return since the beginning of operation
Allianz ZB d.o.o. društvo za upravljanje DMF-ovima	AZ Auto Hrvatska ZDMF	117.4696	122.9069	4.63%	10.82%
	AZ Dalekovod ZDMF	203.8066	209.7900	2.94%	8.53%
	AZ Hrvatska kontrola zračne plovidbe ZDMF	198.6903	203.9497	2.65%	8.43%
	AZ VIP ZDMF	214.0858	220.1872	2.85%	8.37%
	AZ ZABA ZDMF	99.6778	104.6928	5.03%	3.75%
	AZ Zagreb ZDMF	155.6397	160.6549	3.22%	9.49%
Croatia osiguranje MD za upravljanje DMF-om d.o.o.	CROATIA OSIGURANJE ZDMF	115.2766	118.7174	2.98%	2.09%
	ZDMF AUTOCESTA RIJEKA - ZAGREB	105.2653	108.4997	3.07%	5.29%
	ZDMF HAC	131.5019	135.3446	2.92%	5.57%
	ZDMF HEP grupe	121.0330	125.2718	3.50%	2.99%
Erste DMD d.o.o. za upravljanje DMF-om	Cestarski ZDMF	138.4313	143.1188	3.39%	7.42%
Raiffeisen MD za upravljanje DMF-ovima d.o.o.	ZDMF Ericsson Nikola Tesla	176.8099	185.9289	5.16%	7.25%
	ZDMF Hrvatskog liječničkog sindikata	190.6795	198.0082	3.84%	7.45%
	ZDMF Novinar	162.8857	170.7738	4.84%	6.73%
	ZDMF Sindikata hrvatskih željezničara	135.3212	138.0225	2.00%	5.40%
	ZDMF T-HT	153.0812	160.7350	5.00%	6.98%

Source: Hanfa

After-tax profit recorded by voluntary pension companies in 2013 reached HRK 20.8m, growing by 45.6% relative to 2012. This increase was mostly due to a rise in income from management fees, which grew by 17.7% or HRK 6.7m as a result of an increase in assets under management.

Out of four pension fund companies, one was directly foreign owned, two were indirectly owned by foreign financial institutions, while one company was in domestic ownership. The number of voluntary pension companies remained unchanged relative to 2012.

4.1.3 Pension Insurance Companies

Since the entry into force of the Act on Pension Insurance Companies and Payment of Pension Annuities Based on Individual Capitalised Savings (Official Gazette 106/99, 63/00, 107/07 and 114/11, hereinafter: Act on Pension Insurance Companies) there has been only one pension insurance company operating in the Republic of Croatia, namely Raiffeisen mirovinsko osiguravajuće društvo (hereinafter: RMOD). RMOD was founded in 2002, and it started paying out the first retirement benefits in 2003.

According to the statement of financial position as at 31 December 2013, total assets of RMOD amounted to HRK 332.1m, growing by HRK 64.8m compared to the previous year. This increase was primarily due to a growth in total investments, which accounted for 93.5% of total assets and which rose by HRK 62.8m in comparison to the previous year. Technical provisions stood at HRK 279.8m making up 84.3% of total liabilities.

As at 31 December 2013, technical provisions of voluntary pension insurance reached HRK 267.6m. Capital and reserves declined relative to 2012 due to a fall in revaluation reserves of financial investments. Technical provisions of mandatory pension insurance amounted to HRK 12.2m, with the assets for their coverage rising by HRK 2.3m and totalling HRK 14.5m. Assets covering technical provisions of voluntary pension insurance reached HRK 288.7m, being by HRK 21.1m larger than total technical provisions, which amounted to HRK 267.6m.

At the end of 2013, the Act on Lifelong Severance Payment or Supplementary Pension Purchase (Official Gazette 153/13) entered into force, regulating supplementary pension purchase and establishment and activities of companies performing these activities. According to the provisions of this act, supplementary pension purchase is defined as severance payment made to workers due to their retirement, as part of lifelong pension regulated by the Pension Insurance Act that a person would have right to had he or she attained a particular age and/or had certain past service; that is paid by employers for their employees at their retirement age, and that is defined and paid in monthly instalments as purchased supplementary pension. The supplementary pension purchase company is a company providing advice to social partners, mediating during the payment procedure by providing supplementary purchased pensions, managing raised assets, and performing other related activities.

Upon acquisition of pension rights, pension fund members conclude a contract with the selected pension insurance company, and their capitalised savings are transferred from the pension fund (mandatory or voluntary) to the pension insurance company, which provides them with pension payments. Mandatory pension fund members receive lifelong pension payments in line with the transferred savings. Members of voluntary pension funds (both open-ended and closed-ended) receive lifelong or temporary retirement benefits from the pension insurance company in accordance with the provisions of their contracts, which differ depending on the pension scheme chosen by members among the schemes available on the market. In accordance with legal provisions, the pension insurance company provides Hanfa with data on proposed unit amounts of pensions and payments guaranteed to defined beneficiaries. The unit amounts of pensions and guaranteed payments may differ only depending on pension type and category, adjustment method, age of beneficiaries and duration of the guarantee period. Unit amounts of pensions apply equally to all persons intending to conclude a pension contract. Within the voluntary pension insurance scheme, unit amounts of pensions and guaranteed payments may also differ depending on the gender of beneficiaries and duration of temporary pension. Pursuant to legal provisions, the pension insurance company submits to Hanfa a copy of the standardised form of the contract, at least one month prior to usage of the form. Within one month after the reception of the standardised form, Hanfa may notify its objections to the pension insurance company in the case where the form is either misleading for potential pension beneficiaries or is not compliant with the conditions laid down by the said legal provisions. The pension insurance company is obliged to comply with Hanfa's objections; otherwise, the contract is considered to be void.

Table 4.11 Statement of financial position of RMOD as at 31 December 2012 and 31 December 2013 (in HRK thousand)

No.	Item	31 Dec 2012	31 Dec 2013	Index 2013/2012
Assets				
1	Receivables for subscribed capital unpaid	0	0	-
2	Intangible assets	0	0	-
3	Tangible assets	69,935	51,110	73.08
4	Investments	247,677,055	310,441,821	125.34
5	Share of reinsurance in technical provisions	0	0	-
6	Deferred and curent tax assets	428,312	227,859	53.20
7	Receivables	5,365	457,711	8531.22
8	Other assets	14,015,435	14,461,148	103.18
9	Prepayments and accrued income	5,123,119	6,471,668	126.32
	Total assets	**267,319,221**	**332,111,317**	**124.24**
Liabilities				
10	Capital and reserves	31,127,345	29,202,853	93.82
11	Minority interest	0	0	-
12	Technical provisions	220,467,900	279,812,633	126.92
13	Other provisions - reservations	0	0	-
14	Non-insurance-technical provisions - reservations	0	0	-
15	Financial liabilities	0	0	-

No.	Item	31 Dec 2012	31 Dec 2013	Index 2013/2012
16	Deffered and current tax liabilities	6,686	0	-
17	Other liabilities	393,175	3,010,283	765.63
18	Accruals and deferred income	15,324,115	20,085,547	131.07
	Total liabilities	**267,319,221**	**332,111,317**	**124.24**

Source: Hanfa

In the period from 1 January 2013 to 31 December 2013, RMOD recorded a total income reaching HRK 178.3m, which is a HRK 43.0m increase relative to 2012. This was due to a rise in payments of pension companies, direct lump sum payments under voluntary pension insurance and income from voluntary insurance investments. The largest share in the income structure (81.9% or HRK 145.9m) was made up of income from payments of pension companies and direct lump sum payments under voluntary pension insurance.

Total expenses amounted to HRK 174.9m, growing by HRK 42.4m in comparison with 2012. The largest share of expenses (HRK 159.5m or 91.2%) was accounted for by expenses on voluntary pension scheme contracts, out of which HRK 96.6m was made up of payments under voluntary pension insurance, and HRK 62.9m related to a change in technical provisions. Expenses arising from mandatory pension scheme contracts rose by HRK 36.1m in comparison with 2012, when they reached HRK 123.4m, or 93.1% of total expenses.

Expenses arising from mandatory pension scheme contracts, totalling HRK 2.7m, made up only 1.5% of total expenses, while in 2012 they accounted for 2.3% of total expenses. It is important to point out that a continuous decline in this item is a result of the transfer of the majority of persons insured within Pillar 2 to the intergenerational solidarity system; therefore these figures will rise again once the persons who were obliged to join Pension Pillar 2 start exercising their right to retirement benefits.

RMOD recorded a pre-tax profit of the accounting period reaching HRK 3.4m, and an after-tax profit of the accounting period totalling HRK 2.7m.

Table 4.12 Statement of comprehensive income of RMOD for 2012 and 2013

No.	Item	2012	2013	Index 2013/2012
1	Income from payments of pension companies and lump sum payments - mandatory pension insurance	2,354,455	2,014,287	85.55
2	Income from payments of pension companies and lump sum payments - voluntary pension insurance	112,115,637	145,937,491	130.17
3	Income from investments - mandatory pension insurance	677,955	842,153	124.22
4	Income from investments - voluntary pension insurance	14,192,907	22,899,637	161.35
5	Income from investments - RMOD business operations	800,046	539,687	67.46

No.	Item	2012	2013	Index 2013/2012
6	Income from fees and commissions	5,025,227	5,985,583	119.11
7	Other income	150,522	71,377	47.42
	Total income	**135,316,749**	**178,290,215**	**131.76**
8	Expenses arising from pension contracts - mandatory pension insurance	-2,995,227	-2,709,966	90.48
9	Expenses arising from pension contracts - voluntary pension insurance	-123,388,811	-159,486,371	129.26
10	Operating expenses	-3,426,910	-3,601,750	105.10
11	Investment expenses - mandatory pension insurance	-35,238	-143,724	407.87
12	Investment expenses - voluntary pension insurance	-2,680,032	-8,995,502	335.65
13	Investment expenses - RMOD business operations	-22	0	0.00
	Total expenses	**-132,526,240**	**-174,937,313**	**132.00**
14	Pre-tax profit or loss of the accounting period	2,790,509	3,352,902	120.15
15	Profit tax	-556,499	-669,830	120.36
16	**After-tax profit or loss of the accounting period**	**2,234,011**	**2,683,072**	**120.10**

Source: Hanfa

As at 31 December 2013, the total number of pension contracts concluded amounted to 13,933, of which 13,874 contracts related to voluntary pension insurance (Pension Pillar 3), and 59 contracts to mandatory pension insurance (Pension Pillar 2). The total number of pension scheme beneficiaries amounted to 13,370, of which 99.6% or 13,311 persons were voluntary pension scheme beneficiaries, and only 59 persons were mandatory pension scheme beneficiaries.

The establishment and operation of pension insurance companies is regulated by the Act on Pension Insurance Companies, applicable since January 2000. This act also regulates payments of pensions, made by pension insurance companies, which provide retirement benefits under mandatory pension insurance scheme based on individual capitalised savings (Pension Pillar 2), as well as other pension benefits under voluntary pension insurance scheme based on individual capitalised savings (Pension Pillar 3).

In accordance with provisions of Article 22, paragraphs 1 and 2 of the Act on Amendments to the Act on Pension Insurance Companies and Payment of Pension Annuities Based on Individual Capitalised Savings (Official Gazette 107/07), a pension insurance company may not withhold more than 10% of the remittance made by the mandatory pension fund as a fee for covering the pension insurance company's costs. A decision on the maximum fee is adopted by Hanfa on an annual basis. Pursuant to the Decision on the maximum fee for covering costs of the pension insurance company in 2013 out of remittances made by the mandatory pension fund (Official Gazette 141/12), adopted by Hanfa in December 2012, the maximum fee for the year 2013 reached 5% of remittances made by the mandatory pension fund.

At the beginning of the pension system reform, mandatory pension insurance based on individual capitalised savings (Pension Pillar 2) was obligatory for insured persons under 40 years of age.

Persons between the ages of 40 and 50 were allowed to choose whether they wanted to remain within the intergenerational solidarity system or join Pension Pillar 2.

Article 103a paragraph 1 of the Amendments to the Act on Pension Insurance Companies (Official Gazette 114/11) allowed pension beneficiaries who voluntarily joined the mandatory pension insurance scheme based on individual capitalised savings to receive their pensions in the amount and manner as if they had been insured only within the mandatory pension insurance scheme based on intergenerational solidarity. In order to receive the pensions, the pension beneficiaries were obliged to submit an application for the calculation of pension under the said provision to the pension insurance company within 90 days from the entry into force of the Act on Amendments to the Act on Pension Insurance Companies. Therefore, every insured person having chosen Pension Pillar 2 at the beginning of the reform was allowed to exit this Pillar at the moment of retirement and to have their pensions calculated and paid out as if they had been part of the intergenerational solidarity system all the while.

The majority of such persons chose this option and entered the pension insurance system based on intergenerational solidarity within the legally prescribed period. The same category of insured persons already receiving their pensions was given an opportunity to request a recalculation and payment of the pension exclusively from the intergenerational solidarity system. According to reports submitted by RMOD on 30 September 2011 (prior to the entry into force of the Amendments to the Act on Pension Insurance Companies), there were 1,004 insured persons within the mandatory pension insurance system. This number decreased significantly as at 31 December 2011, when it totalled only 214. The number of insured persons within the mandatory pension insurance system continued to decline until the end of the 90-day period for submission of the application for the calculation of pension defined by the said legal provisions, reaching only 41 according to RMOD report for February 2012.

4.2 Hanfa’s Activities

4.2.1 Regulatory Activities

The Mandatory and Voluntary Pension Funds Act regulated the mandatory and voluntary pension insurance system based on individual capitalised savings on 1 January 2002, separating activities relating to the accumulation of capital intended for payment of future pensions to insured persons from activities relating to payment of pensions, governed by the Act on Pension Insurance Companies. Such pension system (Pension Pillars 2 and 3) relies on pension companies, which manage pension funds, and pension insurance companies, which make pension payments from mandatory and voluntary pension insurance system based on individual capitalised savings.

Developments observed in the pension insurance system based on individual capitalised savings and previous experience in the application of the Mandatory and Voluntary Pension Funds Act pointed to the need to separate the two existing systems of individual capitalised savings (mandatory and voluntary) by adopting two new, separate acts. As a result, for the purpose of improving the regulatory framework governing operation of pension companies and pension funds, and keeping in mind their crucial role in ensuring integration, efficiency and liquidity of financial markets, a decision was adopted to start drawing up two regulations governing the establishment and operation of pension companies that manage pension funds, namely the Mandatory Pension Funds Act (Official Gazette19/14) and the Voluntary Pension Funds Act (Official Gazette19/14), which entered into force at the beginning of 2014. The responsibility for the preparation of the acts was assigned to the Ministry of Labour and Pension System of the Republic of Croatia, whereas Hanfa played an important role in this process by actively participating in the working group for drafting proposals of the acts and by implementing proposals for the improvement of operation of pension funds and best practices of other supervisory authorities, taking account of specificities of the Croatian market.

4.2.1.1 Mandatory Pension Funds Act

Bearing in mind the importance and size of mandatory pension funds, which, along with credit institution, represent the largest institutional investors in Croatia, a decision was adopted to start drafting a specific legal framework, whose aim was to improve business operations of mandatory pension funds and companies that manage them and to enhance the individual capitalised savings system in order to ensure greater social security of the insured.

The Mandatory Pension Funds Act regulated the mandatory pension insurance system based on individual capitalised savings with respect to the accumulation of mandatory pension contributions, as well as terms and conditions for the establishment and operation of mandatory pension funds and pension fund management companies, from the amount of initial capital, prescribed company bodies, and diversification of asset investments to the manner of transferring money from personal accounts of insured persons in the process of exercising right to retirement in the pension insurance company. It also enhanced general organisational requirements and operating conditions of pension companies, including their internal control mechanisms, internal reporting procedures, business records and internal organisation. It laid down the obligation for a pension company to establish, within its organisational structure, organisational units responsible for risk management, legal support and compliance, internal audit, asset management and financial market analysis, and administrative and accounting support. The act defined the accountability of management board members of a pension company, requirements that need to be met to obtain Hanfa's approval for the position of a board member, as well as cases in which Hanfa will refuse to issue approval for the position of a board member.

Subportfolios (A, B or C Funds), introduced by the said act, in which insured persons are allocated and which can be chosen by insured persons depending on the period of time remaining until old-age pension qualifying conditions are met, allow investments of assets of younger persons in riskier financial instruments with higher expected returns (A Fund). On the other hand, conservative investments (C Fund) are intended for persons not willing to take risks and persons having up to five years until the old-age pension. B Fund was tailored for the largest group of insured persons with an average risk preference and expected returns similar to those of the existing mandatory pension funds.

The Mandatory Pension Funds Act also regulated the work of REGOS as regards maintaining personal accounts of mandatory pension fund members and activities of Hanfa as a regulatory authority responsible for supervision and implementation of provisions of the act. It defined different supervisory measures and strict penalties for any violations of the act by pension companies, depositaries and auditors.

As opposed to the provisions of the Mandatory and Voluntary Pension Funds Act, the provisions of the Mandatory Pension Funds Act allow pension companies to establish and manage both mandatory and voluntary pension funds.

4.2.1.2 Voluntary Pension Funds Act

As a result of the need for the development of the voluntary pension insurance system based on individual capitalised savings for the purpose of ensuring on-going and efficient social security, and considering the importance of voluntary pension funds and their contribution both to the development of money and capital markets in the Republic of Croatia and to the development of the overall financial products and services market, the year 2013 was marked by intensive work related to the legislative reform of the existing system, resulting in the draft proposal of the Voluntary Pension Funds Act.

The adoption of the Voluntary Pension Funds Act ensured the alignment of this part of the Croatian legislation with the acquis communautaire. In addition, the act improved and provided a more detailed regulatory framework for the operation of voluntary pension funds, the establishment and operation of pension companies managing voluntary pension funds, delegation of tasks to third parties, as well as supervision of the operation of voluntary pension funds, pension companies managing voluntary pension funds and voluntary pension funds depositaries.

Pursuant to the Voluntary Pension Funds Act, pension companies' business activities comprise the establishment and management of open-ended or closed-ended pension funds, with companies managing closed-ended voluntary pension funds being allowed to carry out cross-border activities in other EU Member States, as laid down in Directive 2003/41 on the activities and supervision of institutions for occupational retirement provision.

The act imposed more stringent requirements on pension companies with respect to the amount of initial capital and capital maintenance, requirements to be satisfied by members (owners) of pension companies and members of their management and supervisory boards in terms of professional qualifications, skills, experience, reputation and other requirements needed for the position of board member. It also laid down more demanding requirements as regards the organisational system, with particular emphasis on decision-making processes and organisational structure, internal control mechanisms, internal reporting procedures, business and internal organisation records, the existence of all internal acts, policies and procedures for on-going professional training of employees, administrative and accounting procedures and practices, measures and procedures for the supervision and protection of IT and electronic data processing systems, measures and procedures ensuring the security, integrity and confidentiality of information, as well as policies, measures and procedures aimed at ensuring business continuity.

As opposed to the provisions of the Mandatory and Voluntary Pension Funds Act, the provisions of the Voluntary Pension Funds Act allow pension companies to establish and manage both voluntary pension funds and UCITS.

As regards fees charged by the custodian bank and mandatory pension company, in 2013 Hanfa adopted the Decision on the maximum percentage of the fee charged by the custodian bank for the year 2014 (Official Gazette 156/13), Decision on the maximum percentage of the fee charged by the mandatory pension company for the year 2014 (Official Gazette 156/13) (the fees not having changed in comparison with the previous year) and Decision on the guaranteed return of mandatory pension funds for the year 2012 (Official Gazette 15/13). It also adopted the Decision on the adequacy of the guarantee deposits for the year 2012 (Official Gazette 15/13).

4.2.1.3 Act on Pension Insurance Companies

In 2013, Hanfa participated in the preparation of the new Act on Pension Insurance Companies (Official Gazette 22/14), which regulates the establishment and operation of pension insurance companies, which make payments of pensions under mandatory and voluntary pension insurance schemes based on individual capitalised savings, pensions based on lump-sum payments made into the pension insurance company, mandatory and voluntary pension insurance schemes based on individual capitalised savings, pension schemes based on lump-sum payments made into the pension insurance company, pensions and their payment.

The act transposed several EU regulations into the legal system of the Republic of Croatia, namely Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision (OJ L 235, 23.9.2003), Article 4 of Directive 2010/78/EC of the European Parliament and of the Council of 24 November 2010 amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC in respect of the powers of the European Supervisory Authority (European Banking Authority), the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority) (OJ L 331, 15.12.2010), Article 303 of 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) (recast) (OJ L 335, 17.12.2009), Council Directive 88/361/EEC of 24 June 1988 for the implementation of Article 67 of the Treaty (OJ L 178, 7.8.1988), Council Directive 98/49/EC of 29 June 1998 on safeguarding supplementary pension rights of employed and self-employed persons moving within the Community (OJ L 209, 25.7.1998) Directive 2006/54/EC of the European Parliament and of the Council of 5 July 2006 on the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation (recast) (OJ L 204, 26.7.2006) and Directive 2010/41/EU of the European Parliament and of the Council of 7 July 2010 on the application of the principle of equal treatment between men and women engaged in an activity in a self-employed capacity and repealing Council Directive 86/613/EEC (OJ L180, 15.7.2010).

The new Act on Pension Insurance Companies also regulates, in more detail, the licensing procedure relating to the pension insurance company, members of the management and supervisory board and the founder or holder of a qualifying holding in the company, as well as the establishment of organisational structure with clear lines of responsibility and a precise definition of organisational requirements that, taking into account the nature, scope and complexity of business operations, need to be met by the pension insurance company with respect to the risk management system, internal audit, compliance function, actuarial function, conflict of interests, business continuity measures, outsourcing, remuneration policies, keeping and archiving of business documentation and adequate IT management. Special emphasis was placed on the definition of the risk management system, namely risk management strategies, policies, procedures and measures and risk measurement techniques. The act laid down the manner of funding companies, rules for conducting marketing activities, a detailed presentation of performance of the company and funds and duties and responsibilities of the depositary of pension funds, including the responsibilities of the pension insurance company in the case of poor or negative performance and a performance fee in the case of particularly good performance. The emphasis was also laid on investment principles for assets covering technical provisions, investment limitations and measures taken in the case of exceeded investment limitations.

4.2.2 Licensing

Licensing of investment and pension funds includes issuance and withdrawal of authorisations and approvals, drafting proposals of orders and measures for the elimination of illegalities and irregularities established in supervised entities' business operations and the implementation of other measures within the scope of Hanfa's competence for the purpose of aligning supervised entities' business operations with the legislation and subordinate legislation. In 2013, Hanfa's licensing activities included provision of support to Hanfa's supervisory activities, interpretation of regulations falling within the scope of Hanfa's competence and handling complaints and inquiries. Due to the accession of the Republic of Croatia to the European Union, special attention was paid to the analysis and implementation of EU regulations.

Table 4.13 Number of cases related to operation of pension companies and pension funds

Case type	2012	2013
Approval for the establishment and operation of a pension fund	2	0
Approval for the appointment of a management board member of a mandatory pension company	4	2
Approval for the appointment of a management board member of a voluntary pension company	4	0
Approval for the appointment of a supervisory board member of a mandatory pension company	3	6
Approval for the appointment of a supervisory board member of a voluntary pension company	3	4
Approval for the amendments to the statute of a mandatory pension fund	4	0
Approval for the amendments to the statute of a voluntary pension fund	4	4
Approval for the informative prospectus and amendments to the informative prospectus of a voluntary pension fund	4	5
Marketing of pension funds	33	30
Issuance/renewal of the licence to pension fund managers	13	6

Source: Hanfa

In addition, two licenses for authorised manager of the pension insurance company were renewed in 2013.

4.2.3 Supervision

In order to protect the interests of mandatory and voluntary pension fund members and verify the compliance of business operations of pension funds and mandatory and voluntary pension companies with the Mandatory and Voluntary Pension Funds Act and accompanying subordinate regulations, Hanfa carries out on-going off-site and on-site supervision.

Off-site supervision of pension funds involves processing of daily and periodic reports for the purpose of monitoring permitted investments, investment limitations and disclosure of asset valuation. This is followed by the analysis of the reports submitted and by the calculation of pension fund rates of return and of the MIREX index value on a daily basis, with the performance of pension companies and funds being analysed on a periodic basis. The reports used by Hanfa within its off-site examinations comprise calculations of net asset value (submitted on each valuation day by the custodian bank), annual business reports and annual financial statements of pension companies and pension funds audited by an independent certified auditor (submitted within four months after the end of the relevant financial year), interim financial statements and additional reports accompanying the financial statements and website publications.

In 2013, the focus of off-site supervisory activities was on valuation of assets in fund portfolios, the compliance with pension fund asset investment limitations defined by the Mandatory and

Voluntary Pension Funds Act and subordinate regulations, preparation of financial statements of pension companies and funds, publications made on pension companies' websites and the calculation of fees. Off-site supervision also included qualitative and quantitative assessment of risks pertaining to pension funds and pension companies' business operations, monitoring of changes in equity, number of fund members, adequacy of the guarantee deposit, potential liabilities for the payment of the guaranteed rate of return and the structure of and relationship between costs and revenues, and verification of the accuracy of fee calculations.

Due to irregularities and illegalities established, mostly related to asset valuation, Hanfa's employees drew up seven off-site supervisory reports and adopted five decisions ordering elimination of the said illegalities and irregularities. Following the receipt of the off-site supervisory reports, two companies eliminated their irregularities, after which there was no need for any further measures.

On the other hand, on-site examinations include verification of the compliance of the pension company employees' conduct with prescribed internal acts, implementation of investment decisions, compliance with provisions on permitted investments and investment limitations, membership of supervisory boards, accounting and preparation of financial statements of companies and funds. In addition, as opposed to off-site supervision, on-site examinations comprise visits to premises of the pensions company by Hanfa's employees, where they have a direct access to business records, carry out interviews with relevant persons of the pension company and determine whether daily business processes within the pension company take place in accordance with procedures described in internal procedures and good business practices.

On-site examinations comprise several parts, covering organisational structure and institutional characteristics of pension companies, organization of activities relating to fund asset management, investments of fund assets under management, management of risks companies and funds are exposed to, verification of the calculation of fund asset value, register of fund members, accounting records and financial reporting of pension companies and funds, and implementation of the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 25/12).

Hanfa carries out on-site examinations of pension companies and pension funds they manage on an annual basis. In 2013, it carried out a total of 14 on-site examinations of companies managing mandatory and voluntary pension funds, of which six were full-scope and eight were targeted on-site examinations.

Full-scope examinations of pension companies and pension funds carried out in 2013 focused on defining and improving pension companies' processes and procedures related to asset investments, and on the establishment and improvement of adequate risk management procedures and systems.

Supervisory findings showed deficiencies in internal procedures and processes in some companies, relating to investment decisions and to the preparation of analyses preceding investments and further analysis during the period of investment in certain assets. They were followed by conclusions and recommendations ordering companies to correct the deficiencies and improve their procedures and processes. Some companies failed to establish a comprehensive and efficient risk management system in accordance with the nature, scope and complexity of their business operations, and failed to provide adequate documentation of the risk management process or to identify all relevant risks they may be exposed to. Those companies were advised to revise their internal procedures governing investment decision making processes and to improve their investment decision making procedures and verification of their implementation. As regards risk management, the companies were recommended to set up a clear organisational structure and lines of responsibility relating to risk management system and to define, in accordance with their internal acts, a risk management strategy. Hanfa will continue, as part of its supervisory activities, to monitor and direct business operations of pension companies and to insist on the improvement of business processes relating to asset management, investments and management of risks arising from investments, but also relating to all other business areas.

Hanfa also carries out on-going supervision of the pension insurance company, based on financial statements and supplementary reports, actuarial assessments and reports submitted at Hanfa's request by RMOD, as defined by the Act on Pension Insurance Companies and the Ordinance on the structure and content of financial statements of pension insurance companies (Official Gazette 94/08).

4.2.4 Cooperation with EIOPA

Within the framework of its on-going activities, Hanfa continuously cooperates and exchanges information with EIOPA on business operations of Croatian pension funds. The cooperation takes place through employee participation in the work of the following committees:

- Occupational Pensions Committee (OPC), responsible for drafting technical standards in the context of the IORP Directive[43] and developing guidelines and recommendations in order to establish a consistent and efficient practice within the European System of Financial Supervision (ESFS). The committee also monitors and assesses market developments with respect to cross-border institutions for occupational pension insurance.
- Financial Stability Committee (FSC), in charge of issues related to long-term investments, securitisation calibration, submission of data (statistics), qualitative questionnaires and risk dashboard simulation, in the context of insurance and occupational pension insurance. The committee is responsible for establishing financial stability of insurance and reinsurance companies through a macroprudential supervisory programme for monitoring interaction between insurance and reinsurance companies, as well as occupational pension funds on the one hand and financial stability on the other hand. It is also in charge of reporting on financial stability of insurance and reinsurance companies and occupational pension funds.

Hanfa's participation in the work of OPC involved provision of comments and analyses of documentation received and elaboration of issues falling under the area of competence of the committee. Activities related to participation in FSC included data collection and qualitative and quantitative risk assessment of the pension system in the Republic of Croatia.

In addition to having cooperated with EIOPA, in 2013 Hanfa also cooperated with the International Organisation of Pension Supervisors (IOPS), an independent international body that brings together institutions involved in the supervision of private pension systems, with respect to the collection of data on fees charged by voluntary pension funds.

43 This Directive has been implemented in the Voluntary Pension Funds Act and Act on Pension Insurance Companies (Official Gazette 22/14). Pursuant to the Croatian legislative framework, pension insurance companies and closed-ended voluntary pension funds are Institutions for Occupational Retirement Provision (IORP).

Insurance

5 Insurance

5.1 Description of the Market

The 2013 analysis of the Croatian insurance market was carried out on the basis of financial, statistical and supervisory reports[44] submitted to Hanfa, and off-site and on-site examinations carried out in insurance companies and reinsurance companies, the Croatian Nuclear POOL EIG, the Croatian Insurance Bureau (hereinafter: the Bureau), insurance and reinsurance brokerage companies, insurance agencies, insurance representation crafts, insurance companies and crafts conducting insurance representation business at vehicle roadworthiness test garages, Financial Agency, HP - Hrvatska pošta d.d. and banks and housing savings banks authorised to carry out insurance representation activities.

5.1.1 Insurance Companies and Reinsurance Companies

In the period from 1 January 2013 to 31 December 2013, insurance companies operating in the Republic of Croatia recorded a gross written premium totalling HRK 9.1bn and increasing by 0.5% compared with 2012. The 2013 insurance density[45] in both life and non-life insurance totalled HRK 2,134 or EUR 279, increasing relative to the previous year. Insurance density in non-life insurance amounted to HRK 1,537 (EUR 201)[46], while in life insurance it totalled HRK 597 (EUR 78). In the 2004-2008 period, insurance density recorded a continuous growth, interrupted in 2009 largely as a result of the financial crisis. The following charts present changes in insurance density and shares of the gross written premium in GDP[47] (insurance market indicators) in the period between 2004 and 2013.

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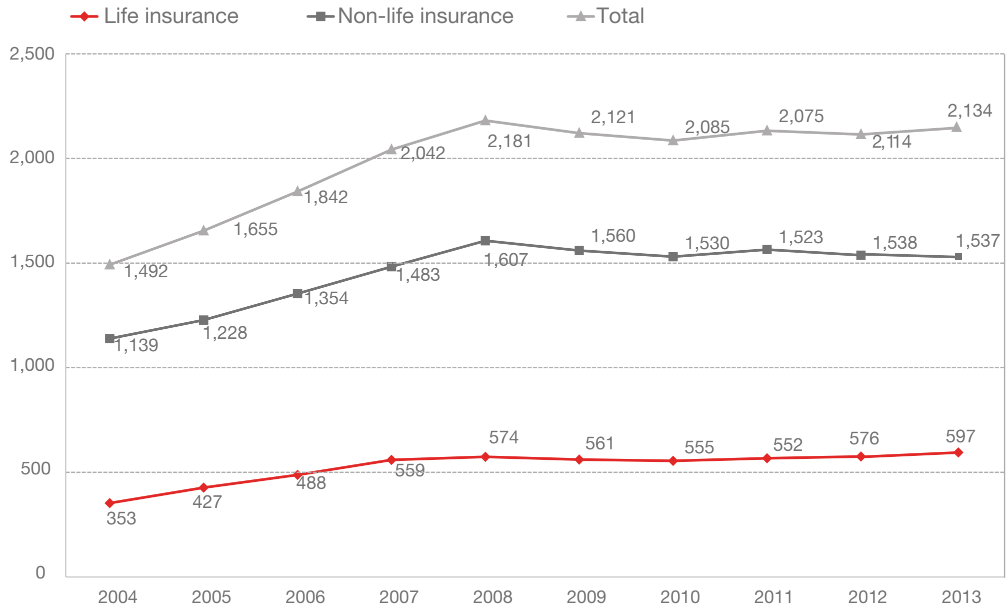
44 The financial, statistical and supervisory data for the 2008-2013 period used in this report have been presented based on audited reports of insurance and reinsurance companies, with data used for the Croatian Nuclear POOL EIG and the Croatian Insurance Bureau in the same period having been presented based on unaudited reports. The financial, statistical and supervisory data for the 2004-2007 period have also been presented based on unaudited financial and statistical reports of all supervised entities. Furthermore, the data for the previous years shown in Hanfa's 2013 Annual Report might differ from the data in Annual Reports for 2006, 2007, 2008, 2009, 2010, 2011 and 2012 due to the application of the provisions of the Accounting Act (Official Gazette 109/07 and 54/13), the Insurance Act (Official Gazette 151/05, 87/08, 82/09 and 54/13), and International Financial Reporting Standards (IFRS) adopted by the EU, as well as due to actions taken by insurance and reinsurance companies following Hanfa's instructions.

45 The insurance density is calculated as the ratio of gross written premium to total population. The population data source is the web site of the Central Bureau of Statistics (www.dzs.hr, the last access date being 12 June 2014).

46 Calculated according to the midpoint exchange rate of the Croatian National Bank as at 31 December 2013

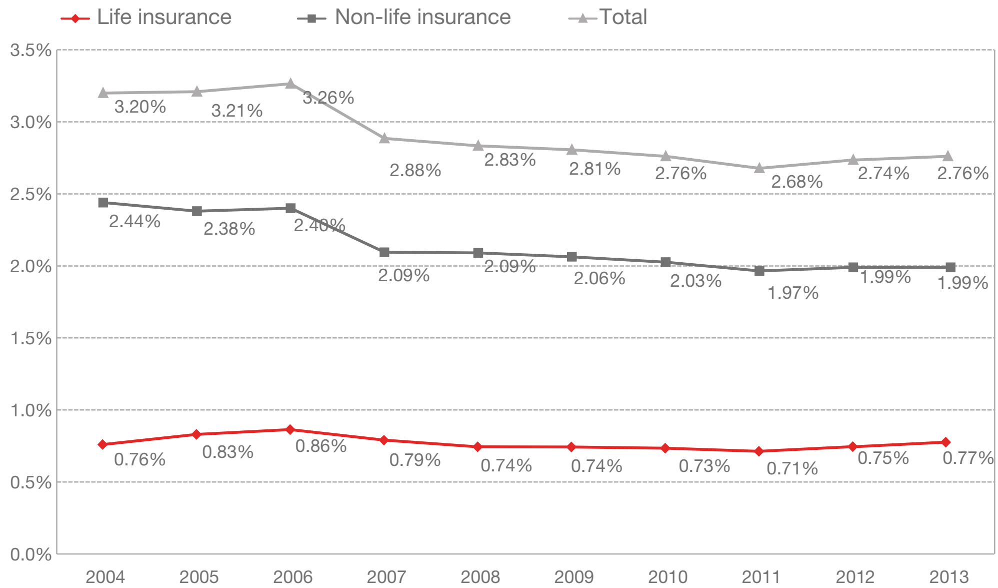
47 Gross domestic product – data taken from the website of the Croatian Bureau of Statistics (www.dzs.hr, Monthly Statistical Report No. 4, 2014, the last access date being 12 June 2014)

Chart 5.1 Insurance density in the 2004-2013 period (in HRK)



Source: Hanfa and Croatian Bureau of Statistics

Chart 5.2 Shares of the gross written premium in GDP in the 2004-2013 period



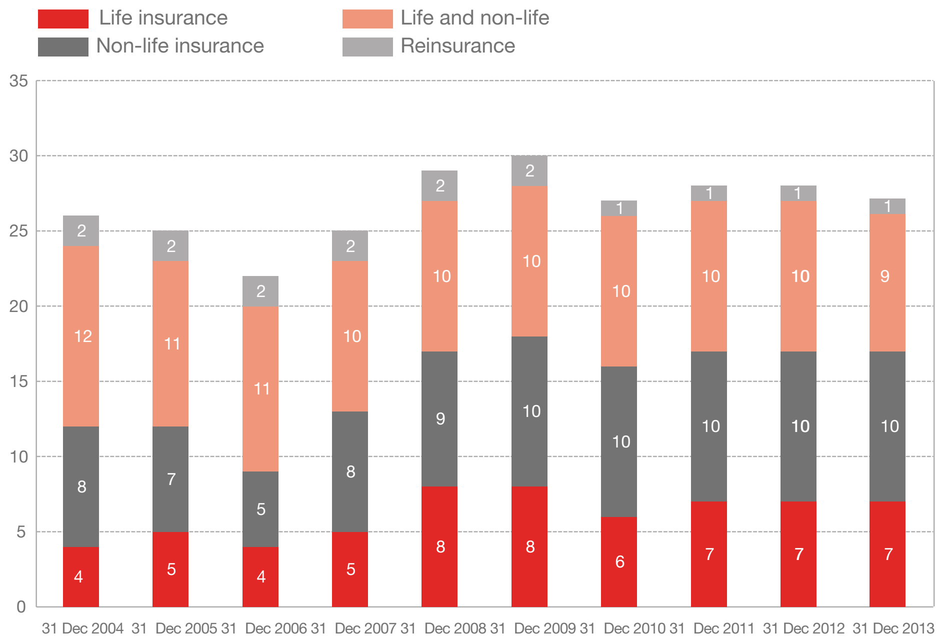
Source: Hanfa and Croatian Bureau of Statistics

Following the downward trend that started in 2007 and lasted until 2011, the share of insurance premium in GDP continued its upward trend that began in 2012: in 2012, the share (total in life and non-life insurance) stood at 2.74%, rising to 2.76 in 2013. In the life insurance group, the share grew from 0.75% in 2012 to 0.77% in 2013, while in the non-life insurance group it remained unchanged, totalling 1.99%. According to the available data relating to 2012, the average share of the insurance premium (total in life nad non-life insurance) in GDP for all members of the Insurance Europe (a European insurance and reinsurance federation consisting of 32 countries), amounted to 7.6%[48] and was significantly higher than the average share of total insurance premium in GDP in the Republic of Croatia.

5.1.1.1 Description of the Market

As at 31 December 2013, there were 26 licensed insurance companies and one reinsurance company operating in the insurance market of the Republic of Croatia. On 31 May 2013, Helios Vienna Insurance Group d.d. was merged with Kvarner Vienna Insurance Group d.d., which took on all the rights and obligations of the merged company. Kvarner Vienna Insurance Group d.d. continued to operate under the name Wiener osiguranje Vienna Insurance Group d.d.

Chart 5.3 Number of licensed insurance and reinsurance companies in the 2004-2013 period



Source: Hanfa

In 2013, seven insurance companies pursued solely life insurance activities, ten insurance companies pursued solely non-life insurance activities, and nine insurance companies pursued both life and non-life insurance activities (composite companies). Reinsurance activities were pursued by one reinsurance company.

48 Source: Statistics N°48, European Insurance in Figures, February 2014, www.insuranceeurope.eu

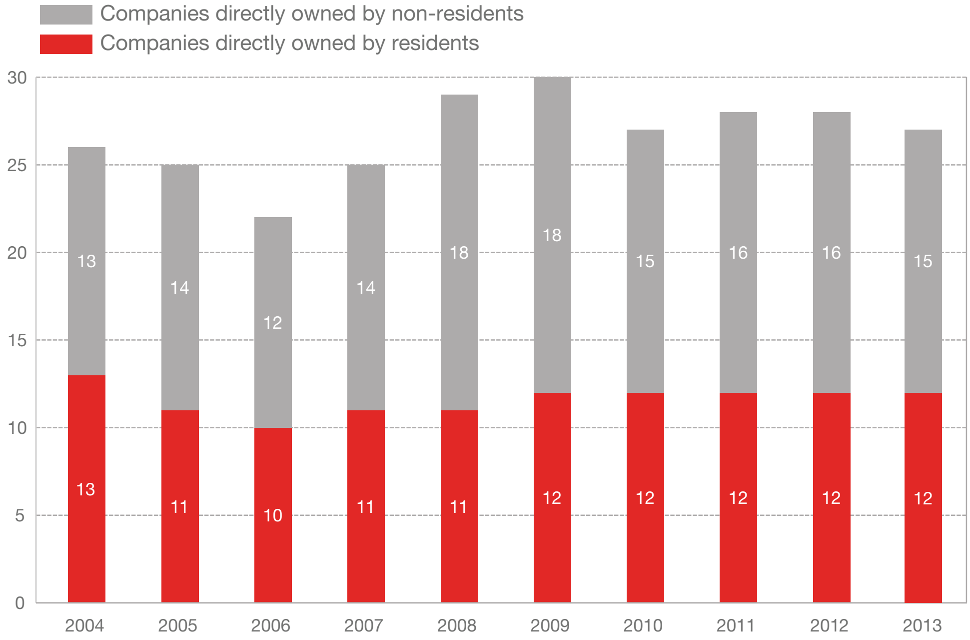
Table 5.1 Insurance activities conducted by insurance and reinsurance companies in 2013

Life insurance	Non-life insurance	Life and non-life insurance	Reinsurance
Agram životno osiguranje d.d.	BNP Paribas Cardif osiguranje d.d.	Allianz Zagreb d.d.	Croatia Lloyd d.d.
ERGO životno osiguranje d.d.	Croatia zdravstveno osiguranje d.d.	Basler osiguranje Zagreb d.d.	
Erste osiguranje Vienna Insurance Group d.d.	ERGO osiguranje d.d.	Croatia osiguranje d.d.	
KD životno osiguranje d.d.	Euroherc osiguranje d.d.	Generali osiguranje d.d.	
Societe Generale osiguranje d.d.	HOK osiguranje d.d.	Grawe Hrvatska d.d.	
Velebit životno osiguranje d.d.	Hrvatsko kreditno osiguranje d.d.	Merkur osiguranje d.d.	
Wüstenrot životno osiguranje d.d.	Izvor osiguranje d.d.	Triglav osiguranje d.d.	
	Jadransko osiguranje d.d.	Uniqa osiguranje d.d.	
	Sunce osiguranje d.d.	Wiener osiguranje Vienna Insurance Group d.d.	
	Velebit osiguranje d.d.		

Source: Hanfa

As at 31 December 2013, out of 27 licensed insurance and reinsurance companies, 15 companies were directly majority-owned by non-residents. The premium share for those 15 companies amounted to 43.1%, while the remaining 12 companies majority-owned by residents recorded a 56.9% premium share.

