

**ANNUAL REPORT ON
CORPORATE GOVERNANCE**

2015

**CROATIAN FINANCIAL SERVICES
SUPERVISORY AGENCY**



HANFA

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Introduction

For the sixth consecutive year, the Croatian Financial Services Supervisory Agency (hereinafter: Hanfa) has drawn up the Annual Report on Corporate Governance (hereinafter: the Report), presenting the level of corporate governance reached by issuers whose securities are admitted to trading on the regulated market in the Republic of Croatia.

Corporate governance in the European Union and in other countries of the region and worldwide is aimed at increasing the responsibility of relevant persons within companies, strengthening internal and external control mechanisms and more stringent transparency requirements in relation to information provided to shareholders and investors. Good corporate governance is more than just acting in accordance with laws and regulations. It requires dedication of all stakeholders (management board, supervisory board, managers, shareholders) in creating preconditions in which issuers can act in accordance with the highest ethical standards and standards of good corporate governance.

Sources of data

As in the previous years, the sixth edition of the Report has been prepared on the basis of data collected directly from issuers, from Zagrebačka burza d.d (hereinafter: Zagreb Stock Exchange), from Središnje klirinško depozitarno društvo d.d. (Central Depository and Clearing Company, hereinafter: CDCC) and from the register of companies.

The questionnaire for the preparation of the 2015 Annual Report on Corporate Governance (hereinafter: the Questionnaire) was intended for all issuers whose shares and/or bonds were admitted to trading on the regulated market of the Zagreb Stock Exchange as at 31 December 2015. It comprised a comprehensive list of questions about general data on the issuer, own shares, management and supervisory board structure, management and supervisory board meetings, supervisory board committees, management and supervisory board members' remuneration and options, all general meetings held, Code of Corporate Governance, internal and external control, risks, conflicts of interest, dividend payments, etc.

Pursuant to the Ordinance on information that needs to be submitted to the Croatian Financial Services Supervisory Agency by issuers whose securities are admitted to trading on a regulated market in the Republic of Croatia, and on the form, time limits and manner of its submission (Official Gazette, No 66/14), the deadline for the submission of the Questionnaire was 30 June 2016.

2015 Capital Market

In 2015, the capital market was marked by a decrease in investment activity and a continued decrease of market indicators.

The total trading volume on the Zagreb Stock Exchange decreased by 9.3% compared to the previous year and amounted to 3.5bn HRK. Trading in shares within the order book amounted to HRK 2.4bn, a decrease of 11.5%, while trading in bonds within the order book amounted to HRK 0.29bn, a decrease of 20.7% compared to 2014. Block trades in shares amounted to HRK

0.56bn increasing by 45.5%, while block trades in bonds amounted to HRK 0.21bn representing a decrease of 39.5% compared to the year before. This negative trend mostly resulted from the decrease in trading in shares and bonds within the order book as well as the decrease in block trades in bonds. The total market capitalisation recorded an increase of 3.3%, primarily due to the increase in the market capitalisation of bonds. Trades in structured securities decreased by 17.2% whereas their market capitalisation rose by 179.6% compared to the year before. Market indicators showed different trends. The value of main stock indices fell, while bond indices grew slightly. The main stock index CROBEX declined by 3.2%, and CROBEX10 declined by 1.8%. Stock index CROBEXTURIST increased significantly by 23.7%. CROBIS bond index grew slightly by 5.8%, while CROBIStr, which also includes interest accrued and interest paid, rose by 11.4%.

The year 2015 was marked by listing of shares of companies Tankerska Next Generation d.d. and Granolio d.d. to the official market. Those were the first new listings since 2008 for which funds were collected via an initial public offering.

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

1 Annual Report on Corporate Governance of Share Issuers

1.1. Introduction

Out of 144 issuers whose shares were admitted to trading on the regulated market of the Zagreb Stock Exchange as at 31 December 2015, 128 completed and submitted the Questionnaire. The total market capitalisation of issuers that submitted their data amounted to HRK 122.5bn or 99.66% of the market capitalisation of all listed issuers. On the same date, three issuers were undergoing bankruptcy proceedings and one issuer was undergoing winding-up proceedings.

Number of issuers and number of shares

In 2015, the number of issuers on the regulated market continued its downward trend despite two new admissions of shares on the official market.

As at 31 December 2015, the number of issuers totalled 144, falling by 5.26% compared to the previous year, when there were 152 issuers admitted to trading (eight more), or by 12.73% in comparison with 31 December 2013, when there were 165 issuers admitted to trading.

Out of a total of 144 issuers admitted to trading as at 31 December 2015, 26 issuers were admitted to trading on the official market and 118 on the regular market. Out of a total of 152 issuers admitted to trading as at 31 December 2014, 22 issuers were admitted to trading on the official market and 130 on the regular market. As at 31 December 2013, out of a total of 165 issuers, 21 were admitted to trading on the official market and 144 on the regular market.

In the course of 2015, the number of admitted ordinary shares declined by eight compared to 31 December 2014. The number of admitted preference shares did not change compared to 31 December 2014, when eight preference shares were admitted to trading.

Shares not traded yet

By 31 December 2015, six admitted shares of six different issuers had not been traded on the Zagreb Stock Exchange. Those were the shares of the following issuers: ordinary share of 3. MAJ BRODOGRADILIŠTE d.d. (3MAJ-R-A), ordinary share of Dalma d.d. (DAL-S-R-A), ordinary share of PAN-papirna industrija-trgopromet d.d. (PAN-R-A), preference share of Plava laguna d.d. (PLAG-P-A), preference share of Pounje d.d. (PUNT-P-A) and ordinary share of Vodoprivreda Zagreb d.d. (VDZG-R-A).

The number of admitted shares that had not been traded fell by two relative to 31 December 2014, due to the removal from trading of ordinary shares of PP Orahovica d.d. and ordinary shares of Kapitalni fond d.d.

Admissions

In 2015, the shares of two issuers (Tankerska Next Generation d.d. and Granolio d.d.) were admitted for the first time on the official market of the Zagreb Stock Exchange.

In 2015, ten issuers withdrew their shares from the regular and none from the official market; in 2014, 16 issuers withdrew their shares from the regular and none from the official market, while in 2013, 18 issuers withdrew their shares from the regular and one from the official market. In the course of 2015, the shares of three issuers transferred from the regular to the official market, while the shares of one issuer transferred from the official to the regular market.

Sector division

a) Classification into the financial and non-financial sector

Issuers are classified into the financial and non-financial sector. The financial sector is comprised of financial institutions and closed-ended alternative investment funds, while the non-financial sector is comprised of other activities.

At the end of 2015, out of a total of 144 share issuers, there were 17 (11.81%) issuers from the financial and 127 (88.19%) issuers from the non-financial sector. At the end of 2014, out of a total of 152 share issuers, there were 20 (13.16%) issuers from the financial and 132 (86.84%) issuers from the non-financial sector.

b) Classification into groups of activities

The financial and non-financial sectors are divided into subcategories. Table 1.1 shows changes in the number of issuers by activities at the end of 2013, 2014 and 2015.

Table 1.1. Issuers by groups of activities as at 31/12/2013, 2014 and 2015

Group of activities	Number of issuers			
	2013	2014	2015	Change
FINANCIAL SECTOR				
Banks	13	11	11	0
Insurance	5	5	3	-2
AIFA	4	4	3	-1
NON-FINANCIAL SECTOR				
Agriculture	5	5	3	-2
Industry				0
a. Shipbuilding	4	4	4	0
b. Wood industry	3	2	2	0
c. Energy	1	1	1	0
d. Pharmaceuticals	3	3	3	0
e. Food, beverage and tobacco	20	20	20	0
f. Chemical industry	5	4	4	0
g. Metalworking industry	6	6	6	0
h. Textile industry	4	4	4	0
i. Other industries	0	0	0	0
Construction industry	11	10	9	-1
Property	6	4	4	0
Telecommunications	5	4	4	0
Transport	10	8	9	1
Trade	18	18	17	-1
Tourism	38	35	33	-2
Other activities	4	4	4	0
TOTAL	165	152	144	-8

Source: Hanfa, Zagreb Stock Exchange

As in the previous year, at the end of 2015, the largest number of issuers belonged to the tourism industry, followed by issuers from the food industry and from trade.

Out of 10 issuers that removed their shares from trading on the regulated market in 2015, three belonged to the financial, and seven to the non-financial sector. The removals were mostly due to the decision of the general assembly (six issuers). Two issuers removed their shares from trading on the regulated market due to the initiation of the bankruptcy proceedings, meaning that issuers' shares were removed from trading at the request of the trustee in bankruptcy. One issuer transformed into a limited liability company, while the shares of one issuer were removed from trading due to a decision by CDCC to remove the membership of the issuer.

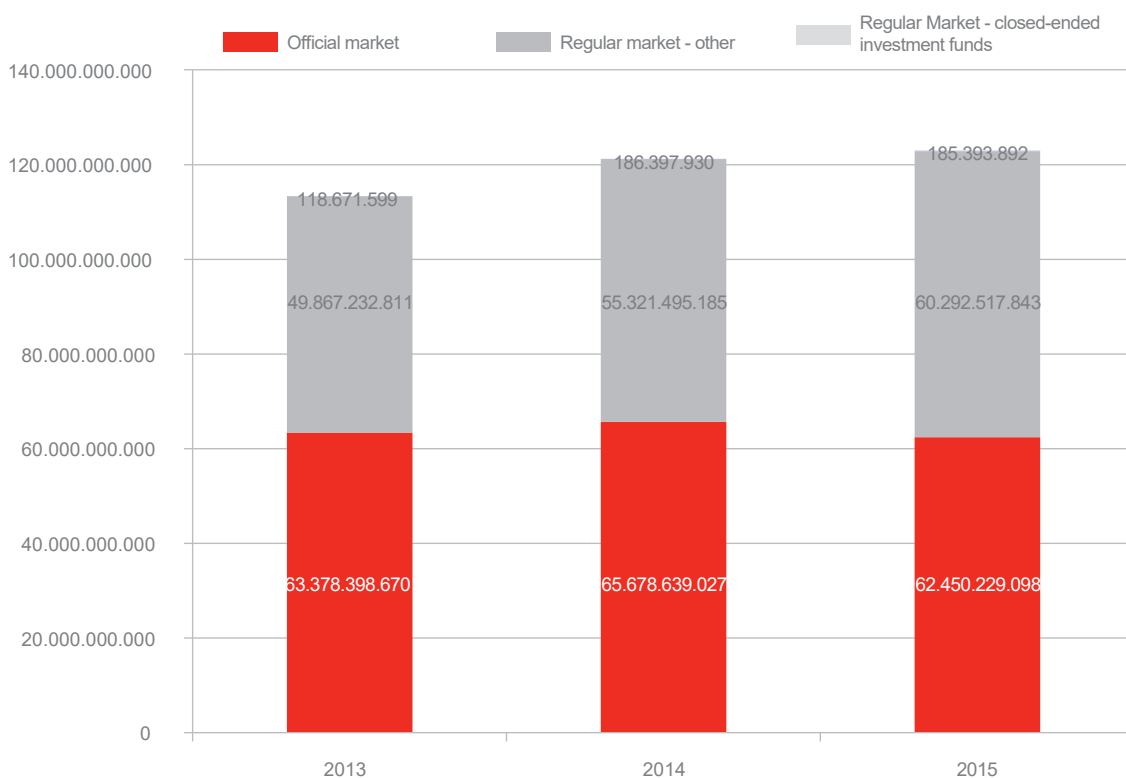
Table 1.2. Reasons for the removal of shares from the regulated market in the period from 2013 to 2015

Reasons for the removal of shares from the regulated market	2013	2014	2015	total	proportion
FINANCIAL SECTOR					
Decision of the general meeting	8	7	6	34	43.59%
Bankruptcy (at the request of the trustee in bankruptcy)	6	3	2	25	32.05%
Squeeze-out of minority shareholders	4	3	0	9	11.54%
Corporative actions (merger/conversion of shares/transformation into a limited liability company).	1	3	1	8	10.26%
Removal from the register of companies	0	0	0	1	1.28%
Decision by the CDCC to remove the membership of the issuer	0	0	1	1	1.28%

Market capitalisation

Chart 1.1 shows changes in market capitalisation by types of market at the end of 2013, 2014 and 2015.

Grafikon 1.1. Market capitalisation of the regulated market of the Zagreb Stock Exchange as at 31/12/2013, 2014 and 2015



Source: Zagreb Stock Exchange

- During 2015, the total market capitalisation of the official market decreased by 4.92%, reaching HRK 62.5bn as at 31 December 2015, while the total market capitalisation of the regular market increased by 8.95%, reaching HRK 60.5bn as at 31 December 2015.
- Market capitalisation of issuers which submitted their 2015 Questionnaires (128 issuers) amounted to HRK 122.5bn as at 31 December 2015.

1.2 Capital and origin of capital

The following text presents an analysis of the initial capital of issuers based on data from the register of companies, an analysis of the market capitalisation of issuers based on data from the Zagreb Stock Exchange and an analysis of capital distribution, ownership structure and capital origin based on data from the CDCC.

1.2.1 Initial capital

At end-2015, the initial capital of 144 share issuers totalled HRK 61.4bn, while at end-2014, 152 issuers recorded their initial capital in the amount of HRK 58.6bn or 4.56% less. In comparison with 2013, when there were 21 admitted issuers more, the initial capital increased by HRK 1bn.

The amount of share issuers' initial capital ranged between HRK 15.2m and HRK 9.8bn.