Chart 5.4 Ownership structure of licensed insurance and reinsurance companies (direct ownership) in the 2004-2013 period



Source: Hanfa

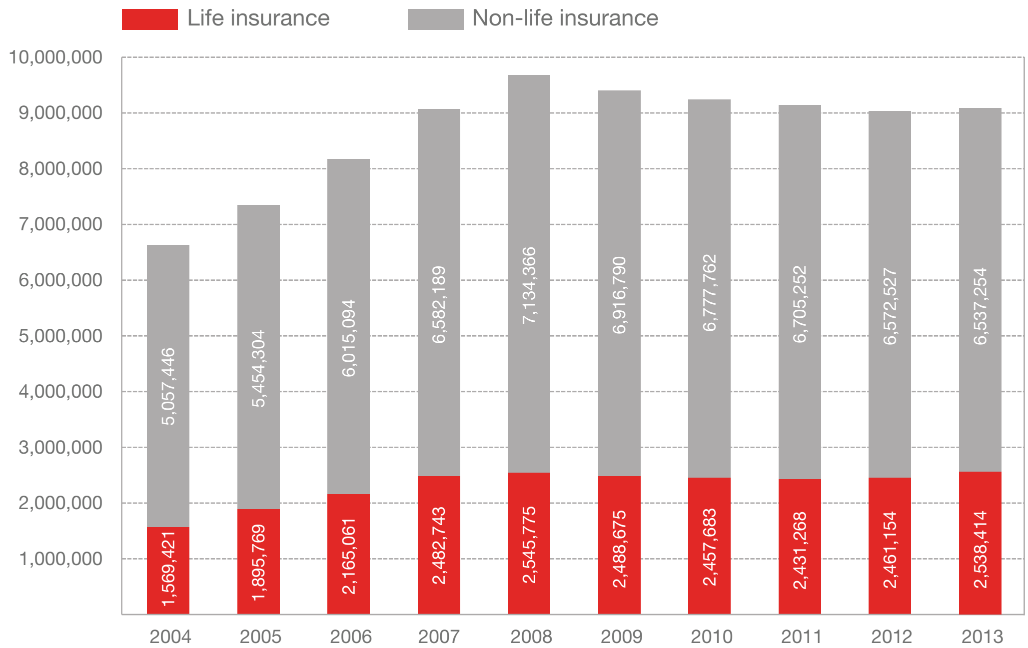
5.1.1.2 Gross Written Premium

In 2013, insurance companies recorded a gross written premium totalling HRK 9.1bn and increasing by 0.5% compared with 2012, when it amounted to HRK 9.0bn. More precisely, the non-life insurance premium fell by HRK 35.3m (0.5%) and amounted to HRK 6.5bn, while the life insurance premium rose by HRK 77.3m (3.1%), totalling HRK 2.6bn. The increase in the total gross written premium in comparison with 2012 was recorded by 16 out of 26 insurance companies.

The total gross written premium recorded by reinsurance companies amounted to HRK 397.4m, declining by HRK 30.3m (7.1%) compared to the previous year.

The insurance portfolio concentration by total gross written premium of the top five insurance companies increased from 64.3% in 2012 to 65.6% in 2013, while the insurance portfolio concentration of the top ten insurance companies grew from 83.2% to 85.4%. Non-life insurance recorded higher concentration than life insurance: five insurance companies accounted for 74.4% of the total non-life insurance premium, whereas five insurance companies made up 62.5% of the total life insurance premium.

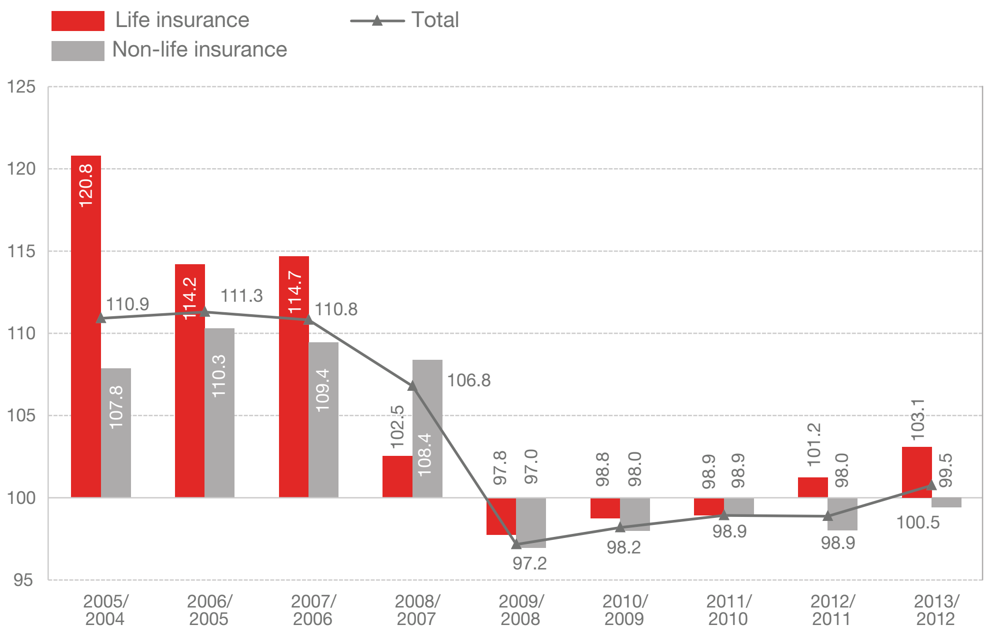
Chart 5.5 Gross written premium recorded by insurance companies in the 2004-2013 period (in HRK thousand)



Source: Hanfa

The downward trend recorded by the non-life insurance gross written premium that began in 2009 continued into 2013. At the same time, the life insurance gross written premium recorded a rise for the second consecutive year.

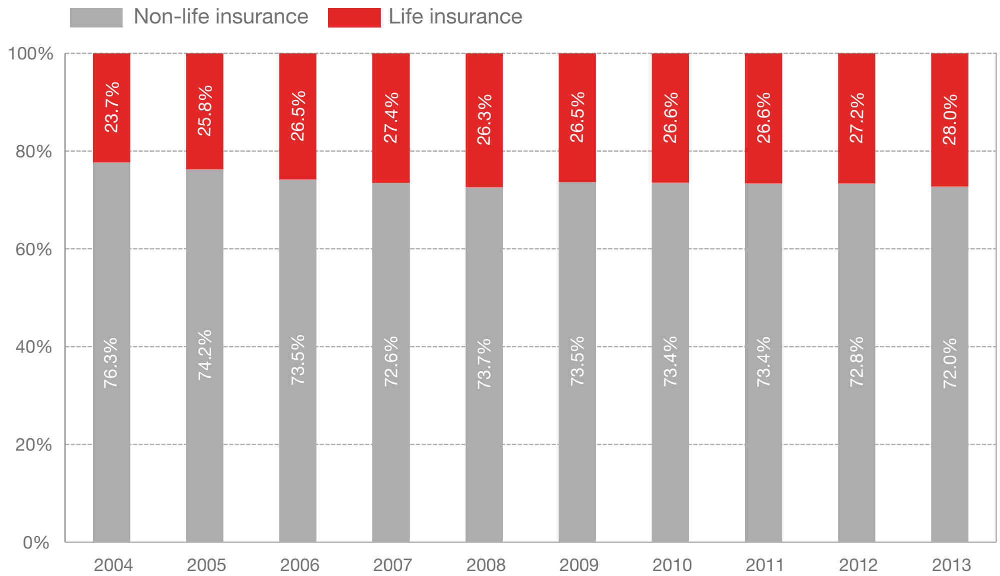
Chart 5.6 Gross written premium indices in the insurance industry in the 2004-2013 period



Source: Hanfa

Non-life insurance continued dominating the total gross written premium in the Croatian insurance market, accounting for a 72.0% share, whereas the share of life insurance amounted to 28.0% of the gross written premium. Compared with 2012, no significant change was recorded in life and non-life insurance shares in the total gross written premium. More than two thirds of the total gross written premium related to non-life insurance, with motor vehicle liability insurance accounting for a significant share in the total gross written premium (32.8%). This points out the fact that Croatian citizens are still focused on mandatory insurance products (primarily motor vehicle liability insurance), and insurance products tied to loans offered by credit institutions. An improvement in the general economic situation could lead to a growth in the gross written premium of less represented insurance products belonging to other insurance categories.

Chart 5.7 Shares of life and non-life insurance in the total gross written premium in the 2004-2013 period



Source: Hanfa

In 2013, shares of individual insurance classes in the total insurance portfolio with respect to the total gross written premium were unevenly distributed, with two out of 25 insurance classes (motor vehicle liability insurance and life insurance[49]) accounting for 57.4% of the total insurance portfolio, their share having increased compared to 2012, when it totalled 56.1%. Six insurance classes with individual shares larger than 5.0% made up 84.0% of the total insurance portfolio, holding steady relative to 2012.

49 In this context, the term “life insurance” relates to insurance class 19 - life insurance, which is part of the group of life insurance classes ranging from class 19 to class 25.

Table 5.2 Gross written premium by insurance classes in 2012 and 2013 (in HRK thousand)[50]

Code	Insurance class	2012	Share	2013	Share	Index 2013 /2012
01	Personal accident insurance	504,048	5.58%	496,223	5.47%	98.45
02	Health insurance	238,668	2.64%	249,438	2.75%	104.51
03	Insurance of land motor vehicles	720,458	7.98%	662,700	7.30%	91.98
04	Insurance of railway rolling stock	4,346	0.05%	6,705	0.07%	154.27
05	Insurance of aircraft	7,536	0.08%	8,947	0.10%	118.72
06	Insurance of vessels	181,125	2.00%	175,612	1.93%	96.96
07	Insurance of goods in transit	51,557	0.57%	55,312	0.61%	107.28
08	Insurance aganist fire and natural disasters	586,515	6.49%	582,913	6.42%	99.39
09	Other property insurance lines	705,244	7.81%	669,423	7.38%	94.92
10	Motor vehicle liability insurance	2,939,904	32.54%	2,978,145	32.81%	101.30
11	Aircraft liability insurance	6,046	0.07%	5,825	0.06%	96.36
12	Insurance aganst liability arising out of the use of vessels	35,869	0.40%	37,813	0.42%	105.42
13	Other liability insurance lines	288,045	3.19%	309,645	3.41%	107.50
14	Credit insurance	147,360	1.63%	145,944	1.61%	99.04
15	Suretyship insurance	8,050	0.09%	6,245	0.07%	77.57
16	Insurance aganist miscellaneous financial losses	89,671	0.99%	93,605	1.03%	104.39
17	Legal expenses insurance	2,845	0.03%	2,743	0.03%	96.44
18	Travel insurance	55,241	0.61%	50,016	0.55%	90.54
19	Life insurance	2,134,691	23.63%	2,231,682	24.59%	104.54
20	Annuity insurance	8,225	0.09%	11,093	0.12%	134.86
21	Supplementary insurance linked with life insurance policy	165,224	1.83%	158,537	1.75%	95.95
22	Marriage and birth insurance	8,244	0.09%	7,601	0.08%	92.20
23	Life insurance in which the investment risk is held by the policyholder	144,770	1.60%	129,501	1.43%	89.45
24	Tontines	0	0.00%	0	0.00%	-
25	Assurance with paid-up sum assured	0	0.00%	0	0.00%	-
Total non-life insurance (classes 01 - 18)		6,572,527	72.76%	6,537,254	72.03%	99.46
Total life insurance (classes 19 - 25)		2,461,154	27.24%	2,538,414	27.97%	103.14
Total (classes 01 - 25)		**9,033,681**	**100.00%**	**9,075,668**	**100.00%**	**100.46**

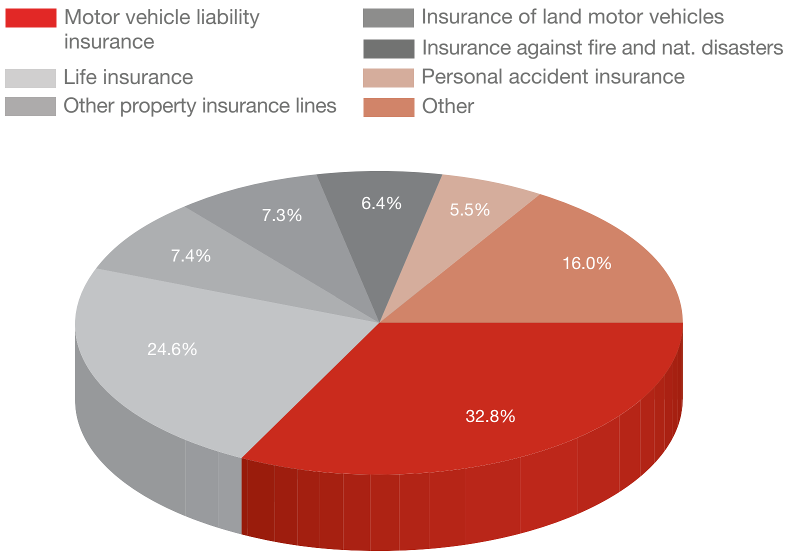
Source: Hanfa

Motor vehicle insurance, including motor vehicle liability insurance (class 10) and insurance of land motor vehicles (class 03), made up 40.1% of the total gross written premium, decreasing slightly compared with a 40.5% share in 2012. The gross written premium for motor vehicle

50 Types of insurance business, groups of insurance classes, insurance classes within types of insurance business and risk types within insurance classes are prescribed by the Ordinance on the classification of risk types by types and classes of insurance and reinsurance business (Official Gazette 100/09).

liability insurance (class 10) reached HRK 3.0bn, growing by HRK 38.2m or 1.3% relative to 2012. Insurance premium recorded by land motor vehicles totalled HRK 662.7m, falling by HRK 57.8m or 8.0% in comparison with 2012, and recording the largest decrease in the premium by a single insurance class in absolute amount.

Chart 5.8 Premium structure by insurance classes in 2013



Source: Hanfa

In 2013, compulsory insurance of owners or users of motor vehicles against liability for damage to third parties, known as motor vehicle liability insurance business (risk 10.01), was carried out by 14 insurance companies[51] in the Republic of Croatia. The motor vehicle liability insurance premium in the amount of HRK 2.9bn made up almost one third of the total gross written premium in 2013, increasing by HRK 34.5m (1.2%) compared with 2012. Three insurance companies accounted for 63.7% of the total motor vehicle liability insurance premium, a slightly smaller share relative to 2012, when three companies made up 64.7% of the total premium. The technical result of the market for risk 10.01 totalled HRK 575.1m, declining by 2.6% compared to 2012, when it amounted to HRK 590.5m.

Although market liberalisation with respect to third party liability insurance of owners or users of motor vehicles started in 2008, it has actually been in force in the Republic of Croatia since the day of Croatia's accession to the EU, making insurance companies alter their premium systems considerably, taking account of market principles. However, according to Article 8 paragraph 11 and Article 10 of the Act on Compulsory Insurance within the Transport Sector, insurance companies' insurance agreements must be concluded in accordance with their premium price lists, ensuring that insurance premiums are at all times sufficient to meet all liabilities arising from the agreements. These principles must be taken into account by insurance companies when deciding on a premium discount, while the discount needs to be reported in the agreement. Furthermore, in accordance with the applicable legislation, insurance companies are obliged to inform the supervisory authority of insurance terms and conditions used for compulsory insurance in traffic at least 60 days prior to their application, for the purpose of verification of their alignment with legislation, insurance principles and sectoral rules.

Hanfa may also request insurance companies to submit their premium price lists, technical bases and other elements used for insurance premium calculation, in order to verify their alignment with relevant regulations of the Republic of Croatia. Where Hanfa determines that insurance premiums have not been defined on the basis of actuarial methods and principles so as to enable the insurance company to meet all liabilities arising from insurance contracts at all times, it orders the insurance company to amend its internal documents pursuant to relevant regulations.

Furthermore, the Act on Amendments to the Act on Compulsory Insurance within the Transport Sector provided for a significant increase in sums insured in case of death, personal injury or impairment of health as regards third party liability insurance of owners or users of motor vehicles, in accordance with the relevant EU legislation.

51 In 2013, Ergo osiguranje d.d. obtained authorisation for the conclusion and fulfilment of contracts relating to motor vehicle liability insurance and insurance of land motor vehicles. However, the company did not record any gross written premium in these types of insurance.

Table 5.3 Motor vehicle liability insurance in 2012 and 2013 (in HRK thousand)

No.	Insurance company	Gross written premium (for risk type 10.01)		
		2012	2013	Index 2013/2012
1	Croatia osiguranje d.d.	785,533	779,046	99.17
2	Euroherc osiguranje d.d.	652,633	652,864	100.04
3	Jadransko osiguranje d.d.	446,718	447,073	100.08
4	Allianz Zagreb d.d.	273,208	276,296	101.13
5	HOK osiguranje d.d.	135,672	142,147	104.77
6	Wiener osiguranje VIG d.d.	100,476	140,286	139.62
7	Triglav osiguranje d.d.	106,997	110,239	103.03
8	Generali osiguranje d.d.	74,094	98,935	133.53
9	Basler osiguranje Zagreb d.d.	93,112	95,400	102.46
10	Grawe Hrvatska d.d.	50,394	57,669	114.44
11	Uniqa osiguranje d.d.	54,878	51,242	93.37
12	Velebit osiguranje d.d.	43,176	46,459	107.60
13	Sunce osiguranje d.d.	30,742	28,383	92.33
14	Izvor osiguranje d.d.	22,478	23,881	106.24
15	Helios VIG d.d.	45,279		0.00
	Total	**2,915,390**	**2,949,920**	**101.18**

Source: Hanfa

5.1.1.3 Asset Structure

As at 31 December 2013, the total assets of insurance and reinsurance companies amounted to HRK 35.4bn, rising by HRK 0.4bn or 1.2% compared with 2012. A total of HRK 18.2bn (51.4%) of those assets related to life insurance, HRK 16.3bn (46.1%) related to non-life insurance, while HRK 868.0m (2.5%) related to reinsurance. Investments made up the most significant share (77.9%) in the structure of total assets of insurance and reinsurance companies. Receivables accounted for a 6.6% asset share, tangible assets made up 5.6% of the assets, the reinsurer's share of technical provisions accounted for a 4.1% share, while other items accounted each for less than 3.0% of the asset structure.

Table 5.4 Asset structure of insurance and reinsurance companies in 2012 and 2013 (in HRK thousand)

	21 Dec 2012			Total share	31 Dec 2013			Total share	Index 2013/ 2012
	Life	Non-life	Total		Life	Non-life	Total		
Receivables for subscribed capital unpaid	0	0	0	0.00%	0	0	0	0.00%	-
Intangible assets	9,813	90,563	100,376	0.29%	7,020	87,801	94,820	0.27%	94.47
Tangible assets	95,705	2,190,354	2,286,059	6.54%	95,251	1,878,034	1,973,284	5.58%	86.32
Investments	15,532,546	11,386,808	26,919,355	77.01%	16,288,169	11,268,754	27,556,922	77.89%	102.37
Investments for the aacount of life insurance policyholders who bear the investment risk	799,441	0	799,441	2.29%	853,006	0	853,006	2.41%	106.70
Reinsurer's share of technical provisions	367,215	1,128,615	1,495,830	4.28%	379,058	1,058,397	1,437,455	4.06%	96.10
Deffered and current tax assets	15,900	41,389	57,289	0.16%	22,411	112,474	134,884	0.38%	235.45
Receivables	209,647	2,156,888	2,366,535	6.77%	160,730	2,173,669	2,334,399	6.60%	98.64
Other assets	77,150	343,579	420,729	1.20%	95,942	342,911	438,852	1.24%	104.31
Prepayments and accrued income	242,545	269,545	512,090	1.46%	283,916	271,199	555,115	1.57%	108.40
Total assets	**17,349,962**	**17,607,741**	**34,957,702**	**100.00%**	**18,185,502**	**17,193,237**	**35,378,739**	**100.00%**	**101.20**

Source: Hanfa

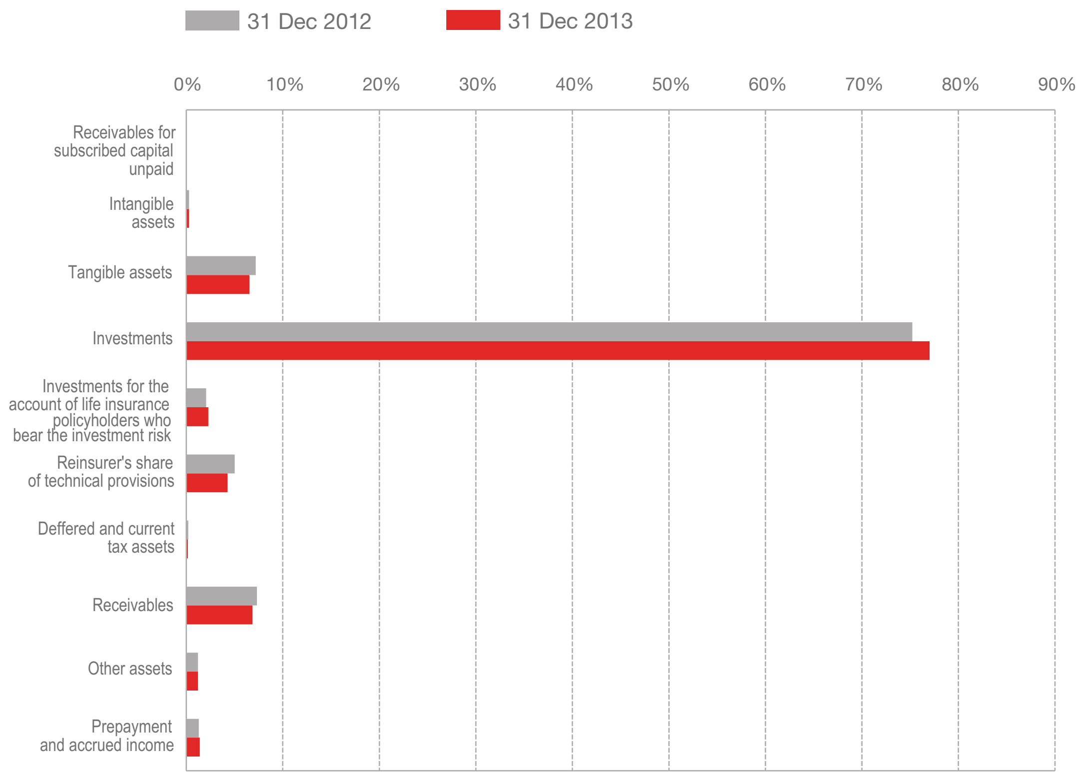
The largest share in life insurance assets (89.6%) was accounted for by investments, with investments for the account of life insurance policyholders[52] who bear investment risk accounting for 4.7%, and other asset items making up less than 3.0% of total assets. The major share in investments was accounted for by investments in debt securities and other securities with fixed income classified in the portfolio of investments held to maturity (39.4% of life insurance assets) and investments in debt securities and other securities with fixed income classified in the portfolio of investments available for sale (30.1% of life insurance assets).

52 Life insurance where the policyholder bears the investment risk

Investments accounted for the most significant share in the structure of non-life insurance assets (excluding reinsurance) as well; however, their share was significantly lower than in life insurance and totalled 65.5%. Receivables made up 12.8% of non-life insurance assets, tangible assets accounted for 11.2%, while a 5.7% share was accounted for by the reinsurers' share in technical provisions. The major share in investments was accounted for by investments available for sale (together accounting for a 20.0% share in non-life insurance assets).

This data points to the fact that in 2013 total assets rose compared with 2012. This was primarily due to an increase in life insurance assets, resulting from a rise in mathematical provisions, and consequently in investments.

Chart 5.9 Asset structure of insurance and reinsurance companies in 2012 and 2013



Source: Hanfa

5.1.1.4 Liability Structure

As at 31 December 2013, the largest share (68.8%) in the liability structure of the insurance industry was accounted for by technical provisions. Capital and reserves made up 20.0%, other liabilities made up 3.5%, while other liability items accounted each for less than 3.0% of total liabilities.

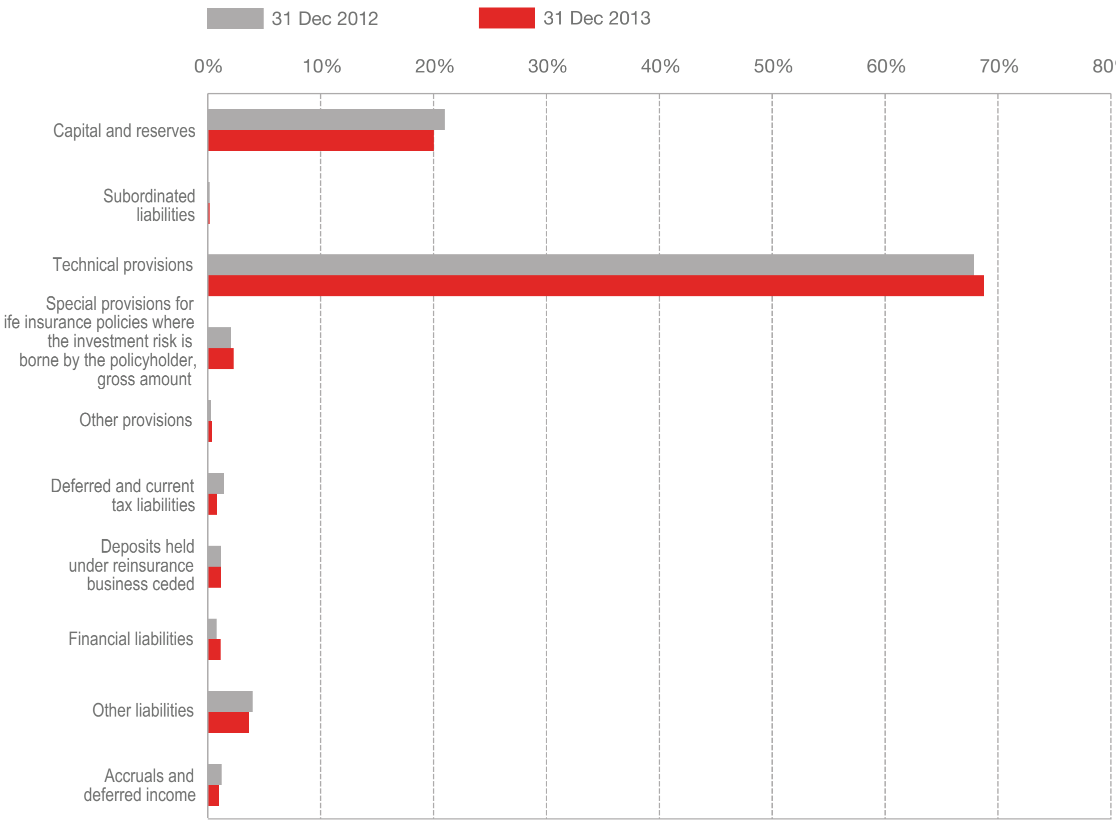
Table 5.5 Liability structure of insurance and reinsurance companies in 2012 and 2013 (in HRK thousand)

	31 Dec 2012			Total share	31 Dec 2013			Total share	Index 2013/ 2012
	Life	Non-life	Total		Life	Non-life	Total		
Capital and reserves	2,224,252	5,066,713	7,290,965	20.86%	2,194,626	4,874,618	7,069,244	19.98%	96.96
Subordinated liabilities		41,880	41,880	0.12%	0	37,315	37,315	0.11%	89.10
Technical provisions	13,604,443	10,114,224	23,718,667	67.85%	14,454,488	9,874,398	24,328,887	68.77%	102.57
Special provisions for life insurance policies where the investment risk is borne by the policyholder, gross amount	798,381		798,381	2.28%	848,137	0	848,137	2.40%	106.23
Other provisions	16,762	112,065	128,827	0.37%	11,450	125,604	137,054	0.39%	106.39
Deferred and current tax liabilities	84,024	341,478	425,502	1.22%	43,244	209,196	252,441	0.71%	59.33
Deposits held under reinsurance business ceded	353,075	87,157	440,232	1.26%	364,551	72,419	436,969	1.24%	99.26
Financial liabilities	36,292	281,801	318,093	0.91%	5,951	534,548	540,498	1.53%	169.92
Other liabilities	192,267	1,079,586	1,271,854	3.64%	212,674	1,032,567	1,245,241	3.52%	97.91
Accruals and deferred income	40,464	482,837	523,301	1.50%	50,382	432,573	482,954	1.37%	92.29
Total liabilities	**17,349,962**	**17,607,741**	**34,957,702**	**100.00%**	**18,185,502**	**17,193,237**	**35,378,739**	**100.00%**	**101.20**

Source: Hanfa

As at 31 December 2013, technical provisions totalled HRK 14.5bn, making up 79.5% of total life insurance liability structure. The largest share in the technical provisions was accounted for by mathematical provisions, totalling HRK 14.2bn and accounting for 78.2% of total liabilities. Capital and reserves reached HRK 2.2bn, making up a 12.1% liability share. Special provisions for life insurance policies where the investment risk is borne by the policyholder (gross amount) stood at HRK 848.1m, representing a 4.7% share in total liabilities. None of the remaining life insurance liability items exceeded 3.0% of total liabilities. Technical provisions were also the most significant item in the non-life insurance liability structure (reinsurance excluded), amounting to HRK 9.4bn and making up 57.5% of all liabilities. The largest share of that amount (HRK 6.2bn) was made up of the gross amount of provisions for claims outstanding (37.9% of all liabilities). Capital and reserves reached HRK 4.6bn or 28.0% of liabilities, whereas the remaining liability items amounted to HRK 1.0bn (5.9% of total liabilities).

Chart 5.10 Liability structure of insurance and reinsurance companies in 2012 and 2013



Source: Hanfa

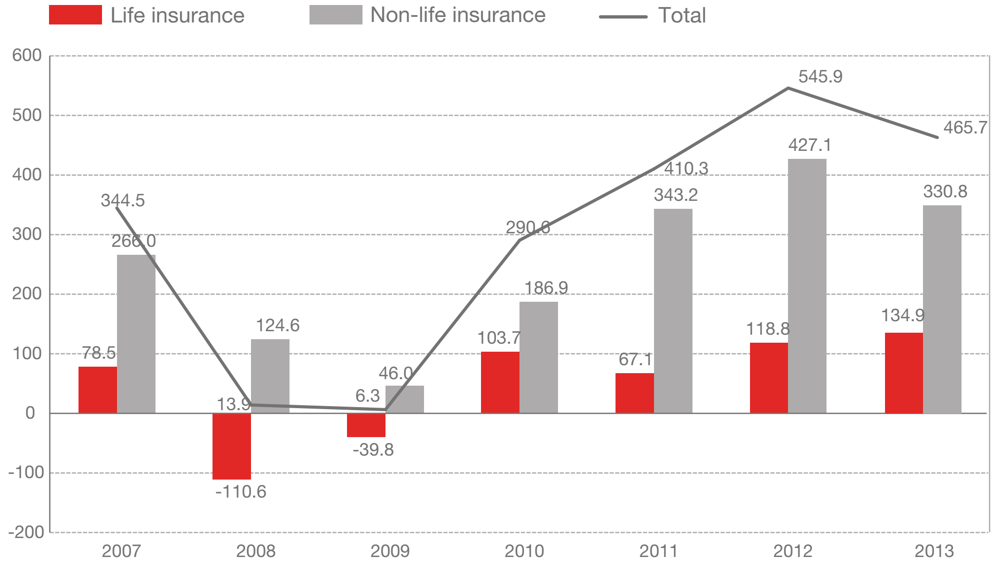
5.1.1.5 Financial Operating Results

Out of 26 insurance companies and one reinsurance company conducting insurance business in 2013, a net profit in the amount of HRK 505.8m was reported by 18 insurance companies and one reinsurance company, whereas eight insurance companies recorded a loss totalling HRK 40.2m.

In the period from 1 January 2013 to 31 December 2013, these insurance and reinsurance companies reported a net profit totalling HRK 465.6m and decreasing by HRK 80.3m in comparison with 2012, when the net profit amounted to HRK 545.9m.

In life insurance business, 12 insurance companies reported a net profit in the amount of HRK 148.2m, whereas four insurance companies recorded a loss totalling HRK 13.3m. In non-life insurance business, 15 insurance companies reported a net profit amounting to HRK 338.1m, whereas four insurance companies registered a loss in the amount of HRK 26.9m. The reinsurance company realised a net profit reaching HRK 19.6m.

Chart 5.11 Operating results of insurance and reinsurance companies from 2007 to 2013[53] (in HRK million)



Source: Hanfa

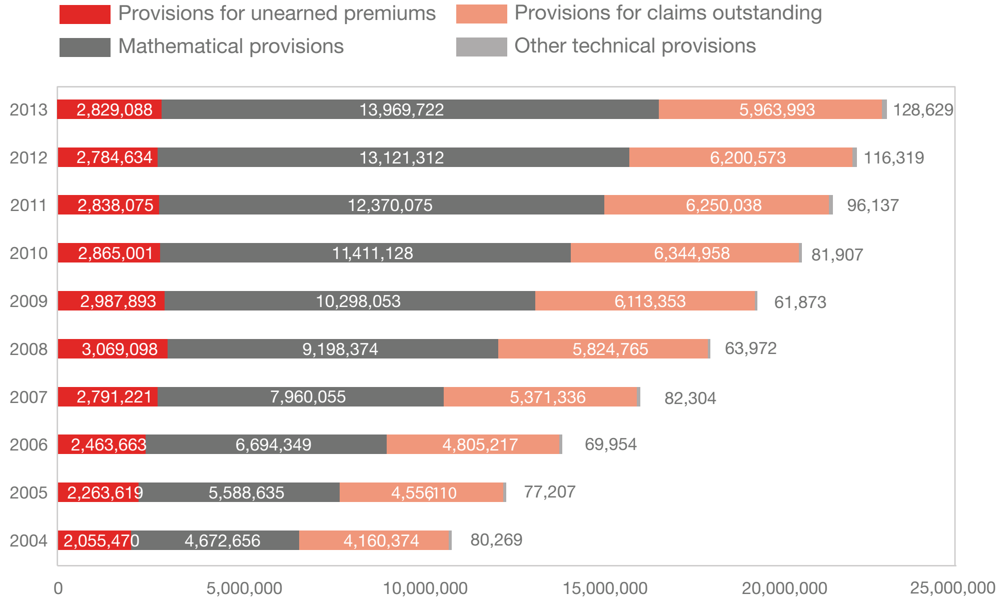
5.1.1.6 Technical Provisions

As at 31 December 2013, net technical provisions of insurance and reinsurance companies, as presented in the statement of financial position, amounted to HRK 22.9bn, increasing by 3.0% compared to 31 December 2012. As in the previous year, the largest part of net technical provisions was allocated to mathematical provisions, which accounted for a 61.0% share in total technical provisions, rising by 6.5% relative to 2012. Compared to 2012, mathematical reserves accounted for a larger share in total technical provisions due to an increase in life insurance gross written premium and life insurance technical provisions and to the fact that 61.0% of total technical provisions is accounted for by mathematical provisions.

Technical provisions consist of the insurance company's assets intended for covering future underwriting liabilities and any losses due to risks arising from the business written. Technical provisions include provisions for unearned premiums, provisions for bonuses and rebates, provisions for outstanding claims and other technical provisions. The insurance company may also establish equalisation provisions. Mathematical provisions must be established by the insurance company pursuing life insurance activities or insurance activities where premiums are accumulated in the form of savings or assets used for covering risks in later year of insurance of long-term nature, subject to similar probability tables and calculations to that of life insurance. Special provisions must be established by the insurance company conducting insurance business where the policyholder bears the investment risk.

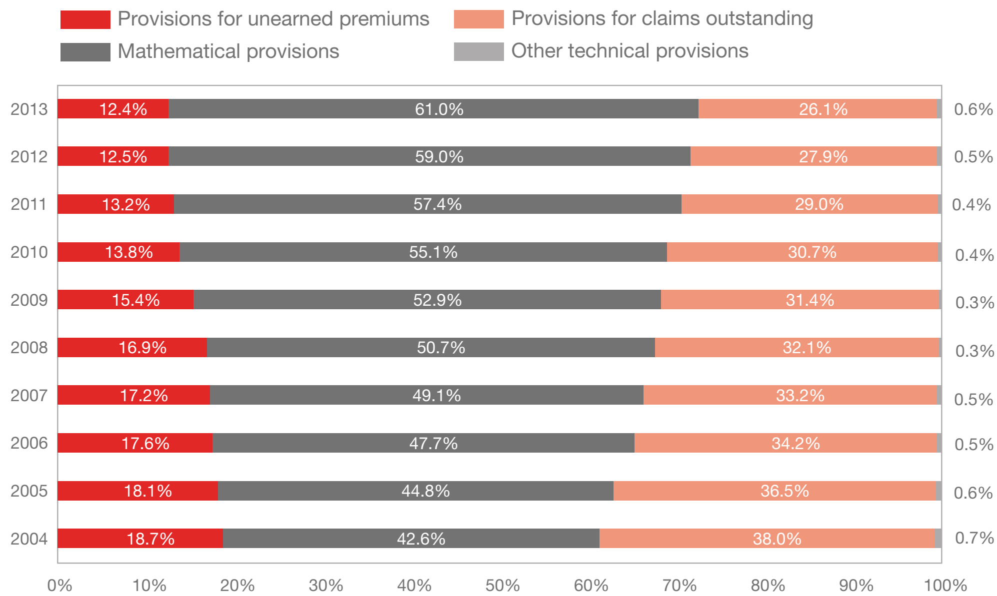
53 Operating results of insurance and reinsurance companies for the periods before 2007 have not been presented due to a change in the methodology for presenting data in the form Statement of Comprehensive Income.

Chart 5.12 Net technical provisions in the 2004-2013 period (in HRK thousand)



Source: Hanfa

Chart 5.13 Structure of technical provisions in the 2004-2013 period



Source: Hanfa

5.1.1.7 Investments of Assets Covering Technical Provisions

Insurance and reinsurance companies are obliged to set up assets covering technical provisions in line with relevant provisions of the Insurance Act, laying down types of and limitations on investments of assets covering technical provisions, and in line with the Ordinance on types and characteristics of assets covering technical provisions, rules on diversification and limitations on investments of assets covering technical provisions, their valuation and compliance with the law, rules on the use of derivative financial instruments, and the manner and time limits for reporting (Official Gazette 119/09, 155/09, 01/12, 39/12, 79/13 and 105/13, hereinafter: Ordinance on investments). According to Article 296 paragraph 6 of the Insurance Act, since the accession of the Republic of Croatia to the European Union, insurance companies have been allowed to invest assets covering technical provisions in Member States and OECD member countries in the same manner as in the Republic of Croatia. i.e. make all types of investments laid down in Article 115 paragraph 1 of the Insurance Act, taking account of limitations on investments of assets covering technical provisions stipulated in Article 116 paragraphs 1 and 2 of the Insurance Act. On the day of Croatia's EU accession, Article 115 paragraph 2 and Article 116 paragraph 3 of the Insurance Act, allowing investments in other Member States and OECD countries only under precisely defined legal restrictions, ceased to be valid.

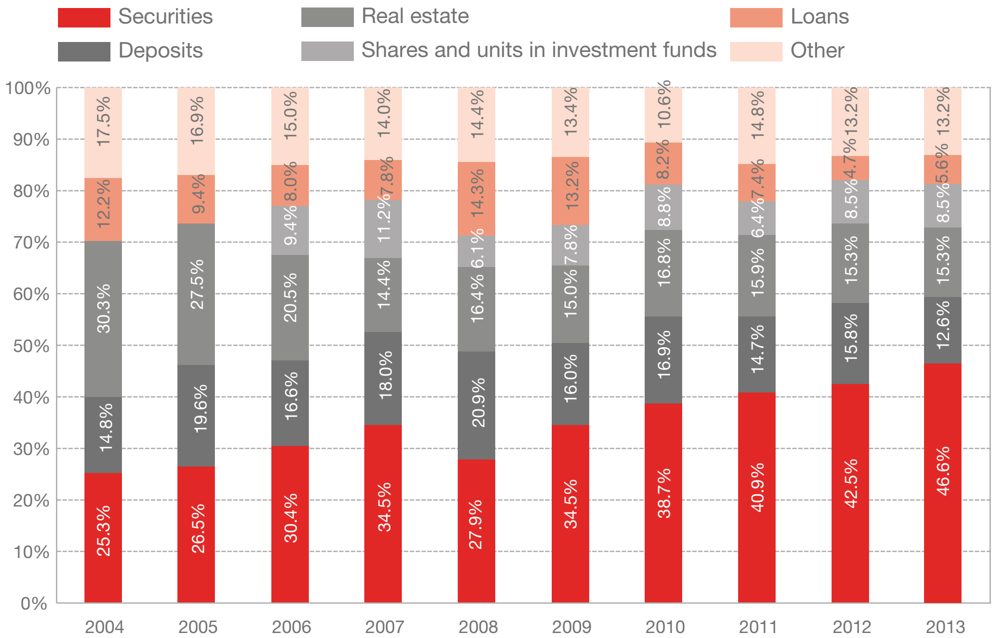
As at 31 December 2013, the required coverage of technical provisions except for mathematical provisions[54] of insurance and reinsurance companies amounted to HRK 8.8bn, whereas total invested assets stood at HRK 9.6bn, rising by HRK 0.8bn or 8.6%. The largest share in the investment structure of the insurance industry was accounted for by investments in securities[55], which made up 46.6% of total investments, increasing relative to 2012, when they accounted for 42.5% of total investments. These investments primarily consisted of investments in securities issued by the Republic of Croatia, another Member State or OECD member country, the Croatian National Bank, the central bank of another Member State or OECD member country or the Croatian Bank for Reconstruction and Development, and accounted for a 39.5% share in total investments. Investments in loans also recorded an increase in the share in total investments, from 4.7% in 2012 to 5.6% in 2013. The share of investments in deposits fell from 15.8% in 2012 to 12.6% in 2013, as did the share of investments in real estate, which decreased from 15.3% in 2012 to 13.5% in 2013. The 8.5% share of investments in investment funds and the 13.2% share of other investments[56] held steady compared to the previous year.

54 The requested coverage of technical provisions except for mathematical provisions is comprised of provisions for unearned premiums, provisions for bonuses and rebates, provisions for claims outstanding, equalisation provisions and other technical provisions.

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

56 Funds in the business account of the insurance company, holdings of companies having their registered offices in the Republic of Croatia, another Member State or OECD member country, and investments approved by the supervisory authority

Chart 5.14 Structure of investments of assets covering technical provisions in the 2004-2013 period



Source: Hanfa

5.1.1.8 Investments of Assets Covering Mathematical Provisions

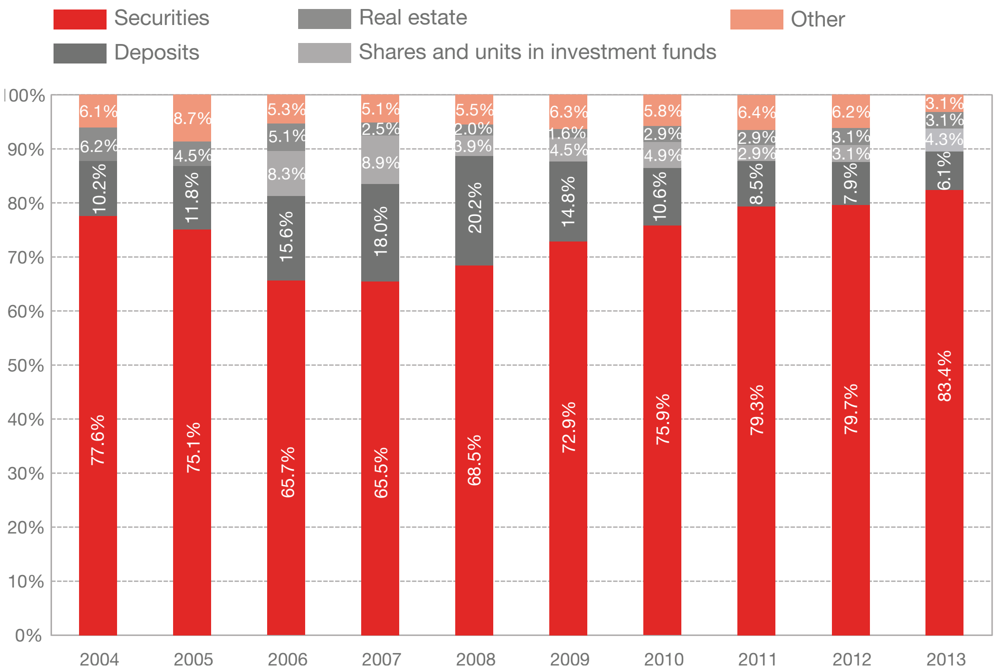
Insurance companies set up mathematical provisions in the amount of the present value of all their future liabilities, calculated on the basis of concluded insurance contracts and reduced by the present estimated value of future premiums payable under such insurance contracts. In addition, insurance companies conducting insurance business covering insurance classes in respect of which mathematical provisions are to be formed must invest assets covering mathematical provisions and manage them separately from other assets. The value of assets covering mathematical provisions must at all times be at least equal to the amount of the required coverage which includes mathematical provisions. Assets covering mathematical provisions must be invested in line with relevant provisions of the Insurance Act and the Ordinance on investments, taking into account the type of insurance activities carried out and guaranteeing the safety, profitability and adequate diversity of investments. Available cash must be invested adequately, so as to reduce the investment risk to the lowest possible level through higher diversification and precise definition of investment goals. This relates especially to investments of life insurance assets, due to the fact that those assets match the definition of long-term savings.