According to the data from the register of companies, a total of 16 issuers (same as in 2014) increased their initial capital in 2015, while 14 issuers (two less than in 2014) reduced the initial capital.

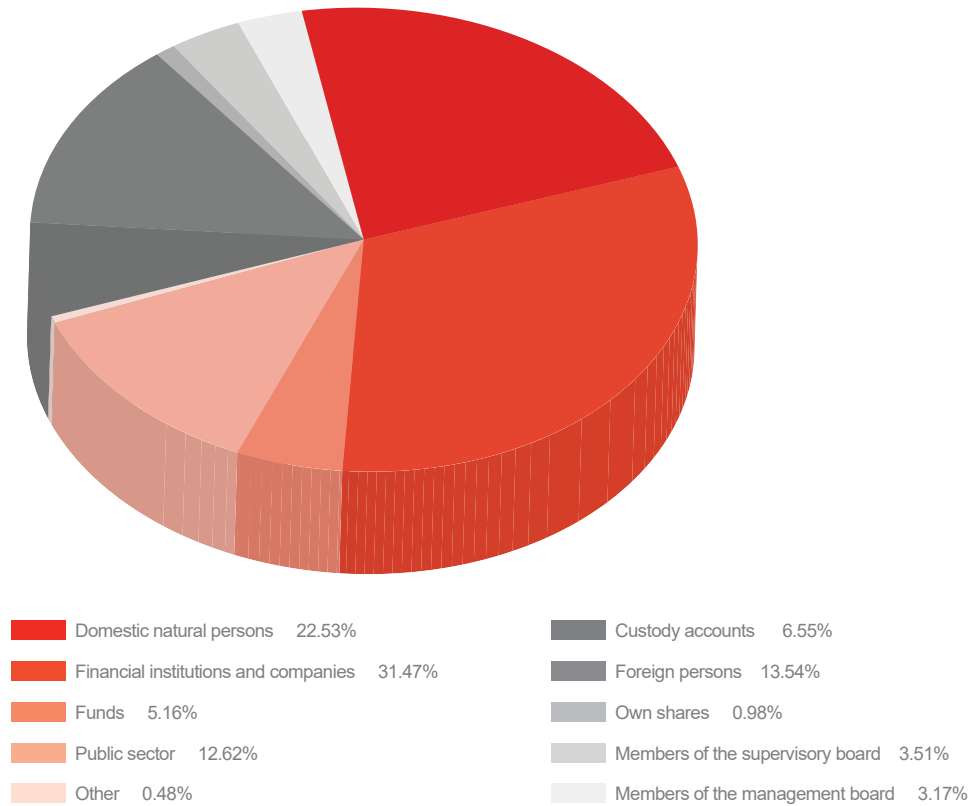
1.2.2 Ownership structure

Data on the ownership structure of share issuers have been provided on the basis of information received from the CDCC. The ownership structure has been analysed by groups of the shareholders, with the sum of all groups making 100% of the ownership structure, meaning that one shareholder can be allocated to a single group only. The structure of joint-stock companies is divided into following groups:

- own shares
- financial institutions and companies
- funds (investment and pension funds with their registered offices in the Republic of Croatia)
- public sector (Republic of Croatia)
- members of the management board
- members of the supervisory board
- domestic natural persons (except members of the management and supervisory board)
- foreign persons (except members of the management and supervisory board)
- custody accounts
- other.

Chart 1.2 presents the ownership structure of share issuers as at 31 December 2015 by the above-mentioned groups.

Chart 1.2. Ownership structure of share issuers as at 31/12/2015

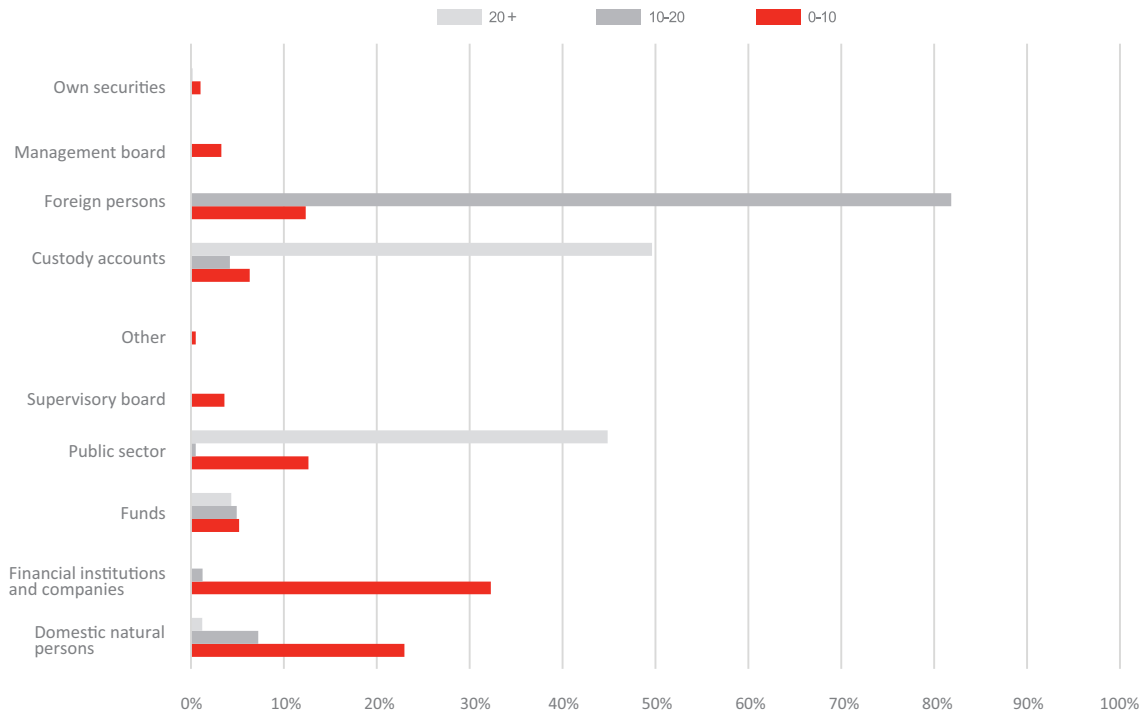


Source: SKDD

- The ownership structure of share issuers as at 31 December 2015 was dominated by financial institutions and companies with 31.47% (31.64% in 2014) and domestic natural persons with a 22.53% (23% in 2014). Public sector i.e. the Republic of Croatia reduced its proportion compared to 2014, i.e. from 13.72% to 12.62%, while funds increased their proportion from 3.94% to 5.16%.

Chart 1.3 shows the ownership structure of share issuers as at 31 December 2015 in relation to market capitalisation.

Chart 1.3. Ownership structure of share issuers as at 31/12/2015 in relation to market capitalisation (in HRK billion)



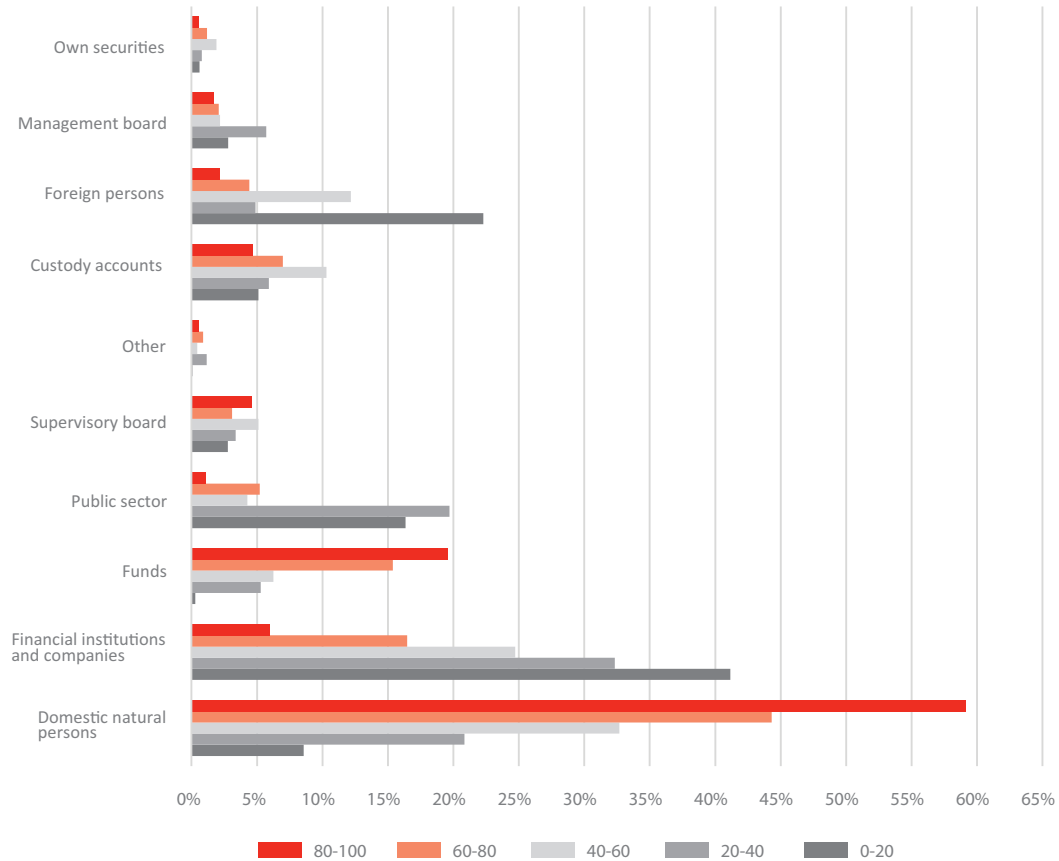
Source: CDCC

- Foreign persons had the highest proportion in market capitalisation issuers between HRK 10bn and 20bn (81.8%), public sector had the highest proportion in market capitalisation issuers over HRK 20bn (44.84%), while domestic natural persons had the highest proportion in market capitalisation issuers under HRK 10bn (22.95%).



Chart 1.4 shows the ownership structure of share issuers as at 31 December 2015 in relation to free float.

Chart 1.4. Ownership structure of share issuers as at 31/12/2015 in relation to free float



Source: CDCC

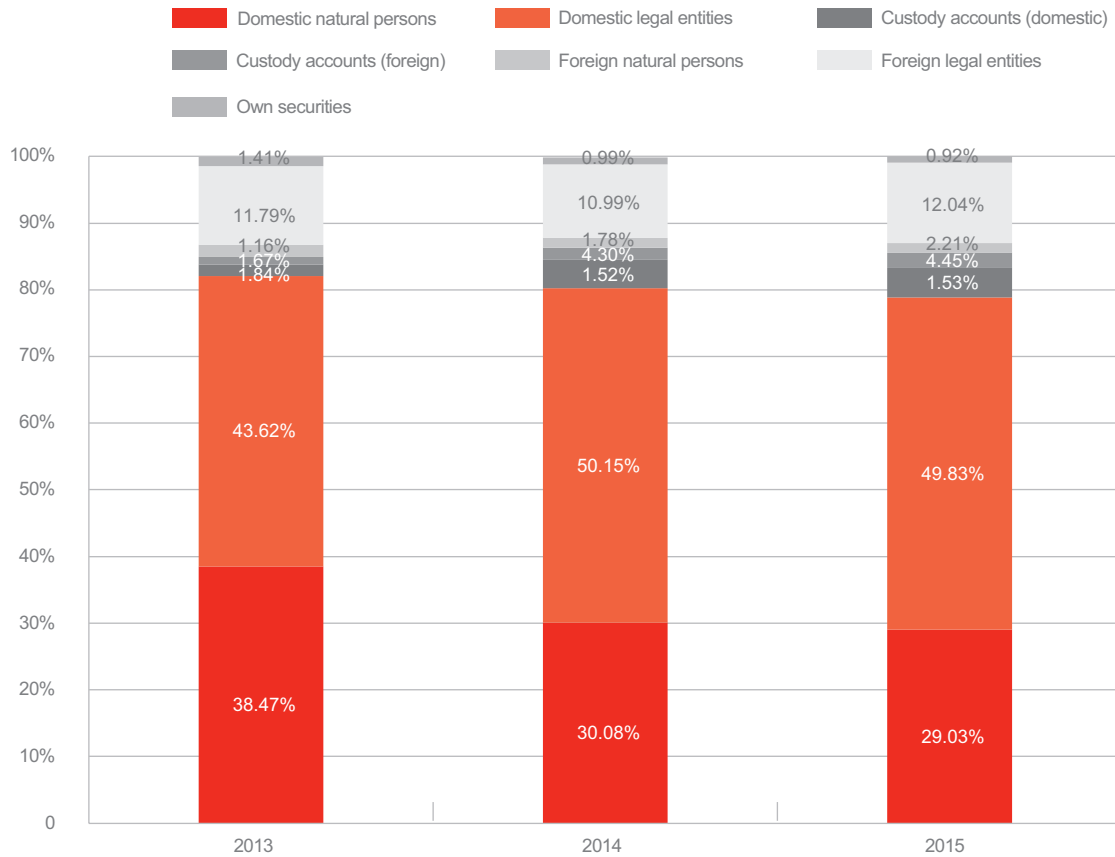
- Issuers with free float between 80% and 100% had the ownership structure dominated by domestic natural persons (59.13%), while issuers who had free float up to 20% had the ownership structure dominated by financial institutions and companies (41.16%). Domestic natural persons had only 8.56% of ownership in those issuers. Foreign persons dominated the ownership structure of issuers with free float up to 20% (22.29%).