Pursuant to Article 296 paragraph 7 of the Insurance Act, since the day of the accession of the Republic of Croatia to the European Union, insurance companies have been allowed to invest assets covering mathematical provisions in Member States and OECD member countries, in all types of investments referred to in Article 122 paragraph 1 of the Insurance Act, taking account of limitations on investments of assets covering mathematical provisions stipulated in Article 123 paragraphs 1 and 2 of the Insurance Act, while Article 122 paragraph 2 and Article 123 paragraph 3 of the Insurance Act ceased to be valid. Until the entry into force of the said provisions, investments in other Member States and OECD member countries had been permitted only under precise legal restrictions. Moreover, Article 305 paragraph 2 of the Insurance Act removed limitations on investments in securities issued by the Republic of Croatia, the Croatian National Bank and the Croatian Bank for Reconstruction and Development and in bonds and other debt securities guaranteed by the Republic of Croatia, reaching a minimum of 50% of the required coverage of mathematical provisions, as of the day of Croatia's EU accession.

As at 31 December 2013, insurance companies reported the required coverage of mathematical provisions[57] in the amount of HRK 14.1bn, while assets covering mathematical provisions stood at HRK 14.5bn, meaning that insurance companies invested HRK 0.4bn or 2.8% more than the required coverage.

In the investment structure, the largest share (80.7%) of assets was invested in securities issued by the Republic of Croatia, another Member State or OECD member country, the Croatian National Bank, the central bank of another Member State or OECD member country, or the Croatian Bank for Reconstruction and Development. A significant share of assets was also invested in deposits in banks having their registered offices in the Republic of Croatia, another Member State or OECD member country (6.1%). Less than 5.0% of assets were invested in each of other asset types and those investments jointly made up a 13.2% share in the total structure of investments of assets covering mathematical provisions.

Chart 5.15 Structure of investments of assets covering mathematical provisions in the 2004-2013 period



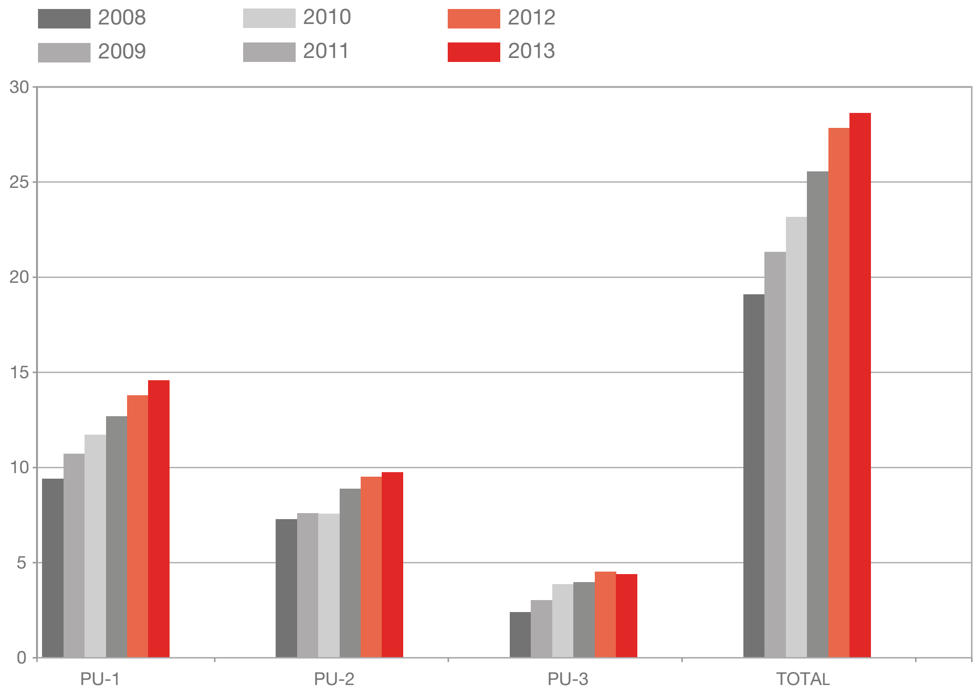
Source: Hanfa

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

5.1.1.9 Investments of Assets from Capital and other Funds (Except for Assets Covering Mathematical and Technical Provisions)

In 2013, total investments of assets from capital and other funds, except for assets covering mathematical and technical provisions (hereinafter: investments of assets from capital) amounted to HRK 4.4bn, of which HRK 1.3bn or 30.1% related to life insurance and HRK 3.1bn or 69.9% to non-life insurance. The majority share (37.6%) of total investments of assets from capital was accounted for by deposits, loans and receivables in the amount of HRK 1.7bn. Compared to 2012, total investments of assets from capital decreased by HRK 68.5m or 1.5%.

Chart 5.16 Structure of investments of assets covering mathematical provisions[58], technical provisions except for mathematical provisions[59] and investments of assets from capital[60] in the 2008-2013 period[61] (in HRK billion)



Source: Hanfa

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

59 Data on investments of assets covering technical provisions except for mathematical provisions have been taken from the form Overview of investments of assets covering technical provisions except for mathematical provisions (form PU-2).

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

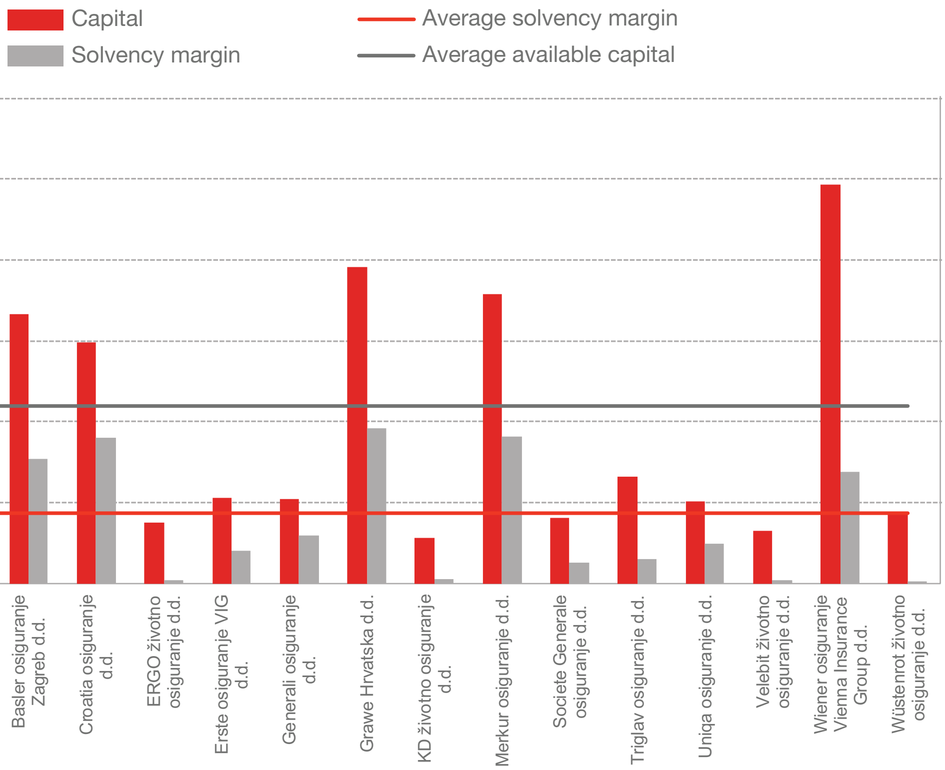
61 Investments made by insurance and reinsurance companies of assets covering mathematical provisions, technical provisions except mathematical provisions and investments from capital for the periods before the year 2008 are not presented due to the fact that the data from the form Overview of investments of assets from capital and other funds, except for assets covering mathematical and technical provisions (form PU-3) started being collected in 2008.

5.1.1.10 Capital Adequacy

Hanfa attaches special importance to whether companies have enough capital and provisions needed to meet their liabilities towards insured persons and injured parties, and whether they invest assets in accordance with legal provisions. Insurance and reinsurance companies are obliged to maintain a capital level corresponding to the volume and types of insurance activities carried out and taking account of the risks they are exposed to. In order to meet the prescribed capital adequacy requirements, insurance and reinsurance companies must satisfy three conditions laid down in the Insurance Act: the capital level of the company must be at least equal to the solvency margin, the guarantee fund of the company must be at least equal to one third of the solvency margin and the guarantee fund of the company must be at least equal to the minimum initial capital.

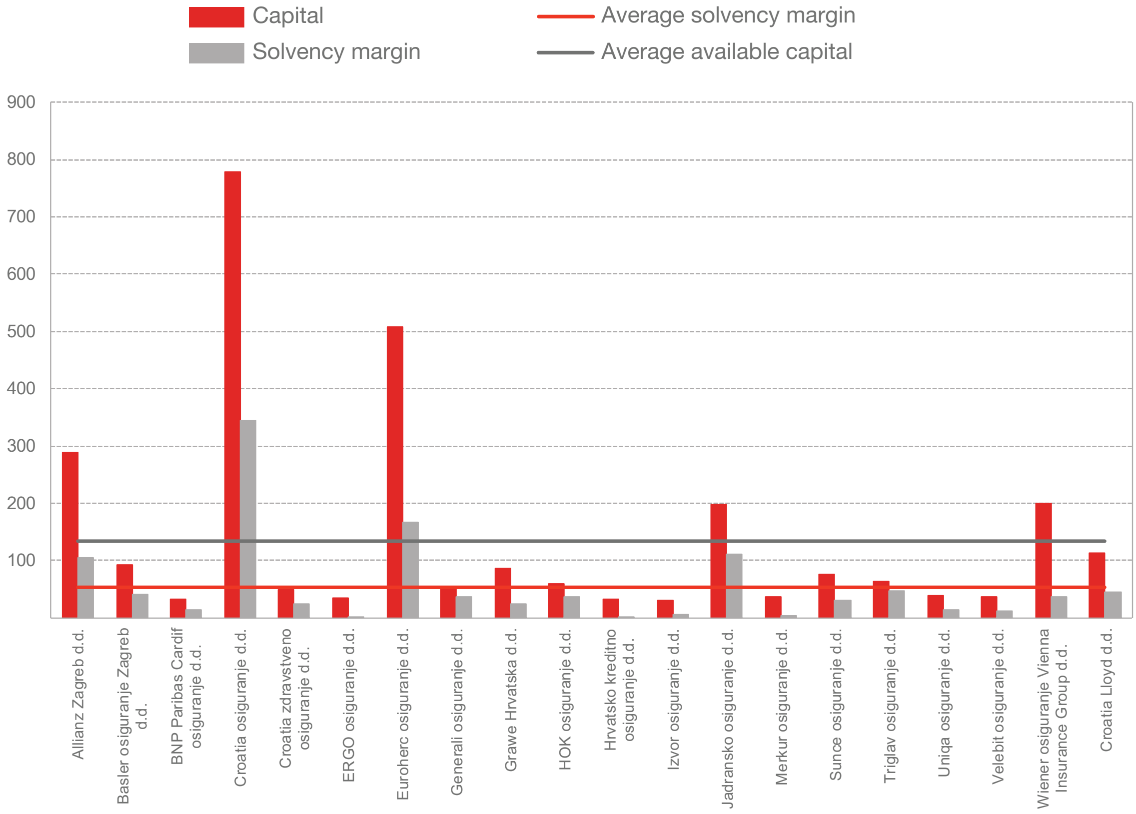
Solvency margin is used to determine the minimum capital requirement, and is defined in terms of relations among certain items in financial statements of insurance and reinsurance companies. It reflects the insurance portfolio risk of insurance companies (measured by claims, premiums, technical provisions and amounts at risk). Articles 98 and 99 of the Insurance Act prescribe the method of calculating the solvency margin of insurance companies pursuing life and non-life insurance business and of reinsurance companies.

Chart 5.17 Ratio of available capital to solvency margin by life insurance companies for 2013 (in HRK million)



Source: Hanfa

Chart 5.18 Ratio of available capital to solvency margin by non-life insurance companies for 2013 (in HRK million)



Source: Hanfa

As at 31 December 2013, all insurance and reinsurance companies were meeting the prescribed capital adequacy requirements and the three conditions laid down in the Insurance Act.

5.1.1.11 Insurance Industry Performance Indicators

Insurance industry performance indicators[62] help assess business operations of insurance and reinsurance companies.

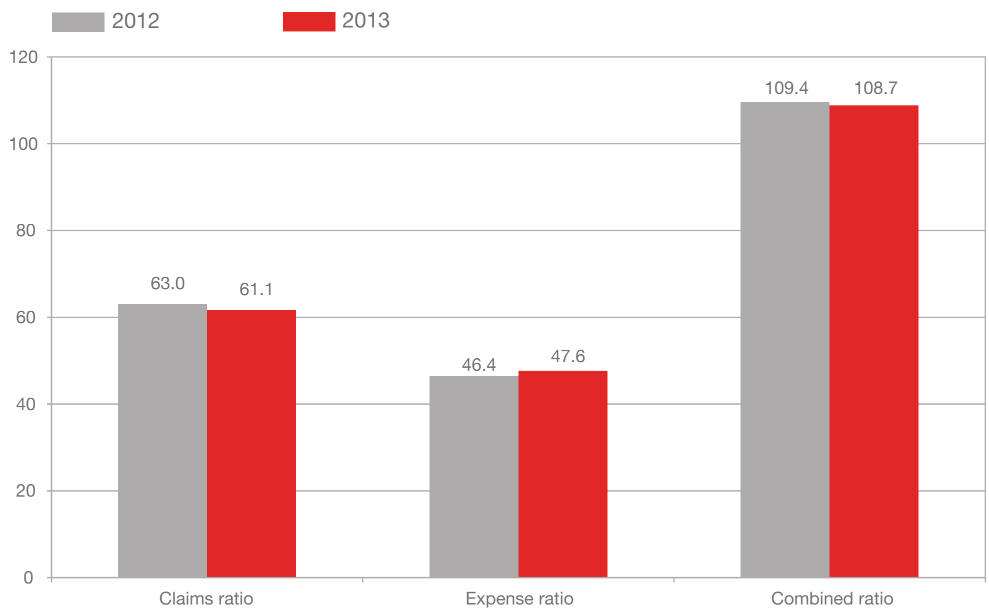
The claims ratio is the ratio of the sum of claims paid, changes in provisions for claims outstanding and changes in other technical provisions (including changes in life insurance technical provisions where the policyholder bears the investment risk) to insurance premiums earned, with the net value of reinsurance being included into the calculation. The 2013 claims ratio amounted to 61.1% and was more favourable than in 2012, when it stood at 63.0%. The claims ratio in the life insurance business amounted to 98.2%, increasing compared to 2012, when it stood at 93.1%. The claims ratio in the non-life insurance business reached 45.1%, decreasing compared to 2012, when it amounted to 50.6%.

62 Data on 2013 indicators, calculated on the basis of data from the statement of comprehensive income, do not include data relating to Helios Vienna Insurance Group d.d. due to the accounting impact of the merger of Helios Vienna Insurance Group d.d. with Kvarner Vienna Insurance Group d.d., which continued to operate under the name Wiener osiguranje Vienna Insurance Group d.d.

The expense ratio is the ratio of the sum of operating expenses (acquisition costs and administrative costs) and other technical expenses to gross written premium reduced by premiums ceded to reinsurance. In 2013, the expense ratio amounted to 47.6%, and was less favourable in comparison to 2012, when it stood at 46.4%. The 2013 expense ratio in the life insurance business totalled 33.2%, decreasing compared to 2012, when it stood at 35.4%. In the non-life insurance business, the ratio reached 53.6%, which is a slight increase relative to 2012, when it amounted to 50.9%. Apart from being calculated with respect to gross written premium, the expense ratio may be calculated with respect to earned premium, in that case totalling 48.5% in 2013 and increasing compared to 2012, when it reached 46.7%.

The combined ratio is calculated as the sum of the claims ratio and the expense ratio, and shows operating results prior to inclusion of income from investments. This ratio amounted to 108.7% in 2013, while in 2012 it reached 109.4% and was more favourable. The combined ratio in the life insurance business stood at 131.5%, while in the non-life insurance business it totalled 98.7%. A combined ratio lower than 100.0% is considered desirable. This ratio is more significant as a non-life insurance business indicator, as in the life insurance business investment results must be taken into account as well, because the interest rate is implicitly included in the insurance premium and mathematical provisions. If the expense ratio were calculated with respect to earned premium, the 2013 combined ratio would total 109.6%, reaching almost the same level as in 2012, when it amounted to 109.7%.

Chart 5.19 Insurance Industry Performance Indicators for 2012 and 2013 (in %)



Source: Hanfa

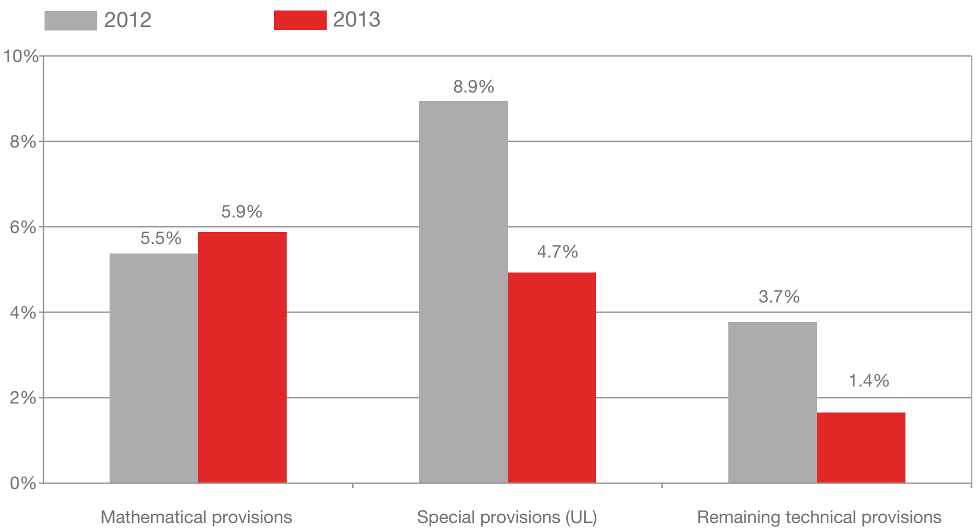
Return on investment was calculated as the ratio of income from investments reduced by investment costs for the period from 1 January 2013 to 31 December 2013 to the amount of investments as at 31 December 2013. The 2013 return on investment amounted to 3.6%, while in 2012 it stood at 4.4%. Return on investment in the life insurance business reached 5.5%, increasing compared to 2012, when it stood at 5.2%. This indicator amounted to 0.9% in the non-life insurance business, decreasing compared to 2012, when it reached 3.3%.

The debt ratio is calculated as the ratio of total liabilities to total assets. It shows the amount of assets financed by liabilities which do not include capital and reserves. The 2013 debt ratio was 0.80, while in 2012 it reached 0.79. In the life insurance business, the debt ratio stood at 0.88, increasing slightly compared to 2012, when it totalled at 0.87. In the non-life insurance business, the ratio totalled 0.72, growing relative to 2012, when it amounted to 0.71. It should be pointed out that the insurance industry records a relatively high debt ratio as a result of the fact that the share of technical provisions (future liabilities towards clients and injured parties) is reported in liabilities.

Return on assets (ROA) is a ratio of after-tax profit or loss of the accounting period to total assets. In 2013, this indicator amounted to 1.3% for all insurance companies, decreasing in comparison to 2012, when it stood at 1.6%. In the life insurance business, return on asset reached 0.74%, an increase compared to 2012, when it totalled 0.68%. In the non-life insurance business, it amounted to 1.9%, falling in comparison with 2012, when it stood at 2.4%. A high indicator implies a high return on assets.

Return on equity (ROE) represents the relationship between after-tax profit or loss of the accounting period and equity (subscribed capital, premium on shares issued, revaluation reserves, reserves and accumulated profit or loss). It is expressed as a percentage, showing how much net profit or loss of the accounting period can be generated by HRK 100 of equity. The 2013 total return on equity amounted to 7.1%, decreasing compared to 2012, when it stood at 8.1%. In the life insurance business, return on equity totalled 6.6%, increasing compared to 2012, when it reached 5.6%. In the non-life insurance business, return on equity totalled 7.3%, falling relative to 2012, when its value reached 9.2%.

Chart 5.20 Return on investment[63] by source in 2012 and 2013



Source: Hanfa

63 Return on investment is calculated as the ratio of investment income net of investment costs to average invested assets.

In 2013, insurance and reinsurance companies recorded the highest return on investment from mathematical provisions (5.9%), which is an increase compared to 2012, when this return totalled 5.5%. Return on investment from special provisions where the policyholder bears the investment risk amounted to 4.7%, declining significantly relative to 2012, when its value stood at 8.9%. Return on investment from the remaining technical provisions reached 1.4%, decreasing in comparison to 2012, when it amounted to 3.7%.

5.1.2 Croatian Insurance Bureau

Pursuant to Article 271 paragraph 5 of the Insurance Act, business operations of the Bureau are financed by insurance companies as members of the Bureau. Membership of the Bureau is mandatory for insurance companies engaged in activities relating to compulsory insurance within the transport sector, while other insurance and reinsurance companies may join the Bureau voluntarily. In 2013, the Bureau had 20 members, of which 15 were mandatory and five voluntary members.

The 2013 Report of the Bureau presents its financial operations (regular operations of the Bureau), as well as financial operations of the Guarantee Fund during the previous year.

5.1.2.1 Regular Business Operations

Table 5.6 Abbreviated statement of financial position of regular business operations of the Bureau as at 31 December 2012 and 31 December 2013 (in HRK thousand)

No.	Item	2012	2013	Index 2013/2012
	Assets			
Total assets		**8,452**	**8,227**	**97.34**
1	Non-financial assets	6,669	6,481	97.19
2	Financial assets	1,784	1,746	97.88
	Liabilities			
Total liabilities and own sources		**8,452**	**8,227**	**97.34**
1	Liabilities	3,743	3,640	97.26
2	Sources of financing	4,710	4,587	97.40

Source: Hanfa

The statement of financial position as at 31 December 2013 shows that the total assets of the Bureau amounted to HRK 8.2m, with non-financial assets totalling HRK 6.5m and financial assets reaching HRK 1.7m. The reported assets decreased by 2.7% compared to 2012, which was due to an equal decrease in financial and non-financial assets. The total liabilities of the Bureau at end-2013 stood at HRK 3.6m, declining by 2.7% in comparison with the previous year. Sources of financing amounted to HRK 4.6m, and were comprised of own funds (funds of the establisher) in the amount of HRK 68.0 thousand and of the excess of income over expenses in the amount of HRK 4.5m. The excess of income was accounted for by funds unspent since the beginning of the Bureau's business operations and of all acquisitions of long-term assets from funds planned in the budget, reduced by the long-term asset value impairment.

Table 5.7 Income and expenses from regular business operations of the Bureau for 2012 and 2013 (in HRK thousand)

No.	Item	2012	2013	Index 2013/2012
A	**Income**	**9,976**	**8,529**	**85.49**
1.	Total income from regular operations	9,367	7,749	82.72
2.	Total income - taxable activity	609	780	128.22
B	**Expenses**	**11,207**	**8,537**	**76.18**
1.	Total expenses from regular operations	10,476	7,632	72.85
2.	Total expenses - taxable activity	731	905	123.90
C	**Operating surplus/deficit**	**-1,231**	**-8**	**-**

Source: Hanfa

The total income of the Bureau in the period from January to December 2013 amounted to HRK 8.5m, decreasing by 14.5% compared to the previous year. Income from regular business operations[64] made up 90.9%, while income from taxable[65] activity accounted for 9.1% of total income. Total expenses stood at HRK 8.5m, decreasing by 23.8% compared to 2012. The largest share in the structure of total expenses was accounted for by expenses on regular business operations[66] (89.4%), with salaries and fringe benefits accounting for the largest share (61.6%), followed by functional expenses (35.7%). The total expenses from taxable activity[67] made up 11.9% of the total expenses of the Bureau. The deficit of income over expenses amounted to HRK 8.5m.

64 Income from members for operating costs, income from voluntary and new members, income from members – project – safety improvement and upgrade, other income, income from the Mediation Centre

65 Income from consulting services, income from the Centre for Education of Insurance Industry Employees (CEDOH), income from the services provided to leasing companies

66 Functional expenses, depreciation and investment costs, salaries and fringe benefits, Ombudsman costs, the Mediation Centre costs

67 Croatian Insurance Bureau symposia, CEDOH symposia, accounting and IT costs, fees for forests and the Tourist Board and the cost of salaries of the Secretary

5.1.2.2 Guarantee Fund

Pursuant to Article 45 paragraph 1 of the Act on Compulsory Insurance within the Transport Sector (Official Gazette 151/05, 36/09, 75/09 and 76/13) insurance companies conducting compulsory insurance business[68] are obliged to pay contributions to the Bureau for the Guarantee Fund, in proportion to the premium or number of risks recorded in a certain class of compulsory insurance in the current year.

The Guarantee Fund consists of the Bureau's assets used for meeting liabilities arising from:

- ***claims resulting from accidents occurring outside the territory of the Republic of Croatia, in an EU Member State or a third country that is a member of the Green Card System, caused by insured and uninsured vehicles, whose settlement is guaranteed by the Bureau to foreign national bureaux***
- ***claims resulting from accidents occurring outside the territory of the Republic of Croatia, in an EU Member State, caused by vehicles bearing foreign registration plates and insured under Article 35 paragraph 1 of the Act on Compulsory Insurance within the Transport Sector***
- ***claims resulting from accidents occurring outside the territory of the Republic of Croatia, in an EU Member State or a third country that is a member of the Green Card System***
- ***claims resulting from accidents occurring in the territory of the Republic of Croatia, caused by uninsured vehicles***
- ***claims resulting from death, personal injury or impairment of health occurring in the Republic of Croatia, caused by unidentified vehicles***
- ***claims resulting from accidents occurring in the territory of the Republic of Croatia, caused by vehicles bearing foreign registration plates***
- ***claims resulting from destruction or damage of property occurring in the territory of the Republic of Croatia, caused by unidentified vehicles***
- ***claims which could not be collected by injured parties as a result of dissolution or liquidation of the insurance company and insured amount if the owner of a vehicle serving for transportation of passengers contrary to Article 21 of the Act on Compulsory Insurance within the Transport Sector has not concluded a contract of insurance covering passengers in public transportation against personal accident or if the insured amount has not been paid due to dissolution or liquidation of the insurance company.***

The Ordinance on the calculation method and time limits for paying contributions and on the manner of maintaining and using assets intended for meeting liabilities of the Guarantee Fund (Official Gazette 139/06 and 20/14) defines the method of calculating and time limits for paying contributions, the manner of maintaining and using assets intended for meeting liabilities of the Guarantee Fund, as well as time limits for the submission of reports on assets intended for meeting liabilities of the Guarantee Fund. The Bureau is obliged to separate assets of the Guarantee Fund from other assets and keep them in a special account.

According to the statement of financial position of the Guarantee Fund, as at 31 December 2013, the total assets and liabilities of the Guarantee Fund 2013 amounted to HRK 19.8m, increasing by 7.6% compared to the previous year.

Table 5.8 Abbreviated statement of financial position of the Guarantee Fund for 2012 and 2013 (in HRK thousand)

No.	Item	2012	2013	Index 2013/2012
	Assets			
Total assets		**18,403**	**19,799**	**107.59**
1	Non-financial assets	383	430	112.27
2	Financial assets	18,020	19,369	107.49
	Liabilities			
Total liabilities and own sources		**18,403**	**19,799**	**107.59**
1	Liabilities	320	1,446	451.88
2	Sources of financing	18,083	18,353	101.49

Source: Hanfa

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

5.1.3 Croatian Nuclear POOL Economic Interest Grouping

Pursuant to Article 270, paragraph 1[69] of the Insurance Act, two or more insurance or reinsurance companies may, for the purpose of carrying on insurance or reinsurance business covering risks of liability claims for great damage arising from nuclear energy or for other great damage, establish an insurance or reinsurance pool. The only association of such nature in the Republic of Croatia is the Croatian Nuclear Insurance and Reinsurance Pool EIG[70] (hereinafter: CN POOL), consisting of five members as at 31 December 2013, namely Allianz Zagreb d.d., Croatia Lloyd d.d., Croatia osiguranje d.d., Generali osiguranje d.d. and Triglav osiguranje d.d.

In accordance with its Memorandum of Association, members of the CN POOL jointly accept extraordinary risks with respect to insurance, co-insurance and reinsurance of nuclear plants, i.e. risks in Croatia and abroad, with respect to the exploitation of nuclear power for peacetime purposes.

5.1.3.1 Statement of Financial Position

As at 31 December 2013, the total assets of CN POOL amounted to HRK 78.1m, decreasing by 0.1% in comparison with end-2012. The total asset structure was dominated by cash at bank and in hand (80.9% of total assets), amounting to HRK 63.2m. These amounts were made up of deposits or time deposits from the CN POOL account, intended for maintaining the real value and generating adequate return. The largest liability share (79.9%) was accounted for by technical provisions totalling HRK 62.4m and decreasing by HRK 3.4m or 5.1% compared to the previous year.

5.1.3.2 Statement of Comprehensive Income

In the period from 1 January 2013 to 31 December 2013, the CN POOL generated a profit totalling HRK 47.4 thousand and increasing by 22.8% compared to the previous year. Total income amounted to HRK 15.7m, decreasing by 8.6% compared with 2012, primarily due to a fall in positive exchange rate differences. The largest income share was accounted for by reinsurance premiums, which amounted to HRK 9.3m, declining by 3.3% relative to 2012. Insurance premium totalled HRK 7.5m, rising by 19.1% in comparison with the previous year. Investment income, amounting to HRK 1.9m, decreased by 20.8% compared to the previous year.

Total expenses stood at HRK 15.6m, declining by 8.7% relative to the previous year. The change in provisions, comprised of provisions for claims, provisions for bonuses and rebates, unearned insurance premiums, unearned reinsurance premiums and other technical provisions, amounted to HRK 0.2m. During 2013, settled claims for reinsured foreign risks rose significantly, having a strong impact on reported business results. In 2013, the total amount of settled claims reached HRK 3.1m, increasing by 8.4% relative to 2012.

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69 Pursuant to Article 270 paragraph 1 of the Insurance Act, two or more insurance or reinsurance companies may establish an insurance or reinsurance pool for the purpose of carrying on insurance or reinsurance business covering risks of liability claims for great damage arising from nuclear energy or for other great damage.

70 Pursuant to Article 583 of the Companies Act (Official Gazette 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12 and 144/12), an economic interest grouping (EIG) is a legal person established by two or more natural or legal persons with the aim of facilitating and promoting economic activities which constitute the scope of their business operations, and of improving the effect of those operations, provided that those legal persons do not generate profits for themselves.

Operating costs of the CN POOL are funded from a part of insurance and active reinsurance premiums, as well as by income from investments. In 2013, they amounted to HRK 4.3m, decreasing by 9.7% compared to the previous year. Material and non-material expenses, in the total amount of HRK 2.7m, increased by 7.0% relative to 2012.

5.1.4 Insurance representation business and insurance and reinsurance brokerage business

Hanfa continuously supervises activities relating to insurance representation and insurance and reinsurance brokerage business, on the basis of financial statements and statistical reports submitted to Hanfa by insurance agencies, insurance and reinsurance brokerage companies, insurance representation crafts, insurance companies and crafts conducting insurance representation business at vehicle roadworthiness test garages, Financial Agency, HP - Hrvatska pošta d.d., as well as banks and housing savings banks authorised to carry out insurance representation activities, pursuant to the Ordinance on the form and content of financial and statistical reports compiled by insurance agencies and insurance and reinsurance brokerage companies (Official Gazette 149/09, 42/10 and 52/13). In addition, Hanfa maintains and regularly updates a register of the said supervised entities in accordance with the Ordinance on registers of persons authorised to conduct insurance representation business and insurance and reinsurance brokerage business (Official Gazette 97/13).

5.2 Hanfa's Activities

5.2.1 Regulatory Activities

The year 2013 saw the entry into force of the Act on Amendments to the Insurance Act (Official Gazette 54/13), the Act on Amendments to the Act on Compulsory Insurance within the Transport Sector (Official Gazette 76/13), the Act on Financial Conglomerates (Official Gazette 147/08), and new subordinate regulations, i.e. ordinances and instructions. The amendments to the legislative framework regulating the insurance industry were necessary in order to ensure full alignment with applicable regulations of the European Union (Directive 88/35/EEC, Directive 2010/78/EU (Omnibus I Directive), Directive 2011/89/EU, Directive 2009/103/EC, Regulation (EC) No 785/2004, etc.) i.e. in order to create preconditions for their application. A prerequisite for the preparation of the acts was the establishment of working groups comprising employees of the Ministry of Finance of the Republic of Croatia, whose area of competence covers the preparation of the acts, Hanfa's employees and employees of the Croatian National Bank in the case of the Act on Financial Conglomerates.

In addition, along with the Ministry of Foreign and European Affairs of the Republic of Croatia, Hanfa participated in the revision of the Croatian version of Directive 2009/138/EC (Solvency II), EIOPA's guidelines and Regulation (EU) No 1094/2010 (EIOPA Regulation).

Following the said legislative amendments, Hanfa faced a demanding task of adopting and amending subordinate regulations. During 2013, ten ordinances relating to the insurance and reinsurance industry entered into force:

Regulatory framework governing business activities and supervision of insurance companies, reinsurance companies, insurance agencies, insurance and reinsurance brokerage companies, insurance agencies conducting insurance business at vehicle roadworthiness test garages, insurance representation crafts, insurance representation crafts conducting insurance business at vehicle roadworthiness test garages, banks authorised to carry out insurance representation activities, housing savings banks authorised to carry out insurance representation activities, Financial Agency, HP Hrvatska pošta d.d., authorised insurance agents, authorised insurance brokers and certified actuaries includes the Act on the Croatian Financial Services Supervisory Agency, Insurance Act, Act on Compulsory Insurance within the Transport Sector, Companies Act, Accounting Act, Audit Act, Civil Obligations Act and Act on the Prevention of Money Laundering and Terrorist Financing.

1. Ordinance on the requirements for professional training and examination of professional knowledge required to obtain authorisation to carry out insurance representation or insurance/reinsurance brokerage business (Official Gazette 97/13)
2. Ordinance on additional services provided by insurance and reinsurance brokerage companies (Official Gazette 97/13)
3. Ordinance on other services provided by insurance agencies (Official Gazette 97/13)
4. Ordinance on registers of persons authorised to conduct insurance representation business and insurance and reinsurance brokerage business (Official Gazette 97/13)
5. Ordinance on marketing activities (Official Gazette 97/13)
6. Ordinance on the requirements for professional training and examination of professional knowledge required to perform duties of a certified actuary (Official Gazette 93/13)
7. Ordinance on the content of documentation to be submitted with an application for the issuance of approval to candidates for the position of a member of the management board of an insurance or reinsurance company (Official Gazette 85/13)
8. Ordinance on the content of regular reports and reports submitted at the request of the Croatian Financial Services Supervisory Agency (Official Gazette 85/13)
9. Ordinance on detailed rules and criteria for taking account of gender (Official Gazette 79/13)
10. Ordinance on handling complaints of insured persons, policyholders and beneficiaries under the insurance contract by insurance companies (Official Gazette 73/13).

In addition to these ordinances, in 2013, ten new ordinances amending ordinances regulating the insurance industry entered into force. Two of these ordinances related to amendments to the Ordinance on types and characteristics of assets covering technical provisions, rules for diversification and limitations on asset investments, their valuation and compliance with the law, rules for the use of derivative financial instruments, as well as the manner and time limits for reporting (Official Gazette 79/13 and 105/13); two ordinances related to amendments to the Ordinance on minimum standards, methods of calculating and guidelines for calculating technical provisions in insurance (Official Gazette 56/13 and 97/13); two ordinances related to amendments to the Ordinance on the manner of calculating capital, guarantee fund and capital adequacy of insurance/reinsurance companies (Official Gazette 73/13 and 105/13); while four ordinances related to amendments to ordinances governing the following business activities of insurance and reinsurance companies:

- the form and content of financial statements and statistical reports of insurance agencies and insurance and reinsurance brokerage companies
- the calculation of the liquidity ratio and minimum value of the liquidity ratio
- the calculation of the required solvency margin (capital adequacy)
- the supplementary supervision of insurance companies and reinsurance companies in an insurance group.

In 2013, Hanfa adopted Amendments to the Statistical Standards for Insurance (Official Gazette 149/13), the Instruction amending the Instruction for the application of the chart of accounts of insurance companies and reinsurance companies and the Instruction amending the Instruction for completing financial statements of insurance companies and reinsurance companies. All these subordinate regulations were adopted within the set deadlines.

In 2013, Hanfa also issued nine opinions on the implementation of the provisions of the Insurance Act and the Act on Compulsory Insurance within the Transport Sector.

5.2.1.1 Act on Amendments to the Insurance Act

The Act on Amendments to the Insurance Act ensured the implementation of provisions of EU directives into the legal system of the Republic of Croatia and regulated their application. In addition, it offered insurance companies opportunity to take account, in case of life insurance contracts, personal accident insurance contracts and health insurance contracts, of gender-based factors of insured persons when calculating premiums and determining insured amounts under group insurance contract, provided this does not lead to diversification of premiums of individual persons, when calculating technical provisions, when determining prices in reinsurance, for marketing, and for risk assessment in the said insurance types[71]. Furthermore, the said amendments ensured the application of the Insurance Act to insurance companies from other EU Member States insuring risks on the territory of the Republic of Croatia. They also listed the supervisory authorities from the European Union and provided for cooperation with other competent supervisory authorities, and obliged the Government of the Republic of Croatia to change the amounts of the minimum initial capital of insurance and reinsurance companies on the basis of a notification of the European Commission submitted to the European Parliament and the Council of the European Union, by adopting a decision and publishing it in the Official Gazette. The amendments increased the lowest amounts of the initial capital and guarantee fund of an insurance and reinsurance joint-stock company and amounts based on which the solvency

71 Ruling of the Court of Justice of the European Union of 1 March 2011, regarding case C-236/09 (Test-Achats). The ruling entered into force on 21 December 2012, invalidating Article 5 paragraph 1 and Article 5 paragraph 2 of Directive 2004/113/EC. Article 5 paragraph 1 of the said Directive stipulates that all new insurance contracts concluded after 21 December 2007 may no longer use gender to determine premiums paid or benefits granted (unisex rule). Article 5 paragraph 2 of the same Directive provides for a gender equality principle, regulating the use of actuarial factors related to the use of gender in determining insurance premiums and benefits.

margin is calculated. The increase in the initial capital and guarantee fund was to be applied as follows:

- for companies carrying out insurance activities from certain types of non-life insurance only, the capital was increased from HRK 15m to HRK 18.8m,
- for companies carrying out insurance activities from all types of non-life insurance or from certain types of insurance referred to in Article 3 paragraph 2 points 10 to 15 of the Insurance Act, the capital was increased from HRK 22.5m to HRK 27.8m,
- for companies carrying out life insurance activities, the capital was increased from HRK 22.5m to HRK 27.8m, and
- for companies carrying out reinsurance activities, the capital was increased from HRK 22.5m to HRK 25.5m.

Following the change in the calculation of the solvency margin, the sum of insurance premiums in the last financial year rose from HRK 375m to HRK 459.8m, while the average annual gross amount of expenditures for claims for the last three financial years, which represent settled claims increased by the change in the outstanding claims provision not reduced by the amount ceded to reinsurance, increased from HRK 262.5m to HRK 321.8m.

The accession of the Republic of Croatia to the European Union enabled insurance agencies and insurance and reinsurance brokerage companies from Member States that are allowed, pursuant to the Insurance Act, to conduct insurance representation business and insurance and reinsurance brokerage business in the territory of the Republic of Croatia to carry out insurance representation business and insurance and reinsurance brokerage business directly or through a branch. Insurance agencies may also provide other intellectual and technical services relating to the insurance business under terms and conditions prescribed by an ordinance of the supervisory authority. Furthermore, insurance and reinsurance brokerage companies may, as an exception, conduct business related directly or indirectly with the insurance business[72]. In addition, there is a new obligation for insurance agents to provide information on the proportions in voting rights or in the capital of insurance companies or insurance agencies in which they are employed.

5.2.1.2 Act on Amendments to the Act on Compulsory Insurance within the Transport Sector

The Act on Amendments to the Act on Compulsory Insurance within the Transport Sector ensured the implementation of relevant provisions of EU directives into the legal system of the Republic of Croatia.

The said act introduced changes, among other things, with respect to the compulsory insurance contract and its impact, reporting by supervisory authorities on insurance terms and conditions, with an emphasis on the adequacy of insurance premiums as regards the ability of insurance companies to fulfil their obligations on a permanent basis, and the formation of adequate technical provisions. The act also laid down measures to be taken by the supervisory authority and amended provisions on accident insurance of passengers in public transport, obligations of insurance companies, provisions on third party liability insurance of owners of motor vehicles, provisions on aircraft passenger and third-party liability insurance of air carries and aircraft operators, and provisions on the Guarantee Fund. Furthermore, in accordance with Directive

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72 This relates to the following activities: mediation in the sale or sale of assets acquired by insurance companies as a result of their insurance operations, taking measures aimed at preventing and eliminating danger jeopardising insured property and persons, assessment of the exposure to risks of insured objects, damage assessment and other intellectual and technical services related to insurance business.

2009/103/EC, a minimum amount of cover per claim was provided for, with minimum amounts of cover in the motor vehicle liability insurance having been increased several times over. Minimum amounts of cover[73] in the aircraft passenger and third-party liability insurance of air carriers and aircraft operators were also modified, namely with respect to liability related to luggage, where the minimum amount of cover was increased from SDR[74] 1 thousand to SDR 1.1 thousand per passenger on commercial flights. As regards liability for cargo, the minimum amount of cover was increased from SDR 17 to SDR 19 per kilogramme on commercial flights.

5.2.1.3 Notifications from EU Member States

In addition to the said amendments to the legislative framework, in 2013 it was necessary to establish internal procedures for the purpose of effective cooperation with competent supervisory authorities of the European Union, other competent authorities of the Republic of Croatia and other organisational units of Hanfa. This primarily referred to the compilation of publicly available lists of insurance and reinsurance companies, insurance agents and brokers, insurance agencies and insurance and reinsurance brokerage companies which intend to conduct insurance and reinsurance business and insurance and reinsurance representation and brokerage business in the Croatian territory directly or through a branch.

In 2013, Hanfa received 30 notifications for direct conduct of business by insurance companies and 143 notifications for direct conduct of business by insurance agents or insurance and reinsurance brokers.

At the same time, Hanfa received notifications from nine Croatian insurance companies and three insurance agencies and insurance and reinsurance brokerage companies with respect to their intention to provide services directly in the European Union and forwarded them to the competent supervisory authorities.

73 Implementation of Regulation (EC) 785/2004 and Regulation (EU) 285/2010 began on the day of Croatia's accession to the European Union, resulting in changes in minimum sums insured.