1.2.3. Origin of issuers' capital

Chart 1.5 shows the ownership of individual shares by the following categories:

- domestic natural persons
- domestic legal entities
- custody accounts (domestic)
- custody accounts (foreign)
- foreign natural persons
- foreign legal entities
- own shares

Chart 1.5. Origin of issuers' capital as at 31/12/2013, 2014 and 2015

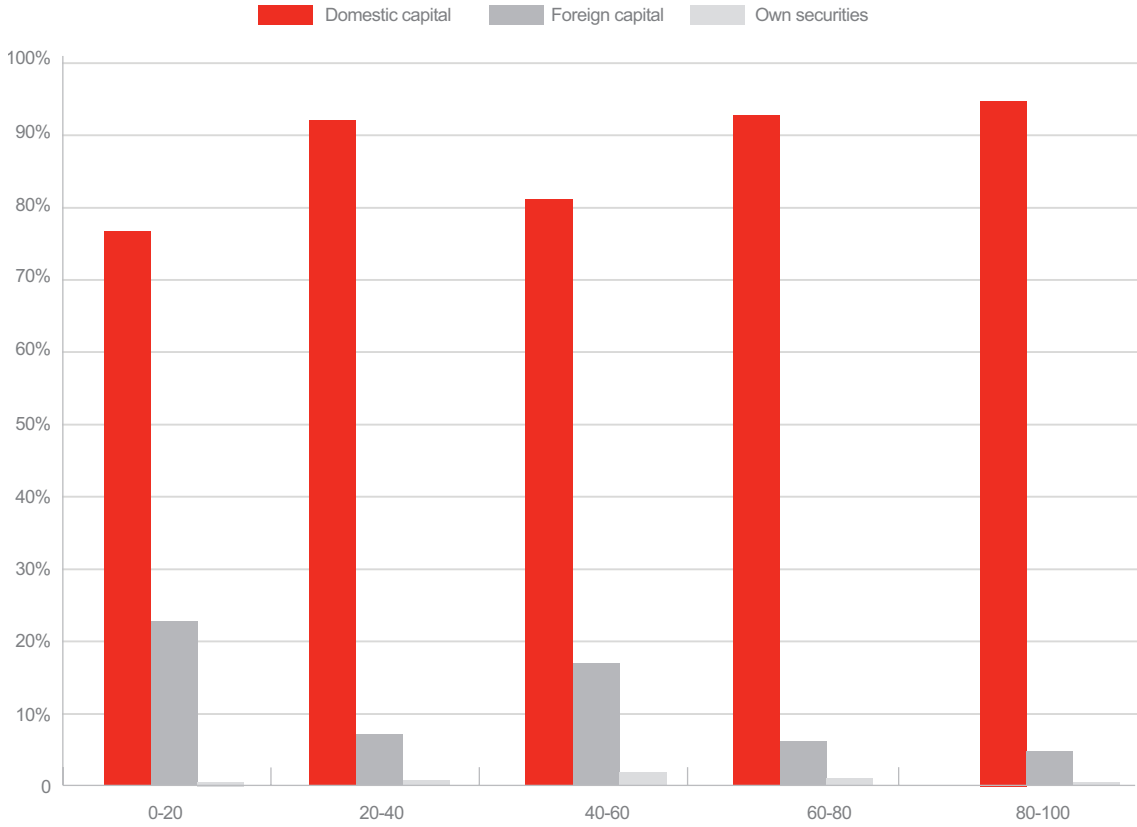


Source: CDCC

- The largest proportion in the share ownership was still accounted for by domestic legal entities with 49.83% (50.15% and 43.62% in 2014 and 2013 respectively). The proportion of domestic natural persons as at 31 December 2015 was 29.03% (30.08% and 38.47% in 2014 and 2013 respectively).
- The proportion of domestic capital as at 31 December 2015 was 83.31% (84.53% in 2014 and 83.75% in 2013), while the proportion of foreign capital was 15.78% (14.29% in 2014 and 14.79% in 2013).

Chart 1.6 shows the proportion of domestic and foreign capital in share issuers as at 31 December 2015 in relation to free float.

Chart 1.6. Proportion of domestic and foreign capital in share issuers as at 31/12/2015 in relation to free float



Source: CDCC

1.3. Issuers' governing bodies

The system of governance of a company is defined by its statute. The general meeting is an obligatory governing body, while governance and supervision of a company may be the function performed by one governing body, namely a board of directors in the case of a one-tier governance system, or by two separate governing bodies, namely a management board and supervisory board in the case of a two-tier governance system.

1.3.1. Management board¹

The function of a management board in a two-tier governance system is the management and representation of the company, and members are appointed by the supervisory board. In a one-tier governance system, executive directors of the company, appointed by the general meeting, perform this function. As at 31 December 2015, out of the total number of issuers (144), two had a one-tier and 142 issuers had a two-tier governance system. This chapter presents the analysis of the structure of share issuers' management and supervisory boards. Data relating to executive directors and the chief executive officer of issuers with a one-tier governance system are analysed along with data on management board members, while data relating to the board of directors, deputy chairman and chairman of the board of directors are analysed along with data on members of the supervisory board of issuers with a two-tier governance system. The management board may consist of one or more persons. The statute of the issuer stipulates the number of management board members. The Companies Act (Official Gazette, No 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13, 110/15; hereinafter: ZTD) does not stipulate the minimum number of management board members. Only natural persons with full legal capacity may be appointed members of the management board.

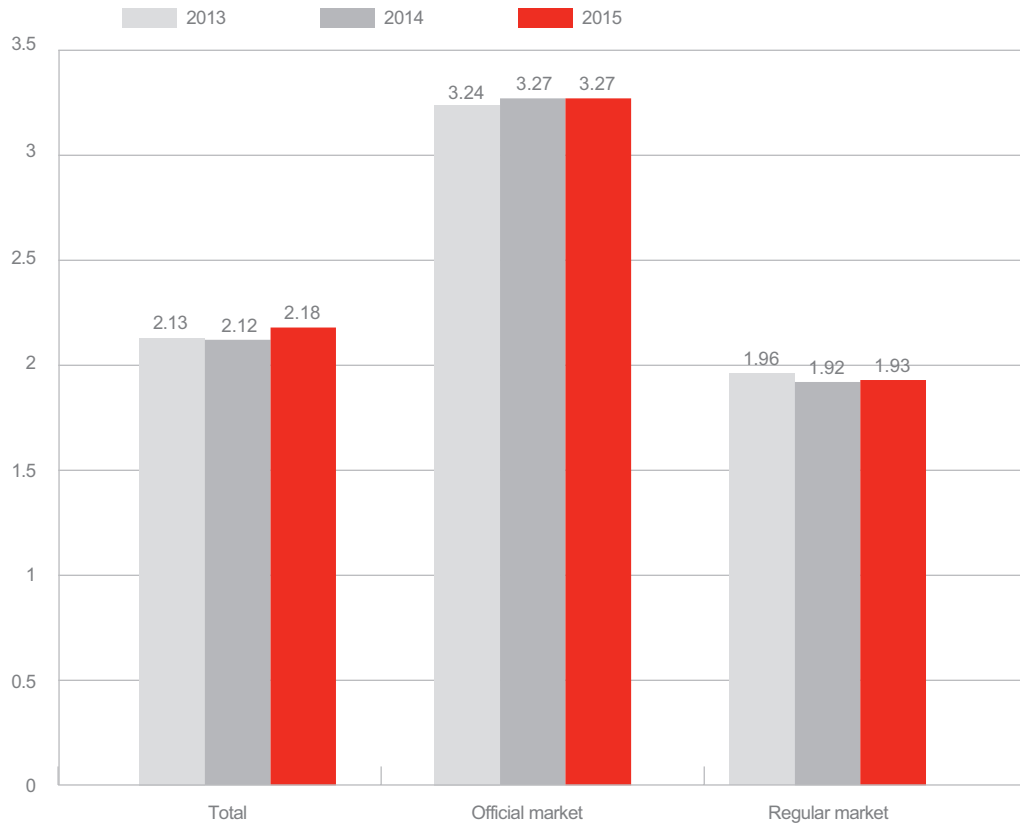
The analysis comprises all issuers of shares admitted to trading on the regulated market of the Zagreb Stock Exchange as at 31 December 2013, 2014 and 2015, except for issuers undergoing bankruptcy or winding-up proceedings on the relevant date according to the data from the register of companies. The ratio of the number of management board members to the number of issuers analysed in this Report is an important tool for the interpretation of data.

- As at 31 December 2015, there were a total of 305 management board members in 140 analysed issuers (an average of 2.18 management board members per issuer). As at 31 December 2012, the average number of management board members totalled 2.12, whereas as at 31 December 2013 it amounted to 2.13.
- As at 31 December 2015, a total of 60 issuers (42.85%) had a single management board member. A single management member was reported by 67 issuers (45.57%) as at 31 December 2014 and by 73 issuers as at 31 December 2013.
- As at 31 December 2015, the maximum number of management board members was eight (same as in 2014).

Chart 1.7 shows the average number of management board members as at 31 December 2013, 2014 and 2015 with respect to the type of market.

¹ Data on the number and gender of management board members have been analysed based on the data from the register of companies in order for all issuers to be encompassed by the analysis (including those that failed to deliver the Questionnaire). It should be pointed out that there might be certain discrepancies in the numbers in cases where some issuers failed to report changes to the register of companies in a timely manner.

Chart 1.7. Average number of management board members by the type of market as at 31/12/2013, 2014 and 2015

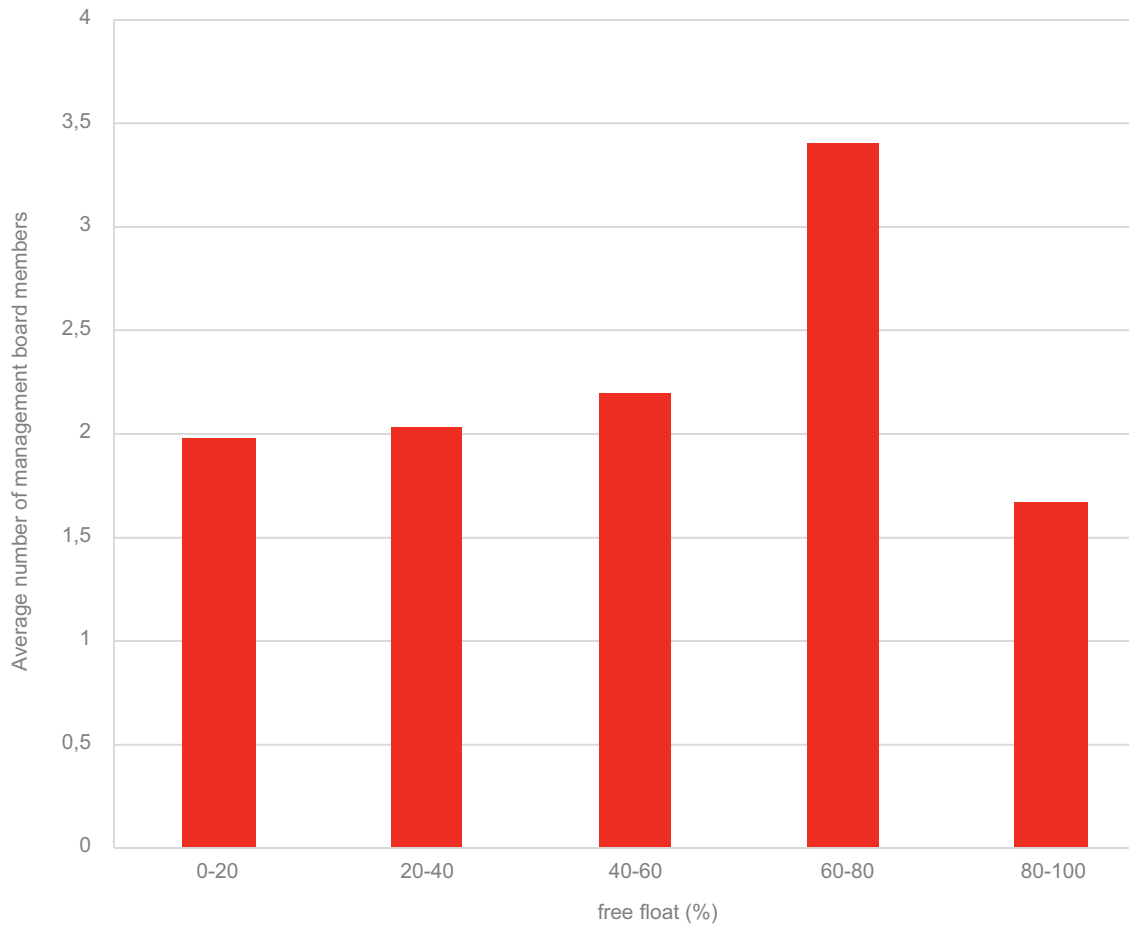


Source: register of companies, Zagreb Stock Exchange

- As at 31 December 2015, the average number of management board members totalled 2.18, whereas as at 31 December 2014, it amounted to 2.12. Average number of management board members of issuers on the official market was the same as at 31 December 2014 (3.27) while on the regular market it slightly increased to 1.93 (1.92 as at 31 December 2014).

Chart 1.8 shows the average number of management board members as at 31 December 2015 in relation to free float.

Chart 1.8. Average number of management board members as at 31/12/2015 in relation to free float

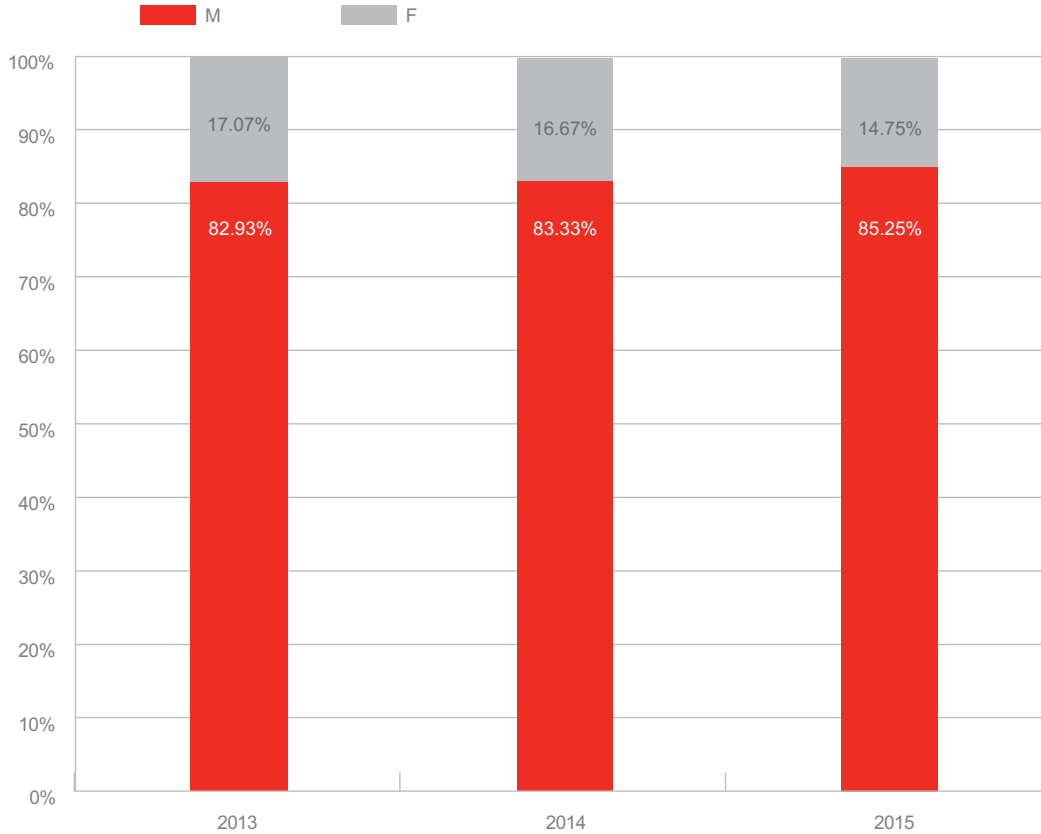


Source: register of companies, CDCC

Management board member structure by gender, age and professional qualifications

Chart 1.9 presents the proportion of men to women on management boards of issuers as at 31 December 2013, 2014 and 2015.

Chart 1.9. Proportion of men to women on management boards as at 31/12/2013, 2014 and 2015



Source: register of companies

The following text presents the analysis of the data delivered in the 2015 Questionnaire.

- As at 31 December 2015, majority of management board members (35.56%) were between 45 and 55 years old, 33.70% were between 35 and 45 years old, 24.81% were over 55 years of age and 5.93% of management board members were younger than 35 years of age.
- Most board members under 35 came from issuers from the insurance sector and from the property and funds industry (three issuers from each sector). As in the previous year, majority of management board members over 56 years of age came from the tourism industry (13).
- The majority of management board members had a university degree (92.59%), 2.59% had a PhD, while 4.82% had a high school degree or a lower level of education.

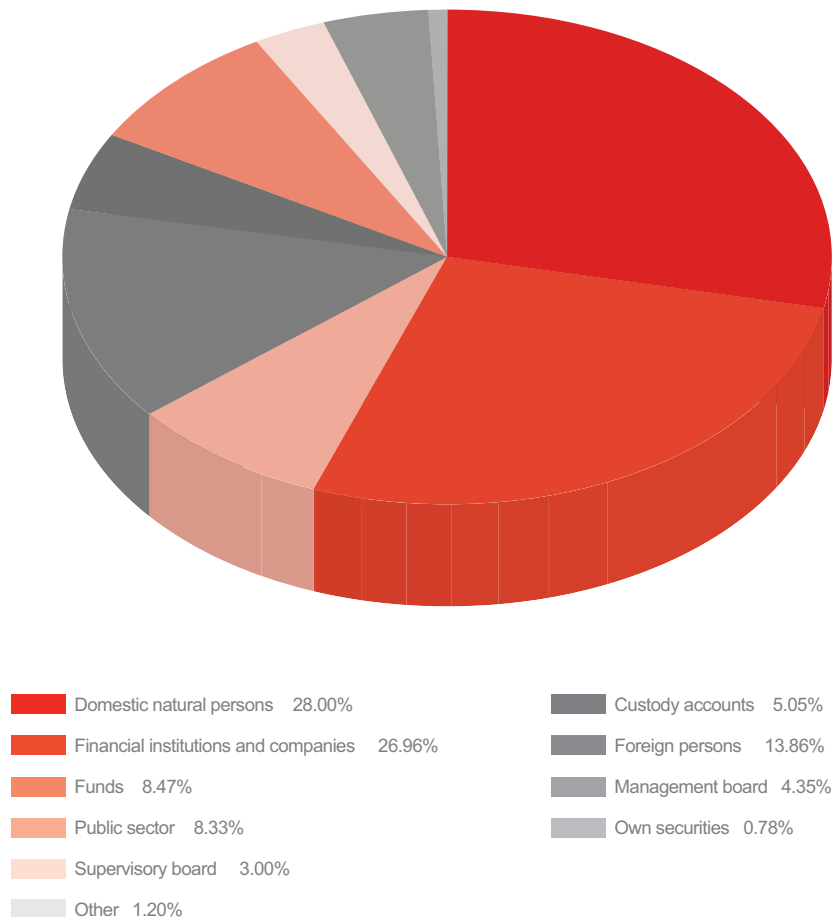
Rules of procedure of the management board

The management board may adopt rules of procedure, provided their adoption does not fall, according to the statute, within the competence of the supervisory board, or provided they have not been adopted by the supervisory board without it having such competence. Matters otherwise regulated by the rules of procedure may be defined by the statute. Pursuant to the Code of Corporate Governance, rules of procedure of the management board must contain provisions on the area of activity and goals, rules of conduct, rules on handling conflicts of interest, the secretariat of the management board, the manner of convening and conducting meetings, decision-making, agenda, minute-taking and document-keeping, and cooperation with the supervisory board.

- In 2015, a total of 59 issuers reported having an internal regulation on management board activities (rules of procedure of the management board).

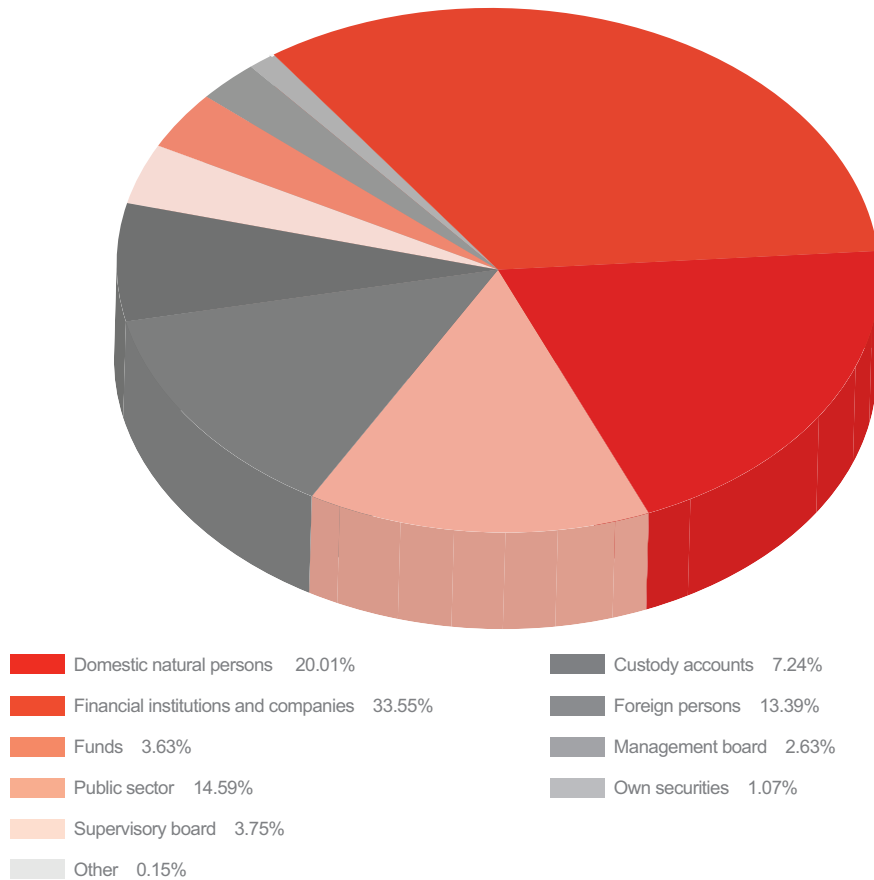
Chart 1.10 shows the ownership structure of share issuers having an internal regulation on management board activities (rules of procedure of the management board) as at 31 December 2015, and Chart 1.1 shows the ownership structure of share issuers without an internal regulation on management board activities (rules of procedure of the management board) as at 31 December 2015.

Chart 1.10. Ownership structure of share issuers having an internal regulation on management board activities as at 31/12/2015



Source: CDCC, Questionnaire

Chart 1.11. Ownership structure of share issuers without an internal regulation on management board activities as at 31/12/2015



Source: CDCC, Questionnaire

- The ownership structure of issuers with an internal regulation on management board activities as at 31 December 2015 was dominated by domestic natural persons (28%).
- The ownership structure of issuers without an internal regulation on management board activities was dominated by financial institutions and companies (33.55%).

Meetings of the management board

- A total of 70 issuers submitted their data on the number of management board meetings held in 2015. The number ranged between 1 and 246, with the average number totalling 37.
- A total of 32 issuers reported having a schedule of meetings of the management board in 2015.
- A total of eight issuers (two less than in 2014) reported having mechanisms for proxy voting at management board meetings in 2015.

Succession planning

Pursuant to the Code of Corporate Governance, the supervisory board of the issuer must provide for a long-term succession planning process, ensuring careful and timely appointment of a successor to any member of the management board of the issuer. The management team of the issuer should also be involved in this process.

- Only seven issuers reported having established a succession planning process in 2015 (same as in 2014). Majority of issuers with an established succession planning process came from the banking sector.

Term of office and duration of the management board membership

Members and the chair of the management board are appointed by the supervisory board of the issuer for a maximum period of five years, and may be reappointed.

- At the end of 2015, the average duration of management board membership was 5.72 years (at the end of 2014 it was 5.64 years, and at the end of 2013 it was 5.33 years).
- The average number of terms of office of management board members was 2.08 as at 31 December 2015 (it totalled an average of 2.05 in 2014 and 1.97 in 2013). In 2015, the largest number of consecutive terms of office (10) was reported by one management board member (issuer from the food industry).

Resignation of management board members

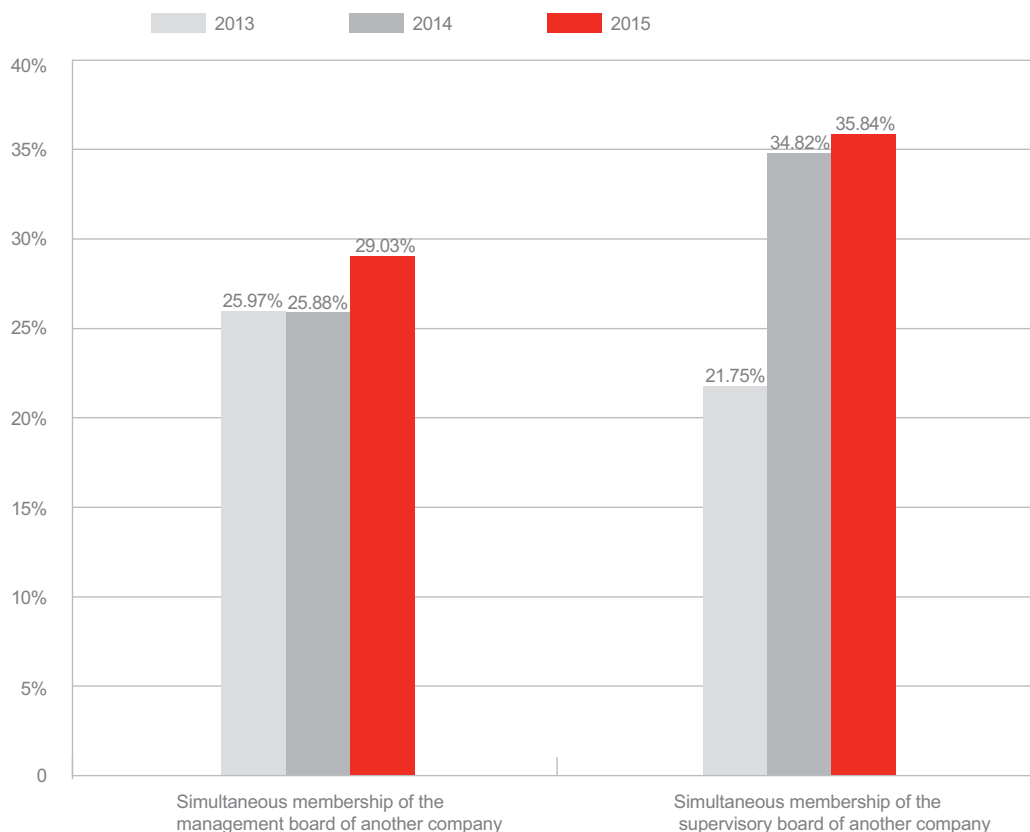
Resignation is one of the commonest ways of terminating a function in a governing body of the issuer. Resignation of the management board member is submitted to the supervisory board in writing.