74 Special Drawing Rights (SDR) are supplementary foreign exchange reserve assets defined and maintained by the International Monetary Fund.

The new regulatory framework for the insurance industry (Solvency II) is a risk-based system helping insurers and reinsurers better understand and manage their own risks. Solvency II is a transparent system which will (along with new solvency and risk management rules) also ensure a harmonised reporting framework and effective and adequate protection of policyholders, enhancing, as a result, the overall financial stability level.

Solvency II Directive, which creates a new regulatory system based on risks and supervisory system in the insurance industry is complementary to Omnibus II Directive, which contains, among other things, a number of measures related to the treatment of long term guarantee insurance products.

In 2013, at the request of the European Parliament, the European Commission and the Council, EIOPA conducted the Long-Term Guarantees Assessment (LTGA) in order to test various measures aimed at ensuring appropriate supervisory treatment of long-term guarantee products in volatile and specific market conditions. The findings of the assessment showed that the Long-Term Guarantee package included in the Solvency framework II needs to meet the appropriate consumer protection level and effective supervisory processes.

In October 2013, the European Commission announced a proposal for the directive, postponing the Solvency II implementation date to 1 January 2016, and leaving insurers enough time to prepare for the new regulations.

On 31 October 2013, within the third phase of the Solvency II implementation, EIOPA published a final version of the Preparatory Guidelines for Solvency II, in order to raise the level of preparedness for the upcoming regulatory framework reached by both national supervisory authorities and insurers. After the end of public consultation, (with more than 4000 comments received), the guidelines were published in all EU official languages and will be applicable in 2014 and 2015.

The guidelines have been drawn up so as to enable a gradual application of Solvency II, and to cover the areas relating to the system of governance (including risk management), forward-looking assessment of own risks based on the ORSA principles (Own Risk and Solvency Assessment), submission of information to national competent authorities and pre-application of internal models.

Hanfa's employees participate intensively in the work of EIOPA's committees, in particular those relating to the implementation of Solvency II.

5.2.2 Licensing

During 2013, Hanfa did not grant any authorisations to new insurance companies, whereas it granted two authorisations to insurance companies to conduct insurance business with respect to new classes of insurance (Agram životno osiguranje d.d., Zagreb, classes: personal accident and health insurance, and ERGO osiguranje d.d., classes: insurance of land motor vehicles and motor vehicle liability insurance). Hanfa received and handled 22 applications for the position of member of the management board of an insurance company and one application for the acquisition of an insurance company, namely the acquisition of Helios Vienna Insurance Group d.d., Zagreb by Kvarner Vienna Insurance Group d.d., Zagreb. The acquisition was carried out on 17 May 2013, when Kvarner Vienna Insurance Group d.d., Zagreb, changed its name and now operates under the name Vienna Insurance Group d.d., Zagreb.

In 2013, six approvals were granted to insurance companies to transfer outsourced computer data processing tasks to another person.

Furthermore, two applications were received and handled relating to the approval of promotional activities of insurance companies.

Hanfa also received and handled 20 applications for issuance of a certificate on successful completion of the examination of professional knowledge required to perform duties of a certified actuary and applications for issuance of authorisation to perform duties of a certified actuary.

In 2013, following the reception of applications, Hanfa granted authorisations to conduct insurance representation business to 24 insurance agencies and 15 insurance representation crafts. It also granted authorisations to conduct insurance and reinsurance brokerage business to five insurance and reinsurance brokerage companies. Following the reception of applications to issue authorisations to conduct insurance representation business at vehicle roadworthiness test garages, Hanfa granted the authorisations to three

The EU national competent authorities have decided whether and how they will implement the guidelines in their national regulatory frameworks. In the Republic of Croatia the following guidelines apply: guidelines on the system of governance, guidelines on the forward-looking assessment of own risks based on ORSA principles and guidelines on the submission of information to national competent authorities.
On 13 November 2013, the European Parliament, the European Commission and the Council reached an agreement for the new rules defined by Solvency II, including those defined by Omnibus II, to enter into force on 1 January 2016, with the deadline for the implementation in national regulatory frameworks being 31 March 2015. The agreement postponed the date of the implementation of the new, modern, risk-based solvency system, whereas Omnibus II Directive enables long-term products (life and annuity) to be sold in the insurance market on an on-going basis and ensures that insurers' assets meet their liabilities in the long term. It also included measures relaxing small and medium insurers' reporting requirements and reaffirming EIOPA's authority as regards harmonisation of national competent authorities' practices and preparation of a guidebook for insurance supervision. The postponement of the application date for the Solvency II regulatory framework, insurers and supervisory authorities are given additional time to fully apply the new solvency system.
In order to ensure full understanding and appropriate application of the guidelines by supervisory authorities, EIOPA established a Q&A system, available on its website and enabling all stakeholders (supervisory authorities, financial institutions and other) to get answers to questions concerning the meaning of a particular guideline.
The preparatory phase will end once the European Commission issues implementing act and EIOPA issues technical standards and guidelines proposed after the end of public consultations in 2014.

insurance agencies and two insurance representation crafts. According to Article 250 paragraph 4 of the Insurance Act, approval to conduct insurance representation business was issued to a housing savings bank. On the basis of received notifications relating to termination of operation, decisions were adopted establishing the termination of authorisation to conduct insurance representation business granted to three insurance agencies, 13 insurance representation crafts, and two insurance agencies and three insurance representation crafts conducting insurance business at vehicle roadworthiness test garages.

In 2013, a total of eight examinations were organized for applicants taking examination for authorised insurance agents or insurance and reinsurance brokers, one examination more than in 2012. A total of 1,659 candidates took the examination, eight candidates less than in 2012, when 1,667 candidates took the examination. A total of 1,620 candidates took the examination for authorised insurance agents (17 candidates less than in 2012) and 39 candidates took the examination for insurance and reinsurance brokers (nine candidates more than in 2012). A total of 1,339 candidates passed the examination, 80 candidates or 6.4% more than in 2012, when 1,259 candidates passed the examination (1,305 candidates passed the examination for authorised insurance agents (as compared with 1,232 candidates in 2012) and 34 candidates passed the examination for insurance and reinsurance brokers (as compared with 27 candidates in 2012)).

In 2013, Hanfa's representative participated in two sessions of the Council of the Insurance Ombudsman Service.

5.2.3 Supervision

Hanfa carries out on-going supervision of its supervised entities within the area of its competence and initiates on-site and off-site supervision accordingly. On-site examinations are defined by the Annual On-Site Examination Plan, whereas off-site examinations are initiated on the basis of financial, statistical and supervisory reports received.

In 2013, Hanfa carried out 16 examinations in supervised entities operating in the insurance market.

Two out 16 on-site examinations were initiated in 2012, and completed in 2013. Nine on-site examinations were initiated and completed in 2013, while five examinations were initiated in 2013, and continued into 2014.

During the previous year, Hanfa adopted two decisions ordering elimination of violations and irregularities established during on-site examinations completed in 2012. It also adopted three decisions ordering elimination of violations and irregularities established during on-site examinations completed in 2013.

Out of total of 16 on-site examinations, 12 were carried out in insurance companies, two in insurance agencies, one in an insurance and reinsurance brokerage company, and one in the Bureau.

On the basis on off-site examinations, Hanfa adopted eight decisions ordering supervisory measures for the purpose of eliminating established violations and/or irregularities, of which four proceedings were completed and Hanfa adopted decisions determining that the companies had eliminated the irregularities established. All the proceedings were related to insurance companies.

Supervision of insurance companies covered the following areas: risk management relating to conclusion of insurance contracts and claims processing, risk management system, risk management relating to security and adequacy of the IT system, risk management relating to investments, sufficiency of assets covering technical provisions, valuation of balance and off-balance sheet items, reporting, promotional activities, calculation and recording of provisions for unearned premiums and provisions for claims, calculation and recording of technical and mathematical provisions, calculation and recording of commission and other acquisition costs, capital adequacy, and implementation of the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 25/12).

Supervision of insurance agencies and insurance and reinsurance brokerage companies covered the compliance of insurance representation business and insurance and reinsurance brokerage business with the provisions of the Insurance Act and financial performance.

Supervision of the Bureau included examination of its organisation and documentation, activities of the national Green Card Bureau, management activities of the Guarantee Fund, and processing and payment of claims.

Violations and irregularities established in the course of supervision of insurance companies related to the lack of, failure to obey and inadequacy of internal regulations and procedures, shortcomings and inadequacy of the risk management system, non-compliance with subordinate regulations adopted by Hanfa, lack of adequate internal control and internal audit systems, accounting records, recognition and recording of income from insurance premiums, irregularities in the process of calculating provisions for claims and provisions for unearned premiums, analysis of the sufficiency of provisions, documenting of business processes, maintenance of business books and records, noncompliance with premium systems and related terms and conditions by types of insurance covered by supervision, unauthorised conduct of insurance representation business, claim processing and settlement, out-of-court settlement proceedings, risk management relating to the security and adequacy of the IT system, outsourcing of computer data processing tasks without Hanfa's approval, failure to implement measures for the prevention of money laundering and terrorist financing, irregularities and discrepancies in the business investment process, insufficiency of assets covering technical provisions, valuation of balance and off-balance sheet items, reporting and promotional activities.

Violations and irregularities established in the course of supervision of insurance agencies and insurance and reinsurance brokerage companies related to the lack of legally prescribed documents in the insurance representation business, unauthorised conduct of insurance representation and insurance and reinsurance brokerage business, maintenance of business books and records and personal data protection.

Violations and irregularities established in the course of supervision of the Bureau related to non-compliance of the Statute with relevant legal provisions, failure to lay down the manner of carrying out activities related to the issuance of green cards and failure to lay down terms and conditions for activation of collateral for the purpose of efficient transfer of assets to the Guarantee Fund.

The said violations and irregularities resulted from a failure to comply with the provisions of the Insurance Act, Act on Compulsory Insurance within the Transport Sector, Accounting Act (Official Gazette 109/07 and 54/13), or the International Financial Reporting Standards, Civil Obligations Act (Official Gazette 35/05, 41/08 and 125/11), Companies Act (Official Gazette 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12 and 68/13), Act on Personal Data Protection (Official Gazette 103/03, 118/06, 41/08, 130/11 and 106/12), Act on the Prevention of Money Laundering and Terrorist Financing, and regulations adopted under these acts.

5.2.4 Risk-Based Supervision

In 2013, Hanfa started implementing a risk-based supervisory approach and improved methods for its implementation for individual supervised entities. The objective of risk-based supervision is to assess the ability of supervised entities to identify and manage risks they are exposed to before the risks materialise, resulting in an adverse impact. The risk-based supervisory approach was also applied to insurance companies. In 2013, Hanfa carried out a qualitative risk assessment, while a quantitative risk assessment is to be carried out in future business periods. The qualitative risk assessment was carried out through interviews with key persons (management board, key functions – risk manager, internal auditor, actuary, etc.) in order to collect information on processes, procedures and activities of supervised entities. The interviews were conducted with all persons individually, on the basis of a risk-based supervision questionnaire which contains 16 categories with subcategories. The questions were different for large and small supervised entities, depending on their gross written premium, total technical provision and number of employees. The questions were answered by members of management boards and key functions according to their individual responsibilities and professional expertise (sale, IT, accounting, human resources etc.). Formal and informal interviews carried out this way help the supervisory authority obtain useful information needed for forming an opinion and making a decision on the risk exposure and risk profile of a supervised entity. Hanfa's authorised persons who participated in the risk-based supervision made an assessment of the level of risk connected with every business process.

Risk categories and subcategories contained in the questionnaire are formed according to risk modules in order to ensure adequate recording and monitoring of all information collected during the supervision. Risk modules are divided according to risk categories in the manner defined by Hanfa and are subject to changes, which makes the updating of the questionnaire possible. Data entered in risk modules relate to problems and risks identified or to any other areas relevant for the assessment of supervised entities.

Risk assessment system covered all the problems, risks and points of interest, as stated in risks modules. After the answers had been collected, risk ratings were entered into the system, ranging from 1 to 4 (1 – low risk, 2 – moderate risk, 3 – regular risk and 4 – high risk). While assessing the risks, Hanfa used the information collected in order to assign a risk rating.

Risk-based supervision enables Hanfa to allocate its resources where they are needed most. Supervised entities assessed as having a high-risk profile obviously require more resources and attention of the supervisory authority. Risk-based supervision also emphasises the requirements imposed on supervised entities by Hanfa with respect to risk management, identification and mitigation of risks, understanding of risk appetite, monitoring of supervised entities' risk exposures and updating of risk management documentation accordingly. Supervised entities not managing their risks in an acceptable manner were assigned a low total risk rating and will be paid more attention by Hanfa. Supervised entities managing their risks in an adequate manner were assigned a better total risk rating and will be subject to Hanfa's regular annual examination only. Risk-based supervision is carried out in accordance with best supervisory practices, trends and requirements set out by EU institutions.

5.2.5 Cooperation with EIOPA

As already mentioned, Hanfa's employees participate in activities of various EIOPA's committees by exchanging information on websites and through e-mails and by participating directly in committee meetings. The said committees are mostly focused on the implementation of Solvency II.

EIOPA's committees related to insurance market activities in 2013 whose members included Hanfa's employees were the following:

- Internal Governance, Supervisory Review and Reporting Committee is focused on the implementation of risk-based supervision, on the system of governance of insurance and reinsurance companies and on the defining of the gross written premium for the purpose of establishing one and the same definition in implementing measures (Level II). The committee is in charge of the development of specific standards for insurance groups and guidelines under Solvency II, and of their implementation in systems of governance, including the Own Risk and Solvency Assessment (ORSA), transparency and accountability of supervisory authorities, supervisory review process, public disclosure and supervisory reporting, and valuation of assets and liabilities. It is also responsible for following accounting developments and for preparatory activities relating to the participation of EIOPA in the process of establishing the International Financial Reporting Standards and their endorsement by the European Union. In addition, the committee serves as a platform for the exchange of information relating to these issues among members of the European Union and the European Economic Area, for the purpose of implementing Solvency II.

- Financial Requirements Committee analyses the use of specific parameters of insurance and reinsurance companies, and carries out the active, deep, liquid and transparent (ADLT) evaluation of government and corporate bonds and the ADLT evaluation of insurance and reinsurance companies. The committee is also in charge of determining financial requirements with respect to approach analysis, models and methods for standardised capital requirements (Minimum Capital Requirements and Solvency Capital Requirement) for the purpose of implementing Solvency II in these areas. In addition, the tasks of the committee are to monitor and assess the compliance, consistency and applicability of the SCR standard formula, develop criteria for the classification and eligibility of own funds, and criteria for the adjustment and approval of own funds.

- Insurance Group Supervision Committee deals with issues related to the organisation of supervisory colleges and with the exchange of information and expertise among national supervisory authorities. The committee is in charge of developing specific standards for insurance groups and guidelines in relation to Solvency II and of their implementation with respect to group solvency, intra-group transactions and risk concentration.

- Equivalence Committee was initially established with the aim of setting up the equivalence of third countries supervisory systems as regards insurance and reinsurance companies. It provides technical support to third countries in obtaining the benefits of equivalence transitional measures. The committee is in charge of reviewing and adapting the current EIOPA methodology for equivalence assessments, it carries analyses on the effects of future equivalence decisions and assists group supervisors in the equivalence assessments they carry out.

- Internal Models Committee was established to deliver advice on the Solvency II project. The committee is composed of representatives from national supervisory authorities and cooperates with other committees to establish standards and guidelines for the implementation of the Solvency II framework in line with the principles of Solvency II, taking into account the principles of proportionality and subsidiarity. The tasks of the committee are to develop draft technical standards, guidelines and good practices in order to analyse potential related costs and benefits. Furthermore, the committee develops studies of general effects of the said standards and guidelines. Further activities of the committee will relate to the participation in the preparation of guidelines for the pre-application for internal models.

- Consumer Protection and Financial Innovation Committee deals with the legislative framework relating to the public interest protection, data exchange on the number of insurance contracts and consumer complaints submitted. The committee is also responsible for the implementation of legal provisions on gender equality in the national legislation. It also deals with guidelines and prepared materials related to consumer protection, and monitors and analyses consumer trends. The committee is in charge of establishing a Financial Innovation Commission and is authorised to temporarily prohibit or restrict certain types of financial activities that might threaten the stability of the financial market.

In 2013, Hanfa also intensively cooperated and exchanged experiences with national supervisory authorities of the European Union, primarily with the German BaFin[75], Austrian FMA[76] and Slovenian AZN[77], especially during the preparatory process for the EU accession. Furthermore, Hanfa also participated in mandatory supervisory meetings for insurance groups organised by supervisory authorities of other EU Member States.

75 Bundesanstalt für Finanzdienstleistungsaufsicht, Federal Republic of Germany

76 Finanzmarktaufsicht, Republic of Austria

77 Agencija za zavarovalni nadzor, Republic of Slovenia

Leasing

6 Leasing

6.1 Description of the Market

In 2013, the leasing industry recorded a decrease in the value of active contracts and an asset decline, for the fifth consecutive year.

As at 31 December 2013, 23 leasing companies[78] recorded their assets amounting to HRK 19.7bn and falling below the level reported in 2006, when a special act regulating the leasing industry in the Republic of Croatia entered into force. Compared to 31 December 2008, when the total assets of the leasing industry totalled HRK 35.1bn and until when the leasing industry had recorded a steady growth, leasing companies' assets were lower by HRK 15.4bn, or as much as 43.9%. At the same time, in 2013 the value of newly concluded contracts was lower by HRK 9.8bn or 63.4% compared to 2008. Despite the growth of the value of newly concluded contracts in 2013 compared to 2012, this was mostly the result of exceptional circumstances, rather than of the recovery of the leasing market.

The Croatian economy has had many difficulties recovering from the consequences of the global economic and financial crisis. The real GDP continued to decline, making the year 2013 the fifth consecutive year marked by a decline in economic activity. Macroeconomic analyses conducted by the Croatian National Bank showed that the GDP growth in the period until 2008 had largely been based on the expansion of consumption and investments in sectors that do not participate in international trade. Developments in the real sector of the economy are still negative, and the impact of the crisis is evident. All this also had an impact on the economic environment in which leasing companies operate: domestic demand continued to weaken, leading to a decrease in business activities of leasing companies.

Table 6.1 Assets, value of newly concluded contracts, value of active contracts and number of persons employed in the leasing industry in the period 31 December 2006 - 31 December 2013

Date	Total assets (in HRK thousand)	Value of newly concluded contracts (in HRK thousand)	Value of active contracts (in HRK thousand)	Number of employees
31 Dec 2006	26,968,591	13,344,149	22,053,947	868
31 Dec 2007	30,303,865	13,816,970	26,510,657	997
31 Dec 2008	35,067,935	15,464,017	30,881,104	1,007
31 Dec 2009	33,634,131	8,212,235	27,125,757	992
31 Dec 2010	28,078,061	5,805,148	22,254,304	989
31 Dec 2011	25,599,674	5,564,905	19,337,766	958
31 Dec 2012	22,159,270	4,839,815	16,270,132	905
31 Dec 2013	19,685,633	5,661,722	14,407,165	828

Source: Hanfa

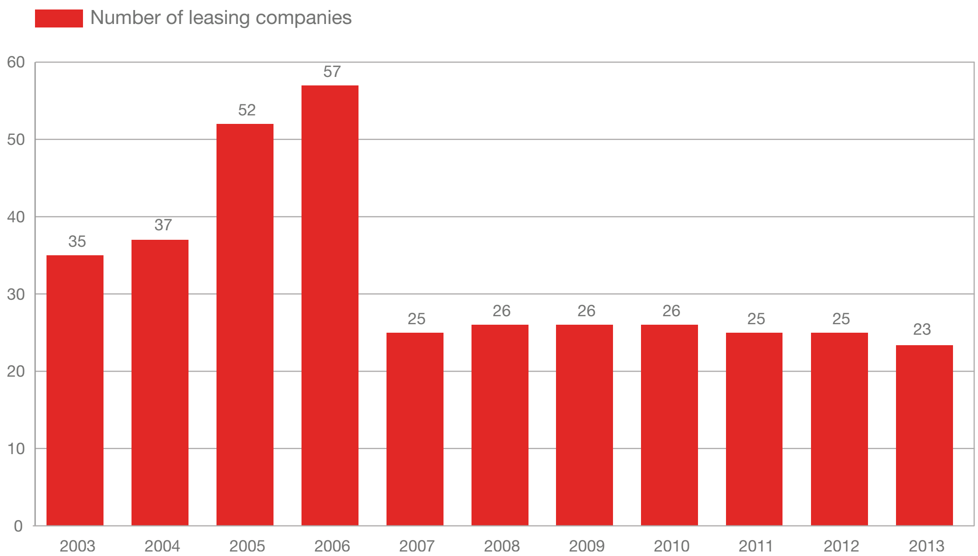
78 The data for the period from 2006 to 2013 relate to the original data submitted by leasing companies to Hanfa by years. The data presented in the 2013 Annual Report may differ from the data in Hanfa's Annual Reports for 2006-2012 due to the application of the provisions of the Accounting Act (Official Gazette 109/07 and 54/13), the Leasing Act (Official Gazette 135/06 and 141/13), the International Financial Reporting Standards (Official Gazette 136/09, 08/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11, 15/12, 118/12, 45/13 and 69/13), changes in reporting methodology, as well as due to actions taken by leasing companies in accordance with instructions contained in Hanfa's records prepared following examinations carried out.

The value of newly concluded contracts decreased from 2008 to 2012, while 2013 saw an increase in the financing of new contracts. As at 31 December 2013, the value of newly concluded contracts reached HRK 5.7bn, growing by HRK 821.9m or 17.0% compared to 2012, but falling by HRK 7.7bn or 57.6% relative to 2006.

The recovery of the leasing market depends on the stabilisation of the overall economic situation. It is realistic to expect those leasing companies with access to higher quality sources of financing to adapt to the new business environment more easily. As leases are largely used to finance passenger cars and commercial vehicles, the recovery of the leasing market will depend on the recovery of the vehicle market, but also of the property, vessel and building equipment markets.

As at 31 December 2013, leasing operations in the Republic of Croatia were carried out by 23 leasing companies, while as at 31 December 2012 there were 25 leasing companies.

Chart 6.1 Number of leasing companies in the Republic of Croatia in the 2003-2013 period



Source: Croatian National Bank (2003-2005), Hanfa (2006-2013)

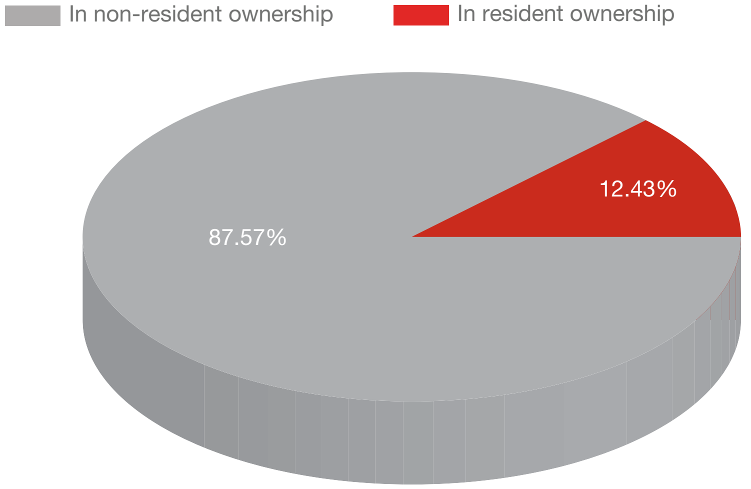
The 2103 decrease in the total number of active leasing companies was a result of the cessation of business operations of Croatia leasing d.o.o. and Austrofin leasing d.o.o.

One of the most significant characteristics of the Croatian leasing industry is that the majority of the leasing companies belong to groups of financial institutions mostly owned by non-residents. In contrast to 31 December 2012, when six leasing companies were directly owned by residents, as at 31 December 2013, five leasing companies were directly owned by residents.

According to the data from the aggregate statement of financial position for the 23 leasing companies, as at 31 December 2013, their initial capital amounted to HRK 935.8m, with the non-resident share accounting for 87.6% or HRK 819.5m and 12.4% or HRK 116.3m being accounted for by the initial capital in direct resident ownership.

Looking at ownership by actual owner (indirect and direct owner), as at 31 December 2013, non-residents owned 21 leasing companies with a 97.7% share in the initial capital.

Chart 6.2 Structure of leasing companies' assets by capital origin as at 31 Dec 2013



Source: Hanfa

6.1.1 Asset structure

According to the data from the aggregate statement of financial position of the leasing industry, as at 31 December 2013, the total assets of the leasing companies decreased by HRK 2.5bn or 11.2% compared to the aggregate assets of the said companies on the same day of the previous year. This was the result of the depreciation (expiry) of existing contracts in operating and finance lease that was faster than the growth in the amount of newly concluded contracts and the repayment of loans used to finance lease operations.

Leases may be classified either as finance leases or operating leases.
Under an operating lease, the lessor acquires the ownership of the leased asset on the basis of the contract of sale concluded with the vendor, and conveys to the lessee the right to use the asset for an agreed period of time, based on the operating lease agreement. In return, the lessee pays a defined fee which does not have to take into account the overall value of the leased asset. The lessee has no option to purchase the asset, and returns the leased asset to the lessor after the end of the lease term. The lessor is both a legal and economical owner of the leased asset and bears its depreciation costs.
Under a finance lease, the lessor acquires the ownership of the leased asset on the basis of the contract of sale concluded with the vendor, and conveys to the lessee the right to use the asset for an agreed period of time, based on the finance lease agreement. In return, the lessee pays a defined fee which takes into account the overall value of the leased asset, bears its depreciation costs and has the option to purchase it and become its owner at the price that is lower than the fair value of the asset at the moment of exercise of the purchase option. The leased asset is under legal ownership of the lessor, but under economic ownership of the lessee, who records it in his business books and bears its depreciation costs.

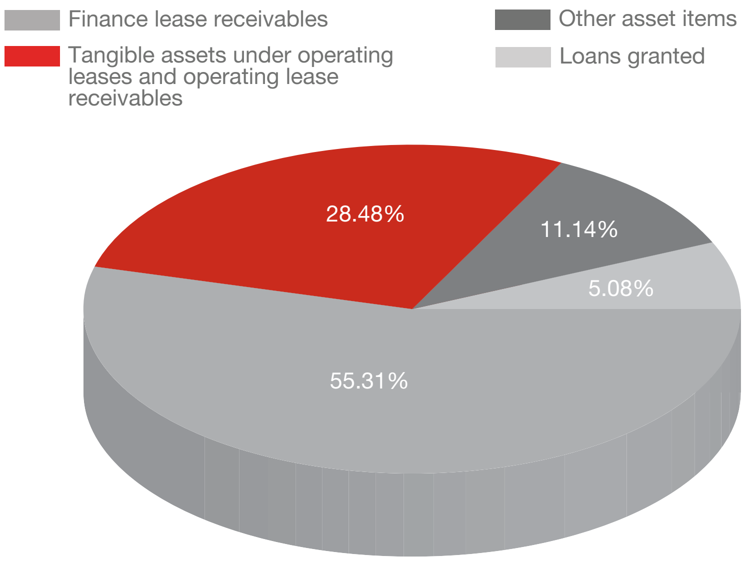
Table 6.2 Leasing industry assets as at 31 December 2012 and 31 December 2013 (in HRK thousand)

Item	31 Dec 2012	31 Dec 2013	Index 31 Dec 2013/ 31 Dec 2012
Tangible assets under operating leases	6,084,128	5,445,397	89.50
Operating lease receivables	186,438	161,336	86.54
Finance lease receivables	12,009,725	10,887,212	90.65
Loans granted	1,424,881	999,382	70.14
Inventories	819,084	824,430	100.65
Other assets	1,635,013	1,367,875	83.66
Total assets	**22,159,270**	**19,685,633**	**88.84**

Source: Hanfa

As at 31 December 2013, the largest items in the asset structure of the leasing industry were long-term and short-term finance lease receivables totalling HRK 10.9bn or 55.3% of total assets. Of this amount, short-term receivables accounted for HRK 3.2bn, and long-term receivables for HRK 7.7bn. Despite the growth in financing of new finance lease contracts, this item decreased by HRK 1.1bn or 9.3% relative to 2012 since the said growth was slower than the decrease in the value of existing contracts, affected by the increase in expenses on the value adjustment for the said receivables in 2013.

Chart 6.3 Leasing industry asset structure as at 31 December 2013



Source: Hanfa

Tangible assets under operating leases and operating lease receivables totalled HRK 5.6bn, accounting for 28.5% of total assets and decreasing by HRK 663.8m or 10.6% over the previous year.

The reduction in the value of tangible assets under operating leases and of operating lease receivables in 2013, recorded in the statement of financial position, was mostly due to a decline in the value of existing contracts in that year. The value of newly concluded contracts in 2013 did not suffice to compensate for the fall in the value of active contracts.

In contrast to the downward trend in finance lease receivables and in tangible assets under operating leases and operating lease receivables, inventories recorded a HRK 5.3m or 0.7% increase. The general economic situation in the Republic of Croatia made the number of insolvent lessees rise, leading to the termination of lease contracts and consequently to the seizure of leased assets registered by companies in their inventories.

The share of ten largest leasing companies by asset size in the total assets of the leasing industry increased slightly compared to the previous year (from 78.5% as at 31 December 2012 to 78.8% as at 31 December 2013). All leasing companies from the top ten group are members of bank groups.

Table 6.3 Comparative overview of assets by leasing company as at 31 Dec 2012 and 31 Dec 2013 (in HRK thousand)

No.	Company	31 Dec 2012	Share	31 Dec 2013	Share
1	UniCredit Leasing Croatia d.o.o.	3,611,931	16.30%	3,367,865	17.11%
2	Hypo-Leasing Kroatien d.o.o.	3,598,469	16.24%	2,681,686	13.62%
3	Raiffeisen Leasing d.o.o.	1,883,506	8.50%	1,650,009	8.38%
4	Erste & Steiermärkische S-Leasing d.o.o.	1,830,802	8.26%	1,600,695	8.13%
5	PBZ-Leasing d.o.o.	1,369,492	6.18%	1,310,633	6.66%
6	Erste Group Immorent Leasing d.o.o.	1,282,176	5.79%	1,189,496	6.04%
7	Porsche Leasing d.o.o.	1,021,407	4.61%	1,069,125	5.43%
8	VB Leasing d.o.o.	1,096,072	4.95%	1,068,065	5.43%
9	Impuls-Leasing d.o.o.	790,286	3.57%	794,057	4.03%
10	Mercedes-Benz Leasing Hrvatska d.o.o.	916,854	4.14%	777,069	3.95%
11	Other companies	4,758,275	21.47%	4,176,933	21.22%
	Total	**22,159,270**	**100.00%**	**19,685,633**	**100.00%**

Source: Hanfa

6.1.2 Liability Structure

Leasing industry assets are largely financed by loans from banks and financial institutions. Therefore, the largest share of total liabilities of the leasing industry (as much as 86.9%) was accounted for by long-term and short-term liabilities for loans from domestic and foreign banks and financial institutions. As at 31 December 2013, total long-term and short-term liabilities amounted to HRK 18.0bn, declining by HRK 2.5bn or 12.2% compared to the previous year. Decreased borrowing by leasing companies was primarily a result of a decline in the volume of business activities.

Due to the decrease in the volume of business activities, loans from foreign banks and financial institutions were lower by HRK 2.3bn (12.6%) compared to the same day of the previous year, when they totalled HRK 18.2bn. In addition to an absolute decrease, this item also recorded a relative decrease in the share in total liabilities.

Liabilities for loans from domestic banks and financial institutions totalled HRK 1.2bn, increasing by HRK 123.4m (11.0%) compared to the previous year. At the same time, liabilities for deposits and guarantees relating to amounts guaranteed under operating lease contracts totalled HRK 0.6bn (3.1% of total liabilities), decreasing by HRK 291.4m or 32.2% in line with the reduction in the value of active contracts.

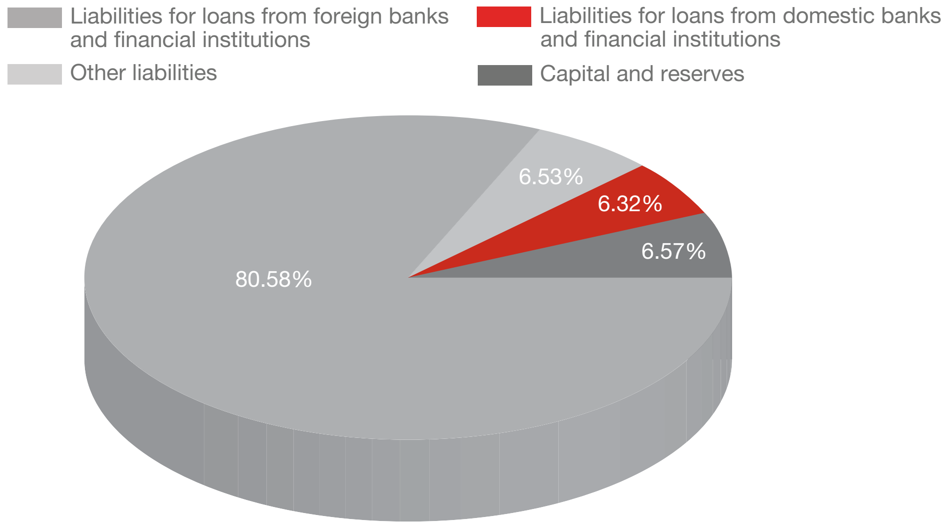
Table 6.4 Leasing industry liabilities as at 31 Dec 2012 and 31 Dec 2013 (in HRK thousand)

Item	31 Dec 2012	31 Dec 2013	Index 31 Dec 2013/ 31 Dec 2012
Capital and reserves	1,116,534	1,292,931	115.80
Liabilities for loans from foreign banks and financial institutions	18,155,530	15,863,551	87.38
Liabilities for loans from domestic banks and financial institutions	1,121,261	1,244,621	111.00
Other liabilities	1,765,944	1,284,530	72.74
Total liabilities	**22,159,270**	**19,685,633**	**88.84**

Source: Hanfa

Loans from foreign banks kept dominating sources of funding, with the largest share (80.6%) in the total liabilities of the 23 leasing companies as at 31 December 2013 being related to long-term and short-term liabilities for loans from foreign banks and financial institutions. This is a common method of funding in business operations of leasing companies as most leasing companies are majority owned by foreign banks and their related financial institutions.

Chart 6.4 Leasing industry liability structure as at 31 Dec 2013



Source: Hanfa

6.1.2.1 Capital and Reserves

As at 31 December 2013, leasing industry capital and reserves totalled HRK 1.3bn, accounting for a 6.6% share in the liability structure. This item increased by HRK 176.4m or 15.8% compared to 31 December 2012, when it stood at HRK 1.1bn or 5.0% of the total liability, which indicates a slightly higher level of equity funding.

Leasing industry initial capital amounted to HRK 935.8m, rising by HRK 232.5m compared to the previous year, which was primarily due to an increase in initial capital carried out by three leasing companies.

In order to ensure adequate capital levels and coverage of reported losses above levels of capital, Hanfa undertakes regulatory measures aimed at leasing companies, on the basis of which a total of HRK 286.2m was paid in capital reserves by three leasing companies in 2013. Positive amounts of capital and reserves totalling HRK 1.4bn were reported by 21 companies, whereas a loss in excess of capital in the amount of HRK 71.6m was recorded by two leasing companies.

6.1.3 Financial Operating Results

In the period from 1 January to 31 December 2013, the leasing industry recorded a loss after tax totalling HRK 247.8m, as opposed to 2012, when leasing companies reported an after-tax profit amounting to HRK 156.3m.

The negative operating result recorded by the leasing industry in 2013 was mainly due to the costs for value adjustments for impairment losses in the amount of HRK 529.1m and to the loss on net exchange rate differences in the amount of HRK 79.4m. The costs for value adjustments related to the impairment of finance and operating lease receivables, loans and other financial assets.

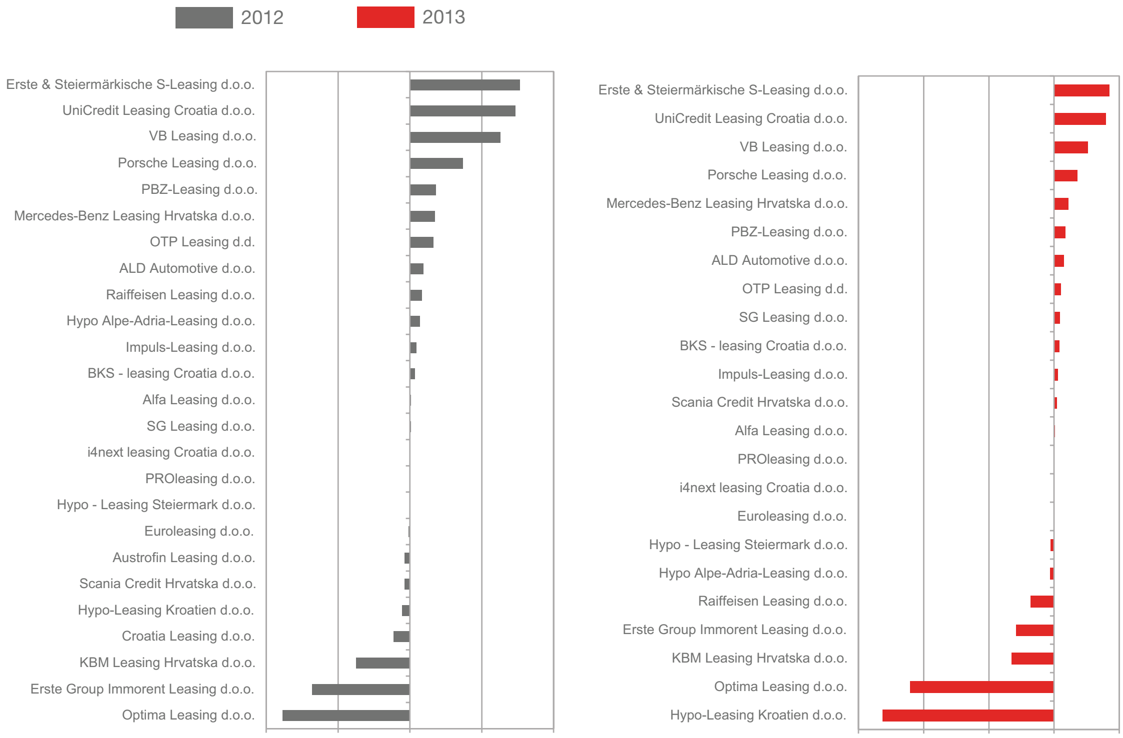
Table 6.5 Statement of comprehensive income of the leasing industry in 2012 and 2013 (in HRK thousand)

Item	1 Jan - 31 Dec 2012	1 Jan - 31 Dec 2013	Index 2013/2012
Interest income	946,640	745,281	78.73
Interest expenses	596,357	431,112	72.29
Interest profit/loss	**350,283**	**341,168**	**89.69**
Income from fees and commissions	57,984	53,845	92.86
Expenses on fees and commissions	31,083	28,934	93.09
Profit/loss on fees and commissions	**26,901**	**24,911**	**92.60**
Other operating income	2,445,494	2,073,678	84.80
Other operating expenses	2,407,947	2,073,172	86.10
Profit/loss on other income and expenses	**37,547**	**505**	**1.35**
Profit/loss before expenses on value adjustment for impairment losses	414,731	339,585	81.88
Expenses on value adjustment for impairment losses	244,931	529,084	216.01
Profit/loss before profit tax	169,800	-189,433	-
Profit tax	76,017	58,347	76.75
Profit/loss after profit tax	**93,783**	**-247,846**	**-**

Source: Hanfa

In 2013, expenses on value adjustment for impairment losses amounted to HRK 529.1m, increasing by HRK 284.2m or as much as 116.0% compared to the previous year, primarily due to new value adjustments for impairment losses reported by two leasing companies which also recorded the largest after-tax losses.

Chart 6.5 Leasing companies' operating results in 2012 and 2013 (in HRK thousand)



Source: Hanfa

In 2013, a total of 15 leasing companies recorded a profit after tax in the amount of HRK 275.0m, whereas an after-tax loss totalling HRK 522.8m was reported by eight leasing companies.

6.1.4 Leasing Industry Portfolio Structure

In the period from 1 January 2013 to 31 December 2013, a total of 29,049 new lease contracts were concluded, their number increasing by 2,376 or 8.9% compared to the previous year. The total value of newly concluded contracts amounted to HRK 5.7bn, recording a HRK 821.9m or 17.0% increase compared to the value of newly concluded contracts in 2012.

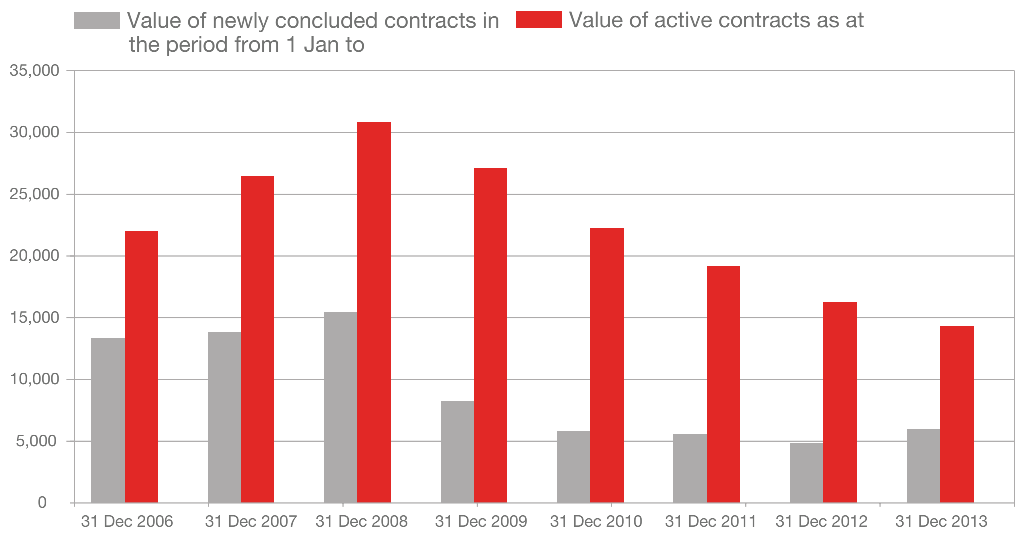
Table 6.6 Leasing industry portfolio structure as at 31 December 2012 and 31 December 2013

Date/period from 1 Jan to	Newly concluded contracts in the period			Active contracts as at		
	Number of newly concluded contracts	Value of newly concluded contracts (in HRK thousand)	Average value of newly concluded contracts (in HRK thousand)	Number of active contracts	Value of active contracts (in HRK thousand)	Average value of active contracts (in HRK thousand)
31 Dec 2012	26,673	4,839,815	181	120,070	16,270,132	136
31 Dec 2013	29,049	5,661,722	195	106,421	14,407,165	135

Source: Hanfa

As at 31 December 2013, there were a total of 106,421 active contracts, their number decreasing by 13,649 or 11.4% compared to the same day of the previous year. The value of active contracts amounted to HRK 14.4bn, recording a decline by HRK 1.9bn or 11.5% compared to end-2012.

Chart 6.6 Value of newly concluded and active contracts in the leasing industry in the 2006-2013 period (in HRK million)



Source: Hanfa

The share of value of newly concluded contracts in the total value of active contracts amounted to 50.1% at end-2008, decreasing to 26.1% in 2010 and amounting to 39.3% at end-2013, which indicates a rise in business operation of leasing companies.