- In the course of 2015, a total of 24 management board members resigned before their terms of office expired. In the course of 2013 and 2014, the number of management board members who resigned before their terms of office expired was also 24. Reasons for the resignations were mostly linked to personal issues and mutually agreed upon notice.
- Most of the management board members who resigned came from the banking sector, telecommunications industry and funds industry (two resignations in each of the sectors).

Multiple management/supervisory board memberships

Chart 1.12. shows changes in the number of management board members who were at the same time members of management/supervisory boards of other companies.

Chart 1.12. Number of management board members who were at the same time members of management/supervisory boards of other companies in 2013, 2014 and 2015



Source: Questionnaire

It should be noted that, in accordance with positive legal regulations, members of management boards of credit institutions cannot at the same time sit on management boards of another company or be at the head of a general partnership or a limited partnership.

1.3.2. Supervisory board²

The supervisory board is the main supervisory body of the company. Supervisory board members are appointed by the general meeting of the company. The statute of the company may provide for certain shareholders to appoint a certain number of supervisory board members. The statute also stipulates the number of supervisory board members appointed by employees pursuant to the Labour Act (Official Gazette, No 93/14).

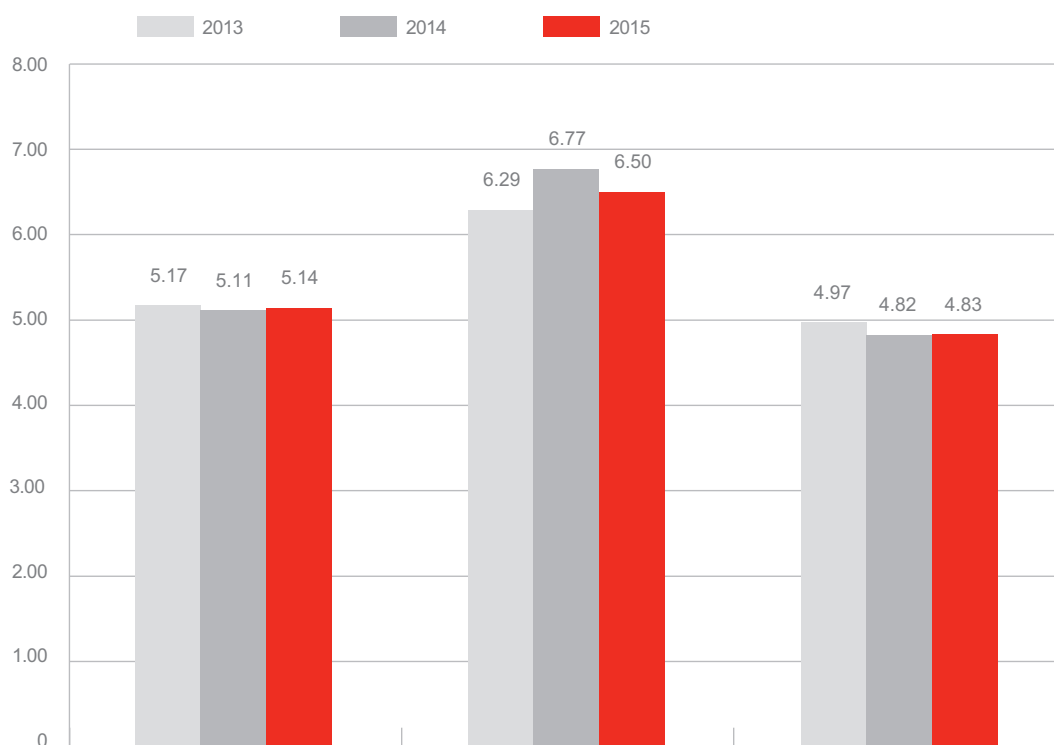
The following analysis comprises all the issuers of shares admitted to the regulated market of the Zagreb Stock Exchange as at 31 December 2013, 2014 and 2015, except issuers undergoing bankruptcy or winding-up proceedings on that date according to the data from the register of companies.

² Data on the number and gender of supervisory board members have been analysed based on the data from the register of companies in order for all issuers to be encompassed by the analysis (including those that failed to deliver the Questionnaire). It should be pointed out that there might be certain discrepancies in the numbers in cases where some issuers failed to report changes to the register of companies in a timely manner.

- As at 31 December 2015, the average number of supervisory board members was 5.14 (it was 5.11 on 31 December 2014, and 5.17 on 31 December 2013).
- The minimum number of supervisory board members (3) was reported by 28 issuers as at 31 December 2015, by 27 issuers as at 31 December 2014 and by 30 issuers as at 31 December 2013.
- Maximum number of supervisory board members as at 31 December 2015 was 11, as reported by one issuer from the food industry.

Chart 1.13 shows the average number of supervisory board members as at 31 December 2013, 2014 and 2015 with respect to the type of market.

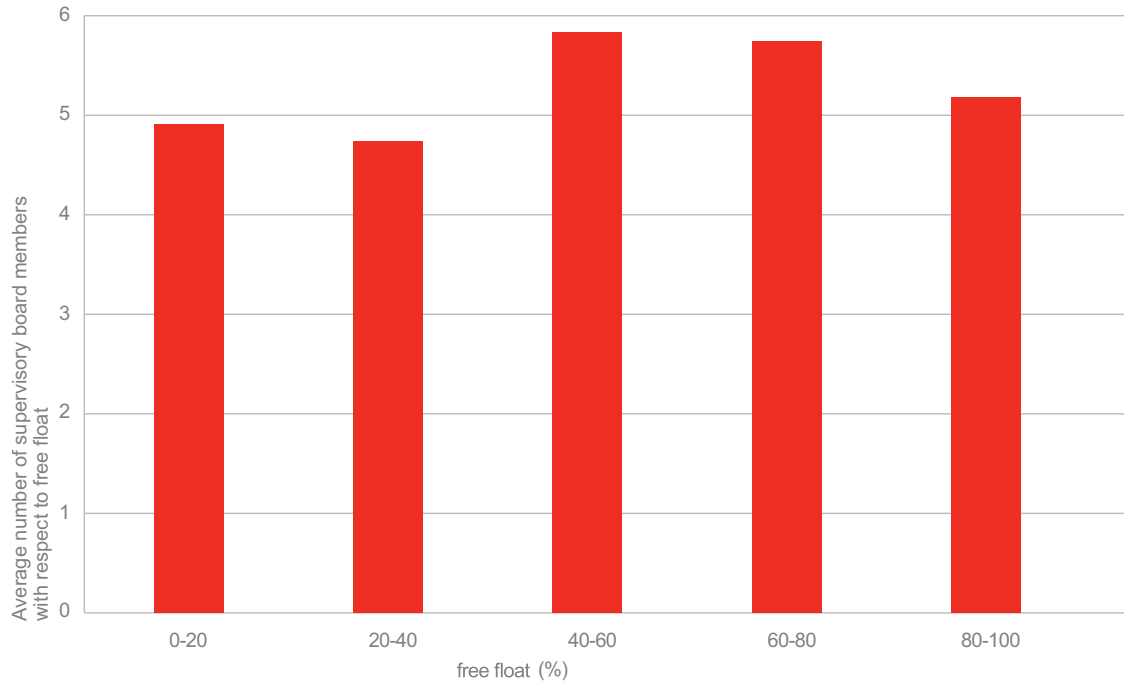
Chart 1.13. Average number of supervisory board members by the type of market as at 31/12/2013, 2014 and 2015



Source: register of companies, Zagreb Stock Exchange

Chart 1.14 shows the average number of supervisory board members as at 31 December 2015 with respect to free float.

Chart 1.14. Average number of supervisory board members as at 31/12/2015 with respect to free float



Source: register of companies, CDCC

Pursuant to the Code of Corporate Governance, the majority of supervisory board members must be independent, and must not have any business, family or other relationships with the company, majority shareholder or group of majority shareholders or with members of the management board or supervisory board or majority holder.

The most important feature of an independent supervisory board member is lack of any conflict of interest. Independent supervisory board members ensure the adoption of objective decisions relating to management board members, the company itself and its shareholders, such as decisions on remuneration, new appointments, substantial changes in the ownership structure, anti-takeover measures, large takeovers and audit function.

The employee/trade union representative is a supervisory board member appointed by the works council. There may be only one such representative on the supervisory board, although their number is not limited by law. The supervisory board member appointed by the works council has the same legal status as other appointed members of the supervisory board.

The right to appoint supervisory board members may only be granted to certain shareholders or servient holders of certain shares (the representative of significant shareholder/group of shareholders). Holders of certain shares may be granted the right by the statute to appoint supervisory board members if the transfer of those shares requires the consent of the company. Such shares do not constitute a special class of shares. Shareholders may appoint a maximum of one third of supervisory board members. All supervisory board members have equal rights in the decision-making process, irrespective of the said classification.

- According to the data from the 2015 Questionnaire, independent supervisory board members accounted for 41.14% in the total number of members of share issuers' supervisory boards (46.99% with issuers on the official market and 39.2% with issuers on the regular market). Employee/trade union representatives made up 12.46%, whereas the largest proportion was accounted for by representatives of significant shareholders/group of shareholders and it amounted to 46.4%.

Chart 1.15 shows the proportion of independent supervisory board members with issuers on the official market in relation to the market capitalisation of those issuers, while Chart 1.16 shows the proportion of independent supervisory board members with issuers on the regular market in relation to the market capitalisation of those issuers.

Chart 1.15. Proportion of independent supervisory board members with issuers on the regular market in relation to the total market capitalisation

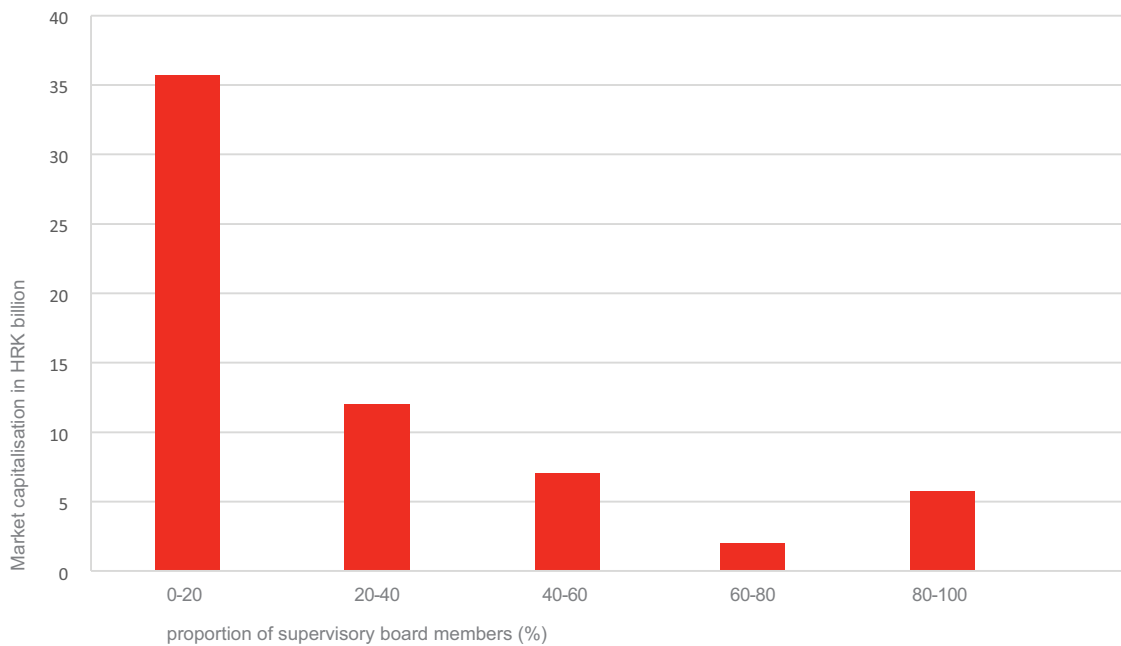
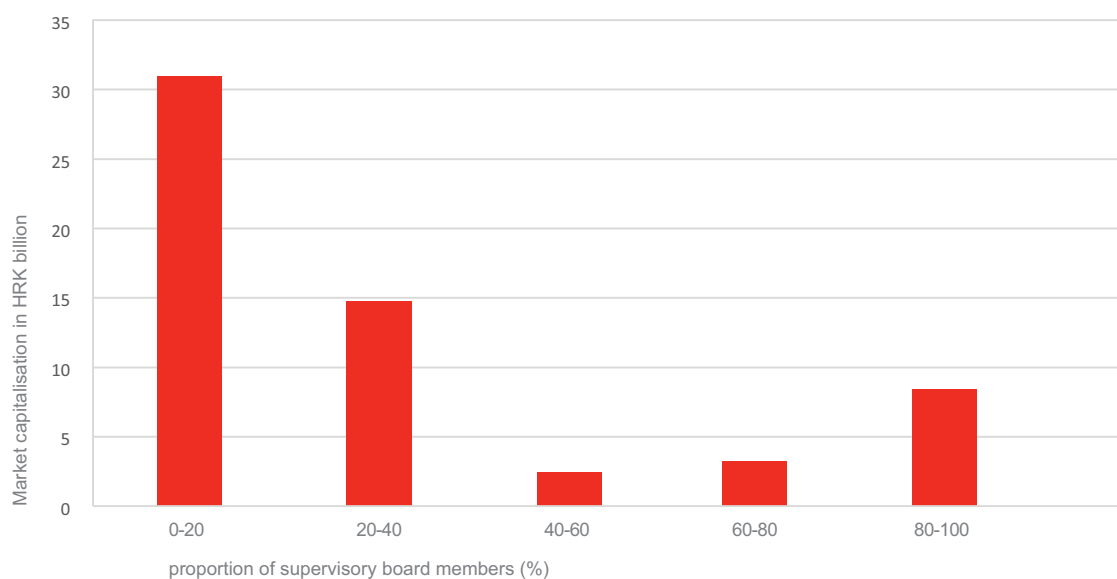


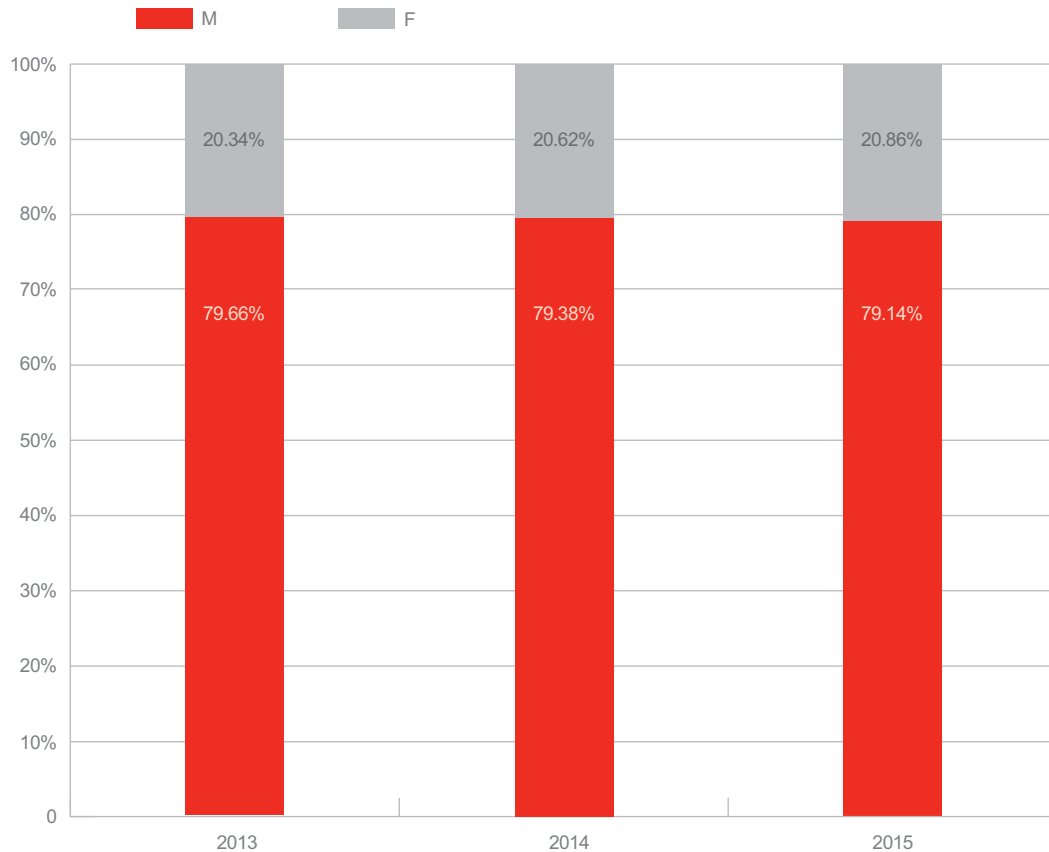
Chart 1.16 Proportion of independent supervisory board members with issuers on the regular market in relation to the total market capitalisation



Supervisory board member structure by gender, age and professional qualifications

Chart 1.17 shows the proportion of men to women on supervisory boards of issuers in 2013, 2014 and 2015.

Chart 1.17. Proportion of men to women on supervisory boards of issuers in 2013, 2014 and 2015



Source: register of companies

- In 2015, out of 719 analysed supervisory board members, 150 were women, who made up 20.86%. The average proportion of women on supervisory boards totalled 20.61% in all the three analysed years.
- In 2015, the proportion of women on supervisory boards was by 41.42% larger than the proportion of women on management boards.
- As at 31 December 2015, majority of supervisory board members (42.94%) were over 55 years old, 25.37% were between 35 and 45 years old, 25.08% were between 45 and 55 years old and only 6.61% of supervisory board members were younger than 35 years of age.
- The majority of supervisory board members younger than 35 years of age came from the tourism sector (11) followed by the food industry (seven) and the property and fund industry (three).
- As at 31 December 2015, most supervisory board members had a university degree (78.53%), 12.76% of them had a high school degree, 7.96% had a PhD, and only 0.75% had lower level of education.

Meetings of the supervisory board

- In 2015, a total of 47 issuers reported having a schedule of meetings of the supervisory board.
- A total of 45 issuers reported having mechanisms for proxy voting at supervisory board meetings.
- A total of 85 issuers (66.41% of issuers that submitted their Questionnaires) reported having an internal regulation on supervisory board activities. In 2012, 67.38% of issuers that submitted their Questionnaires reported having such a regulation.
- In 2015, supervisory boards held an average of 7.82 meetings, with the number of the meetings ranging from 0 to 99. Supervisory boards of two issuers that submitted the Questionnaire did not hold any meetings in 2015.

Term of office and duration of the supervisory board membership³

- At end-2013, the average duration of supervisory board membership totalled 5.43 years, in 2013 it was 5.31 years while in 2012 it was 5.4 years.
- The average number of terms of office of supervisory board members as at 31 December 2015 totalled 2.05 (it was 2.02 in 2014 and 2.06 in 2013). In 2015, the largest number of consecutive terms of office (13) was reported by one supervisory board member.

Resignation of supervisory board members

In the course of 2015, a total of 25 supervisory board members resigned before their terms of office expired. Reasons for the resignations were mostly linked to personal issues, assumption of another role or retirement.

Supervisory board committees

Pursuant to the Code of Corporate Governance, supervisory boards must establish the following committees:

- audit committee (audit board)
- nomination committee
- remuneration committee.

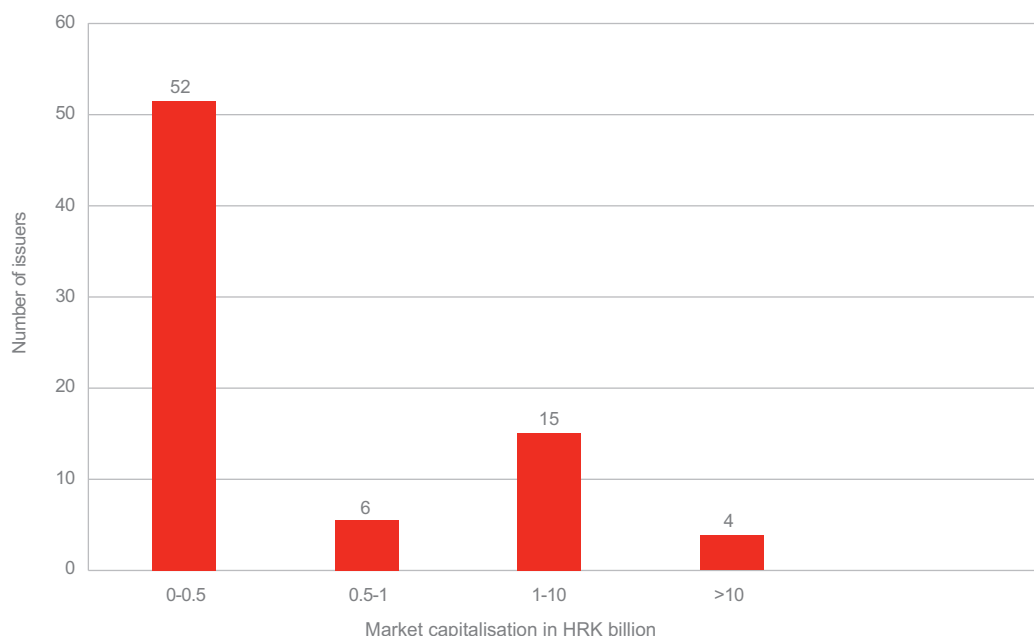
The majority of committee members must be selected from among independent supervisory board members. Each committee must have at least three members. The supervisory board must prescribe in detail the term of office and competence of the committees it has established.

³ The following analysis presents the data on supervisory board members according to the data from 128 Questionnaires submitted. Therefore, the total number of supervisory board members differs with respect to the data from the register of companies, which relates to all issuers.

- The audit committee was established by most of the issuers; 77 issuers or 60.16% of the issuers that submitted their 2015 Questionnaire (53.19% of the issuers in 2014 and 57.03% of the issuers in 2013). In 2015, the remuneration committee was established by eleven issuers and the nomination committee by ten issuers.
- Internal working procedures were established by 43 audit committees (55.84%), eight remuneration committees (72.73%) and ten nomination committees.
- Apart from having established the said committees, ten issuers reported having set up another committee (they were: investments committee, corporate governance committee, risk committee, strategic development committee, committee for loan proposal supervision, committee for monitoring synergistic effects and legal advice committee).
- During 2015, a total of 21 issuers reported being in the process of preparing a report on the work of committees, whereas five issuers made their committee reports publicly available.

Chart 1.18 shows the number of issuers with an established audit committee as at 31 December 2015 in relation to market capitalisation of issuers.

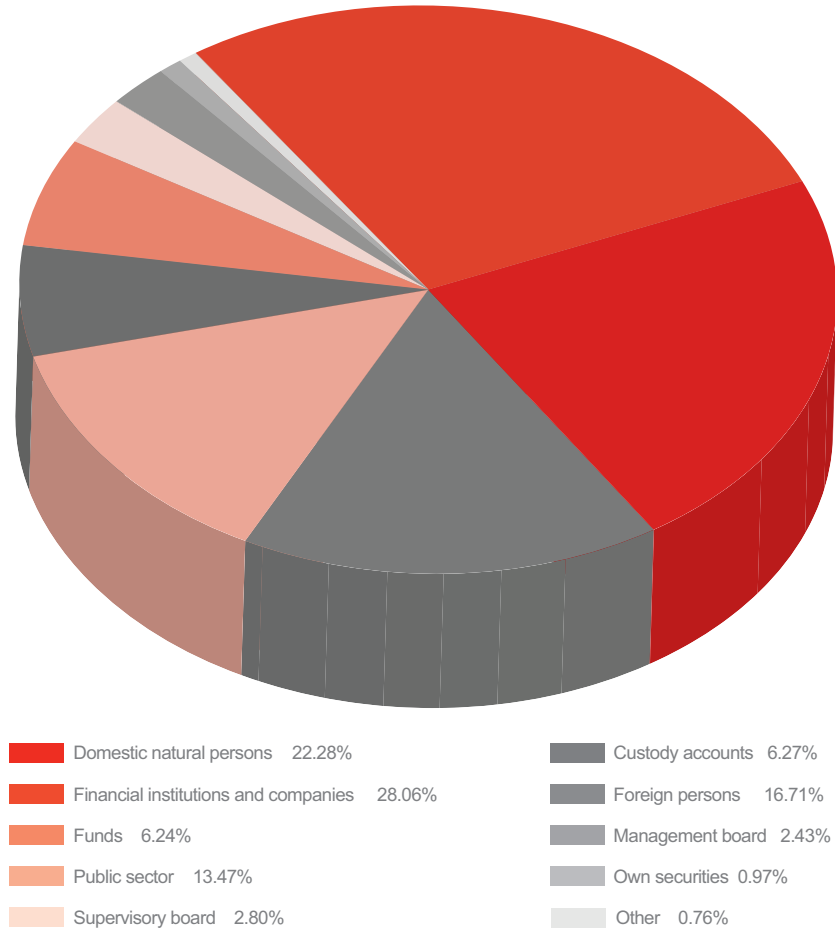
Chart 1.18. Number of issuers with an established audit committee as at 31/12/2015 in relation to market capitalisation of issuers



Source: Questionnaire, Zagreb Stock Exchange

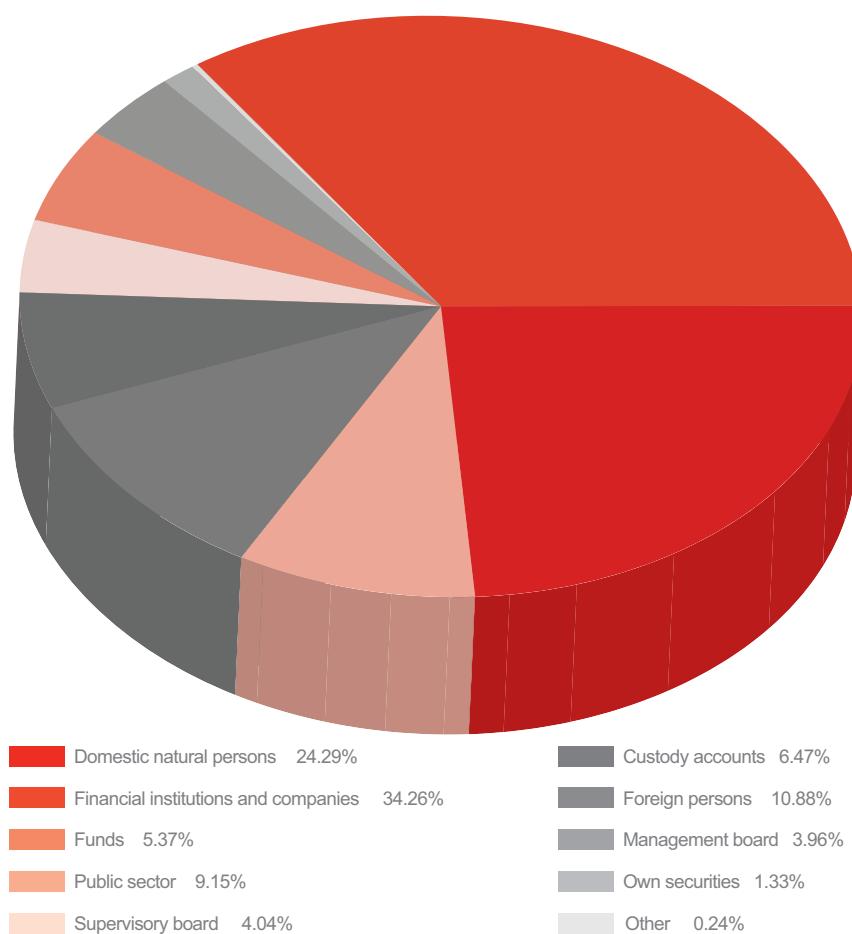
Chart 1.19 shows the ownership structure of issuers with an established audit committee as at 31 December 2015, and the chart 1.20 shows the ownership structure of issuers without an established audit committee as at 31 December 2015.