Table 6.7 Number and value of newly concluded contracts in the leasing industry in 2012 and 2013

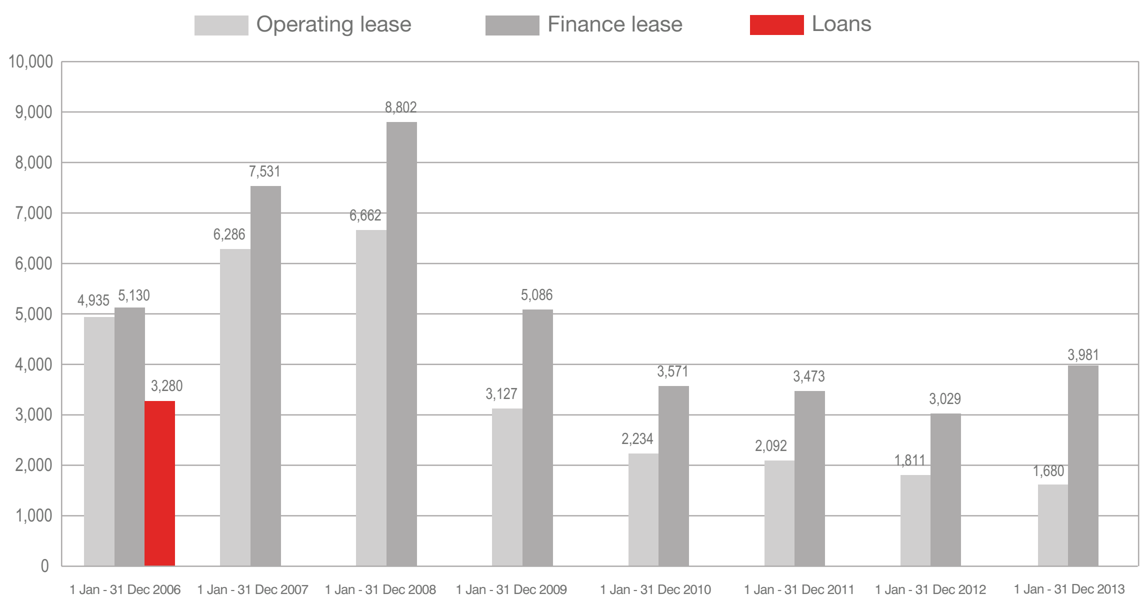
Lease type/ period	Number of newly concluded contracts in the period			Value of newly concluded contracts in the period (in HRK thousand)		
	1 Jan - 31 Dec 2012	1 Jan - 31 Dec 2013	Index 2013/2012	1 Jan - 31 Dec 2012	1 Jan - 31 Dec 2013	Index 2013/2012
Operating lease	12,244	14,305	116.83	1,810,821	1,680,382	92.80
Finance lease	14,429	14,744	102.18	3,028,994	3,981,341	131.44
Total	**26,673**	**29,049**	**108.91**	**4,839,815**	**5,661,722**	**116.98**

Source: Hanfa

Despite the increase in the value of newly concluded contracts in 2013, the reduction in the volume of business operations (value of newly concluded contracts) between 2009 and 2012 had a significant impact on the decrease in the value of leasing companies' assets, as the value of newly concluded contracts in the said period was not sufficient to compensate for the decline in the value of active contracts.

The share of finance lease in the total value of newly concluded contracts rose from 62.6% in 2012 to 70.3% in 2013, while the share of operating lease decreased from 37.4% to 29.7%. In 2013, the average value of newly concluded contracts in operating lease amounted to HRK 117.5 thousand, and in finance lease to HRK 270 thousand.

Chart 6.7 Leasing industry portfolio structure - comparison of the values of newly concluded contracts in the 2006-2013 period (in HRK million)



Source: Hanfa

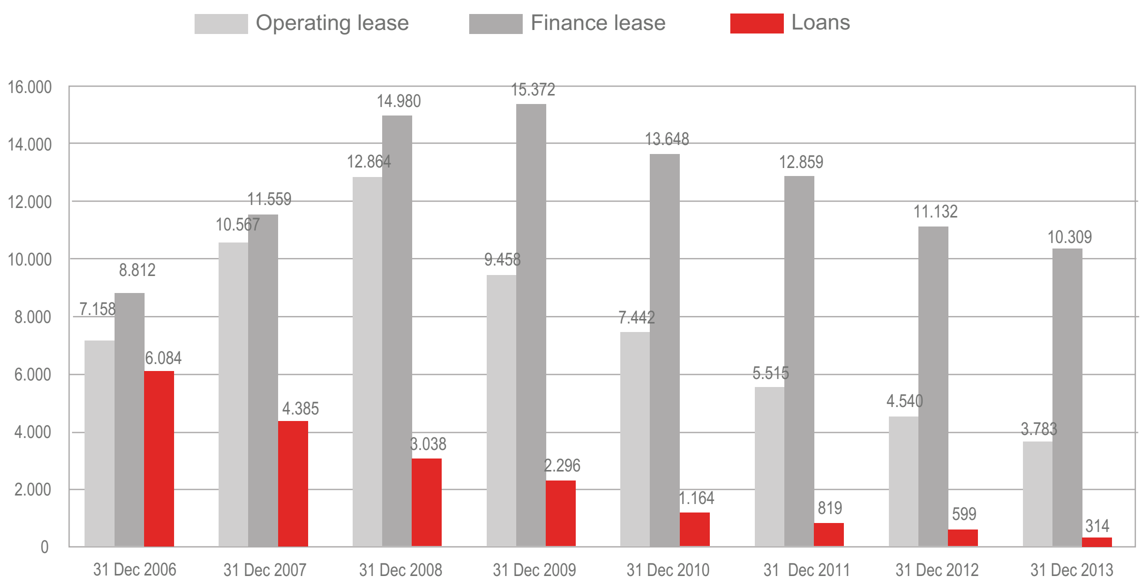
The loan portfolio has been decreasing constantly, as the act regulating the leasing industry prohibits leasing companies from concluding loan contracts, while the loan contracts that had been active until the day of the entry into force of that act (21 December 2006) are held until the expiration, with no possibility of their extension.

Table 6.8. Number and value of active contracts in the leasing industry in 2012 and 2013

Investment type/ as at	Number of active contracts as at			Value of active constracts as at (in HRK thousand)		
	31 Dec 2012	31 Dec 2013	Index 2013/2012	31 Dec 2012	31 Dec 2013	Index 2013/2012
Operating lease	54,129	47,352	87.48	4,539,943	3,783,414	83.34
Finance lease	62,857	57,095	90.83	11,131,505	10,309,313	92.61
Loans	3,084	1,974	64.01	598,683	314,439	52.52
Total	**120,070**	**106,421**	**88.63**	**16,270,132**	**14,407,165**	**88.55**

Source: Hanfa

Chart 6.8 Leasing industry portfolio structure - comparison of the values of active contracts in the 2006-2013 period (in HRK million)



Source: Hanfa

The slowdown in economic activity in the period from 2009 to 2013 led to a change in the structure of the leasing industry portfolio. Leasing operations in the several past years have been focused on the financing of passenger cars and commercial vehicles. This is also proved by the fact that in 2010, the share of vehicles (passenger and commercial) in the total value of newly concluded contracts in the leasing industry reached 58.6%, whereas in 2011 it stood at 64.2%, in 2012 at 62.0% and in 2013 at 59.0%. At the same time, the value of newly concluded contracts for property continued to decrease. In 2013, the largest increase in the value of newly concluded contracts was recorded in the categories of commercial and transport vehicles.

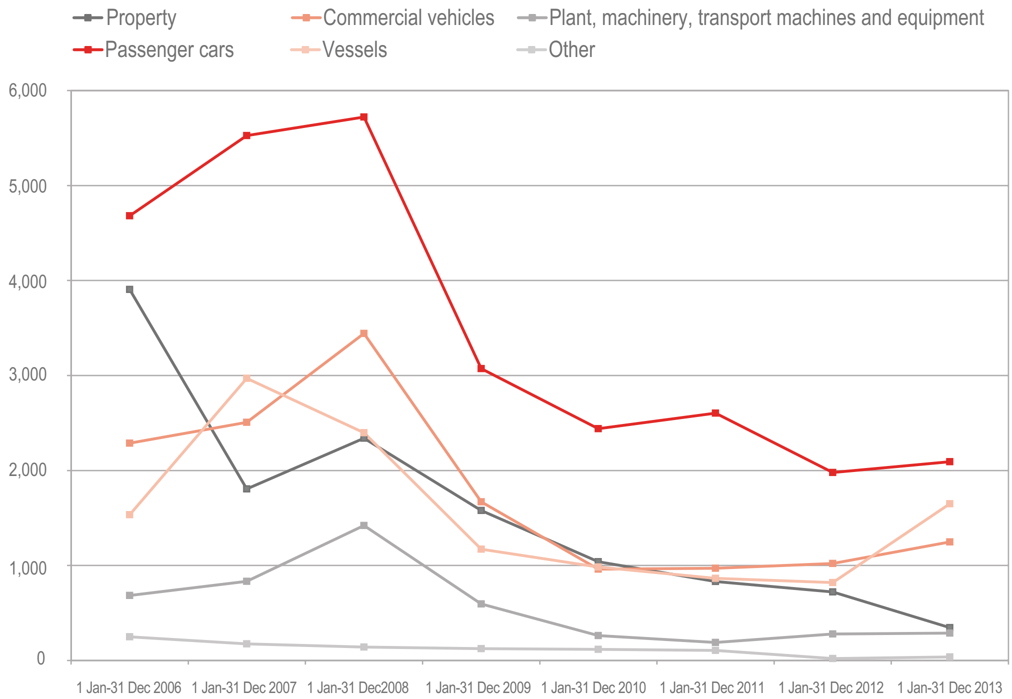
Table 6.9 Value of newly concluded contracts in the leasing industry by leased assets in 2012 and 2013 (in HRK thousand)

Leased asset	Value of newly concluded contracts in the period				
	1 Jan - 31 Dec 2012	Share	1 Jan - 31 Dec 2013	Share	Index 2013/2012
Property	721,878	14.92%	345,436	6.10%	47.85
Passenger cars	1,978,143	40.87%	2,091,962	36.95%	105.75
Commercial vehicles	1,020,789	21.09%	1,248,449	22.05%	122.30
Vessels	278,136	5.75%	289,170	5.11%	103.97
Aircraft	2,966	0.06%	0	0.00%	0.00
Plant, machinery, transport machines and equipment	819,962	16.94%	1,648,920	29.12%	201.12
Other	18,042	0.37%	37,785	0.67%	209.43
Total	**4,839,815**	**100.00%**	**5,661,722**	**100.00%**	**116.98**

Source: Hanfa

In 2013, the largest number of newly concluded contracts by leased assets was related to passenger cars, followed by commercial vehicles. The portfolio of newly concluded contracts by leased assets recorded an increase in the total number of newly concluded contracts, as well as an increase in the total value of newly concluded contracts compared with the same period of the preceding year.

Chart 6.9 Leasing industry portfolio structure – value of newly concluded contracts by leased assets in the 2006-2013 period (in HRK million)



Source: Hanfa

The largest decrease (HRK 376.4m or 52.1%) in the value of newly concluded contracts was reported by property, while transport machines, commercial vehicles and passenger cars recorded an increase in the value of newly concluded contracts compared to the previous year.

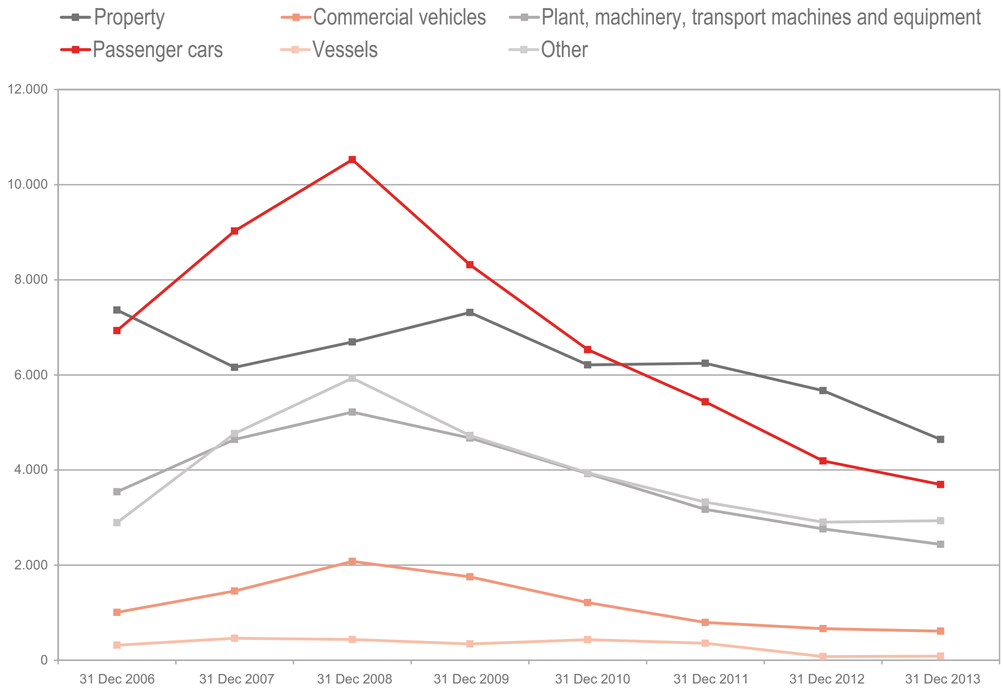
Table 6.10 Value of active contracts in the leasing industry by leased assets/loans as at 31 Dec 2012 and 31 Dec 2013 (in HRK thousand)

Leased asset/loan	Value of active contracts as at				
	31 Dec 2012	Share	31 Dec 2013	Share	Index 2013/2012
Property	5,669,207	34.84%	4,641,591	32.22%	81.87
Passenger cars	4,190,676	25.76%	3,693,836	25.64%	88.14
Commercial vehicles	2,762,569	16.98%	2,438,353	16.93%	88.26
Vessels	664,819	4.09%	610,656	4.24%	91.85
Aircraft	4,234	0.03%	3,223	0.02%	76.13
Plant, machinery, transport machines and equipment	2,903,986	17.85%	2,935,257	20.37%	101.08
Other	74,642	0.46%	84,249	059%	112.87
Total	**16,270,132**	**100.00%**	**14,407,165**	**100.00%**	**88.55**

Source: Hanfa

As at 31 December 2013, property recorded the highest value of active contracts by leased assets/loans, amounting to HRK 4.6bn or 32.2% of the total value of active contracts, while the value of active contracts for passenger cars totalled HRK 3.7bn or 25.6% of the total value of active contracts.

Chart 6.10 Leasing industry portfolio structure – value of active contracts by leased assets in the 2006-2013 period (in HRK million)



Source: Hanfa

Until end-2010, the most significant share in the total value of the active contract portfolio of the leasing industry had been accounted for by passenger cars, while property had made up the second largest share in the total portfolio. Despite the large decline in the turnover in the property market in the past five years, property has been reported as a single most important item in the value of active contracts since 2011, due to higher values and contracted longer repayment period compared to most other leased assets.

6.1.5 Leasing Industry Indicators

6.1.5.1 Debt Indicators

The debt ratio measures the share of assets financed by external funds, i.e. the share of external assets in total assets. As at 31 December 2013, this ratio totalled 0.934, meaning that 93.4% of the total assets of the leasing industry were financed by external funds. This is in line with business practices of the leasing industry, as leasing operations are primarily funded by external sources. As at 31 December 2012, this ratio stood at 0.950.

6.1.5.2 Profitability Ratios

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

Return on assets (ROA) is a ratio that measures net profit against total assets of the leasing industry. As at 31 December 2013, the aggregate return on assets for leasing companies amounted to -1.3%. The negative value of the said ratio was due to the loss after tax recorded in the leasing industry in the year 2013. As at 31 December 2012, this ratio stood at 0.4%.

Return on equity (ROE) is a ratio that measures net profit against total equity of the leasing industry, i.e. it is a calculated rate of return on equity. As at 31 December 2013, the aggregate return on equity for leasing companies amounted to -19.2%. In 2012 this ratio was positive (8.4%) due to the profit after tax reported in the leasing industry.

6.2 Hanfa's Activities

6.2.1 Regulatory Activities

In 2013, Hanfa's employees participated in the working group of the Ministry of Finance of the Republic of Croatia, responsible for drafting the new Leasing Act (Official Gazette 141/13), which entered into force on 5 December 2013, when the previous Leasing Act (Official Gazette 135/06) ceased to be valid.

The Leasing Act regulates, just as the previous Leasing Act did, the establishment, operation, and termination of business operations of leasing companies, lease contract, rights and obligations of entities engaged in leasing operations, financial reporting and supervision of leasing companies. However, in addition to this, the Leasing Act also regulates terms and conditions and procedures for cross-border leasing operations, and organisational requirements of leasing companies governing risk management, internal audit and outsourcing.

As a result of the access of the Republic of Croatia to the European Union and to the European single market, the provisions of the Leasing Act regulated, in more detail, the possibility for leasing companies from other Member States of conducting business operations in the territory of the Republic of Croatia directly or through a branch under the terms and conditions stipulated by the Leasing Act. At the same time, the Leasing Act regulates the terms and conditions of business operations for leasing companies with their registered offices in the Republic of Croatia when providing leasing services in EU Member States or third countries. The requirements that need to be met by leasing companies from third countries in order to operate in the territory of the Republic of Croatia are also laid down by the Leasing Act.

In line with the said changes, the Leasing Act also amended provisions relating to the law applicable to international lease agreements.

Taking account of the fact that leasing industry is part of the financial market in the Republic of Croatia, it was necessary to make it even more compliant with business operations and risk management rules and standards applicable to other financial market participants in the Republic of Croatia. Therefore, the Leasing Act prescribed requirements relating to the risk management system, introduced changes with respect to supervision, and laid down provisions on requirements in connection with organisational structure of leasing companies, internal audit and outsourcing.

The provisions defining supervision of leasing companies were aligned with the provisions laid down in other Croatian regulations relating to financial markets, especially those falling within Hanfa's area of competence. The Leasing Act provided more details regarding on-site supervisory activities carried out on the premises of leasing companies, and, unlike the previous Leasing Act, it laid down the off-site supervisory procedure. Furthermore, it introduced new types of supervisory measures: recommendations to management boards of leasing companies, warnings and special supervisory measures. It retained the supervisory measures prescribed by the previous Leasing Act, namely elimination of violations and irregularities, and withdrawal of authorisation for all or some activities of leasing companies. The recommendations and warnings as supervisory measures were introduced for cases where Hanfa determines, in the course of examinations, that violations and irregularities in leasing companies' business operations do not represent a serious breach of law, or where it establishes that the nature and scope of violations and irregularities established do not have a major impact on leasing companies' business activities. In this manner, the Leasing Act provided for grading of the gravity of irregularities established for the purpose of imposing supervisory measures according to the level of gravity and impact on leasing companies' business activities. The previous Leasing Act, on the other hand, had provided for imposition of supervisory measures that needed to be applied in certain cases for the purpose of bringing leasing companies' business activities in complete compliance with relevant regulations, without any possibility of taking account of the level or gravity of irregularities. Moreover, the purpose of special supervisory measures was to cover a larger number of specific prescribed circumstances which trigger imposition of the measures on leasing companies, such as situations where leasing companies fail to obey Hanfa's decisions, fail to meet organisational, technical, personnel or capital requirements, fail to manage their risks adequately, etc.

Furthermore, as regards definition of business activities, provisions of the new Leasing Act allowed leasing companies to lease or rent lease return assets, which had not been permitted by the previous Leasing Act. In addition to registering finance and/or operating lease as their regular business activities, leasing companies are now also permitted to register activities directly or indirectly related to lease operations, namely sale, lease and renting of leased assets returned to a leasing company and owned by the leasing company. In other words, after the expiry of a lease agreement, leased assets may now be returned to leasing company. Pursuant to the previous Leasing Act, lease return assets could only be sold or leased again, which was not an attractive option, and which is why leased assets used to be sold under market value or waited too long to be sold. According to the new legal provisions, leasing companies may not only sell or lease again lease return assets, but they can also rent them, thus generating income, i.e. capitalising those assets.

The new Leasing Act provided for financing of not only the existing but also of future leased assets. This enabled leasing companies to expand their business, in particular as regards activities related to property and vessels. Moreover, the new Leasing Act offered natural persons a possibility of being providers of leased assets, offering new opportunities to leasing companies to expand their operations.

The provisions on data confidentiality were updated, expanding the list of entities which should not be subject to data confidentiality obligation imposed on leasing companies, for the purpose of achieving greater efficiency of courts and other authorities in the Republic of Croatia. One of the important novelties contained in the new Leasing Act related to the cancellation of data confidentiality obligation in cases where local and regional self-government and the City of Zagreb authorities supervising illegally parked or stopped vehicles or limited tome zone parking, or legal persons established by the local and regional self-government and the City of Zagreb, or legal or natural persons authorized by law to carry out any of these activities, or legal or natural persons providing utility services in accordance with a specific law, send a written request to a leasing company, asking it to provide confidential data for the purpose of exercising their powers. There were numerous cases prior to the new act in which lessees committed traffic offences, making leasing companies defendants in misdemeanour proceedings, as the leasing companies, as lessors, were not permitted to provide confidential data to the said authorities. This amendment to the act allowed leasing companies to provide data on lessees from lease agreements, thus enabling competent authorities to initiate misdemeanour prosecution against real offenders.

As regards subordinate legislation, 2013 saw the adoption of the Ordinance amending the Ordinance on the content of documentation to be submitted with an application for the issuance of approval to candidates for the position of a member of the management board of a leasing company (Official Gazette 85/13). This amendment made the Ordinance compliant with the provisions of the Labour Act (Official Gazette 149/09, 61/11, 82/12 and 73/13), making the submission of the employment record book for the purpose of issuing approval to candidates for the position of a member of the management board of a leasing company not necessary. This was due to the fact that on the day of Croatia's EU accession, Article 291 of the Labour Act, regulating employment record book and employers' procedures related thereto, ceased to be valid.

Pursuant to its statutory powers and at the request of parties to proceedings or persons who have proved their legal interest, in 2013 Hanfa issued three opinions on the application of the provisions of the previous Leasing Act. One opinion provided an explanation regarding the obligation to submit an application for approval for acquisition of a qualifying holding within the same group; another opinion explained the status of lease/sublease agreements in the course of a merger of a company with a leasing company; and a third opinion was issued in order to provide an explanation about requirements that need to be met by members of leasing companies' supervisory boards with respect to membership of supervisory boards of leasing companies' related persons.

6.2.2 Licensing

In 2013, the number of leasing companies decreased, due to the fact that Hanfa withdrew authorisation from Croatia Leasing d.o.o., in accordance with legal provisions and the company's decision to terminate its lease operations, and to the fact that the authorisation issued to Austrofin leasing d.o.o. ceased to be valid due to the initiation of winding-up proceedings.

A total of 16 decisions were issued granting approval to management board members of leasing companies.

Hanfa adopted two decisions regarding the acquisition of a qualifying holding, i.e. procedures related to legal provisions according to which a natural or legal person intending to acquire a qualifying holding or a holding reaching or exceeding a 20%, 33% or 50% share of voting rights or capital of a leasing company has to obtain Hanfa's approval, and according to which leasing companies intending to reach or exceed 20%, 33% or 50% share of voting rights or capital of a company also have to obtain Hanfa's approval. One decision was adopted in the process of acquisition of a qualifying holding of a leasing company and the second decision granted approval to a leasing company to acquire a qualifying holding in another legal person.

6.2.3 Supervision

Within the framework of its regular activities and for the purpose of protecting public interest and interests of lessees, contributing to the stability of the financial system and fostering confidence in the leasing market, Hanfa carries out on-site and off-site supervision of leasing companies.

According to provisions of the Leasing Act, when defining the frequency and intensity of examinations of leasing companies, Hanfa takes account of the size, influence and significance of a leasing company, as well as of the nature, type, scope and complexity of its business operations, including its performance indicators. On-site examinations are carried out on the basis of the annual plan of full-scope on-site examinations, which includes direct access to business documentation of leasing companies and interviews with board members, key employees and other relevant persons, for the purpose of verifying legality and assessing safety and stability of leasing companies' business operations.

The annual plan of on-site examinations is developed on the basis of indicators, i.e. predefined criteria triggering full-scope examinations, which are based on data and indicators from financial and other supervisory reports, complaints submitted by lessees, or other information available to Hanfa.

In 2013, a total of 12 full-scope on-site examinations were initiated in leasing companies, of which nine were initiated for the purpose of verifying data input to the Register of Leased Assets. This was in accordance with the provisions of the act regulating the leasing industry which provided for the establishment of the Register, containing data on all financed leased assets, with the aim of preventing frauds in the industry. For the purpose of minimising fraud risk or avoiding the financing of assets already leased, prior to concluding a lease contract, leasing companies verify the existence of the assets in the Register. Hanfa is in charge of providing technical and IT prerequisites for the functioning of the Register, including the supervision of data input, for the Register to be able to achieve its purpose defined by the law. After the examinations had been carried out, establishing weaknesses and irregularities as regards data input to the Register, leasing companies were ordered to improve their data verification and input process by developing adequate control mechanisms.

The remaining three examinations covered the formation of value adjustment for impairment losses, application of hedge accounting, execution of lease agreements and assessment of the adequacy of the system for the prevention of money laundering and terrorist financing set up in leasing companies. This is due to the fact that Hanfa, in addition to supervising implementation of the act regulating the leasing industry, also supervises implementation of several other acts applicable to its supervised entities, such as the Accounting Act, Consumer Credit Act (Official Gazette 75/09, 112/12, 143/13 and 147/13) and Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 25/12). In accordance with this, two full-scope on-site examinations carried out in 2013 included verification of the formation of value adjustment for impairment losses and application of hedge accounting, i.e. verification of the compliance of the leasing companies with the Leasing Act and, indirectly, with the Accounting Act or the International Financial Reporting Standards. In the course of the two examinations, irregularities were identified with respect to the establishment of the risk management system and to the formation of value adjustment for impairment losses.

In 2013, two full-scope on-site examinations initiated in 2012 and relating to risk management and implementation of the Act on the Prevention of Money Laundering and Terrorist Financing were completed. The examinations identified irregularities relating to the recording of seized and returned leased assets, recording of embedded derivatives under operating lease agreements, calculation of depreciation and compilation of financial statements and additional reports of leasing companies.

In addition to on-site examinations, Hanfa also conducts off-site supervision and carries out an on-going analysis of reports and data submitted by leasing companies, using financial statements and additional reports of leasing companies submitted to Hanfa on a quarterly and yearly basis as well as data on leased assets from the Register of Leased Assets. The purpose of off-site supervision is continuous monitoring of leasing companies' business operations and of their compliance with applicable legislation. It also implies Hanfa's on-going communication with leasing companies, and collection and analysis of other documentation, notifications and information obtained from leasing companies, as well as of information received from other available sources.

The focus of off-site examinations carried out by Hanfa in 2013 was on the recovery of negative amounts of capital and reserves recorded by some leasing companies. As a result, owners of the leasing companies paid a total of HRK 518m into the leasing companies' initial capital and capital reserves.

Following the findings of the examinations carried out in leasing companies, due to established violations of regulations, in 2013 Hanfa adopted a total of 13 decisions ordering measures aimed at elimination of the violations and irregularities in the operation of supervised entities and imposing measures aimed at improving risk management systems.

For the purpose of improving its supervisory methodologies, in 2013 Hanfa developed the Indicator-Based Risk Assessment Model for Leasing Companies', which will provide risk profile assessments for each leasing company. The model is based on the combination of quantitative and qualitative indicators, the former being financial and other performance indicators calculated on the basis of data from financial and other supervisory reports regularly submitted to Hanfa, and the latter being information on the company's organization and risk management. Qualitative indicators included in the model are data on the company's management, organisation, risk management, ownership, IT equipment and reporting procedure, collected by Hanfa's authorised persons in the course of interviews with management board members/risk managers, and subsequently assessed, weighted and embedded in the model established.

This model serves as a tool used by Hanfa to plan and carry out on-site and off-site examinations of leasing companies' business operations, taking account of the risk profile of each leasing company.

Factoring

7 Factoring

7.1 Description of the Market[79]

Factoring is an alternative model of funding of businesses entities through the purchase of accounts receivable. According to the data from statistical reports submitted by companies providing factoring services known to Hanfa, as at 31 December 2013, there were 15 companies carrying on factoring business, while as at 31 December 2012 factoring operations were conducted by 16 companies (Afaktor-faktoring d.o.o. and Eurofakt d.o.o. temporarily ceased to provide factoring services, Alfa factor d.o.o. changed its main activity, also ceasing to provide factoring services, while Infinitum Factoring d.o.o. and Invictus Ulaganja d.o.o. started conducting factoring business in 2013.).

According to the reports submitted by companies providing factoring services, as at 31 December 2013, the Croatian factoring market was dominated by domestic factoring (96.3% of total factoring receivables), with accounts receivable purchased being invoices of buyers from the Republic of Croatia, i.e. by recourse factoring (78.2% of total factoring receivables), with factors being entitled to the collection of payment from invoice sellers in the event that debtors become insolvent. As at 31 December 2013, the asset value in the factoring industry increased by 13.0% compared with 31 December 2012, due to an increase in the transaction volume relating to bills of exchange discounting. Loans still accounted for an insignificant share in business operations of companies providing factoring services.

In accordance with the existing business practices, factoring operations carried out in the Republic of Croatia may be divided into domestic, export and import factoring operations. Domestic factoring covers factoring operations involving resident entities, whereas export and import factoring operations involve at least one non-resident entity. In terms of recourse, there are two types of factoring business: recourse ("non-standard") factoring and non-recourse ("standard") factoring. Recourse factoring is an agreement where the cedent guarantees the company providing factoring services to pay for the ceded accounts receivable, whereas in non-recourse factoring, the company providing factoring services takes on the bad debt risk.

The fact that companies providing factoring services are majority owned by residents, as opposed to developments in the banking and the remaining financial sector, majority-owned by non-residents, makes the factoring industry unique in the Croatian financial market. Out of the 15 companies providing factoring services, only two were in direct non-resident ownership, while five companies were indirectly and directly owned by non-residents. However, the share of these five companies in the total assets of factoring industry accounted for 75.1%, while during 2012, the share of six companies in direct and indirect non-resident ownership in the total assets of factoring industry accounted for 84.4%. The assets of the companies in direct resident ownership rose primarily due to two new companies, Infinitum Factoring d.o.o. i Invictus Ulaganja d.o.o., whose total assets amounted to HRK 659.6m as at 31 December 2013. A total of 14 companies operated as a limited liability company, and only one company operated as a joint stock company (Finesa Credos d.d.).

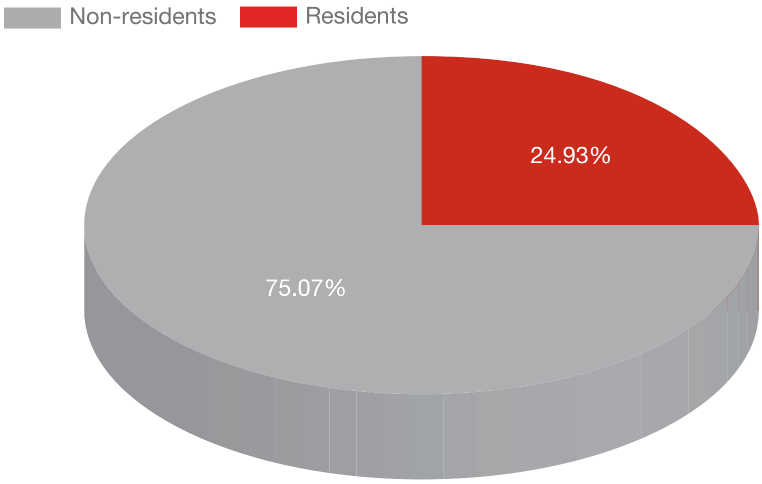
79 All the data and indicators relating to companies providing factoring services refer only to companies known to Hanfa to be providing factoring services, which submit to Hanfa Statistical Reports of Companies Providing Factoring Services.

Table 7.1 Number of companies providing factoring services in the 2007-2013 period

	31 Dec 2007	31 Dec 2008	31 Dec 2009	31 Dec 2010	31 Dec 2011	31 Dec 2012	31 Dec 2013
Number of active companies	12	13	16	19	18	16	15

Source: Hanfa

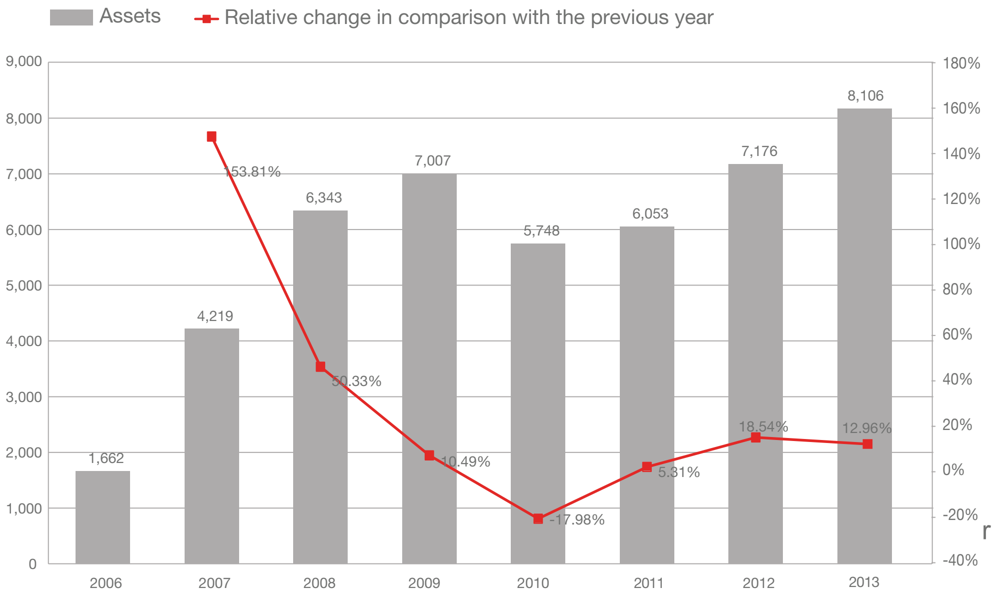
Chart 7.1 Asset structure of companies providing factoring services by capital origin as at 31 Dec 2013



Source: Hanfa

In 2013, the value of assets of companies providing factoring services increased by HRK 6.4bn or 380.4% compared to 31 December 2006, and compared to 2012 their assets rose by 13.0%. It is important to point out that the assets grew in the period from 2006 to 2009, while in 2010 they declined, only to rise again in the period from 2011 to 2013.

Chart 7.2 Aggregate assets of the factoring industry in the 2006-2013 period (in HRK million) and the relative change in comparison with the previous year



Source: Hanfa

The Croatian factoring market is still highly concentrated, with the share of the largest company by total assets accounting for 41.0% of the total assets of companies conducting factoring business as at 31 December 2013. The share of the top three companies by total assets accounted for 75.1% of total assets on the same date, while it stood at 83.4% on the same day of the previous year. There were six companies providing factoring services accounting each for less than 1.0% of the total assets of companies providing factoring services in 2013, with the sum of their shares making up 1.3% of total assets.

Table 7.2 Assets changes and shares of companies providing factoring services in 2012 and 2013 (in HRK thousand)

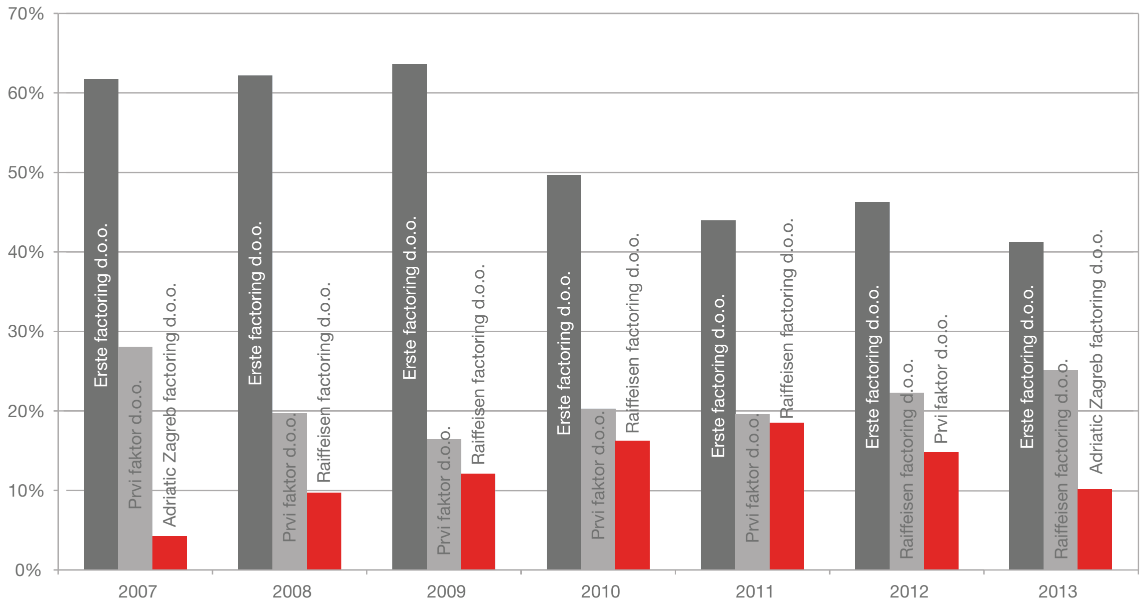
No.	Company	Assets as at 31 Dec 2012	Share	Assets as at 31 Dec 2013	Share
1	Erste factoring d.o.o.	3,321,160	46.28%	3,326,918	41.04%
2	Raiffeisen factoring d.o.o.	1,597,326	22.26%	1,941,131	23.95%
3	Adriatic Zagreb factoring d.o.o.	631,257	8.80%	816,961	10.08%
4	Prvi faktor d.o.o.	1,064,176	14.83%	778,766	9.61%
5	Invictus ulaganja d.o.o.	-	-	460,163	5.68%
6	Fortis factoring d.o.o.	139,961	1.95%	212,767	2.62%
7	Infinitum factoring d.o.o.	-	-	199,427	2.46%
8	Croatia factoring d.o.o.	144,231	2.01%	143,084	1.77%
9	Finesa Credos d.d.	101,988	1.42%	124,132	1.53%
10	Poba faktor d.o.o.	31,803	0.44%	35,446	0.44%
11	Alfa net d.o.o.	19,403	0.27%	33,906	0.42%

No.	Company	Assets as at 31 Dec 2012	Share	Assets as at 31 Dec 2013	Share
12	Factor Max d.o.o.	61,623	0.86%	20,986	0.26%
13	Jasminka d.o.o.	6,212	0.09%	6,427	0.08%
14	Novi faktor d.o.o.	1,063	0.01%	3,035	0.04%
15	CEI Zagreb d.o.o.	2,561	0.04%	2,578	0.03%
16	AFaktor-faktoring d.o.o.	40,420	0.56%	-	-
17	Alfa faktor d.o.o.	9,174	0.13%	-	-
18	Eurofakt d.o.o.	3,164	0.04%	-	-
	Total	**7,175,520**	**100.00%**	**8,105,728**	**100.00%**

Source: Hanfa

During the entire 2007-2013 period, Erste factoring d.o.o. recorded the largest share in the total assets of companies providing factoring services, ranging from 41.0% to 63.6%. Raiffeisen factoring d.o.o. recorded the second largest share or 24.0% of total assets in 2013, at the same time recording its largest share in the total assets of the factoring industry since 2007. Adriatic Zagreb factoring d.o.o. ranked third and recorded a 10.1% share of total assets at end-2013. Prvi factor d.o.o. had recorded the second largest share in total assets until 2011, after which its share declined.

Chart 7.3 Asset shares of the three largest companies providing factoring services in the 2007- 2013 period



Source: Hanfa

7.1.1 Asset Structure

As at 31 December 2013, the assets of companies providing factoring services stood at HRK 8.1bn, recording a 13.0% increase compared to 31 December 2012, when they totalled HRK 7.2bn.

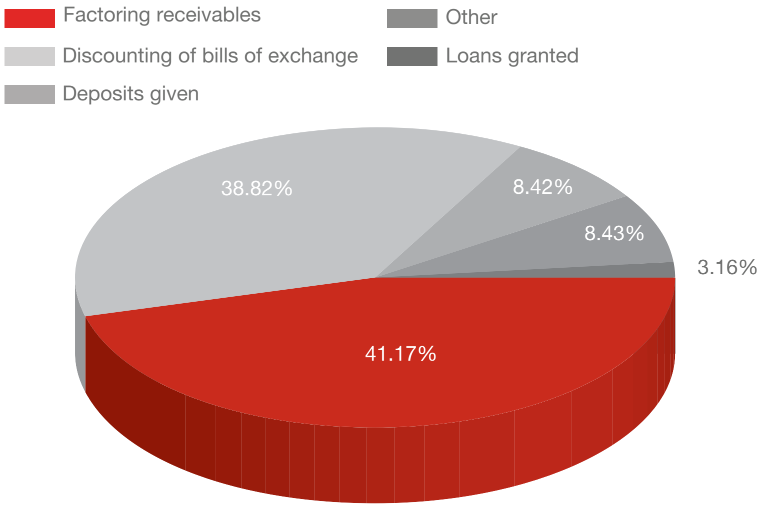
Table 7.3 Aggregate assets of companies providing factoring services as at 31 December 2012 and 31 December 2013 (in HRK thousand)

Assets	31 Dec 2012	31 Dec 2013	Index 2013/2012
Receivables for subscribed capital unpaid	**0**	**0**	**0.00**
Fixed assets	**74,996**	**85,678**	**114.24**
Current assets	**7,057,666**	**7,970,164**	**112.93**
Factoring receivables	3,301,595	3,337,229	101.08
Domestic factoring	3,224,128	3,241,151	99.69
Export factoring	14,027	45,365	323.41
Import factoring	63,440	77,713	122.50
Discounting of bills of exchange	2,675,706	3,146,454	117.59
Loans granted	109,637	256,206	233.68
Deposits given	550,778	682,531	123.92
Cash at bank and in hand	241,238	368,453	152.73
Other current assets	178,712	179,292	100.32
Prepayments and accrued income	**42,858**	**49,885**	**116.40**
Total assets	**7,175,520**	**8,105,728**	**112.96**

Source: Hanfa

The assets of companies providing factoring services consisted mostly of receivables for factoring and discounting of bills of exchange. The asset increase was mainly caused by a 17.6% increase in receivables for discounting of bills of exchange, while factoring receivables held steady compared to 2012. Considering the fact that the growth of the factoring market was mainly due to the financing of one business entity, this can be considered to pose risk for the market in general.

Chart 7.4 Factoring industry asset structure as at 31 December 2013



Source: Hanfa

7.1.2 Liability Structure

Assets of companies providing factoring services are mostly financed from loans from foreign banks and financial institutions.

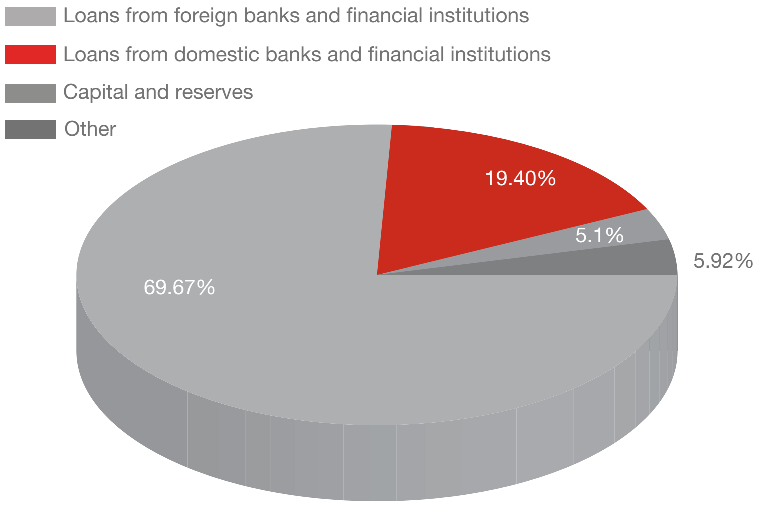
As at 31 December 2013, capital and reserves amounted to HRK 406.2m, accounting for 5.0% of liabilities and recording a 36.9% increase compared to 31 December 2012. This was a significant increase compared to a 15.4% increase in capital and reserves at the end of 2012 compared to end-2011. The increase in capital and reserves was mostly due to the profit registered by companies providing factoring services in 2013.

Table 7.4 Factoring industry aggregate liabilities as at 31 December 2012 and 31 December 2013 (in HRK thousand)

Item	31 Dec 2012	31 Dec 2013	Index 2013/2012
Capital and reserves	**296,799**	**406,195**	**136.86**
Long-term liabilities	**885,864**	**82,695**	**9.33**
Loans from domestic banks and financial institutions	**3,580**	**1,054**	**29.43**
Loans from foreign banks and financial institutions	863,429	63,887	7.40
Other long-term liabilities	18,855	17,754	94.16
Short-term liabilities	**5,984,665**	**7,600,166**	**126.99**
Loans from domestic banks and financial institutions	1,070,411	1,571,257	146.79
Loans from foreign banks and financial institutions	4,739,225	5,583,665	117.82
Other short-term liabilities	175,028	445,245	254.82
Accruals and deferred income	**8,192**	**16,671**	**203.50**
Total liabilities	**7,175,520**	**8,105,728**	**112.96**

Source: Hanfa

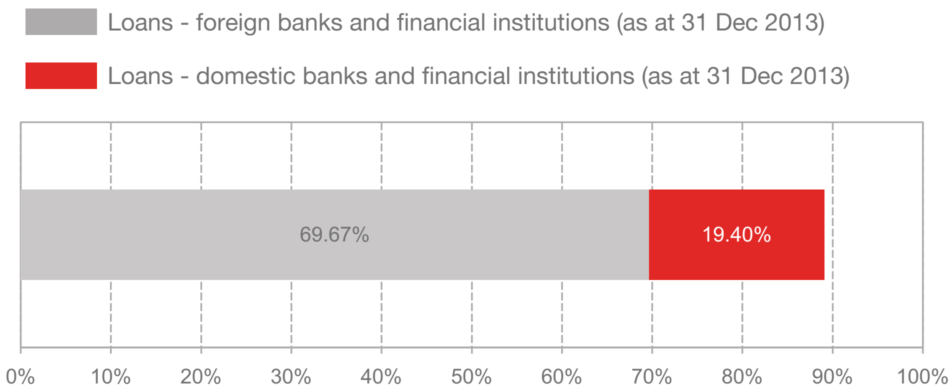
Chart 7.5 Factoring industry liability structure as at 31 December 2013

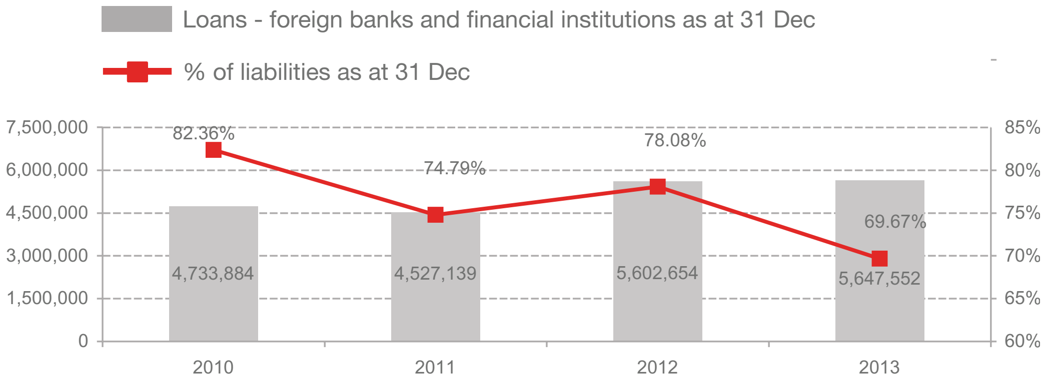


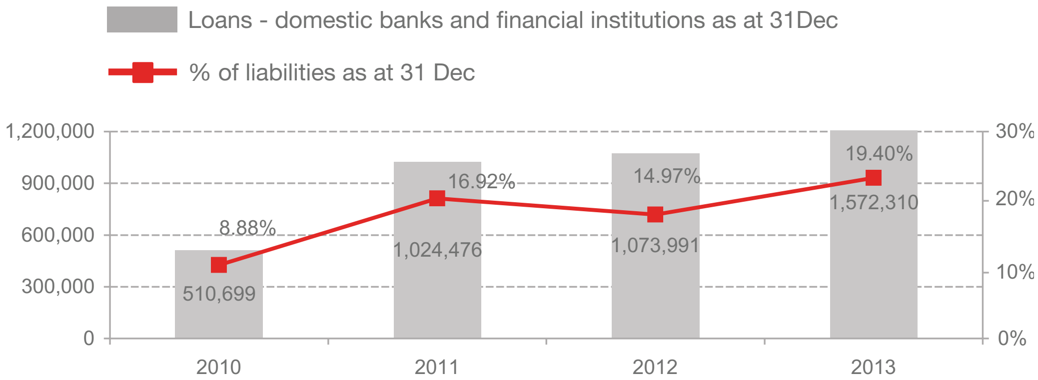
Source: Hanfa

Loans from banks and financial institutions (domestic and foreign) have increased continuously since 2010. Foreign banks and financial institutions had the largest share in funding companies providing factoring services, however, at the end of 2013 there was a decline in liabilities for loans from these institutions, with the share in liabilities amounting to 69.7% and being the lowest share since end-2007. Looking at liabilities by maturity, there was a change in their structure compared to end-2012, with long-term liabilities decreasing from 12.3% to 1.0%, which points to the fact that companies providing factoring services financed their business operations almost entirely from short-term sources.

Chart 7.6 The largest liability items as at 31 December 2013 and their movements from 2010 to 2013 (in HRK million)







Source: Hanfa

7.1.3 Financial Operating Results

Factoring industry net profit for 2013 stood at HRK 163.4m, increasing by 87.4% compared to 2012.

The 2013 total income of companies providing factoring services was HRK 828m, increasing by HRK 97m compared to the previous reporting period, while expenditures amounted to HRK 621m, rising by HRK 0.1m in comparison with the previous year.

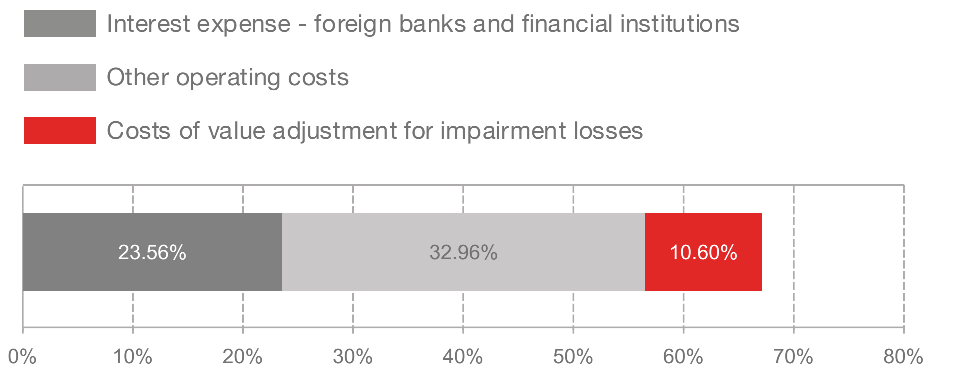
The largest share in total income was accounted for by interest income, which reached 54.1% of total income. The largest share within interest income related to interest income from factoring activities and discounting of bills of exchange, the main activities of companies providing factoring services.

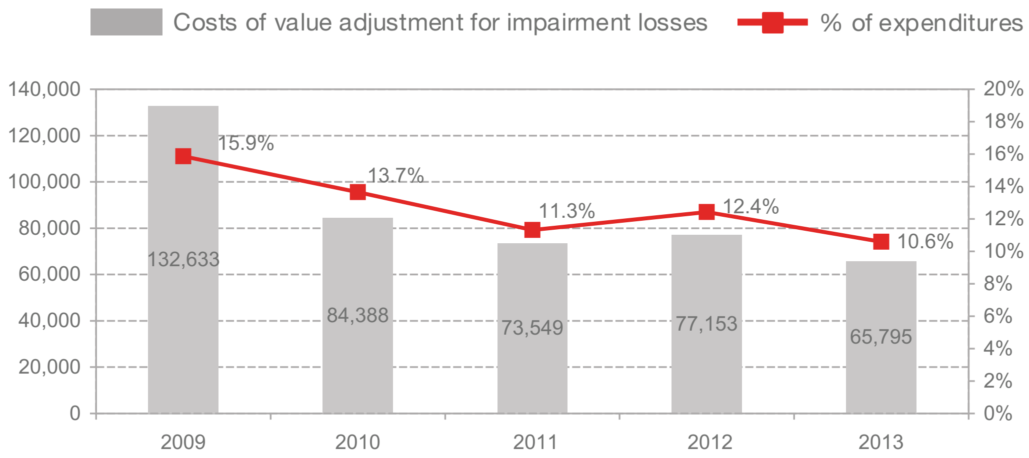
The major share in total expenditures was attributable to other operating expenditures amounting to 56.0% (with other operating costs making up 33.0% of total expenditures, primarily related to negative exchange rate differences). Interest expense accounted for 36.4% of total expenditures in the factoring industry (with interest expense with foreign banks and financial institutions being the largest expenditure item accounting for 23.6% of total expenditures).

Expenditure items accounting for the largest shares in total expenditures are shown in Chart 7.7.

Costs of value adjustment for impairment losses reflect the companies' investment risks. In 2013, they rose to HRK 65.8m, accounting for 10.6% of total expenditures. The analysis of these costs for the 2009-2013 period shows that they peaked at HRK 132.6m in 2009, accounting for a 15.9% share in total expenditures.

Chart 7.7 The largest expenditure items in 2013 and costs of value adjustment for impairment losses from 2009 to 2013 (in HRK thousand)





Source: Hanfa

Table 7.5 Aggregate profit and loss account of the factoring industry, 1 Jan-31 Dec 2012 and 1 Jan-31 Dec 2013 (in HRK thousand)

Item	1 Jan-31 Dec 2013	1 Jan-31 Dec 2013	Index 2013/2012
Interest income	428,029	448,060	104.68
Interest expense	268,160	226,025	84.29
Interest profit/loss	159,870	222,035	138.89
Income from fees and commissions	100,360	107,131	106.75
Expenses on fees and commissions	39,315	47,110	119.83
Profit/loss on fees and commissions	61,044	60,021	98.32
Other operating income	202,619	272,484	134.48
Other operating expenses	313,414	347,862	110.99
Profit/loss from other income and expenses	-110,795	-75,377	68.03
Profit/loss before profit tax	110,119	206,678	187.69
Profit/loss after profit tax	87,191	163,407	187.41

Source: Hanfa

Increase in profit after tax in 2013 as compared to 2012 was primarily caused by an increase in net interest income (realised due to a decrease in interest expense), which rose by 38.9%, as well as by a decrease in losses from other income and expenses (primarily due to an increase in other operating expenses).

Table 7.6 Realised profit/loss of companies providing factoring services in 2012 and 2013 (in HRK thousand)

Company	Profit/loss after profit tax as at 31 Dec 2012	Profit/loss after profit tax as at 31 Dec 2013	Index 2013/2012
Erste factoring d.o.o.	43,765	70,322	160.68
Raiffeisen factoring d.o.o.	17,944	67,298	375.05
Adriatic Zagreb factoring d.o.o.	11,499	14,776	128.49
Alfa net d.o.o.	5,188	5,042	97.19
Invictus Ulaganja d.o.o.	-	3,618	-
Fortis factoring d.o.o.	4,582	3,520	76.82
Factor Max d.o.o.	1,959	1,453	74.16
Poba faktor d.o.o.	1,310	1,277	97.47
Prvi faktor d.o.o.	2,344	1,145	48.84
CEI Zagreb d.o.o.	1,014	956	94.28
Finesa Credos d.d.	604	165	27.27
Infinitum Factoring d.o.o.	-	68	-
Novi faktor d.o.o.	11	42	369.73
Jasminka d.o.o.	7	-160	-2,135.80
Croatia factoring d.o.o.	-3,410	-6,114	179.28
Eurofakt d.o.o.	0.5	-	-
AFaktor-faktoring d.o.o.	-283	-	-
Alfa faktor d.o.o.	657	-	-
Total	**87,191**	**163,407**	**187.41**

Source: Hanfa

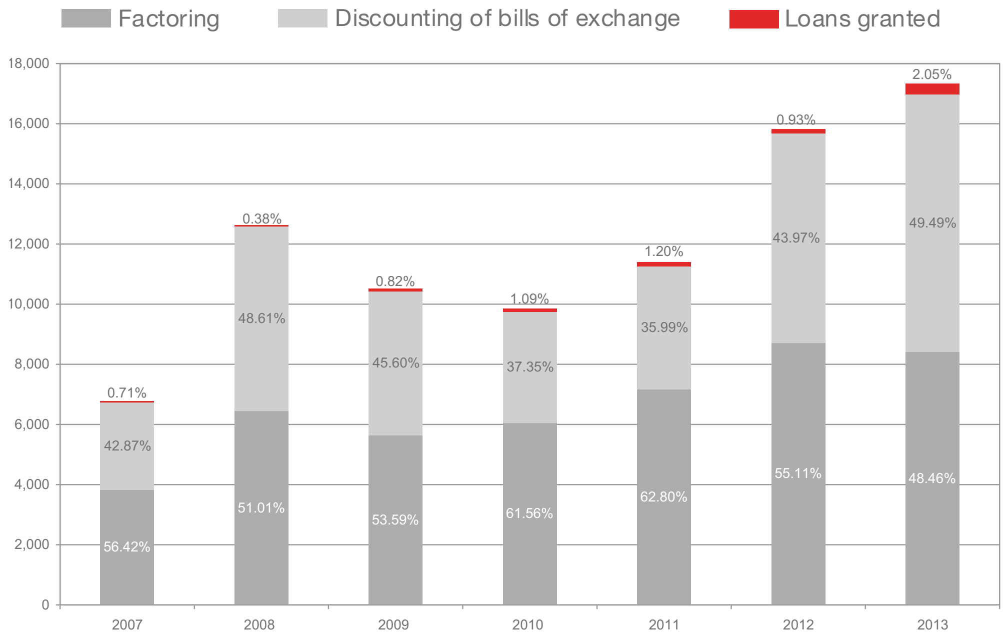
A total of 13 out of 15 companies providing factoring services reported profit after taxation amounting to HRK 169.7m, whereas two companies reported losses after taxation reaching HRK 6.3m.

7.1.4 Transaction volume

Transaction volume represents the cumulative amount of purchased invoices under factoring arrangements, the cumulative amount of discounted bills of exchange under arrangements involving discounting bills of exchange and the amount of granted loans. In 2013, transaction volume amounted to HRK 17.3bn, increasing by 9.6% in comparison with 2012.

In the period from 1 January 2013 to 31 December 2013, companies providing factoring services purchased invoices under factoring arrangements (domestic, export and import factoring) in the amount of HRK 8.4bn, at the same time purchasing bills of exchange under arrangements involving discounting bills of exchange in the amount of HRK 8.6bn. Within the same period of time, companies providing factoring services granted loans in the amount of HRK 356m.

Chart 7.8 Breakdown of transaction volume by activity from 2007 to 2013 in amounts (in HRK million) and in % of total transaction volume



Source: Hanfa

7.1.5 Factoring Industry Performance Indicators

7.1.5.1 Debt Ratio

The debt ratio measures the share of assets financed from external funds, i.e. the share of borrowed funds in total assets. For companies providing factoring services, whose assets are predominantly financed from foreign and domestic banks' loans, the 2013 aggregate debt ratio amounted to 0.95, not changing significantly compared to 2012, when it stood at 0.96.

7.1.5.2 Profitability Ratios

Profitability ratios analysed together measure a company's overall operating efficiency. High profitability ratios are considered desirable.

Aggregate return on total assets (ROA) for companies providing factoring services totalled 2%, increasing from 1.2% in the previous year.

As at 31 December 2013, aggregate return on equity (ROE) for companies providing factoring services amounted to 40.2%, increasing compared to 31 December 2012, when it totalled 29.4%.

7.2 Hanfa's Activities

7.2.1 Regulatory Activities

The establishment, licencing and business operations of companies providing factoring services were not regulated by any special regulation in 2013, whereas the legal basis for Hanfa's supervisory activities with respect to companies providing factoring services is laid down in the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 140/05 and 12/12). Recognising the need for factoring services and factoring companies providing factoring services to be fully regulated by a special regulation, the Croatian Parliament, at its session held from 18 January 2012 to 16 March 2012, issued a Decision on the preparation of the Factoring Act. The purpose of the adoption of the act was to encourage further development of factoring services by guaranteeing economic stability and legitimacy, on the assumption that market participants are well organised entities capable of fulfilling certain regulatory requirements, as well as to raise the level of legal security in factoring arrangements.

The last quarter of 2012 saw the establishment of the Working Group for the Preparation of the Draft Factoring Act, whose members were also Hanfa's employees, while the preparation of the act fell within the area of competence of the Ministry of Finance of the Republic of Croatia. Activities for the preparation of the draft act started in 2013, with public consultation on this document having been organised in September and in October 2013.

The Draft Factoring Act regulates factoring agreements, rights and obligations of entities involved in factoring arrangements, terms of establishment, operation and termination of business operations of companies providing factoring services, terms and methods for cross-border activities and reporting by companies providing factoring services. In addition, the draft act also regulates the requirements related to risk management and supervisory procedures.

After the adoption of the Factoring Act, companies providing factoring services will function as regulated and supervised entities on the financial market, with the act representing a special supervisory and regulatory framework for the factoring market.

7.2.2 Supervision

Within the scope of its competence under the Act on the Croatian Financial Services Supervisory Agency, and for the purpose of verifying their compliance with the legal framework, Hanfa carries out off-site and on-site supervision of companies providing factoring services. As there is currently no special regulation governing companies providing factoring services in the Republic of Croatia, their on-site and off-site supervision is conducted on the basis of powers laid down in the Act on the Croatian Financial Services Supervisory Agency and other acts, such as the Accounting Act (Official Gazette 109/07 and 54/13) and the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 25/12).

In 2013, two full-scope on-site examinations of companies providing factoring services were carried out. The examinations covered overall business activities of the companies and application of the provisions of Act on the Prevention of Money Laundering and Terrorist Financing.

Within its supervisory powers, Hanfa also carries out off-site supervision by conducting a continuous analysis of annual and quarterly reports and other information submitted to Hanfa by companies providing factoring services.

Judicial Proceedings

8 Judicial Proceedings

Hanfa takes part in judicial proceedings on a regular basis, both as an authorised plaintiff in misdemeanour proceedings and as a defendant in administrative disputes upon a lawsuit filed against any of its administrative acts. Hanfa is authorised to prosecute misdemeanour offences falling within its area of competence and takes action, legally defined as part of its area of competence, in the course of misdemeanour proceedings through a person delegated as its representative. Acts issued by Hanfa are final and administrative disputes may be initiated against them, in which case Hanfa, as a party to such disputes, files a response to the lawsuit and delivers its documents to the competent court. Pursuant to the Administrative Disputes Act (Official Gazette 20/10 and 143/12), Hanfa's employees participate in hearings before administrative courts in Osijek, Split, Rijeka and Zagreb.

In accordance with the provisions regulating criminal proceedings, Hanfa is authorised to bring criminal charges to the State Attorney's Office in cases where it has knowledge that a criminal offence to be prosecuted by virtue of the office has occurred.

With the aim of encouraging measures for efficient functioning of the financial market and informing the public, Hanfa publishes on its website final court decisions regarding misdemeanour and administrative court proceedings that Hanfa is a party to. Court decisions are published in their entirety, with certain data on parties and their representatives being crossed out and made illegible for the purpose of protecting personal data and personality rights. In the course of this procedure, Hanfa follows the principles of anonimisation, contained in the Instruction on the method of anonimisation of court decisions and in the Rules on the anonimisation of court decisions by the Supreme Court of the Republic of Croatia. This is due to the fact that Article 15, point 4 of the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 140/05 and 12/12) authorises Hanfa to encourage, organise and monitor, within the framework of its powers, measures aimed at efficient functioning of the financial market, whereas point 6 of the same Article stipulates that Hanfa has responsibility to inform the public of the functioning principles of the financial market.

Furthermore, the publication of court decisions in proceedings that Hanfa is a party to ensures the right of access to information to all natural and legal persons, at all times and under equal conditions.

8.1 Misdemeanour Proceedings

After having carried out examinations of investment funds and capital, insurance and leasing markets in 2013, Hanfa established violations referred to in the Capital Market Act (Official Gazette 88/08, 146/08, 74/09 and 54/13), Investment Funds Act (Official Gazette 150/05), Leasing Act (Official Gazette 135/06), Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 25/12), Insurance Act (Official Gazette 151/05, 87/08, 82/09 and 54/13), Act on Compulsory Insurance within the Transport Sector (Official Gazette 151/05, 36/09, 75/09 and 54/13), Act on the Takeover of Joint-Stock Companies (Official Gazette 109/07, 36/09, 108/12, 90/13 - Decision of the Constitutional Court of the Republic of Croatia and 99/13 - Decision of the Constitutional Court of the Republic of Croatia) and Accounting Act (Official Gazette 109/07 and 54/13), and, in accordance with its powers, brought 30 indictments before the competent misdemeanour courts and the Financial Inspectorate (with regard to misdemeanours referred to in the Act on the Prevention of Money Laundering and Terrorist Financing).

Table 8.1 Indictments brought in 2013

Area	Act	Number of indictments
Investment funds	Investment Funds Act	3
	Investment Funds Act and Accounting Act	2
	Total	**5**
Capital market	Act on the Takeover of Joint-Stock Companies	3
	Capital Market Act	3
	Total	**6**
Insurance	Act on Compulsory Insurance within the Transport Sector	11
	Insurance Act	5
	Act on the Prevention of Money Laundering and Terrorist Financing	1
	Total	**17**
Leasing	Leasing Act	1
	Act on the Prevention of Money Laundering and Terrorist Financing	1
	Total	**2**
Total indictments brought in 2013		**30**

Source: Hanfa

In the course of 2013, Hanfa participated actively as an authorised plaintiff in misdemeanour proceedings initiated before 2013.

Since its establishment on 1 January 2006 until 31 December 2013, Hanfa brought a total of 403 indictments. Misdemeanour procedures with Hanfa as authorised plaintiff, and earlier, in accordance with the Misdemeanour Act (Official Gazette 88/02, 122/02, 187/03, 105/04 and 127/04), as authority initiating misdemeanour procedures, often result in long-lasting proceedings or expiration of statute of limitations.

Table 8.2 Misdemeanour procedures initiated from 2006 to 2013

Year	Number of indictments	Final judgement	Discontinuance	Expiration of statute of limitation	Ongoing
2006	75	32	15	25	3
2007	72	13	14	38	7
2008	65	10	6	37	12
2009	49	12	1	27	9
2010	52	11	2	19	20
2011	33	3	1	2	27
2012	27	3	1	0	23
2013	30	1	0	0	29
Total	**403**	**85**	**40**	**148**	**130**

Source: Hanfa

8.1.1 Capital Market

Within the framework of supervision of the capital market, following established misdemeanours committed in this area, Hanfa brought six indictments against misdemeanour perpetrators in 2013, namely four indictments relating to violations referred to in the Act on the Takeover of the Joint-Stock Companies and two indictments relating to violations referred to in the Capital Market Act. An indictment relating to violations referred to in the Act on the Takeover of Joint-Stock Companies were brought against a legal person and a responsible person within the legal person due to their failure to inform Hanfa, the offeree company and the Zagreb Stock Exchange without delay of the occurrence of the obligation to publish a takeover bid and due to their failure to publish this information without delay in accordance with the provisions of Article 4 of the Act on the Takeover of Joint-Stock Companies. An indictment relating to the Act on the Takeover of Joint-Stock Companies also was brought against a legal person and a responsible person within the legal person due to the fact that the legal person acquired shares subject to the takeover bid in a manner other than the takeover bid from the moment of acquiring the offeree company's shares, which resulted in the occurrence of the obligation to publish the takeover bid, until the end of duration of takeover bid. An indictment was brought against one natural person due to this person's failure to inform Hanfa, the offeree company and the Zagreb Stock of Exchange of the occurrence of the obligation to publish a takeover bid, due to the failure to publish this information without delay in accordance with provisions of Article 4 of the Act on the Takeover of Joint-Stock Companies and due to the fact that this person, contrary to the provisions of the Act on the Takeover of Joint-Stock Companies, in the period after the obligation to publish the takeover bid had occurred, committed himself to dispose of the shares which were subject to the takeover bid. Indictments were also brought due to misdemeanours referred to in the Capital Market Act, namely against a legal person and a responsible person within the legal person due to their failure to submit to Hanfa information on exceeding the voting rights threshold in the share issuer. A member of the share issuer's supervisory board was indicted due to his failure to comply with the obligation to submit to Hanfa information on the disposal of issuer's shares.

8.1.2 Investment Funds

Within the framework of supervision of insurance funds, following established misdemeanours committed in this area, Hanfa brought five indictments against misdemeanour perpetrators in 2013, namely three indictments relating to violations referred to in the Investment Funds Act and two indictments relating to violations referred to in the Accounting Act. The indictments relating to violations with respect to investment funds were brought against five legal persons and ten natural persons within these legal persons due to the following reasons: the investment fund management company and its responsible persons failed to comply with the operating procedure, i.e. failed to fulfil all the obligations referred to in the Investment Funds Act in a timely manner, they suspended the redemption of units in open-ended investment funds contrary to the provisions of the Investment Funds Act, and they failed to comply with legally stipulated asset investment restrictions and operating procedures. Indictments were also brought due to a failure to comply with restrictions referred to in the Investment Funds Act on total costs borne by an open-ended investment fund, due to a failure of the investment fund management company and its responsible persons to comply with requirements referred to in the Investment Funds Act and supervisory authority's regulations, and due to their failure to end the suspension of units in an open-ended investment fund as soon as possible, and not later than within 28 days from the beginning of the suspension, in accordance with the provisions of the Investment Funds Act. Misdemeanours related to accounting were brought due to violation of the obligation to apply the International Financial Reporting Standards in accordance with the Accounting Act.

8.1.3 Insurance Market

Out of 17 indictments brought in the course of 2013, 11 were related to violations referred to in the Act on Compulsory Insurance within the Transport Sector, namely a failure of insurance companies and their responsible persons to deliver a reasoned offer of compensation, or a reasoned reply, to the injured party within legally prescribed time frames and their failure to pay the injured party the indisputable part of compensation, as advance payment, within legally prescribed time frames. Due to violations of the provisions of the Act on Compulsory Insurance within the Transport Sector, indictments were brought against three insurance companies and their responsible persons. Furthermore, five indictments were brought due to violations of the provisions of the Insurance Act, with one indictment relating to the misdemeanour procedure initiated against an insurance company due to the fact that it allowed insurance and reinsurance representation and brokerage business to be conducted by persons lacking adequate authorisation, as well as against an insurance agency and its responsible persons that acted contrary to the provisions of the Insurance Act and allowed unauthorised persons to conduct insurance representation business. The remaining indictments were related to misdemeanour procedures against insurance companies' management board members due to their failure to fulfil their obligations in accordance with the Insurance Act, i.e. due to their failure to ensure the compliance of the insurance company's operations with the provisions of the Insurance Act. One indictment was brought before the Financial Inspectorate against one legal and three responsible persons for receiving a cash payment in the amount exceeding HRK 105 thousand.

8.1.4 Leasing

Within the framework of supervision of leasing companies, Hanfa established misdemeanours committed with respect to the Leasing Act, and brought one indictment before the competent court against one legal person and two responsible persons due to their failure to submit audited financial statements within 15 days from the day of the preparation of the report by the auditor on audited annual financial statements, within four months after the end of the relevant financial year.

Furthermore, Hanfa established misdemeanours committed with respect to the Act on the Prevention of Money Laundering and Terrorist Financing resulting in one indictment brought before the Financial Inspectorate. The indictment was brought against a legal person and two responsible persons within the legal person due to their failure to keep complete and accurate records on clients, business relations and transactions defined by the Act on the Prevention of Money Laundering and Terrorist Financing, due to their failure to assess the risks relating to money laundering and terrorist financing in accordance with the Guidelines on Money Laundering and Terrorist Financing for Hanfa's supervised entities, and due to their failure to verify and perform due diligence on all the existing clients who might pose a risk as regards money laundering and terrorist financing. An indictment was also brought against a legal person and two responsible persons within the legal person due to their failure to comply with the provisions of Article 50, paragraph 1 of the Act on the Prevention of Money Laundering and Terrorist Financing and to ensure the internal audit of activities relating to the prevention of money laundering and terrorist financing at least once a year.

8.2 Administrative Disputes

In the course of 2013, a total of 38 administrative disputes were initiated against administrative acts (decisions and resolutions) of Hanfa following complaints filed with administrative courts of the Republic of Croatia. Pursuant to the Administrative Disputes Act, Hanfa provided responses and submitted files requested, based on which complaints had been filed. Hanfa's employees were present at court procedures related to these files at administrative courts in Osijek, Split and Zagreb. Out of 38 administrative disputes, 31 were related to administrative acts resulting from four examinations carried out in the capital market, namely to the takeover of a company, publication of a takeover bid, insight into files and records, recognition of a party to the proceedings, renewal of the proceedings and supervision of business operations. As regards the leasing market, one administrative dispute was initiated due to the annulment of the decision rejecting the objection against a reply to a complaint. The remaining six administrative disputes related to the insurance market: one of them to the suspension of the publication of the offer to conclude the insurance agreement and to elimination of irregularities established during on-site and off-site examinations. In the course of 2013, no administrative disputes were initiated against Hanfa regarding the adoption of an appropriate administrative act upon the request of a client (the so-called administrative silence).

8.3 Criminal Charges

Within the framework of its regular business activities, Hanfa established that there were grounds for suspicion that a number criminal offences had been committed and filed a criminal charges against four natural persons. The said criminal offences are defined by the Criminal Code (Official Gazette 110/97, 27/98, 50/00, 51/01, 105/04, 84/05, 71/06, 110/07 and 152/08), namely abuse of authority in economic transactions, described in Article 292, paragraph 1, point 6, with respect to Article 2 of the Criminal Code, and concluding a harmful agreement, described in Article 294, paragraph 1, with respect to Article 2 of the Criminal Code.

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Cooperation and Consumer Protection

9 Cooperation and Consumer Protection

9.1 European Union and International Institutions

After the accession of the Republic of Croatia to the EU on 1 July 2013, Hanfa became a full member of the European Supervisory Authorities supervising the financial system at the EU level, namely EIOPA and ESMA.

In 2013, President of the Board of Hanfa or his alternate attended seven meetings of ESMA's Board of Supervisors and six meetings of EIOPA's Board of Supervisors, where they cooperated with other national competent authorities' authorised persons in bringing decisions and adopting various regulations governing market supervision at the EU level.

On the operating level, Hanfa's employees were involved in activities of ESMA and EIOPA's committees and participated in education programmes and seminars organized by ESMA and EIOPA.

EIOPA was established on 1 January 2011 by Regulation (EU) No 1094/2010 of the European Parliament and of the Council and is the legal successor of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). It is an independent supervisory authority of the European Union and is part of the European System of Financial Supervisors (ESFS). EIOPA's responsibilities are to support the stability of the EU financial system by ensuring the integrity, transparency, efficiency and orderly functioning of financial markets, and by protecting policyholders, pension scheme members and beneficiaries. When carrying out its tasks, EIOPA acts independently, objectively and in the sole interest of the European Union.

ESMA was established on 1 January 2011 by Regulation (EU) No 1095/2010 of the European Parliament and of the Council and is the legal successor of the Committee of European Securities Regulators (CESR). It is an independent supervisory authority of the European Union and is part of the European System of Financial Supervisors (ESFS). ESMA contributes to the stability of the EU financial system by ensuring the integrity, transparency, efficiency and orderly functioning of financial markets, and by enhancing investor protection.

Cooperation with ESMA

In its third year of existence, ESMA put emphasis on regulating short selling, Regulation (EU) 648/2012 of European Parliament and Council from 4 July 2012 on OTC derivatives, central counterparties and trade repositories (hereinafter: EMIR), credit rating agencies and benchmarks. Regulatory technical standards for EMIR were issued in February 2013.

In the area of investment funds, ESMA focused on finalising key elements for the AIFM Directive and activities related to UCITS. In April, Regulatory technical standards for the AIFMD explaining AIFM types were issued.

2013 was the second year in which ESMA exercised supervision over credit rating agencies. ESMA also started supervising trade repositories in accordance with EMIR and coordinating supervisory colleges for central counterparties.

The Board of Supervisors and Management Board are ESMA and EIOPA's main bodies. The Board of Supervisors is composed of representatives of national competent authorities and is responsible for decisions on operational and technical administrative issues. The Management Board consists of the President and six members, and is in charge of organisational issues such as annual budget, human resources policy and annual work programme.

Cooperation with EIOPA

In 2013, ESMA put emphasis on the common Solvency II framework comprising four sets of guidelines prepared to become effective on 1 January 2014. These guidelines should prepare insurance companies for full application of Solvency II from 1 January 2016, and refer to:

a) system of governance
b) anticipative assessment of companies' own risks based on ORSA[80]
c) submission of information to national competent authorities and
d) pre-application for internal models.

2013 also saw the commencement of activities related to a new framework for pensions.

As the European insurance market is the largest in the world, the introduction of a harmonised Solvency II framework, which enables a better understanding, measurement and management of risks by insurers, will be of great use for all market participants.

In addition to the decision-making process at Board of Supervisors meetings, ESMA and EIOPA may, where decisions need to be taken promptly, adopt decisions electronically by requesting Member States to participate in electronic voting. Since it became a full member of these institutions, Hanfa has adopted 45 decisions related to ESMA membership and 26 decisions related to EIOPA membership.

Cooperation within the ESRB

In 2013, Hanfa actively participated, along with the Croatian National Bank, in the work of the European System Risk Board (ESRB). The ESRB is responsible for macro-prudential supervision of the financial system at the EU level and comprises the European Central Bank, European Supervisory Authorities (ESMA, EIOPA and EBA – European Banking Authority) and Member States' central banks and supervisory authorities.

Cooperation with the ECB

On 21 November 2013, a representative of the European Central Bank (ECB) gave a presentation at Hanfa's premises on the ECB advisory procedure in the process of adopting national regulations. The obligation to consult the ECB needs to be fulfilled for draft regulations referred to in Article 2, paragraphs 1 and 2 of Council Decision 98/415/EC. The presentation also reflected the improved cooperation among EU institutions, as the ESAs and the ESRB (whose Secretariat is provided by the ECB) make a part of the European System of Financial Supervision (ESFS). In addition, the ECBS is one of the seven main EU institutions and is to become part of the Single Supervisory Mechanism for the purpose of banking supervision.

Cooperation with the European Commission

In 2013, Hanfa participated in the prior notification process, i.e. process of submitting to the European Commission a list of titles and texts of regulations adopted with the aim to implement

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into the national legislation EU directives in force at the moment of accession of the Republic of Croatia to the EU. Hanfa was responsible for the notification of subordinate regulations and explanatory documents from its scope of competence, related to capital market, investment funds, insurance and occupational pensions. It was also involved in the preparation of national positions and provision of comments on draft regulations related to its scope of competence which were in the process of adoption at the EU level.

Cooperation and Exchange of Information with Other International Organisations

Hanfa was involved in activities related to the implementation of the Agreement between the Government of the Republic of Croatia and the Government of the United States of America to Improve International Tax Compliance and to Implement the Foreign Account Tax Compliance Act (FATCA).

In 2013, Hanfa actively participated in the Interinstitutional Trade Working Group analysing provisions regulating the non-banking financial sector from individual agreements between the EU (Republic of Croatia as a Member State) and third countries within the framework of the General Agreement on Trade in Services – GATS) with respect to its possible impact on the Croatian market. In the course of this procedure, the analysis of free trade agreements was made for the following countries: Ukraine, Republic of Korea, Columbia, Peru, Chile, Central American countries, Armenia, Singapore, Canada and USA. Within the framework of these activities, Hanfa also analysed provisions of the Kosovo-EU Stabilisation and Association Agreement as regards its scope of competence.

9.2 Cooperation with Croatian and Foreign Supervisory Authorities and International Organisations

Pursuant to Articles 16 to 18 of the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 140/05 and 12/12), Hanfa cooperates with domestic and foreign regulatory institutions whose scope of activities and competence are linked to the supervision of financial services and financial markets, as well as with international organisations representing such institutions.

Hanfa cooperates with the Croatian National Bank on an on-going basis, pursuant to the Agreement on Cooperation signed in September 2006, defining the content and form of mutual cooperation in exercising legal powers of the two institutions. Based on this agreement, the Working Committee for Financial System Supervision was established with the purpose of coordinating procedures and activities of the Croatian National Bank and Hanfa, including the coordination of supervisory procedures and exchange of information.

In 2013, Hanfa also cooperated with other Croatian institutions, primarily with the Ministry of Finance of the Republic of Croatia, Ministry of Labour and Pension System of the Republic of Croatia and Ministry of Foreign and European Affairs of the Republic of Croatia. The cooperation mostly related to exchange of information as regards preparation of acts falling within Hanfa's area of competence and issues relating to the European law.

Hanfa is a signatory to 31 bilateral and multilateral cooperation agreements in the area of supervision of the capital market, insurance market and pension fund market. Pursuant to these agreements, Hanfa cooperates with foreign regulatory authorities in the course of its supervisory procedures, investigative actions, exchange of experience related to the regulatory framework and practice in certain issues.

As a member of the International Organisation of Securities Commissions (IOSCO), Hanfa was involved in the preparation of a series of documents and uses IOSCO's Multilateral Memorandum of Understanding continuously in the conduct of its supervisory activities. Hanfa is also a member of the IOSCO European Regional Committee and of the Emerging Markets Committee.

In September 2013, representatives of the International Monetary Fund visited Hanfa within the framework of their regular mission. Discussion topics referred to developments in the Croatian capital market and changes in the regulatory framework for pension funds.

9.3 Prevention of Money Laundering and Terrorist Financing and International Restrictive Measures

Hanfa's Committee for the Prevention of Money Laundering and Terrorist Financing was established on 29 March 2007. The Committee's main objectives include addressing various issues relating to the prevention and detection of money laundering and terrorist financing and cooperation with other competent government authorities.

In 2013, Hanfa continued its cooperation with the Anti-Money Laundering Office and, within the framework of the Action Plan for the Prevention of Money Laundering and Terrorist Financing, prepared two semi-annual reports on its activities undertaken in this area. Over the previous year, Hanfa also submitted data to the Anti-Money Laundering Office related to the reporting to the Government of the Republic of Croatia and the European Commission.

Hanfa's representatives actively participate on an on-going basis in meetings and activities of the Inter-Institutional Working Group on the Prevention of Money Laundering and Terrorist Financing, and in 2013 they kept cooperating with all the institutions within the said working group.

Following the preparation for the 4th round of evaluation of the Republic of Croatia carried out by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a representative of Hanfa participated in the work of the Croatian delegation at the MONEYVAL Plenary Meeting held in Strasbourg in September 2013.

In order to ensure full implementation of supervisory measures in the area of the prevention of money laundering and terrorist financing, in 2013 Hanfa continued to educate its employees and organised tailor-made in-house seminars on this issue. Hanfa's employees also took part as lecturers in external trainings on the prevention of money laundering and terrorist financing. Within the framework of its supervisory activities, Hanfa verifies the compliance of its supervised entities with the provisions of the Act on the Prevention of Money Laundering and Terrorist Financing and related guidelines issued by Hanfa.

Pursuant to the Decision on the method of implementing international measures restricting asset disposal (Official Gazette 78/11) and in connection with the Act on International Restricting Measures (Official Gazette 139/08), Hanfa supervises the implementation of international measures restricting asset disposal by its supervised entities and provides them with adequate information on relevant documents and regulations relating to entities subject to international restrictive measures. Along with representatives of other government institutions, Hanfa's representative participated in the meeting with the United Nations Security Council on Iran, held in Zagreb in November 2013.

9.4 Consumer Protection

The total number of complaints submitted to Hanfa in 2013 included those submitted following certain activities of entities supervised by Hanfa, those which do not fall within Hanfa's area of competence and other types of general inquiries and complaints.

Hanfa provides prompt responses to the complaints, not later than within 30 days after the reception of a complaint. In cases where Hanfa is not authorised to provide a response to an inquiry or complaint, it refers the submitter to relevant competent authorities.

In the period from 1 January 2013 to 31 December 2013, Hanfa received 201 complaints, which is an 8% increase as compared to 2012.

A total of 72% of complaints were submitted by natural persons and 15% by legal persons. Anonymous complaints amounted to 7% of total complaints and 6% of the complaints did not fall within Hanfa's competence.

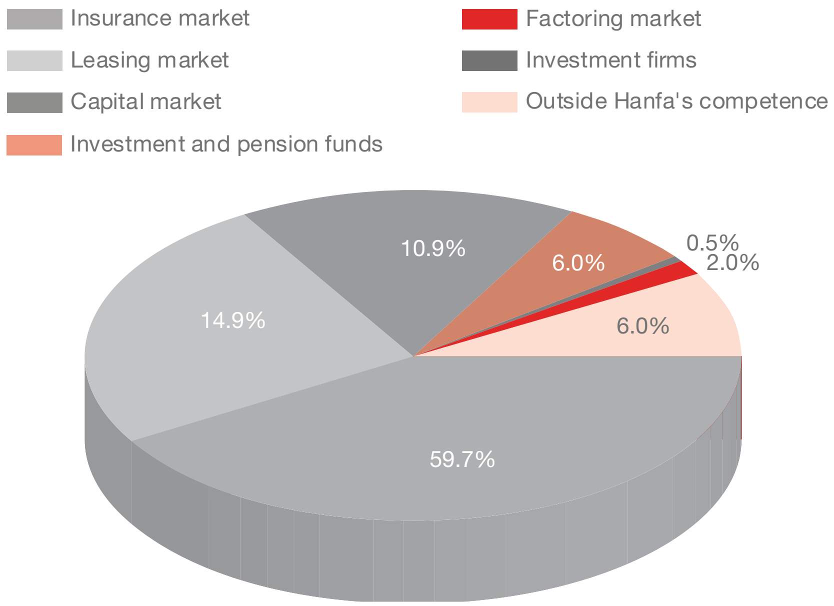
Table 9.1 Complaints submitted to Hanfa in 2013

Type of complaint	Number
Natural persons	144
Legal persons	31
Anonymous	14
Outside Hanfa's competence	12
Total	**201**

Source: Hanfa

The largest number of complaints related to the insurance market, followed by those relating to the leasing market, as shown in the following chart:

Chart 9.1 Structure of consumer complaints by industry



Source: Hanfa

The structure of the complaints received shows that 74.6% of total complaints related to the insurance and leasing market.

Out of 120 complaints related to the insurance market, 30% of the complaints referred to clients' discontent concerning the claims handling procedure, i.e. discontent with the insured amount paid or a failure to pay the insured amount; 21% of the complaints referred to conclusion of insurance agreements, i.e. too high insurance premiums, discounts and incorrect application of the bonus/malus system; 19% of the complaints referred to insurance agreement disputes, i.e. failures to fulfill obligations under the insurance agreement and terms and conditions; 16% of the complaints referred to the activities of a supervised entity, i.e. its financial or general activities carried out contrary to the legal framework; and 6% of the complaints referred to surrender values of the insurance policy. The remaining complaints were related to handling of clients by the supervised entity, participation in profit, marketing activities, disputes related to the loan agreement, return on investment, personal data protection and manner of publishing information on Hanfa's website.