Chart 1.19. Ownership structure of issuers with an established audit committee as at 31/12/2015



Source: Questionnaire, CDCC

Chart 1.20. Ownership structure of issuers without an established audit committee as at 31/12/2015



Source: Questionnaire, CDCC

- Same as in the previous year, financial institutions and companies dominate the ownership structure of issuers with an established audit committee as at 31 December 2015, as well as the ownership structure of issuers without an established audit committee (28.06% and 34.26% respectively).

1.3.3. Remuneration

The supervisory board of the issuer is responsible for the adoption of decisions on the remuneration of management and supervisory board directors, which must be in line with the long-term interests of issuers and their shareholders. It is considered a good governance practice to ensure a transparent relationship between the governance and remuneration policies and performance of the company, for the purpose of which issuers should publicly disclose a remuneration statement and allow shareholders to express their views on the remuneration policy.

1.3.4. Remuneration of management board members

The criteria and amounts of remuneration of management board members are determined by the supervisory board. In accordance with Article 247 paragraph 1 of the ZTD, when determining the aggregate income of a particular management board member (salary, profit participation, reimbursement of expenses, payment of insurance premiums, commissions and all other benefits), the supervisory board must ensure that the aggregate income bears a reasonable relationship to the work done by that management board member and to the financial position of the company.

Pursuant to the Code of Corporate Governance, the remuneration of management board members must consist of:

- fixed remuneration, which is invariable and does not depend on the performance of the company (salary, reimbursement of travel and other expenses, payments of life and health insurance premiums, additional retirement premiums, etc.)
- variable remuneration, which is linked to the performance of the company in a particular business year (profit participation, commission, royalties)
- share options and similar instruments with the effect of long-term incentives.

Table 1.3 presents the number of issuers which reported the average gross amount of fixed and variable remuneration paid to management board members of share issuers, the average amount of other benefits paid to management board members and the average value of options held by management board members, as well as the respective amounts in 2015, 2014 and 2013. The amounts shown in Table 1.3 are average amounts paid to the entire management board (not to a single management board member).

Table 1.3. Amount of remuneration of management board members of share issuers in 2015, 2014 and 2013 (in HRK)

		Average gross amount paid to		Average amount of other benefits paid to management board	Average value of options held by management board members
		Fixed remuneration	Variable remuneration		
2015	Number of issuers	85	20	7	4
	Amount	1.918.047	2.845.726	463.883	10.673.739
2014	Number of issuers	94	14	8	4
	Amount	1.840.885	1.969.520	712.865	8.615.272
2013	Number of issuers	97	12	7	4
	Amount	1.643.661	3.159.631	738.948	3.961.111

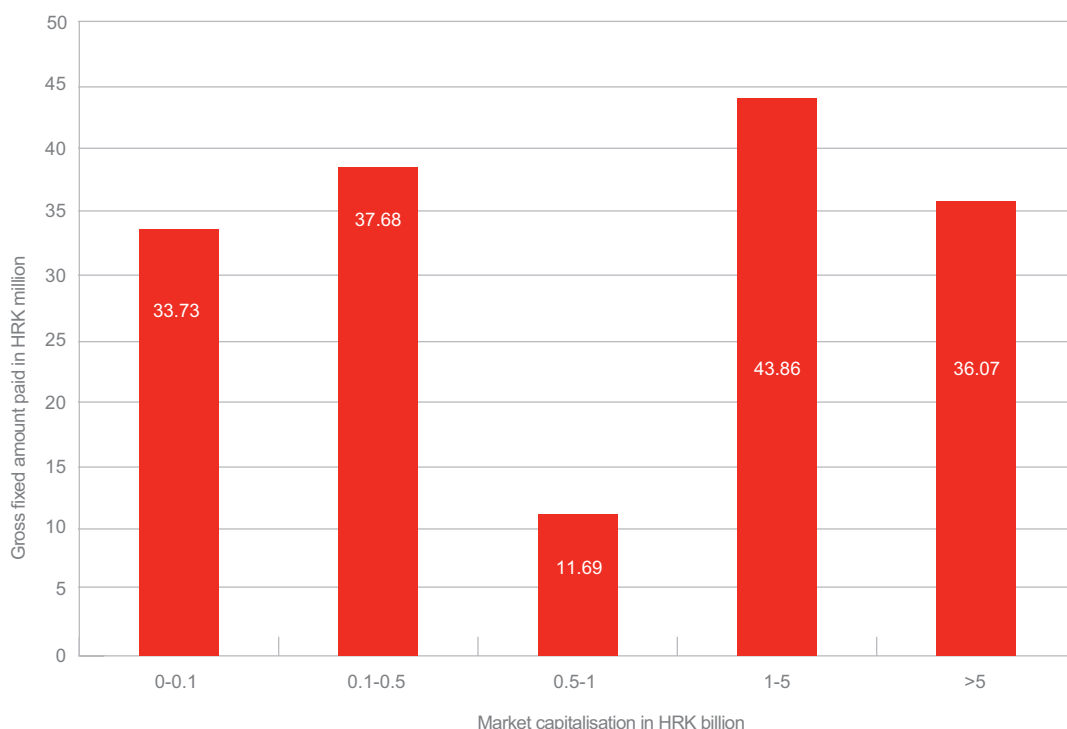
Source: Questionnaire

- In 2015, gross amounts of fixed remuneration paid to management board members ranged between one HRK and HRK 16.2m.
- In 2015, the highest gross nominal amounts of remuneration were paid to management board members

of issuers from the banking sector, while the lowest gross fixed amounts were paid to management board members of issuers from the construction industry and from the agriculture sector.

- In 2015, gross amounts of variable remuneration paid to management board members ranged between HRK 1.3 thousand and HRK 15.9m. The highest amount of variable remuneration was paid to management board members from the banking sector and the lowest to management board members from the agriculture sector.
- In the course of 2015, the total value of options held by management board members ranged from HRK 2.6 thousand (an issuer from the tourism industry) to HRK 24.7 million (an issuer from the food industry).
- The total amount of other benefits paid to management board members ranged between HRK 28.6 thousand and HRK 1m.
- A total of 16 issuers (same as in the previous year) reported having submitted the annual remuneration policy statement relating to management board members to the general meeting in 2015.

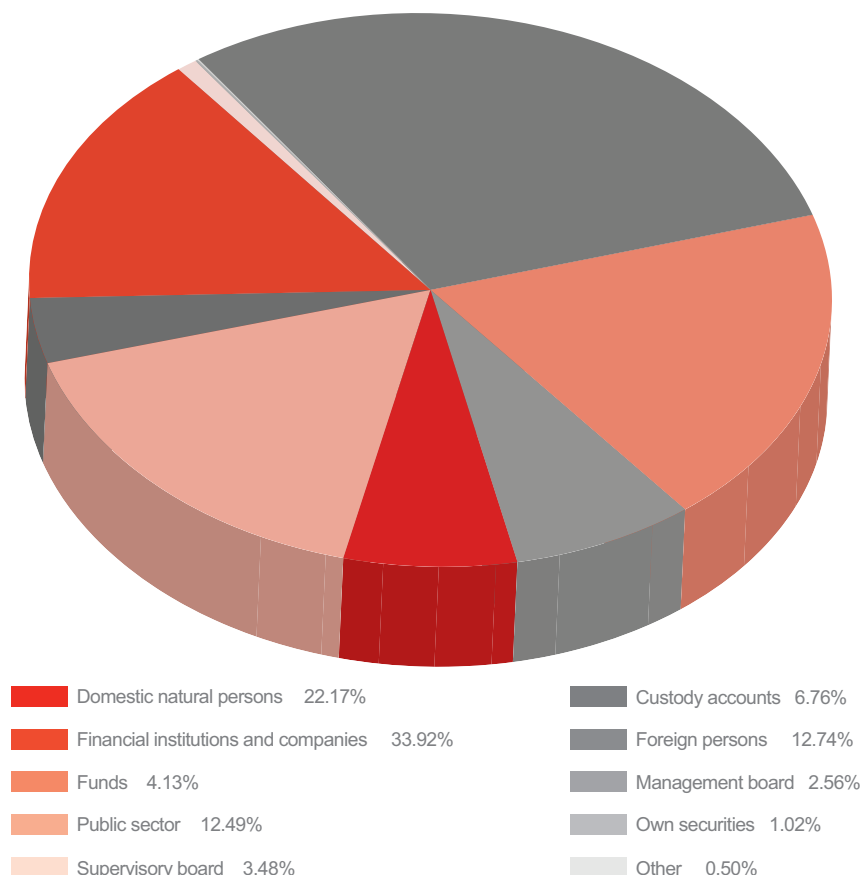
Chart 1.21 Total gross amount of fixed remuneration paid to management board members in 2015 in relation to market capitalisation (in HRK billion)



Source: Questionnaire, Zagreb Stock Exchange

In 2015, issuers with a market capitalisation totalling HRK 0 - 0.1bn paid to their management board members an average gross fixed amount reaching HRK 785 thousand; issuers with a market capitalisation totalling HRK 0.1 - 0.5bn paid to their management board members an average gross fixed amount reaching HRK 1.64m; issuers with a market capitalisation totalling HRK 0.5 - 1bn paid to their management board members an average gross fixed amount reaching HRK 1.7m; issuers with a market capitalisation totalling HRK 1 - 5bn paid to their management board members an average gross fixed amount reaching HRK 4.87m, and issuers with a market capitalisation larger than HRK 5bn paid to their management board members an average gross fixed amount reaching HRK 12.02m.

Chart 1.22. Ownership structure of share issuers that paid a gross fixed amount to management board members in the amount over HRK 5m in the course of 2015



Source: Questionnaire, CDCC

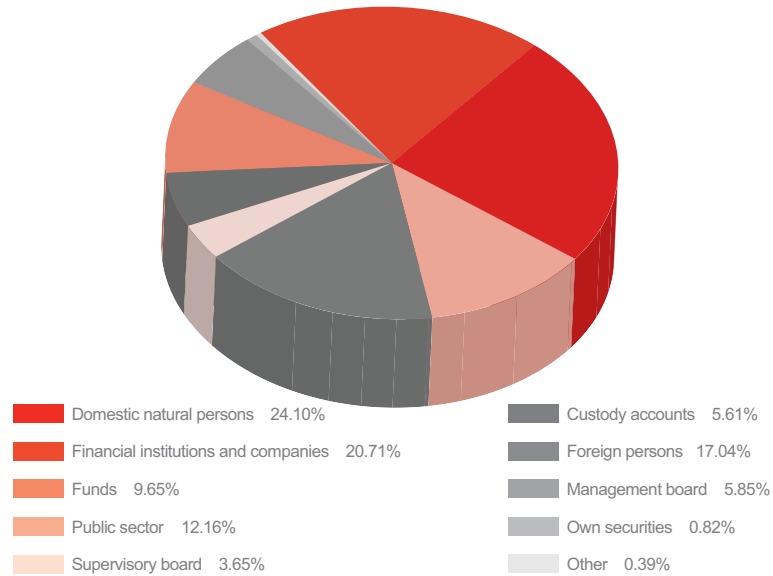
- The ownership structure of issuers that paid a gross fixed amount to their management board members in the amount over HRK 5m in the course of 2015 is dominated by foreign persons (29.91%) and funds (18.99%).

Management board remuneration policy

Pursuant to the Code of Corporate Governance (Chapter 6.3 Remuneration), the issuer must disclose a remuneration policy statement relating to management and supervisory board members as part of its annual report. The remuneration policy statement must be permanently available on the website of the issuer.