Out of 31 complaints related to the leasing and factoring market, one complaint related to companies providing factoring services and 30 complaints related to business operations of leasing companies. A total of 53% of the leasing-related complaints referred to leasing companies' activities with respect to debt collection after the expiration or termination of the lease agreement; 13% of the complaints related to clients' discontent with the VAT calculation; 10% of the complaints referred to the usage of a vehicle after the expiration of the lease agreement; and 10% of the complaints referred to the alleged fraudulent behaviour by a leasing company, i.e. a failure to obey provisions of an agreement. The remaining complaints referred to restrictions by a leasing company as regards the selection of the insurer, a leasing company's activities following the theft of a leased object, a leasing company's activities after the initiation of the bankruptcy proceedings againts the lessee, and the conclusion of the agreement with persons lacking business capacity to conclude the agreement.

Out of 22 complaints related to the capital market, 32% of the complaints referred to issuer's transparency and corporate governance, i.e. to issues with respect to general assemblies, pre-bankruptcy proceedings etc.; 27% of the complaints referred to shareholders' rights with respect to the transfer of shares to the Central Depository and Clearing Company, squeeze-out and similar issues; 18% of the complaints referred to the takeover of joint-stock companies; 18% of the complaints referred to suspicion of market abuse or insider dealing, and one complaint referred to the admission of shares to trading on the MTF.

Out of eight complaints related to investment funds, 38% of the complaints referred to supervised entities' business and financial operations, i.e. clients' discontent with funds' investments and realised return; 25% of the complaints referred to discontent with fund acquisition procedure, i.e. with submission of information on the acquisition, and to discontent with the calculation of the unit value in the new fund; and 13% of the complaints referred to a failure to comply with the prospectus. The remaining complaints referred to blocking of units by mistake and the amount of compensation.

Out of four complaints related to pension funds, two complaints referred to clients' discontent with voluntary pension companies' business operations, i.e. with the membership fee and payment of total funds realised; one complaint referred to the payment of pension from pension pillar II; and one to personal data abuse.

Four complaints related to investment firms referred to specific activities by investment firms/credit institutions, such as charging of fees for portfolio management, settlement of shares, activities related to on-line trading facility and request to submit specific documents.

Where appropriate, Hanfa may, following the reception of complaints and in accordance with the relevant regulations, initiate on-site or off-site examinations. The examinations may be followed by warnings to the supervised entity about irregularities established and by elimination of such irregularities, relating to either the provision of financial services or consumer protection. Due to an insufficient understanding of contract terms and conditions, which can sometimes be very complex, and of the characteristics of financial products, disputes between the provider and user of financial services may arise. A significant number of complaints submitted to Hanfa in 2013 were primarily due to the lack of consumers' knowledge concerning contractual relationships, general functioning of financial services and consumers' failure to meet contractual obligations, which resulted in contract termination, warnings, occurrence of additional costs, etc.

During the complaints handling procedure, certain issues referred to in some complaints may be taken into account in future planned supervisory activities. Considering different features of the industries, Hanfa's timely reaction to a complaint may differ with respect to the industry a complaint referred to. For example, Hanfa's response to an electronically submitted complaint regarding trading on the Zagreb Stock Exchange may differ (prompt, real time) from a response provided to a complaint indicating suspicions of the occurrence of obligation to publish the takeover bid (which is a generally longer and more complex procedure).

Hanfa continuously informs the general public of its role and functioning of the financial system by publishing information and notices, providing prompt responses to inquiries by users of financial services, media and the public concerned, and by carrying out other activities (such as participation of Hanfa's employees as lecturers in expert meetings and seminars or publishing draft subordinate regulations within Hanfa's competence and inviting the public to submit their comments). This enables Hanfa to fulfil its legal obligation as these activities are governed by the principles of transparency, building confidence among participants of the financial market and reporting to consumers.

Regulatory framework for financial services takes into account clients' interests, providing financial services users with various protection mechanisms depending on the industry (e.g. right of access to various information prior to entering into a business relation, Investor Compensation Scheme, possibility of out-of-court settlement of disputes at the Mediation Centre of the Croatian Insurance Bureau). Activities in this area should focus on enhancing financial literacy through a multi-institutional cooperation. Hanfa participated in the preparation of the Draft National Strategic Framework for Financial Literacy and took part in ESMA and EIOPA's relevant committees. It also initiated activities related to the financial literacy programme within its scope of competence, taking account of the said issue in the process of reconstruction of its website (publication of FAQs and relevant answers, more user-friendly features, publication of warnings about companies providing services without authorisation, publication of consolidated versions of regulations and subordinate regulations).

9.5 Transparency

Hanfa informs the public about its work through various activities. On its website (www.hanfa.hr), Hanfa regularly publishes decisions issued by the Management Board at its sessions and the website also provides access to all regulations governing operation of Hanfa and Hanfa's supervised entities, along with regular publications such as annual and monthly reports and statistical data on Hanfa's supervised entities.

In the process of preparation and adoption of subordinate regulations, Hanfa organises public consultations with stakeholders in order to obtain their opinions and improve the regulatory framework for its supervised entities. Following the publication of draft regulations on its website, Hanfa invites all stakeholders to submit their written comments and suggestions, taking them into consideration while preparing final versions of the documents.

Hanfa is obliged to comply with the provisions of the Act on Right of Access to Information (Official Gazette 25/13; hereinafter: ARAI), pursuant to which it publishes information from its scope of competence, fulfils its obligations referred to in Articles 10 and 11 of ARAI and handles requests submitted under ARAI as soon as possible. In 2013, submitters of four requests to obtain information under ARAI received the information requested, whereas two requests for information were forwarded to other relevant authorities pursuant to Article 21 paragraph 1 of ARAI.

The media send their inquiries to Hanfa in writing to a special address (press@hanfa.hr). While providing answers to the inquiries, Hanfa strives to provide prompt replies, while also putting emphasis on the provision of complete information. In 2013, Hanfa received and provided answers to 64 media inquiries. Hanfa also communicates with the public by publishing statements, through published interviews with the President and members of the Management Board, and through the attendance at conferences and expert seminars by members of the Management Board and employees.

In addition, in 2013 Hanfa also organised visits by groups of students interested in getting acquainted with Hanfa's scope competence and working activities.

Hanfa's representative was also involved in the preparation of the Draft National Strategic Framework for Financial Literacy falling within the area of competence of the Ministry of Finance of the Republic of Croatia.

Office of the Secretary General and Financial Statement of Hanfa

10 Office of the Secretary General and Financial Statement of Hanfa

Pursuant to the provisions of the Act on Amendments to the Croatian Financial Services Supervisory Agency of 25 January 2012 (Official Gazette 12/12), Hanfa is represented by the Secretary General, who coordinates and manages Hanfa's business operations in accordance with the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 140/05 and 12/12) and the Statute of Hanfa.

The Office of the Secretary General is responsible for organising activities in accordance with Hanfa's general acts and for Hanfa's activities related to finances, accounting, human resources, IT and general administrative and technical activities. The Ordinance on internal organisation and job systematisation within the Croatian Financial Services Supervisory Agency organised activities of the Office of the Secretary General into three units: Planning and Accounting Unit, General and Administrative Services Unit and Information and Communication Technology Unit. The Office was established in 2012, contributing significantly to the improvement of Hanfa's operation, primarily by upgrading its existing accounting and human resources procedures and modernizing the IT system.

In 2013, business upgrading processes within Hanfa continued through various projects. A new business platform for collaboration, development and integration of business solutions was established, as a prerequisite for a further upgrade of systems such as electronic filing and records office and business process management. These projects will improve the working efficiency and reduce the volume of paper documents. In the IT area, business continuity plan improvement project was completed through the procurement and implementation of a disaster recovery site, which ensured a high level of availability of all IT services with minimal data losses in case of a disaster, at the same tame representing a significant progress in the data security area.

The overall fixed-line telephone services system was transferred to the IP switching system, which testifies to new trends in technology being followed in this area. This also led to a 16% reduction in costs for fixed-line telephone services.

In 2013, Hanfa reconstructed its website, making its content more user-friendly and providing a faster and more efficient access to information on Hanfa's activities. For example, the website contains unofficial consolidated versions of regulations and subordinate regulations from Hanfa's area of competence, as well as relevant EU regulations, with the contents being broken down by industries supervised by Hanfa in a more transparent manner, which ensures more adequate information provided to the users. The website is up-to-date, responsive and adjusted to all types of devices. In accordance with Hanfa's objective to continuously improve communication with industry representatives, financial services users and the general public, the website will be upgraded and updated on an on-going basis with new information, especially that related to consumer protection and financial education.

After Croatia's accession to the European Union, Hanfa became a full member of the ESAs, participating regularly in activities of ESMA and EIOPA. New obligations to these institutions resulted in a comprehensive and demanding adjustment of Hanfa's systems, creating an additional financial burden for Hanfa. Within the framework of these activities, a plan for connecting Hanfa's and ESMA's IT systems was drawn up and adopted. Amendments to reports submitted to Hanfa by supervised entities were prepared and implemented, either as a preparation for data exchange with national competent authorities of Member States and the ESAs or due to changes in national regulations.

Members of the Information and Communication Technology Unit participate in the work of the following committees:

- EIOPA's IT&Data Committee, responsible for data collection and formation of the register of data on national supervisory authorities, updated on EIOPA's website. In addition, this committee aims to implement IT best practices and control mechanisms in insurance and reinsurance companies' business activities.
- ESMA's IT Management and Governance Group, responsible for IT governance of ESMA, especially for projects related to the preparation of IT systems and services that help national competent authorities to fulfil their obligations to EU institutions.

Hanfa's membership in the ESAs implies new tasks for Hanfa related to EU regulations, resulting in a need to continuously educate the existing human resources. In 2013, both ESMA and EIOPA organised various specialised seminars and workshops which were attended by Hanfa's employees.

Representatives of the Office of the Secretary General attended the annual meeting of ESMA HR Management Network, discussing topics related to organization of seminars, past experiences and future cooperation. There were also other activities in the area of HR management carried out in 2013 in connection with the attendance of conferences, seminars or meetings by Hanfa's employees.

As at 31 December 2013, Hanfa had 142 employees, or two employees more compared to 2012, despite a significant rise in the amount of Hanfa's activities resulting from the accession of the Republic of Croatia to the European Union. Due to the anticipated increase in Hanfa's obligations and tasks related to EU requirements in the reporting and regulatory area, new employees are expected to be needed in the upcoming years.

In 2013, Hanfa used funds intended for enhancing access to employment as part of the active employment policy measures taken by the Croatian Employment Service, thus ensuring entry into the labour market for 15 trainees with a B. Sc. degree, namely seven economists, six mathematicians and two lawyers.

10.1 Use of EU Funds

In 2013, Hanfa considered the possibility of implementing a business intelligence system by using funds made available to Member States by the European Union. The initiative was launched in order to facilitate reporting and data exchange with the European supervisory bodies and to avoid any financial burden for supervised entities. Hanfa put in a lot of effort to prepare the necessary tender documentation and applied for EU funding.

Following the said procedure, Hanfa received EU funds for the project named "Improvement of Hanfa's Infrastructure through the Implementation of a Business Intelligence System", which covers the exchange of information and data with the ESAs. The purpose of data exchange between national competent authorities and the ESAs is to ensure adequate application of the

EU legislation governing the financial sector, for the purpose of protecting financial stability and confidence in the overall financial system and ensuring appropriate consumer protection. The project is supposed to enable Hanfa to comply with ESA's reporting requirements in a more efficient manner and improve Hanfa's capacity with respect to its risk-based supervisory activities and continuous monitoring and managing of systemic risks.

10.2 Financial Operations

In accordance with Hanfa's Statute, its financial operations fall within the competence of the Office of the Secretary General, and its business books are kept in accordance with regulations governing accounting for non-profit organisations.

Pursuant to Article 20 of the Act on the Croatian Financial Services Supervisory Agency, Hanfa may be financed from the State Budget, fees from assets and revenue of supervised entities and fees charged for the provision of services falling within the competence of Hanfa. In 2013, Hanfa was financed exclusively from fees from assets and revenue of supervised entities and fees charged for the provision of services falling within the competence of Hanfa.

The calculation and amount of fees and the manner of charging fees from assets and revenue of supervised entities charged by Hanfa in 2013 are defined by the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency in 2013 (Official Gazette 145/12, 8/13, 52/13 and 112/13). The type and amount of fees and administrative charges for the provision of services falling within Hanfa's competence in 2013 are defined by the Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency (Official Gazette 145/12, 90/13 and 112/13).

In 2013, Hanfa recorded an income totalling HRK 54,500,908 and expenditure totalling HRK 42,119,569.

Table 10.1 Aggregate balance sheet of Hanfa as at 31 December 2013 (in HRK)

Assets	36,393,578
Non-financial assets	5,011,614
Financial assets	31,381,964
Liabilities	36,393,578
Payables	3,984,545
Own sources	32,409,033

Source: Hanfa

As at 31 December 2013, Hanfa's total assets amounted to HRK 36,393,578, with 86% being accounted for by financial assets, and 14% being made up of non-financial assets. Total payables reached HRK 3,984,545, accounting for 11% of total liabilities, while own sources made up 89% of Hanfa's total liabilities. Total payables as at 31 December 2013 referred to payables for employees and material expenditure and other payables due in 2014.

Table 10.2 Aggregate income and expenditure account of Hanfa for 2013 (HRK)

Income	54,500,908
Income received under special regulations from other sources	**53,120,891**
Income received under the Ordinance on the requirements for the acquisition and examination of professional knowledge needed to obtain authorisation for brokers and investment advisors	216,500
Income received under the Ordinance on the type and amount of fees and administrative charges	6,923,512
Income received under the Ordinance on the amount of the fee and on the manner and time limits for payment of the fee for maintaing the register of leased objects	105,846
Income received under the Ordinance on calculation, amount and charging of fees for 2013	45,847,863
Other income received under special regulations	27,170
Income from assets and other income	**1,380,017**
Expenditure	42,119,569
Expenditure for employees	**30,194,574**
Material expenditure	**10,983,398**
Costs for employees	1,564,919
Costs for services	5,739,951
Costs for materials and energy	781,595
Other material expenditure	2,896,933
Depreciation costs	**782,148**
Financial expenditure	**51,127**
Other expenditure	**108,322**

Source: Hanfa

10.2.1 Income

A total of 97% of income recorded in 2013 was accounted for by income received under special regulations from other sources, realised from fees from assets and income of supervised entities, fees for the provision of services within Hanfa's competence and other income under special regulations. The largest share of income received under special regulations from other sources (84%) referred to income received under the Ordinance on the calculation, amount and charging of fees for 2013, i.e. income from assets and income of supervised entities, whereas 13% of total income was realised under the Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency.

The following table presents an overview of income realised from assets and income of supervised entities in 2013.

Table 10.3 Income from assets and income of supervised entities in 2013 (in HRK)

Type of income	Amount
Income from insurance companies	5,691,915
Income from insurance brokers and agents	238,949
Income from the Zagreb Stock Exchange	1,151,503
Income from the Central Depository and Clearing Company	3,571,278
Income from investment firms	97,288
Income from credit institutions	5,004,223
Inccome from pension companies	19,557,027
Income from investment fund management companies	4,661,618
Income from leasing companies	4,451,707
Incoem from companies providing factoring services	1,350,283
Income from pension insurance companies	72,072
Total	**45,847,863**

Source: Hanfa

The table shows that the largest share in total income (36%) was accounted for by income from pension companies, while 10% of the income related to income from insurance companies and 9% to income from investment fund management companies. Income from credit institutions amounted to 9% of total income and income from leasing companies made up 8% of total income. Income from the Central Depository and Clearing Company amounted to 7% of total income in 2013.

The Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency in 2013 amended the manner of calculating and charging the fee paid by the Central Depository and Clearing Company and the Zagreb Stock Exchange in 2013. In the previous years, the two institutions paid a fee on a yearly basis, whereas the new ordinance introduced a quarterly calculation of the fee.

Pursuant to the Regulation on accounting of non-profit organisations (Official Gazette 10/08, 7/09 and 158/13), the said type of income is considered as non-reciprocal income recognised in the relevant reporting period, provided it has been charged. Since the annual fee of the Central Depository and Clearing Company and the Zagreb Stock Exchange for 2012 was charged in January 2013, it was recorded as income in 2013, as well as the fees for three quarters in 2013. This amendment to the ordinance resulted in a one-time income increase from the fee charged to the Central Depository and Clearing Company and the Zagreb Stock Exchange in 2013.

Pursuant to the Ordinance on type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency, Hanfa charges fees for services provided within its scope of competence on the basis of powers defined by the Act on the Croatian Financial Services Supervisory Agency, Capital Market Act (Official Gazette 88/08, 146/08, 74/09, 54/13 and 159/13), Act on the Takeover of Joint-Stock Companies (Official Gazette 109/07, 36/09, 108/12 and 148/13), Act on Open-Ended Investment Funds with Public Offering (Official Gazette 16/13), Act on Alternative Investment Funds (Official Gazette 16/13), Insurance Act (Official Gazette 151/05, 87/08, 82/09 and 54/13), Act on Compulsory Insurance within the Transport Sector (Official Gazette 151/05 and 36/09), Mandatory and Voluntary Pension Funds Act (Official Gazette 49/99, 63/00, 103/03, 177/04, 71/07, 124/10, 114/11 and 51/13), Act on Pension Insurance Companies and Payment of Pension Annuities Based on Individual Capitalised Savings (Official Gazette 106/99, 63/00, 107/07 i 114/11), Leasing Act (Official Gazette 135/06 and 14/13) and 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 54/13).

Hanfa imposes fees and administrative charges to its supervised entities and all other legal and natural persons and entities without legal personality addressing Hanfa with requests to take measures from its area of competence. Persons obliged to pay fees and charges are also all other persons addressing Hanfa with information or requests to take actions within its area of competence or submitting information to Hanfa on the provision of services in the Republic of Croatia through competent supervisory authorities of Member States.

The said fees constitute Hanfa's income whereas administrative charges are paid into the State Budget.

The following table provides a detailed overview of income realised from services provided within Hanfa's area of competence in 2013.

Table 10.4 Income from services provided within Hanfa's area of competence under legal provisions in 2013 (in HRK)

Basis for charging fees	Realised income
Income realised under the Act on the Tekeover of Joint-Stock Companies	1,749,659
Income realised under the Capital Market Act	718,000
Income realised under the Investment Funds Act	286,500
Income realised under the Act on Open-Ended Investmet Funds with Public Offering	554,000
Income realised under the Alternative Investment Funds Act	5,000
Income realised under the Insurance Act and Act on Compulsory Insurance within the Transport Sector	3,030,878
Income realised under the Mandatory and Voluntary Pension Funds Act	274,000
Income realised under the Leasing Act	201,000
Income realised under the Act on the Croatian Financial Services Supervisory Agency (issuance of opinions and copies)	104,475
Total	**6,923,512**

Source: Hanfa

In comparison with 2012, in 2013 Hanfa received 7.5% more charges under the Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency, primarily due to the obligation of supervised entities to adjust their business activities to the new regulatory framework effective in the Republic of Croatia as of the day of accession of the Republic of Croatia to the European Union.

Table 10.4 shows that in 2013 Hanfa charged the highest amount of fees for services provided within its scope of competence under the Insurance Act and Act on Compulsory Insurance within the Transport Sector (6% of Hanfa's total income) and the Act on the Takeover of Joint-Stock Companies (3% of Hanfa's total income).

10.2.2 Expenditure

In 2013, Hanfa's expenditure amounted to HRK 42,119,569, with the expenditure for employees accounting for the largest share (72%). Material expenditure amounted to 26% of total expenditure. Expenditure for annual membership fees paid to ESMA and EIOPA in 2013, not including other expenditure related to participation in the work of these institutions, amounted to as much as HRK 2.6m, with a tendency to increase in the upcoming years due both to the full membership fee and continuous increase in these institutions' budgets.

A detailed income and expenditure account is presented in Table 1 of the Appendix.

In accordance with the Act on Amendments to the Act on the Croatian Financial Services Supervisory Agency, the excess of income over expenditure is transferred to the State Budget of the Republic of Croatia at the end of a fiscal year. Pursuant to that provision, the excess of income over expenditure realized by Hanfa in 2013 in the amount of HRK 12,381,338.74 was paid into the State Budget of the Republic of Croatia.

Council of the Croatian Financial Services Supervisory Agency

11 Council of the Croatian Financial Services Supervisory Agency

Pursuant to Article 11 of the Act on the Croatian Financial Services Supervisory Agency (Official Gazette, 140/05 and 12/12), Hanfa has a Council.

The Council is Hanfa's advisory body and consists of nine members, three of them being appointed by the Government of the Republic of Croatia and five by representatives of associations of supervised entities at the Croatian Chamber of Economy. The President of Hanfa's Board is a member of the Council by virtue of his office.

Members of the Council in 2013 were:

President: Boris Galić, Allianz d.d. Zagreb, President of the Management Board

Members:

Boris Lalovac, Ministry of Finance of the Republic of Croatia, Deputy Minister

Žana Pedić, Ministry of Finance of the Republic of Croatia, Head of Financial System Division

Ivana Matovina, Antares revizija d.o.o., Director

Josip Glavaš, Erste Invest d.o.o., President of the Management Board

Ivan Tadin, Hita vrijednosnice d.d., President of the Management Board

Mirsad Latović, Hypo-Alpe-Adria leasing d.o.o., Member of the Management Board

Damir Grbavac, Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.d., President of the Management Board, and

Petar-Pierre Matek, Hanfa, President of the Board.

In 2013, the Council held four meetings (on 25 April, 17 June, 18 September and 11 December) and discussed issues related to changes in the legislative and regulatory framework for certain industries and to improvement in Hanfa's business activities.

Meetings of Hanfa's Board in 2013

12 Meetings of Hanfa's Board in 2013

Pursuant to Article 8 of the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 140/05 and 12/12), all decisions within Hanfa's area of competence referred to in Article 15 of the said act are adopted by Hanfa's Board at its meetings. In 2013, the Board held 71 meetings (50 regular and 21 extraordinary) and adopted a total of 1,300 decisions.

Appendix

Appendix

Statistical Overview

Table A1: Statement of comprehensive income of mandatory pension companies (in HRK thousand)

Item	2012	2013	Index 2013/2012
Income from fund management	**240,427**	**282,515**	**118**
Fee from paid contributions	34,129	34,797	102
Fee from total assets of the pension fund	206,296	247,717	120
Exit fee	2	1	72
Expenses on fund management	69,712	72,388	104
Transaction costs	4	4	103
Marketing costs	4,214	5,078	120
Sales agent costs	7,109	2,857	40
Other penison fund mangement costs	58,385	64,448	110
Profit from fud management	**170,715**	**210,127**	**123**
Operating expenses	**64,141**	**67,824**	**106**
Material costs	823	1,090	132
Staff costs	28,506	30,046	105
Depreciation and adjustment of value of other assets	4,724	5,247	111
Provisions	0	0	-
Other operating expenses	30,087	31,442	105
Profit from regular business activities	**106,574**	**142,303**	**134**
Net financial result	25,559	19,066	75
Other income and expenses	7,166	3,743	52
Pre-tax profit	**139,300**	**165,113**	**119**
Profit tax	27,918	33,104	119
Profit	**111,382**	**132,008**	**119**

Source: Hanfa

Tablica A2: Statement of financial position of mandatory pension companies (in HRK thousand)

Item	31 Dec 2012	Share	31 Dec 2013	Share	Index 2013/2012
I. Financial assets	465,576	83.48%	455,206	84.97%	98
II. Receivables	33,140	5.94%	27,068	5.05%	82
III. Prepayments and accrued income	2,460	0.44%	1,898	0.35%	77
IV. Deferred tax assets	3,497	0.63%	2,226	0.42%	64
V. Property, plant and equipment	5,716	1.02%	6,329	1.18%	111
VI. Investment in realestate	0	0.00%	0	0.00%	-
VII. Intangible assets	13,104	2.35%	11,604	2.17%	89
VIII. Other assets	34,199	6.13%	31,369	5.86%	92
Total assets	**557,692**	**100.00%**	**535,699**	**100.00%**	**96**
Capital and reserves	523,568	93.88%	503,810	94.05%	96
I. Subscribed capital	327,844	58.79%	327,844	61.20%	100
II. Capital reserves	0	0.00%	0	0.00%	-
III. Reserves	8,300	1.49%	8,300	1.55%	100
IV. Revaluation reserves	1,935	0.35%	1,223	0.23%	63
V. Retained earnings or accumulated loss	74,106	13.29%	34,434	6.43%	46
VI. Profit or loss of the current year	111,382	19.97%	132,008	24.64%	119
Liabilities	12,884	2.31%	15,120	2.82%	117
Provisions	8,144	1.46%	7,548	1.41%	93
Accruals and defferred income	12,612	2.26%	8,915	1.66%	71
Deferred tax liabilities	484	0.09%	306	0.06%	-
Total liabilities	**557,692**	**100.00%**	**535,699**	**100.00%**	**96**

Source: Hanfa

Table A3: Statement of comprehensive income of voluntary pension companies (in HRK thousand)

Item	2012	2013	Index 2013/2012
Income from fund management	**48,915**	**55,638**	**114**
Fee from paid contributions	10,841	10,852	100
Fee from total assets of the pension fund	38,043	44,761	118
Exit fee	32	25	78
Performance fee	0	0	-
Expenses on fund management	**16,225**	**14,777**	**91**
Transaction costs	4144	159	111
Marketing costs	2,253	1,512	67
Salses agent costs	10,589	10,696	101
Other penison fund mangement costs	3,239	2,410	74
Profit from fud management	**32,690**	**40,861**	**125**
Operating expenses	**21,356**	**19,559**	**92**
Material costs	382	415	109
Staff costs	9,599	9,627	100
Depreciation and adjustment of value of other assets	369	434	117
Provisions	19	53	279
Other operating expenses	10,987	9,031	82
Profit from regular business activities	**11,334**	**21,302**	**188**
Net financial result	5,260	3,500	67
Other income and expenses	1,422	1,200	84
Pre-tax profit	**18,016**	**26,001**	**144**
Profit tax	3,692	5,152	140
Profit	**14,324**	**20,850**	**146**

Source: Hanfa

Table A4: Statement of financial position of voluntary pension companies (in HRK thousand)

Item	31 Dec 2012	Share	31 Dec 2013	Share	Index 2013/2012
I. Financial assets	89,481	86.89%	99,628	87.42%	111
II. Receivables	5,659	5.50%	5,862	5.14%	104
III. Prepayments and accrued income	695	0.67%	508	0.45%	73
IV. Deferred tax assets	2,162	2.10%	2,056	1.80%	95
V. Property, plant and equipment	389	0.38%	745	0.65%	191
VI. Investment in realestate	0	0.00%	0	0.00%	0
VII. Intangible assets	462	0.45%	579	0.51%	125
VIII. Other assets	4,136	4.02%	4,587	4.02%	111
Total assets	**102,984**	**100.00%**	**113,965**	**100.00%**	**111**
Capital and reserves	84,386	81.94%	97,533	85.58%	116
I. Subscribed capital	78,445	76.17%	78,445	68.83%	100
II. Capital reserves	0	0.00%	0	0.00%	0
III. Reserves	0	0.00%	0	0.00%	0
IV. Revaluation reserves	562	0.55%	347	0.30%	62
V. Retained earnings or accumulated loss	-8,946	-8.69%	-2,109	-1.85%	24
VI. Profit or loss of the current year	14,324	13.91%	20,850	18.29%	146
Liabilities	6,270	6.09%	4,497	3.95%	72
Provisions	296	0.29%	373	0.33%	126
Accruals and defferred income	11,873	11.53%	11,474	10.07%	97
Deferred tax liabilities	160	0.16%	88	0.08%	0
Total liabilities	**102,984**	**100.00%**	**113,965**	**100.00%**	**111**

Source: Hanfa

Table A5: Pension companies' profit after taxes (in HRK thousand)

Pension companies	Profit or loss
Mandatory pension companies	
Allianz ZB d.o.o.	57,526
Erste d.o.o.	14,266
PBZ Croatia osiguranje d.d.	19,095
Raiffeisen mirovinsko društvo d.d.	41,121
Total	**132,008**
Voluntary pension companies	
AZ d.o.o.	11,729
Croatia osiguranje mirovinsko društvo za upravljanje dobrovoljnim mirovinskim fondom d.o.o.	799
Erste DMD d.o.o.	1,767
Raiffeisen mirovinsko društvo d.d.	6,556
Total	**20,850**

Source: Hanfa

Table B1: Statement of comprehensive income of management companies (in HRK thousand)

Item	31 Dec 2012	31 Dec 2013	Index 2013/2012
I. Income form investment fund management fees	237,171	228,628	96
II. Investment fund management expenses	60,057	65,547	109
Net result from investment fund management fees	177,114	163,080	92
III. Income from portfolio management	5,359	8,936	167
IV. Income from provision of investment advice	72	215	298
V. Financial income and expenses	833	9,035	1085
Net financial income	4,598	18,186	396
VI. General and administrative operational expenses	111,488	110,667	99
VII. Depreciation and value adjustment of other assets	15,227	5,356	35
VIII. Provisions	119	125	105
IX. Other income and operational expenses	2,264	5,605	248
X. Pre-tax prfit or loss	**57,144**	**57,390**	**100**
XI. Profit tax	14,388	14,943	104
XII. Profit or loss	**42,756**	**55,780**	**130**

Source: Hanfa

Table B2: Statement of financial position of management companies (in HRK thousand)

Item	31 Dec 2012	Share	31 Dec 2013	Share	Index 2013/2012
Property, plant and equipment	4,031	0.40%	2,914	0.29%	72
Investment in realestate	0	0.00%	0	0.00%	-
Intangible assets	19,091	1.90%	16,555	1.65%	87
Financial assets	535,796	53.45%	812,187	81.02%	152
Receivables	65,574	6.54%	86,696	8.65%	132
Cash and cash equivalents	49,641	4.95%	80,694	8.05%	163
Prepayments and accrued income	2,275	0.23%	2,275	0.23%	100
Deferred tax assets	933	0.09%	281	0.03%	30
Other assets	601	0.06%	797	0.08%	133
Total assets	**677,941**	**67.63%**	**1,002,400**	**100.00%**	148
Capital and reserves	221,622	22.11%	234,342	23.38%	106
Liabilities	437,397	43.63%	752,735	75.09%	172
Provisions	2,316	0.23%	2,009	0.20%	87
Accruals and deferred income	15,670	1.56%	11,135	1.11%	71
Deferred tax liabilities	936	0.09%	2,178	0.22%	233
Total liabilities	**677,941**	**67.63%**	**1,002,400**	**100.00%**	148

Source: Hanfa

Table B3: Management companies' profit after taxes (in HRK)

Company name	Profit or loss in 2013
AGRAM INVEST D.D.	9,019,288
ALLIANZ INVEST D.O.O.	-5,434
ALTERNATIVE INVEST D.O.O.	398,962
ALTERNATIVE PRIVATE EQUITY d.o.o.	5,062,457
AUCTOR INVEST d.o.o.	1,370,297
ERSTE - INVEST D.O.O.	2,777,416
FIMA GLOBAL INVEST D.O.O.	445,975
HONESTAS PRIVATE EQUITY PARTNERI D.O.O.	-951,990
HPB-INVEST D.O.O.	447,970
HRVATSKO MIROVINSKO INVESTICIJSKO DRUŠTVO D.O.O.	15,667,495
HYPO-ALPE-ADRIA INVEST D.D.	852,968
ICAM D.O.O.	234,745
ILIRIKA INVESTMENTS D.O.O.	45,398
KD INVESTMENTS D.O.O.	-341,641
LOCUSTA INVEST D.O.O.	2,499,618
NETA CAPITAL CROATIA d.d.	-1,969,046
NEXUS PRIVATE EQUITY PARTNERI D.O.O.	223,075
OTP INVEST D.O.O.	452,173
PBZ INVEST D.O.O.	5,755,895
PLATINUM INVEST D.O.O.	42,044
PROSPERUS INVEST d.o.o.	-325,096
QUAESTUS PRIVATE EQUITY D.O.O.	-4,588,973
RAIFFEISEN INVEST D.O.O.	117,698
VB INVEST D.O.O.	1,420,765
ZB INVEST D.O.O.	17,128,398
Total	**55,780,457**

Source: Hanfa

Table C1: Share of insurance and reinsurance companies' assets in total assets (in HRK thousand)

Insurance and reisurance companies	Life	Non-life	Total	Share in assetts of all companies	Life	Non-life	Total	Share in assetts of all companies	Total
	31 Dec 2012				31 Dec 2013				Index 2013/ 2012
1	2	3	4 (2+3)	5	6	7	8 (6+7)	9	10
Agram životno osiguranje d.d.	1,505,766		1,505,766	4.42%	1,535,564		1,535,564	4.45%	101.98
Allianz Zagreb d.d.	2,341,183	1,339,390	3,680,573	10.81%	2,550,734	1,351,095	3,901,828	11.31%	106.01
Basler osiguranje Zagreb d.d.	1,858,079	487,340	2,345,418	6.89%	1,873,287	508,206	2,381,493	6.90%	101.54
BNP Paribas Cardif osiguranje d.d.		179,763	179,763	0.53%		170,050	170,050	0.49%	94.60
Croatia osiguranje d.d.	2,113,558	6,041,412	8,154,970	23.95%	2,177,773	5,800,622	7,978,395	23.12%	97.83
Croatia zdravstve-no osiguranje d.d.		123,216	123,216	0.36%		141,098	141,098	0.41%	114.51
ERGO osiguranje d.d.		32,027	32,027	0.09%		40,752	40,752	0.12%	127.24
ERGO životno osiguranje d.d.	173,719		173,719	0.51%	186,872		186,872	0.54%	107.57
Erste osiguranje VIG d.d.	488,102		488,102	1.43%	557,434		557,434	1.62%	114.20
Euroherc osiguranje d.d.		2,879,068	2,879,068	8.46%	0	2,818,822	2,818,822	8.17%	97.91
Generali osiguranje d.d.	663,799	358,425	1,022,224	3.00%	710,164	396,351	1,106,515	3.21%	108.25
Grawe Hrvatska d.d.	2,403,492	421,419	2,824,911	8.30%	2,525,076	441,214	2,966,290	8.60%	105.00
Helios VIG d.d.	875,990	248,183	1,124,173	3.30%					0.00
HOK osiguranje d.d.		338,776	338,776	0.99%		373,374	373,374	1.08%	110.21
Hrvatsko kreditno osiguranje d.d.		45,534	45,534	0.13%		48,122	48,122	0.14%	105.68
Izvor osiguranje d.d.		73,242	73,242	0.22%		74,071	74,071	0.21%	101.13
Jadransko osiguranje d.d.		1,814,017	1,814,017	5.33%		1,747,103	1,747,103	5.06%	96.31
KD životno osiguranje d.d.	43,499		43,499	0.13%	52,207		52,207	0.15%	120.02
Merkur osiguranje d.d.	2,122,066	93,314	2,215,379	6.51%	2,212,357	94,189	2,306,546	6.68%	104.12
Societe Generale osiguranje d.d.	108,986		108,986	0.32%	115,490		115,490	0.33%	105.97
Sunce osiguranje d.d.		373,639	373,639	1.10%		322,106	322,106	0.93%	86.21
Triglav osiguranje d.d.	418,020	639,627	1,057,647	3.11%	466,119	565,878	1,031,997	2.99%	97.57
Uniqa osiguranje d.d.	710,273	331,241	1,041,514	3.06%	783,733	351,751	1,135,484	3.29%	109.02
Velebit osiguranje d.d.		152,283	152,283	0.45%		148,954	148,954	0.43%	97.81
Velebit životno osiguranje d.d.	58,825		58,825	0.17%	61,257		61,257	0.18%	104.13
Wiener osiguranje Vienna Insurance Group d.d.	1,421,952	728,055	2,150,007	6.31%	2,317,285	931,434	3,248,719	9.41%	151.10
Wüstenrot životno osiguranje d.d.	42,653		42,653	0.13%	60,151		60,151	0.17%	141.02
Croatia Lloyd d.d.		907,770	907,770	100.00%		868,046	868,046	100.00%	95.62
TOTAL insurance companies	**17,349,962**	**16,699,970**	**34,049,932**	**100.00%**	**18,185,502**	**16,325,191**	**34,510,693**	**100.00%**	**101.35**
TOTAL reinsur-ance companies		**907,770**	**907,770**	**100.00%**		**868,046**	**868,046**	**100.00%**	**95.62**
TOTAL	**17,349,962**	**17,607,741**	**34,957,702**	**100.00%**	**18,185,502**	**17,193,237**	**35,378,739**	**100.00%**	**101.20**

Source: Hanfa

Table C2: Overview of gross written premium of life and non-life insurance (in HRK thousand)

Insurance and reinsurance companies	Life insurance			Share in premium in %		Non-life insurance			Share in premium in		T o t a l			Share in premium in %	
	1 Jan 2012-31 Dec 2012	1 Jan 2013-31 Dec 2013	Index 2013/2012	1 Jan 2012-31 Dec 2012	1 Jan 2013-31 Dec 2013	1 Jan 2012-31 Dec 2012	1 Jan 2013-31 Dec 2013	Index 2013/2012	1 Jan 2012-31 Dec 2012	1 Jan 2013-31 Dec 2013	1 Jan 2012-31 Dec 2012	1 Jan 2013-31 Dec 2013	Index 2013/2012	1 Jan 2012-31 Dec 2012	1 Jan 2013-31 Dec 2013
1	2	3	4 (3/2)	5	6	7	8	9 (8/7)	10	11	12 (2+7)	13 (3+8)	14 (13/12)	15	16
Agram životno osiguranje d.d.	203,283	205,597	101.14	8.3%	8.1%						203,283	205,597	101.14	2.3%	2.3%
Allianz Zagreb d.d.	410,015	471,382	114.97	16.7%	18.6%	679,339	708,100	104.23	10.3%	10.8%	1,089,354	1,179,482	108.27	12.1%	13.0%
Basler osiguranje Zagreb d.d.	200,421	192,266	95.93	8.1%	7.6%	203,581	209,506	102.91	3.1%	3.2%	404,001	401,772	99.45	4.5%	4.4%
BNP Paribas Cardif osiguranje d.d.						75,630	52,098	68.88	1.2%	0.8%	75,630	52,098	68.88	0.8%	0.6%
Croatia osiguranje d.d.	363,819	356,051	97.86	14.8%	14.0%	2,343,874	2,269,034	96.81	35.7%	34.7%	2,707,694	2,625,085	96.95	30.0%	28.9%
Croatia zdravstveno osiguranje d.d.						98,752	129,918	131.56	1.5%	2.0%	98,752	129,918	131.56	1.1%	1.4%
ERGO osiguranje d.d.						1,179	2,422	205.35	0.0%	0.0%	1,179	2,422	205.35	0.0%	0.0%
ERGO životno osiguranje d.d.	20,767	14,335	69.03	0.8%	0.6%						20,767	14,335	69.03	0.2%	0.2%
Erste osiguranje VIG d.d.	115,726	139,302	120.37	4.7%	5.5%						115,726	139,302	120.37	1.3%	1.5%
Euroherc osiguranje d.d.						976,173	969,930	99.36	14.9%	14.8%	976,173	969,930	99.36	10.8%	10.7%
Generali osiguranje d.d.	117,279	119,875	102.21	4.8%	4.7%	219,223	245,869	112.15	3.3%	3.8%	336,501	365,744	108.69	3.7%	4.0%
Grawe Hrvatska d.d.	250,733	245,965	98.10	10.2%	9.7%	140,971	147,668	104.75	2.1%	2.3%	391,703	393,633	100.49	4.3%	4.3%
Helios VIG d.d.	115,234		0.00	4.7%		64,716		0.00			179,951		0.00	2.0%	
HOK osiguranje d.d.						185,725	195,875	105.47	2.8%	3.0%	185,725	195,875	105.47	2.1%	2.2%
Hrvatsko kreditno osiguranje d.d.						7,678	9,003	117.25	0.1%	0.1%	7,678	9,003	117.25	0.1%	0.1%
Izvor osiguranje d.d.						32,116	34,482	107.37	0.5%	0.5%	32,116	34,482	107.37	0.4%	0.4%
Jadransko osiguranje d.d.						627,013	625,782	99.80	9.5%	9.6%	627,013	625,782	99.80	6.9%	6.9%
KD životno osiguranje d.d.	15,849	14,863	93.77	0.6%	0.6%						15,849	14,863	93.77	0.2%	0.2%
Merkur osiguranje d.d.	254,797	243,477	95.56	10.4%	9.6%	30,505	28,917	94.79	0.5%	0.4%	285,302	272,394	95.48	3.2%	3.0%
Societe Generale osiguranje d.d.	42,063	41,342	98.28	1.7%	1.6%						42,063	41,342	98.28	0.5%	0.5%
Sunce osiguranje d.d.						168,076	116,670	69.41	2.6%	1.8%	168,076	116,670	69.41	1.9%	1.3%
Triglav osiguranje d.d.	68,941	65,108	94.44	2.8%	2.6%	278,921	290,699	104.22	4.2%	4.4%	347,862	355,807	102.28	3.9%	3.9%
Uniqa osiguranje d.d.	93,749	127,300	135.79	3.8%	5.0%	132,340	150,730	113.90	2.0%	2.3%	226,089	278,030	122.97	2.5%	3.1%
Velebit osiguranje d.d.						65,241	68,418	104.87	1.0%	1.0%	65,241	68,418	104.87	0.7%	0.8%
Velebit životno osiguranje d.d.	11,124	16,085	144.60	0.5%	0.6%						11,124	16,085	144.60	0.1%	0.2%
Wiener osiguranje Vienna Insurance Group d.d.	170,536	270,183	158.43	6.9%	10.6%	241,474	282,134	116.84	3.7%	4.3%	412,010	552,317	134.05	4.6%	6.1%
Wüstenrot životno osiguranje d.d.	6,818	15,282	224.13	0.3%	0.6%						6,818	15,282	224.13	0.1%	0.2%
Croatia Lloyd d.d.						427,744	397,410	92.91	100.0%	100.0%	427,744	397,410	92.91	100.0%	100.0%
TOTAL insurance companies	**2,461,154**	**2,538,414**	**103.14**	**100.0%**	**100.0%**	**6,572,527**	**6,537,254**	**99.46**	**100.0%**	**100.0%**	**9,033,681**	**9,075,668**	**100.46**	**100.0%**	**100.0%**
TOTAL reinsurance companies						**427,744**	**397,410**	**92.91**	**100.0%**	**100.0%**	**427,744**	**397,410**	**92.91**	**100.0%**	**100.0%**
TOTAL	**2,461,154**	**2,538,414**	**103.14**	**100.0%**	**100.0%**	**7,000,270**	**6,934,664**	**99.06**	**100.0%**	**100.0%**	**9,461,424**	**9,473,078**	**100.12**	**100.0%**	**100.0%**

Source: Hanfa

Table C3: Profit or loss of insurance and reinsurance companies (in HRK thousand)

Insurance and reinsurance companies	Life insurance		Non-life insurance		Total		Index 2013/2012
	1 Jan 2012-31 Dec 2012	1 Jan 2013-31 Dec 2013	1 Jan 2012-31 Dec 2012	1 Jan 2013-31 Dec 2013	1 Jan 2012-31 Dec 2012	1 Jan 2013-31 Dec 2013	
1	2	3	4	5	6 (2+4)	7 (3+5)	8
Agram životno osiguranje d.d.	40,212	19,153			40,212	19,153	47.63
Allianz Zagreb d.d.	15,432	19,225	75,265	78,191	90,697	97,416	107.41
Basler osiguranje Zagreb d.d.	-22,233	11,208	-29,022	3,744	-51,254	14,952	-29.17
BNP Paribas Cardif osiguranje d.d.			8,104	8,956	8,104	8,956	110.52
Croatia osiguranje d.d.	8,381	8,228	110,044	9,040	118,425	17,268	14.58
Croatia zdravstveno osiguranje d.d.			2,988	-11,724	2,988	-11,724	-392.33
ERGO osiguranje d.d.			-984	-5,636	-984	-5,636	572.95
ERGO životno osiguranje d.d.	-1,497	-1,011		0	-1,497	-1,011	67.53
Erste osiguranje VIG d.d.	8,289	9,231		0	8,289	9,231	111.37
Euroherc osiguranje d.d.			136,875	106,342	136,875	106,342	77.69
Generali osiguranje d.d.	2,981	975	1,628	2,013	4,609	2,988	64.84
Grawe Hrvatska d.d.	18,759	23,203	13,527	17,144	32,286	40,346	124.97
Helios VIG d.d.	14,424		8,528		22,951		0.00
HOK osiguranje d.d.			18,501	18,043	18,501	18,043	97.52
Hrvatsko kreditno osiguranje d.d.			-484	-259	-484	-259	53.47
Izvor osiguranje d.d.			-13,352	-9,247	-13,352	-9,247	69.25
Jadransko osiguranje d.d.			80,486	59,228	80,486	59,228	73.59
KD životno osiguranje d.d.	-5,111	-5,372		0	-5,111	-5,372	105.10
Merkur osiguranje d.d.	28,986	35,052	3,889	6,844	32,875	41,896	127.44
Societe Generale osiguranje d.d.	7,637	5,426		0	7,637	5,426	71.04
Sunce osiguranje d.d.			7,711	5,500	7,711	5,500	71.32
Triglav osiguranje d.d.	10,868	4,494	-20,639	3,181	-9,771	7,675	-78.55
Uniqa osiguranje d.d.	5,081	6,551	487	735	5,568	7,286	130.85
Velebit osiguranje d.d.			-5,376	54	-5,376	54	-1.01
Velebit životno osiguranje d.d.	-6,814	-1,934		0	-6,814	-1,934	28.39
Wiener osiguranje Vienna Insurance Group d.d.	-1,101	5,443	2,262	19,054	1,162	24,497	2,108.48
Wüstenrot životno osiguranje d.d.	-5,463	-4,978		0	-5,463	-4,978	91.12
Croatia Lloyd d.d.			26,669	19,555	26,669	19,555	73.32
TOTAL insurance companies	**118,830**	**134,896**	**400,440**	**311,203**	**519,270**	**446,099**	**85.91**
TOTAL reinsurance companies			**26,669**	**19,555**	**26,669**	**19,555**	**73.32**
TOTAL	**118,830**	**134,896**	**427,109**	**330,758**	**545,939**	**465,654**	**85.29**

Source: Hanfa

Table C4: Net technical provisions of insurance and reinsurance companies (in HRK thousand)

Insurance and reinsurance companies	Tehnical provisions, net amount		Provisions for unearned premiums, net amount		Mathematical provisions, net amount		Provisions for claims outstanding, net amount		Provisions for bonuses and rebates, net amount		Equilisation provisions, net amount		Other tehnical provisions, net amount	
	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Agram životno osiguranje d.d.	1,124,945	1,195,433	5,100	4,836	1,099,862	1,172,546	19,984	18,050						
Allianz Zagreb d.d.	2,428,114	2,668,824	273,169	274,408	1,677,024	1,938,397	476,184	449,795	1,350	1,210	35	156	350	4,858
Basler osiguranje Zagreb d.d.	1,918,630	1,981,837	101,420	105,487	1,562,745	1,620,337	253,408	253,403					1,057	2,609
BNP Paribas Cardif osiguranje d.d.	117,974	117,961		85	104,873	104,480	13,100	13,396						
Croatia osiguranje d.d.	5,371,450	5,303,633	868,821	887,476	1,920,031	1,954,986	2,543,045	2,413,772			1,726	3,572	37,827	43,827
Croatia zdravstveno osiguranje d.d.	54,591	80,930	44,202	65,462			6,890	11,468	3,500	4,000				
ERGO osiguranje d.d.	1,499	2,723	417	782		675	713	793					369	472
ERGO životno osiguranje d.d.	20,997	20,571		0	20,973	20,272	23	298						
Erste osiguranje VIG d.d.	363,333	416,305	95	389	360,528	411,998	2,709	3,919						
Euroherc osiguranje d.d.	1,465,955	1,441,910	533,123	523,047			932,240	917,862	236	276	357	725		
Generali osiguranje d.d.	736,108	821,116	70,967	93,695	556,799	607,851	107,008	118,201	1,333	1,369				
Grawe Hrvatska d.d.	2,312,291	2,410,320	60,839	66,218	2,051,610	2,142,694	199,043	200,509					800	900
Helios VIG d.d.	736,227		17,195		660,023		58,596				413			
HOK osiguranje d.d.	229,384	242,036	88,755	93,081			139,907	147,079					722	1,876
Hrvatsko kreditno osiguranje d.d.	2,807	3,945	665	1,344			1,769	2,030	84	53	289	517		
Izvor osiguranje d.d.	23,483	31,112	12,740	13,005			10,743	18,108						
Jadransko osiguranje d.d.	831,881	801,095	325,139	324,271			505,968	476,185	645	380	129	259		
KD životno osiguranje d.d.	3,164	3,134	26	26	2,226	2,241	912	867						
Merkur osiguranje d.d.	1,836,453	1,920,866	13,695	13,233	1,748,592	1,843,781	74,144	63,837			22	15		
Societe Generale osiguranje d.d.	51,648	64,126	91	106	48,118	60,034	3,440	3,986						
Sunce osiguranje d.d.	186,040	142,053	80,582	43,893		0	105,231	98,078	179		48	82		
Triglav osiguranje d.d.	595,626	595,902	120,394	122,636	249,822	273,258	208,338	184,827	130	1,078		125	16,941	13,977
Uniqa osiguranje d.d.	511,459	598,073	37,598	54,484	434,234	498,455	38,831	44,144	797	991				
Velebit osiguranje d.d.	83,842	88,278	27,860	29,755		0	55,982	58,439						85
Velebit životno osiguranje d.d.	20,024	24,587	18	21	19,402	24,219	604	347						
Wiener osiguranje Vienna Insurance Group d.d.	815,225	1,539,981	64,152	73,634	600,802	1,279,765	147,572	183,583				398	2,700	2,600
Wüstenrot životno osiguranje d.d.	3,826	13,991	77	158	3,649	13,733	100	101						
Croatia Lloyd d.d.	375,864	360,690	37,495	37,558		0	294,088	280,914	280	218		1,000	44,000	41,000
Total insurance companies	**21,846,973**	**22,530,741**	**2,747,138**	**2,791,530**	**13,121,311**	**13,969,722**	**5,906,485**	**5,683,078**	**8,253**	**9,356**	**3,019**	**5,849**	**60,766**	**71,205**
Total reinsurance companies	**375,864**	**360,690**	**37,495**	**37,558**			**294,088**	**280,914**	**280**	**218**		**1,000**	**44,000**	**41,000**
Total	**22,222,837**	**22,891,432**	**2,784,634**	**2,829,088**	**13,121,311**	**13,969,722**	**6,200,573**	**5,963,993**	**8,534**	**9,575**	**3,019**	**6,849**	**104,766**	**112,205**

Source: Hanfa

Table C5: Capital to solvency margin ratio of insurance and reinsurance companies as at 31 December 2013 (in HRK thousand)

Insurance and reinsurance companies	Capital (Article 94 of the Insurance Act)		Solvency margin (Articles 98 and 99 of the Insurance Act)		Solvency margin deviation (>=)	
	Life insurance	Non-life insurance	Life insurance	Non-life insurance	Life insurance	Non-life insurance
1	2	3	4	5	6 (2-4)	7 (3-5)
Agram životno osiguranje d.d.	224,477		56,853		167,624	
Allianz Zagreb d.d.	193,712	288,105	100,625	104,468	93,087	183,637
Basler osiguranje Zagreb d.d.	166,270	92,770	76,756	39,886	89,515	52,884
BNP Paribas Cardif osiguranje d.d.		31,968		13,613		18,355
Croatia osiguranje d.d.	148,901	779,214	90,396	345,468	58,505	433,746
Croatia zdravstveno osiguranje d.d.		49,345		23,385		25,959
ERGO osiguranje d.d.		33,261		388		32,873
ERGO životno osiguranje d.d.	37,742		1,605		36,137	
Erste osiguranje VIG d.d.	53,089		20,456		32,633	
Euroherc osiguranje d.d.		508,043		167,036		341,006
Generali osiguranje d.d.	51,984	50,446	29,566	35,561	22,418	14,885
Grawe Hrvatska d.d.	195,951	86,299	96,171	24,019	99,779	62,280
HOK osiguranje d.d.		59,078		35,786		23,292
Hrvatsko kreditno osiguranje d.d.		32,921		810		32,111
Izvor osiguranje d.d.		30,042		5,308		24,733
Jadransko osiguranje d.d.		198,046		110,950		87,095
KD životno osiguranje d.d.	28,334		2,301		26,033	
Merkur osiguranje d.d.	178,595	37,203	90,713	4,127	87,882	33,075
Societe Generale osiguranje d.d.	40,758		13,156		27,602	
Sunce osiguranje d.d.		75,974		29,443		46,531
Triglav osiguranje d.d.	65,967	63,909	15,331	47,347	50,636	16,562
Uniqa osiguranje d.d.	50,827	39,333	24,780	13,856	26,047	25,477
Velebit osiguranje d.d.		35,671		10,693		24,977
Velebit životno osiguranje d.d.	32,625		1,716		30,909	
Wiener osiguranje Vienna Insurance Group d.d.	246,581	199,799	69,269	36,586	177,312	163,213
Wüstenrot životno osiguranje d.d.	44,025		1,432		42,593	
Croatia Lloyd d.d.		112,634		44,698		67,937

Source: Hanfa

Table C6: Basic insurance-technical indicators - Life insurance

No.	Insurance and reinsurance companies	Claims ratio (%)		Expense ratio (%)		Combined ratio (%)		Return on investment (%)		Debt ratio		ROE (%)		ROA (%)	
		2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1	Agram životno osiguranje d.d.	84.02	80.54	23.61	26.46	107.63	107.00	4.47	2.59	0.78	0.79	13.60	6.32	2.67	1.25
2	Allianz Zagreb d.d.	93.31	92.08	34.40	32.69	127.71	124.77	6.51	6.13	0.89	0.90	6.11	8.21	0.66	0.75
3	Basler osiguranje Zagreb d.d.	95.29	105.17	30.81	32.45	126.10	137.62	2.15	4.53	0.88	0.89	-8.97	5.89	-1.20	0.60
4	BNP Paribas Cardif osiguranje d.d.														
5	Croatia osiguranje d.d.	97.68	105.11	27.83	25.29	125.51	130.40	5.13	5.48	0.94	0.93	7.04	5.81	0.40	0.38
6	Croatia zdravstveno osiguranje d.d.														
7	ERGO osiguranje d.d.														
8	ERGO životno osiguranje d.d.	118.36	148.43	40.41	49.66	158.77	198.09	19.28	22.58	0.80	0.80	-4.18	-2.59	-0.86	-0.54
9	Erste osiguranje VIG d.d.	93.57	95.95	24.06	22.76	117.63	118.71	6.35	7.29	0.84	0.87	11.67	15.10	1.70	1.66
10	Euroherc osiguranje d.d.														
11	Generali osiguranje d.d.	81.15	83.57	45.53	52.50	126.68	136.07	5.26	6.40	0.90	0.91	4.71	1.60	0.45	0.14
12	Grawe Hrvatska d.d.	116.84	129.22	28.13	26.48	144.97	155.70	6.14	7.10	0.90	0.90	8.40	10.18	0.78	0.92
13	Helios VIG d.d.	84.26		56.73		140.99		7.41		0.83		10.41		1.65	
14	HOK osiguranje d.d.														
15	Hrvatsko kreditno osiguranje d.d.														
16	Izvor osiguranje d.d.														
17	Jadransko osiguranje d.d.														
18	KD životno osiguranje d.d.	61.28	45.21	96.14	93.05	157.42	138.26	11.33	-2.17	0.43	0.45	-17.14	-15.78	-11.75	-10.29
19	Merkur osiguranje d.d.	94.28	107.29	26.77	26.30	121.05	133.59	4.32	5.68	0.88	0.88	12.61	15.22	1.37	1.58
20	Societe Generale osiguranje d.d.	37.51	46.37	50.56	51.06	88.07	97.43	4.36	5.26	0.52	0.58	17.27	12.70	7.01	4.70
21	Sunce osiguranje d.d.														
22	Triglav osiguranje d.d.	96.68	107.77	22.72	25.00	119.40	132.77	7.55	7.47	0.85	0.85	21.78	6.81	2.60	0.96
23	Uniqa osiguranje d.d.	95.20	95.89	42.63	34.25	137.83	130.14	5.78	6.37	0.91	0.92	8.84	11.17	0.72	0.84
24	Velebit osiguranje d.d.														
25	Velebit životno osiguranje d.d.	42.76	46.48	116.71	85.52	159.47	132.00	-0.74	6.38	0.40	0.46	-16.17	-5.48	-11.58	-3.16
26	Wiener osiguranje Vienna Insurance Group d.d.	80.37	87.46	77.49	57.13	157.86	144.59	5.77	3.94	0.89	0.87	-0.68	1.91	-0.08	0.23
27	Wüstenrot životno osiguranje d.d.	55.80	68.11	154.91	76.18	210.71	144.29	4.03	2.94	0.13	0.26	-12.85	-10.10	-12.81	-8.28
28	Croatia Lloyd d.d.														
	Total	**93.12**	**98.22**	**35.38**	**33.24**	**128.50**	**131.46**	**5.24**	**5.49**	**0.87**	**0.88**	**5.64**	**6.55**	**0.68**	**0.74**

Source: Hanfa

Table C7: Basic insurance-technical indicators - Non-life insurance

No.	Insurance and reinsurance companies	Claims ratio (%)		Expense ratio (%)		Combined ratio (%)		Return on investment (%)		Debt ratio		ROE (%)		ROA (%)	
		2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1	Agram životno osiguranje d.d.														
2	Allianz Zagreb d.d.	43.04	44.70	48.41	50.61	91.45	95.31	3.49	5.24	0.72	0.70	24.73	23.59	5.62	5.79
3	Basler osiguranje Zagreb d.d.	52.71	50.45	58.41	53.35	111.12	103.80	-2.04	4.34	0.79	0.79	-22.05	3.63	-5.96	0.74
4	BNP Paribas Cardif osiguranje d.d.	36.42	15.86	59.76	78.66	96.18	94.52	3.99	5.07	0.75	0.75	21.75	27.09	4.51	5.27
5	Croatia osiguranje d.d.	58.79	51.46	44.51	50.61	103.30	102.07	3.44	-0.16	0.73	0.77	7.27	0.69	1.82	0.16
6	Croatia zdravstveno osiguranje d.d.	62.20	66.31	37.77	31.20	99.97	97.51	3.25	-12.89	0.50	0.65	5.11	-19.08	2.43	-8.31
7	ERGO osiguranje d.d.	47.68	50.63	331.06	371.17	378.74	421.80	5.81	4.10	0.12	0.18	-3.36	-14.37	-3.07	-13.83
8	ERGO životno osiguranje d.d.														
9	Erste osiguranje VIG d.d.														
10	Euroherc osiguranje d.d.	35.53	34.38	53.39	52.71	88.92	87.09	2.62	-1.79	0.65	0.63	15.93	11.51	4.75	3.77
11	Generali osiguranje d.d.	50.18	50.34	66.05	53.81	116.23	104.15	5.22	4.59	0.84	0.85	2.88	3.42	0.45	0.51
12	Grawe Hrvatska d.d.	53.52	44.57	62.41	61.99	115.93	106.56	5.59	5.99	0.78	0.76	17.37	19.22	3.21	3.89
13	Helios VIG d.d.	45.43		80.81		126.24		5.11		0.79		20.06		3.44	
14	HOK osiguranje d.d.	47.58	47.06	43.75	43.71	91.33	90.77	5.26	3.16	0.82	0.80	42.03	31.96	5.46	4.83
15	Hrvatsko kreditno osiguranje d.d.	69.79	42.01	199.21	120.99	269.00	163.00	4.67	4.15	0.22	0.27	-1.35	-0.73	-1.06	-0.54
16	Izvor osiguranje d.d.	68.38	59.41	92.69	89.71	161.07	149.12	5.14	6.15	0.64	0.59	-33.32	-23.28	-18.23	-12.48
17	Jadransko osiguranje d.d.	36.92	30.25	52.69	55.92	89.61	86.17	2.73	-0.80	0.60	0.58	12.41	8.88	4.44	3.39
18	KD životno osiguranje d.d.														
19	Merkur osiguranje d.d.	43.65	31.22	65.36	58.66	109.01	89.88	6.19	6.01	0.59	0.52	11.30	17.92	4.17	7.27
20	Societe Generale osiguranje d.d.														
21	Sunce osiguranje d.d.	63.85	49.96	38.71	57.65	102.56	107.61	3.81	-1.21	0.64	0.58	6.04	4.26	2.06	1.71
22	Triglav osiguranje d.d.	67.13	51.58	51.19	51.71	118.32	103.29	4.73	3.95	0.88	0.88	-21.81	4.78	-3.23	0.56
23	Uniqa osiguranje d.d.	51.77	49.26	96.37	75.75	148.14	125.01	5.80	5.43	0.85	0.87	1.00	1.64	0.15	0.21
24	Velebit osiguranje d.d.	53.13	45.01	63.11	59.75	116.24	104.76	1.74	3.32	0.79	0.78	-14.36	0.17	-3.53	0.04
25	Velebit životno osiguranje d.d.														
26	Wiener osiguranje Vienna Insurance Group d.d.	49.88	46.55	86.27	94.88	136.15	141.43	1.19	3.29	0.78	0.76	1.45	9.47	0.31	2.05
27	Wüstenrot životno osiguranje d.d.														
28	Croatia Lloyd d.d.	81.87	63.94	40.48	50.16	122.35	114.10	5.18	2.09	0.68	0.65	10.21	6.86	2.94	2.25
	Total	**50.55**	**45.09**	**50.88**	**53.60**	**101.43**	**98.69**	**3.29**	**0.90**	**0.71**	**0.72**	**9.21**	**7.28**	**2.43**	**1.92**

Source: Hanfa

Table D1: Total assets of leasing companies (in HRK thousand)

Item / Date	31 Dec 2012	31 Dec 2013
Fixed assets	**15,278,343**	**13,774,060**
Intangible assets	**25,648**	**16,127**
Tangible assets	**6,246,508**	**5,583,766**
Tangible assets in preparation (investments in progress)	64,583	38,782
Tangible assets leased out under an operating lease	6,084,128	5,445,397
Property	1,299,539	1,198,077
Passenger cars	3,105,950	2,849,994
Commercial vehicles	560,565	471,698
Vessels	590,133	431,041
Aircraft	7,441	6,928
Plant, machinery, transport machines and equipment	519,806	487,111
Other	695	547
Other tangible assets	93,583	99,263
Foreclosed assets	4,213	324
Long-term financial assets	**643,796**	**344,033**
Investments in branches, associates and joint ventures	29,702	29,702
Investment in long-term securities	150,215	144,930
Long term loans	441,515	157,837
Long term deposits	14,926	8,569
Other long-term financial assets	7,439	2,995
Long-term receivables	**8,228,626**	**7,686,026**
Receivables under finance lease	8,228,369	7,682,257
Other long-term receivables	258	3,768
Deferred tax assets	**133,765**	**144,108**
Short-term assets	**6,658,270**	**5,848,507**
Inventory	**819,084**	**824,430**
Short-term receivables	**4,151,004**	**3,546,218**
Receivables under operating lease	186,438	161,336
Receivables under finance lease	3,781,356	3,204,955
State and other institutions receivables	35,182	95,310
Other short-term receivables	148,028	84,616
Short-term financial assets	**1,224,666**	**1,209,590**
Investments in branches, associates and joint ventures	0	0
Investments in securities	21,498	12,028
Loans granted	983,367	841,545
Deposits given	210,194	322,172
Other short-term financial assets	9,607	33,845
Cash at bank and in hand	**463,516**	**268,269**
Prepayments and accrued income	**222,656**	**63,066**
Total assets	**22,159,270**	**19,685,633**
Off-balance sheet items	9,027,980	8,637,712

Source: Hanfa

Table D2: Total liabilities of leasing companies (in HRK thousand)

Item / Date	31 Dec 2012	31 Dec 2013
Capital and reserves	**1,116,534**	**1,292,931**
Subscribed capital	703,332	935,825
of which owned by non-residents	570,976	819,545
Revaluation reserves	12,453	4
Other reserves	2,469,783	2,746,717
Retained profit/loss brought forward	-2,162,817	-2,141,768
Profit/loss for the year	93,783	-247,846
Provisions	**127,511**	**101,932**
Long-term liabilities	**12,445,144**	**10,936,720**
Foreign banks and financial institutions long-term loans	11,150,067	9,564,293
Domestic banks and financial institutions long-term loans	686,603	889,733
Liabilities for advances in respect of lease	6,948	9,010
Liabilities for deposits and guarantees in respect of lease	577,199	446,930
Liabilities for issued securities	0	0
Other long-term liabilities	17,348	20,065
Deferred tax liability	6,979	6,689
Short-term liabilities	**8,029,742**	**7,030,190**
Foreign banks and financial institutions loans	7,005,463	6,299,257
Domestic banks and financial institutions loans	434,658	354,888
Liabilities for short-term securities	0	0
Liabilities for advances in respect of lease	50,184	31,997
Liabilities for deposits and guarantees in respect of lease	328,536	167,422
Other short-term liabilities	210,900	176,626
Accruals and deferred income	**440,340**	**323,860**
Total liabilities	**22,159,270**	**19,685,633**
Off-balance sheet items	9,027,980	8,637,712
Capital and reserves	**270,108**	**322,816**
Attributable to owners of the parent	270,108	322,816
Attributable to non-controlling interests	0	0

Source: Hanfa

Tablica D3: Statement of comprehensive income of leasing companies (in HRK thousand)

Item/ Period	From 1 Jan to 31 Dec 2012	From 1 Jan to 31 Dec 2013
Interest income	**946,640**	**745,281**
Interest income - finance lease	787,887	625,240
Interest income - loans granted	73,419	51,033
Other interest income	85,334	69,008
Interest expenses	**596,357**	**431,112**
Interest expenses on credits from domestic banks and financial institutions	54,756	53,345
Interest expenses on credits from foreign banks and financial institutions	533,140	370,236
Other interest expenses	8,462	7,531
Profit/loss on interest	**350,283**	**314,168**
Profit from comissions and fees	**57,984**	**53,845**
Expenses on commisions and fees	**31,083**	**28,934**
Profit/loss on comissions and fees	**26,901**	**24,911**
Other operating income	**2,445,494**	**2,073,678**
Income from operating lease	2,116,999	1,744,796
Profit from sale of assets - operating lease	117,996	84,254
Profit from sale of assets - finance lease	32,382	19,376
Profit from reimbursable lease expenses	17,641	25,126
Profit from exchange rate differences	5,966	8,326
Other income	154,509	191,800
Other operating expenses	**2,407,947**	**2,073,172**
Loss on sale of assets - operating lease	23,060	11,223
Loss on sale of assets - finance lease	11,637	7,356
Loss on reimbursable lease expenses	7,127	1,377
Loss on exchange rate differences	81,492	87,721
Costs for depreciation of assets under an operating lease	1,526,009	1,295,618
Costs for depreciation of other assets	16,337	15,774
Staff costs	223,872	219,821
Overheads and administrative operating costs	269,881	228,171
Other expenses	248,531	206,112
Profit/loss on other income and expenses	**37,547**	**505**
Profit/loss before expenses on value adjustment for impairment losses	**414,731**	**339,585**
Costs for value adjustment for impairment losses	244,931	529,084
Profit/loss before profit tax	**169,800**	**-189,499**
Profit tax	76,017	58,347
Profit/loss after profit tax	**93,783**	**-247,846**
Attributable to owners of the parent	0	0
Attributable to non-controlling interests	0	0
Other comprehensive income	**-1,856**	**-5,901**
Change in revaluation reserves (property, plant, equipment and intangible assets)	0	0
Unrealised gains/losses on financial assets available for sale	-2,034	-3,685
Gains/losses on hedging instruments in a cash flow hedge	-145	-3,227
Actuarial gains/losses on defined benefit pension plans	0	0
Gains/losses arising from translation of financial statements relating to foreign operations	0	0
Profit tax on other comprehensive income	-323	-1,011
Total comprehensive income	91,927	-253,747
Attributable to owners of the parent	62,331	63,388
Attributable to non-controlling interests	0	0
Reclassification adjustments	0	0

Source: Hanfa

Table D4: Structure of the portfolio of active lease contracts by type and by leased asset/loan

	As at	31 Dec 2012		31 Dec 2013	
	Item	Number of active contracts	Value of active contracts (outstanding contract value / outstanding receivables) [81] (in HRK thousand)	Number of active contracts	Value of active contracts (outstanding contract value / outstanding receivables)[82] (in HRK thousand)
Operating lease	**Total**	**54,129**	**4,539,943**	**47,352**	**3,783,414**
	Property	89	1,187,328	102	923,862
	Passenger cars	44,089	2,165,004	38,727	1,846,612
	Commercial vehicles	6,716	426,054	5,772	350,571
	Vessels	717	341,760	574	254,696
	Aircraft	1	2,389	1	1,461
	Plant, machinery, transport machines and equipment	2,370	416,914	2,013	405,856
	Other	147	494	163	355
Financie lease	**Total**	**62,857**	**11,131,505**	**57,095**	**10,309,313**
	Property	1,068	3,932,316	1,011	3,427,023
	Passenger cars	36,214	2,017,001	32,235	1,847,166
	Commercial vehicles	15,377	2,334,897	14,399	2,087,697
	Vessels	731	308,411	723	344,937
	Aircraft	1	1,844	1	1,762
	Plant, machinery, transport machines and equipment	8,915	2,475,516	7,935	2,524,319
	Other	551	61,522	791	76,410
Loans	**Total**	**3,084**	**598,683**	**1,974**	**314,439**
	Property	382	549,563	346	290,706
	Passenger cars	1,403	8,671	519	58
	Commercial vehicles	662	1,618	560	86
	Vessels	69	14,648	53	11,023
	Aircraft	3	0	3	0
	Plant, machinery, transport machines and equipment	555	11,556	487	5,082
	Other	10	12,627	6	7,485
Total	**Total**	**120,070**	**16,270,132**	**106,421**	**14,407,165**
	Property	1,539	5,669,207	1,459	4,641,591
	Passenger cars	81,706	4,190,676	71,481	3,693,836
	Commercial vehicles	22,755	2,762,569	20,731	2,438,353
	Vessels	1,517	664,819	1,350	610,656
	Aircraft	5	4,234	5	3,223
	Plant, machinery, transport machines and equipment	11,840	2,903,986	10,435	2,935,257
	Other	708	74,642	960	84,249

Source: Hanfa

80 Outstanding contract value of the operating lease portfolio structure refers to the amount of outstanding leases (excluding VAT) under operating lease contracts; this amount does not include the residual value.

81 Outstanding contract value of the operating lease portfolio structure refers to the amount of outstanding leases (excluding VAT) under operating lease contracts; this amount does not include the residual value.

Table D5: Structure of newly concluded lease contracts by type and by leased asset

	Period	From 1 Jan to 31 Dec 2012		From 1 Jan to 31 Dec 2013	
	Item	Number of newly concluded lease contracts	Value of newly concluded lease contracts (contract / financed value)[83] (in HRK thousand)	Number of newly concluded lease contracts	Value of newly concluded lease contracts (contract / financed value)[84] (in HRK thousand)
Operating lease	**Total**	**12,244**	**1,810,821**	**14,305**	**1,680,382**
	Property	21	307,543	22	170,150
	Passenger cars	10,210	951,819	12,604	1,086,308
	Commercial vehicles	1,447	182,279	1,268	165,303
	Vessels	125	177,303	83	92,475
	Aircraft	1	2,966	0	0
	Plant, machinery, transport machines and equipment	439	188,872	327	165,983
	Other	1	39	1	163
Financie lease	**Total**	**14,429**	**3,028,994**	**14,744**	**3,981,341**
	Property	77	414,334	47	175,287
	Passenger cars	9,187	1,026,324	8,899	1,005,654
	Commercial vehicles	3,214	838,510	3,674	1,083,146
	Vessels	174	100,833	198	196,694
	Aircraft	0	0	0	0
	Plant, machinery, transport machines and equipment	1,646	630,990	1,587	1,482,937
	Other	131	18,003	339	37,622
TOTAL	**Total**	**26,673**	**4,839,815**	**29,049**	**5,661,722**
	Property	98	721,878	69	345,436
	Passenger cars	19,397	1,978,143	21,503	2,091,962
	Commercial vehicles	4,661	1,020,789	4,942	1,248,449
	Vessels	299	278,136	281	289,170
	Aircraft	1	2,966	0	0
	Plant, machinery, transport machines and equipment	2,085	819,862	1,914	1,648,920
	Other	132	18,042	340	37,785

Source: Hanfa

82 Contract value of the operating lease portfolio structure refers to total contract value equalling the sum of leases (excluding VAT) under operating lease contracts; this amount does not include the residual value.

83 Financed value of the finance lease portfolio structure refers to the amount used for financing lessees (principal) under finance lease contracts concluded in the reporting period

Table E1: Aggregate balance sheet of companies registered to provide factoring services (in HRK thousand)

Item	31 Dec2012[85]	31 Dec2013[86]
Assets		
RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID	**0**	**0**
FIXED ASSETS	**74,996**	**85,679**
CURRENT ASSETS	**7,057,666**	**7,970,164**
Accounts receivable	3,301,595	3,337,229
Domestic factoring	3,224,128	3,214,151
Export factoring	14,027	45,365
Import factoring	63,440	77,713
Discounting of bills of exchange	2,675,706	3,146,454
Loans granted	109,637	256,206
Deposits given	550,778	682,531
Cash at bank and in hand	241,238	368,453
Other current assets	178,712	179,292
PREPAYMENTS AND ACCRUED INCOME	**42,858**	**49,885**
TOTAL ASSETS	**7,175,520**	**8,105,728**
Liabilities		
CAPITAL AND RESERVES	**296,799**	**406,195**
LONG-TERM LIABILITIES	**885,864**	**82,695**
Loans from domestic banks and financial institutions	3,580	1,054
Loans from foreign banks and financial institutions	863,429	63,887
Other long-term liabilities	18,855	17,754
SHORT-TERM LIABILITIES	**5,984,665**	**7,600,166**
Loans from domestic banks and financial institutions	1,070,411	1,571,257
Loans from foreign banks and financial institutions	4,739,225	5,583,665
Other short-term liabilities	175,028	445,245
ACCRUALS AND DEFERRED INCOME	**8,192**	**16,671**
TOTAL LIABILITIES	**7,175,520**	**8,105,728**

Source: Hanfa

84 Data for 16 companies
85 Data for 15 companies

Table E2: Aggregate profit and loss account of companies registered to provide factoring services (in HRK thousand)

Item	1 Jan - 31 Dec 2012[87]	1 Jan - 31 Dec 2013[88]
INTEREST INCOME	**428,029**	**448,060**
Interest income - factoring	210,105	192,029
Domestic factoring	204,419	186,614
Export factoring	1,764	1,434
Import factoring	3,923	3,981
Interest income - discounting of bills of exchange	163,857	204,953
Interest income - loans granted	8,820	15,661
Interest income - deposits given	25,204	18,524
Other interest income	20,043	16,893
INTEREST EXPENSES	**268,160**	**226,025**
Interest expenses - domestic banks and financial institutions	67,265	71,432
Interest expenses - foreign banks and financial institutions	197,104	146,323
Other interest expenses	3,790	8,269
INTEREST PROFIT/LOSS	**159,870**	**222,035**
INCOME FROM FEES AND COMMISSIONS	**100,360**	**107,131**
EXPENSES ON FEES AND COMMISSIONS	**39,315**	**47,110**
PROFIT/LOSS ON FEES AND COMMISSIONS	**61,044**	**60,021**
OTHER OPERATING INCOME	**202,619**	**272,484**
OTHER OPERATING EXPENSES	**313,414**	**347,862**
Service costs	41,975	39,516
Staff costs	39,048	37,897
Costs for value adjustment for impairment losses	77,153	65,795
Other operating costs	155,238	204,654
PROFIT/LOSS ON OTHER INCOME AND EXPENSES	**-110,795**	**-75,377**
PROFIT/LOSS BEFORE PROFIT TAX	**110,119**	**206,678**
Profit tax	22,928	43,271
PROFIT/LOSS AFTER PROFIT TAX	**87,191**	**163,407**

Source: Hanfa

Table E3: Transaction volume of companies registered to provide factoring services (in HRK thousand)

Item	1 Jan - 31 Dec 2012[89]	1 Jan - 31 Dec 2013[90]
Factoring	8,714,317	8,400,697
Domestic factoring	8,433,628	8,073,033
Export factoring	138,314	145,420
Import factoring	142,375	182,245
Discounting of bills of exchange	6,952,660	8,579,719
Loan granted	146,560	356,008
TOTAL	**15,813,537**	**17,336,425**

Source: Hanfa

86 Data for 16 companies
87 Data for 15 companies
88 Data for 16 companies
89 Data for 15 companies

Office of the Secretary General

Table 1: Hanfa's income and expenses from 1 January 2013 to 31 December 2013

Account from the Chart of Accounts	Item	Realised in 2013
1	**2**	**3**
Income		
3	**Income**	**54,500,908**
31	Income from sale of goods and provision of services	0
32	Income from membership fees and membership contributions	0
33	Income under special regulations	53,120,891
3311	Income under special regulations from the State Budget	0
3312	Income under special regulations from other sources	53,120,891
34	Income from assets	1,194,320
341	Income from financial assets	1,194,320
3411	Income from loan interest	0
3412	Income from securities interest	0
3413	Interest on tme deposits and demand deposits	1,194,320
3414	Income from default interest	0
3415	Income from positive exchange rate differences	0
3416	Dividend income	0
3417	Income from profits of companies, banks and other financial institutions under special regulations	0
3418	Other income from financial assets	0
342	Income from non-financial assets	0
3421	Income from leases and rents	0
3422	Other income from non-financial assets	0
35	Income from donations	0
36	Other income	185,697
361	Income from damages and refunds	137,912
3611	Income from damages	0
3612	Income from refunds	137,912
362	Income from sale of long-term assets	16,000
363	Other income	31,785
3631	Liability write off	0
3632	Receivables written off	0
3633	Other income	31,785

Account from the Chart of Accounts	Item	Realised in 2013
1	2	3
Expenses		
4	**Expenses**	**42,119,569**
41	Expenses for employees	30,194,574
411	Salaries	24,139,369
4111	Salaries for regular work	24,016,233
4112	Salaries in kind	123,136
4113	Salaries for long working hours	0
4114	Salaries for special working conditions	0
412	Other expenses for salaries	2,376,829
413	Contributions on salaries costs	3,678,376
4131	Contributions for health insurance	3,247,623
4132	Employment contirbutions	430,753
42	Material expenses	10,983,398
421	Remuneration of employees' costs	1,564,919
4211	Business trips	665,436
4212	Remuneration of transport costs, field work and separate lives	678,841
4213	Employees' professional training	220,642
422	Remuneration to members of representative and executive bodies, committees, etc.	0
423	Remuneration to volunteers	0
424	Remuneration to other non-employed persons	0
425	Expenses for services	5,739,951
4251	Telephone, postal and transport services	335,309
4252	Maintenance services	200,751
4253	Promotional and information services	30,362
4254	Public utility services	572,432
4255	Leases and rents	3,310,711
4256	Health care and veterinary services	38,915
4257	Intelectual and personal services	648,785
4258	IT services	95,200
4259	Other services	507,486
426	Expenses for material and energy	781,595
4261	Stationery and other material expenses	305,170
4262	Material and raw material	0
4263	Energy	460,996
4264	Small inventory and car tires	15,429
429	Other material expenses	2,896,933
4291	Insurance premiums	28,446
4292	Representation	96,676
4293	Membership fees	2,771,811

Account from the Chart of Accounts	Item	Realised in 2013
1	2	3
4294	Participation fees	0
4295	Other material expenses	0
43	Depreciation expenses	782,148
44	Financial expenses	51,127
441	Interest on securities issued	0
442	Interest for credits and loans received	0
443	Other financial expenses	51,127
4431	Banking and payment system services	18,464
4432	Negative exchange rate differences and currency clause	32,438
4433	Default interest	225
4434	Other financial expenses	0
45	Donations	0
46	Other expenses	108,322
461	Fines, penalties and damages	0
462	Other expenses	108,322
4621	Net book value and other expenses on disposed long-term assets	0
4622	Receivables written off	0
4623	Expenses for other tax levies	1,700
4624	Other expenses	106,622
	Total expenses	**42,119,569**
	Excess of income over expenditure	**12,381,339**

Source: Hanfa

Table 2: Hanfa's balance sheet as at 31 December 2013

Account from the Chart of Accounts	Item	Realised in 2013
1	2	3
Assets		
	Assets	**36,393,578**
0	**Non-financial assets**	5,011,614
01	**Non-produced fixed assets**	2,763,564
011	Tangible assets - natural reaources	0
012	Intangible assets	2,865,841
0121	Patents	0
0122	Concessions	0
0123	Licences	2,648,084
0124	Other rights	159,691
0125	Goodwill	0
0126	Formation costs	0
0127	Developments costs	0
0128	Other intangible assets	58,066
019	Value adjustment for non-produced fixed assets	102,277
02	**Produced fixed assets**	2,248,050
021	Buidlings	3,564,810
0211	Residential buildings	0
0212	Commerciaol buildings	3,450,670
0213	Other buildings	114,140
022	Plant and equipment	6,870,268
0221	Office equipment and furniture	5,640,419
0222	Teecommunications equipment	485,865
0223	Maintenance and security equipment	669,146
0224	Medical and laboratory equipment	0
0225	Instruments and machines	0
0226	Sports and music equipment	0
0227	Machines and equipment for other purposes	74,838
023	Means of transportation	1,046,997
0231	Means of transportation in road traffic	1,046,997
0232	Other means of transportation	0
024	Book, artwork and other exibition valuables	167,044
025	Growing crops and live stock	0
026	Intangible produced assets	92,849
0261	Software investments	92,849
0262	Artistic, literary and scientific works	0
0263	Other intangible produced assets	0
029	Value adjustment for produced fixed assets	9,493,918
03	**Precious metals and other valuables**	0
031	Precious metals and other valuables	0
04	**Small inventory**	0
041	Small inventory on stock	0
042	Small inventory in use	99,478
049	Value adjustment for small inventory	99,478

Account from the Chart of Accounts	Item	Realised in 2013
1	2	3
05	**Produced current assets**	0
06	**Financial assets**	0
1	Cash at bank and in hand	31,381,964
11	Cash at bank	5,707,642
111	Cash in the account with domestic commercial banks	5,702,354
1111	Cash in the account with foreign commercial banks	5,702,354
1112	Interim account	0
1113	Cash reserved	0
112	Cash in hand	0
113	Securities in hand	5,288
114	Deposits, guarantee deposits and receivables from employees, for pre-payments made regarding taxes and other	0
12	Deposits with banks and other financial institutions	25,142,944
121	Deposits with domestic banks and other financial institutions	25,000,000
1211	Deposits with foreign banks and other financial isntitutions	25,000,000
1212	Guarantee deposits	0
122	Receivables from employees	0
123	Receivables for prepayments made regarding taxes and contributions	1,472
124	Receivables for prepayments made regarding taxes	1,668
1241	Receivables for value-added tax with tax payers	1,668
1242	Receivables for prepayments made regarding duties and customs duty	0
1243	Receivables for prepaymnets made regarding other taxes	0
1244	Receivables for prepaymnets made regarding contributions	0
1245	Other receivables	0
129	Receivables for remuneration refunded	139,804
1291	Receivables for damages	17,486
1292	Receivables for advance payments	0
1293	Other receivables	79,925
1294	Loans	42,393
13	Securities	0
14	Shares and participtaions in equity	0
15	Income receivables	0
16	Prepayments and accrued income	0
19	Prepaymnets	531,378
191	Accrued income	207,855
192	Nedospjela naplata prihoda	323,523

Account from the Chart of Accounts	Item	Realised in 2013
1	2	3
Liabilities and own sources		
	Liabilities and own sources	**36.393.578**
2	**Liabilities**	3.984.545
24	Liabilities for expenses	3.908.303
241	Liabilities for employees	3.521.311
2411	Liabilities for salaries - net	1.156.364
2412	Liabilities for salary compensation - net	112.647
2413	Liabilities for salaries in kind – net	0
2414	Liabilities for tax and surtax regarding salaries	343.964
2415	Liabilities for contributions from salaries	408.144
2416	Liabilities for contributions on salaries	308.556
2417	Other liabilities for employees	1.191.636
242	Liabilities for material expenses	346.420
2421	Remuneration of employees' costs	55.556
2422	Remuneration to members of reprentative and executive bodies, commit-tees, etc.	0
2423	Remuneration to volunteers	0
2424	remuneration ot other non-employed persons	0
2425	Liabilities towards domestic suppliers	290.864
2426	Liabilities towards foreign suppliers	0
2429	Other liabilities for financing operating expenses	0
244	Liabilities for financial expenses	0
245	Liabilities for financial aid funds collected	0
246	Liabilities for penalties and damages	0
249	Other liabilities	40.572
2491	Tax liabilities	0
2492	Liabilities for value-added tax	926
2493	Liabilities for prepayments, deposits, caution money received and other liabilities	39.646
25	Liabilities for securities	0
26	Liabilities for credits and loans	0
29	Accruals and deferred income	76.242
291	Accruals and deferred income	33.919
292	Deferred income	42.323
2921	Acrued income	0
2922	Deferred income	42.323
5	**Own sources**	32.409.033
Off-balance sheet items		
61	Off-balance sheet items - assets	0
62	Off-balance sheet items - liabilities	0

Source: Hanfa

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Corrigendum to the data on alternative investment funds:

Page 60, Table 3.3 – corrigendum to the data on the number of venture capital alternative investment funds as at 31 December 2012 and 31 December 2013

Table 3.3 Comparison of the number of AIFs as at 31 December 2012 with that as at and 31 December 2013

AIF	31 Dec 2012	31 Dec 2013
Private offering	**25**	**22**
basic	18	15
venture capital	2	2
venture capital - ECF	5	5
Public offering	**7**	**4**
closed-ended real estate	4	1
closed-ended	3	3
Total	**32**	**26**

Source: Hanfa

Page 60, Table 3.4 – corrigendum to the data on net assets of venture capital alternative investment funds as at 31 December 2013

Table 3.4 Net assets of AIFs as at 31 December 2012 and 31 December 2013 (in HRK thousand)

AIF	31 Dec 2012	Share	31 Dec 2013	Share	Absolute change	Percentage cahnge
Private ofefring	**764,445**	**31.88%**	**692,872**	**33.38%**	**-71,573**	**-9.36%**
basic	346,588	14.45%	221,821	10.69%	-124,767	-36.00%
venture capital	168,778	7.04%	111,934	5.39%	-56,844	-33.68%
venture capital - ECF	249,079	10.39%	359,117	17.30%	110,038	44.18%
Public offering	**1,633,339**	**68.12%**	**1,382,932**	**66.62%**	**-250,406**	**-15.33%**
closed-ended	1,285,090	53.59%	1,254,868	60.45%	-30,221	-2.35%
closed-ended real estate	348,249	14.52%	128,064	6.17%	-220,185	-63.23%
Total AIF	**2,397,784**	**100.00%**	**2,075,805**	**100.00%**	**-321,979**	**-13.43%**

Source: Hanfa