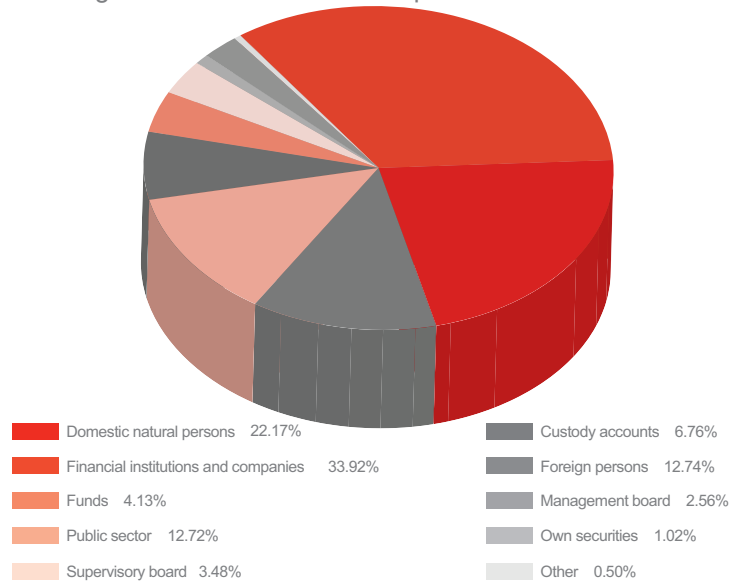
- A total of 27 issuers reported having a remuneration policy for management board members in place for 2015. Such a remuneration policy was reported by 27 and 28 issuers for 2014 and 2013 respectively.
- A total of 18 issuers that reported having a remuneration policy for management board members in place do not make this policy publicly available. Data on remuneration policy for management board members has been made available by the remaining issuers on their websites, the Zagreb Stock Exchange, and Hanfa, i.e. the Officially Appointed Mechanism for the Central Storage of Regulated Information (OAM).

Chart 1.23. Ownership structure of share issuers with an established remuneration policy for management board members in place as at 31/12/2015



Source: Questionnaire, CDCC

Chart 1.24. Ownership structure of share issuers without an established remuneration policy for management board members in place as at 31/12/2015



Source: Questionnaire, CDCC

- The ownership structure of share issuers without an established remuneration policy for management board members in place as at 31 December 2015 was dominated by financial institutions and companies (33.92%) and domestic natural persons (22.17%), while the ownership structure of share issuers with an established remuneration policy for management board members in place was dominated by domestic natural persons (24.10%) and financial institutions and companies (20.71%).



Severance pay

- A total of 15 issuers reported total amounts of severance pay for management board members defined in contracts in 2015, which ranged from HRK 15.2 thousand to HRK 32.79m.
- Nine issuers reported total amounts of severance pay given to management board members in 2015, which ranged from HRK 15.2 thousand to HRK 15.84m.
- In 2015, the highest total amount of gross severance pay was given to management board members of two issuers from the banking sector, followed by an issuer from the telecommunications industry and another issuer from the tourism industry.

1.3.5. Remuneration of supervisory board members

Pursuant to Article 269 of the ZTD, members of the supervisory board may receive remuneration for their services that may be defined as the participation by the supervisory board member in the profit of the issuer. The remuneration is determined by the statute or by the decision of the general meeting of the issuer, and it must be in line with the activities carried out by the supervisory board members and with the performance of the issuer.

- In 2015, a total of 26 issuers reported the level of supervisory board member remuneration being prescribed by the statute, whereas 70 issuers reported the level of supervisory board member remuneration being determined by the decision of the general meeting. Other issuers did not respond, or they reported that the amount of remuneration of supervisory board members was determined in some other way.

Table 1.4 presents the number of issuers that reported the average gross amount of fixed and variable remuneration paid to supervisory board members of share issuers, the average amount of other benefits paid to supervisory board members, the average value of options held by supervisory board members and the respective amounts paid in 2015, 2014 and 2013. The amounts shown in Table 1.4 are average amounts paid to the entire supervisory board (not to a single supervisory board member).

Table 1.4. Amount of remuneration of supervisory board members of share issuers in 2015, 2014 and 2013 (in HRK)

		Average gross amount of remuneration paid to supervisory board members		Average amount of other benefits paid to supervisory board members
		Fixed	Variable remuneration	
2015	Number of issuers	89	5	1
	Amount	452.469	358.579	14.870
2014	Number of issuers	96	6	0
	Amount	391.127	479.791	0
2013	Number of issuers	96	6	2
	Amount	366.808	798.293	172.682

Source: Questionnaire

- A total of 89 issuers reported the total gross amount of fixed remuneration paid to supervisory board members in 2015, which ranged from HRK 11.7 thousand to HRK 5.97m.
- Five issuers reported the total gross amount of variable remuneration paid to supervisory board members, which ranged from HRK 43.26 thousand to HRK 880.5 thousand.
- A total of 19 issuers (same as in 2014) reported having submitted the annual remuneration policy statement relating to supervisory board members to the general meeting.

1.3.6. Remuneration of the senior management of share issuers

- The total gross amount of fixed remuneration paid to the senior management in 2015 was reported by 66 issuers, with the amounts ranging between HRK 284.27 thousand (an issuer from the construction industry) and HRK 22.22m (an issuer from the telecommunications industry).
- The total gross amount of variable remuneration paid to the senior management was reported by nine issuers, with the amounts ranging between HRK 16.75 thousand and HRK 4.13m.
- The total value of options held by the senior management was reported by only two issuers (as in 2014), with the values ranging from HRK 314.84 thousand to HRK 12.4m.
- The total gross amount of severance pay agreed with the senior management in 2015 was reported by 11 issuers, with the amounts ranging from HRK 75 thousand to HRK 12.1m.
- The total gross amount of severance pay given to the senior management in 2015 was reported by 12 issuers, with the amounts ranging from HRK eight thousand to HRK 924.78 thousand.
- The total amount of other benefits paid to the senior management was reported by seven issuers, with the amounts ranging from HRK 3.6 thousand to HRK 2.4m.

1.3.7. Related party transactions

In 2015, a total of 25 issuers reported having an internal regulation in place for cases of related party transactions. Such a regulation was reported by 26 and 31 issuers in 2014 and 2013 respectively.

Table 1.5 sets out the average value of reported transactions during 2013, 2014 and 2015, concluded by the share issuer with the following stakeholder groups: shareholders with more than 5% of the initial capital of the issuer, management and supervisory board members of the issuer, senior management of the issuer and within the group the issuer belongs to or is its parent.

Table 1.5. Average value of reported related party transactions in 2013, 2014 and 2015 (in HRK)

		Average gross value of related party transactions concluded by the issuer			
		with shareholders owning more than 5% of the initial capital of the issuer	with management and supervisory board members of the issuer	with senior management of the issuer	within the group the issuer belongs to or is its parent
2015	Number of issuers having reported the	37	19	9	50
	Transaction value	271.561.189	10.144.030	5.623.301	408.656.623
2014	Number of issuers having reported the	39	18	9	49
	Transaction value	299.218.739	5.201.024	9.171.700	395.999.671
2013	Number of issuers having reported the	38	16	10	48
	Transaction value	208.065.812	3.575.421	6.222.242	315.786.981

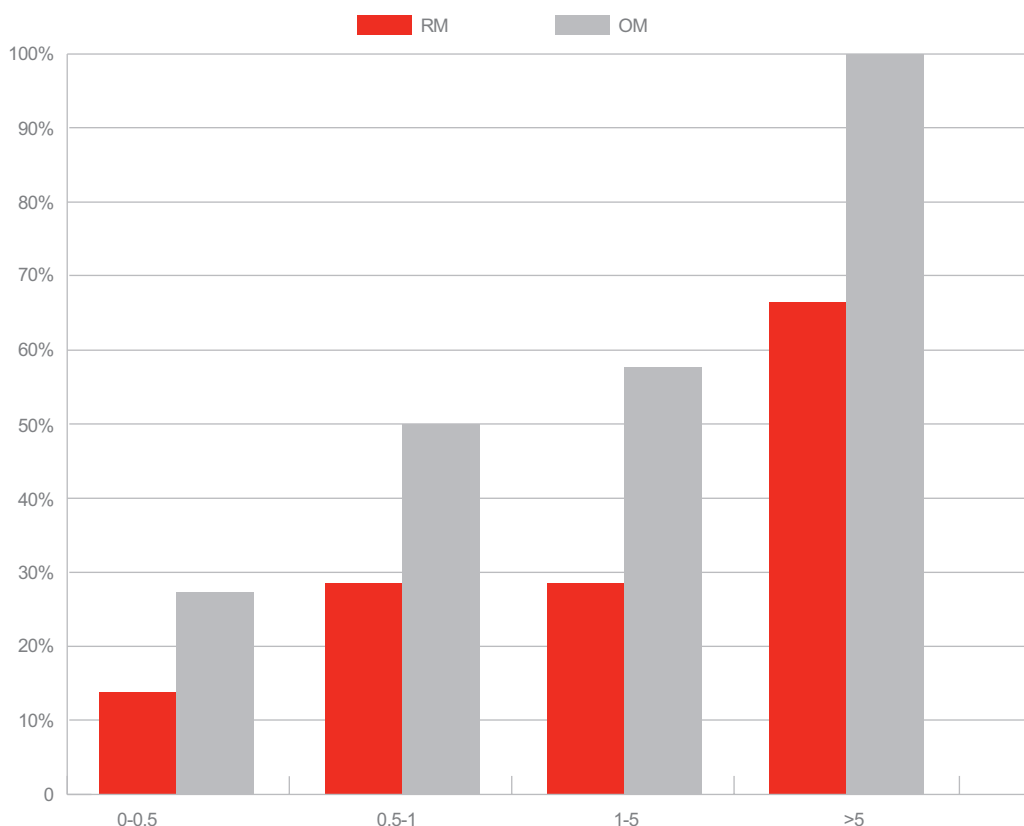
Source: Questionnaire

1.3.8 Conflicts of interest

Conflicts of interest arise if a member of the management or supervisory board or board of directors is not impartial with respect to the subject under consideration, and may affect the decision-making process on the basis of interests which differ from interests of the issuer.

- At the end of 2015, a total of 29 issuers (same as in 2014) reported having an internal regulation in place to identify, prevent and report conflicts of interest. The internal regulations contained the following basic provisions relating to conflicts of interest: identifying potential and/or actual conflicts of interest, protecting investors through the prevention of use of inside information, monitoring transactions by relevant persons, ensuring that interests of issuers' clients come before the interests of issuers and their employees, preventing bribery and corruption.
- The majority of 29 issuers that reported having an internal regulation in place to identify, prevent and report conflicts of interest at the end of 2015 came from the banking sector (seven), the tourism industry (four) and from the property and fund industry and telecommunications industry (three issuers from each of these sectors).
- In 2015, a total of 68 cases of conflicts of interest were reported by two issuers, whereas the other issuers did not report any conflicts of interest. In 67 reported cases of conflicts of interest regarding one issuer, involved persons failed to abstain from voting on entering related party transactions.

Chart 1.25. Proportion of issuers having an internal regulation to identify, prevent and report conflicts of interest in relation to market capitalization of issuers (in HRK billion) and market where shares are admitted as 31/12/2015



Source: Questionnaire, Zagreb Stock Exchange

1.3.9 General meeting

The general meeting is the only governing body of the issuer whose work is open to participation by all shareholders. The main function of the general meeting is to ensure that the shareholders' will is expressed. As opposed to the management and supervisory board or board of directors, the general meeting is not a permanent governing body of the issuer and is convened ad hoc, but at least once a year.

- According to the data from 128 completed Questionnaires, five issuers did not hold the general meeting in 2015. According to the data from 141 Questionnaires completed in 2014, two issuers did not hold the general meeting, whereas two issuers reported not having held the general meeting in 2013 pursuant to the data from 135 completed Questionnaires.
- As reasons for not having held a general meeting in 2015, issuers reported undergoing rehabilitation procedure, bankruptcy proceedings or pre-bankruptcy settlement proceedings, while two issuers did not state the reason for not having held a general meeting.
- According to the data from 128 completed Questionnaires, a total of 97 issuers reported having held only one general meeting, 21 issuers held two general meetings, whereas five issuers held three general meetings.
- Out of a total of 154 general meetings held during 2015, there were 129 regular and 25 extraordinary general meetings.

Remote voting

Pursuant to the Code of Corporate Governance, shareholders must be allowed to participate and, in particular, to vote in the general meeting by using modern communication technologies (e.g. by electronic means).

- Remote voting (e.g. by electronic means) was provided for at two general meetings held by two issuers in 2015.

Internal rules of procedure of the general meeting

- A total of 47 issuers reported having rules of procedure of the general meeting in place for 2015, of which two issuers reported changes in their rules of procedure during the year.
- A total of 24 issuers reported having sent the invitation to the general meeting by registered mail.

Participation in the general meeting

Participation in the work of the general meeting is a fundamental and indefeasible right of shareholders (right to participate). This right may be exercised through a representative, but in majority of cases it is exercised by proxy.

All members of the issuer's governing bodies must participate in the work of the general meeting. The obligation to attend the general meeting relates to all members of the management and supervisory board or board of directors, not only to the members who submit reports or draft decisions and other measures. In other words, even those members of the management and supervisory board or board of directors who are not submitters or petitioners are obliged to attend the general meeting.

- General meetings held in 2015 were attended by an average of 20 shareholders (32 shareholders in 2014). The largest number of shareholder attending a general meeting was 439, while 20 general meetings were attended by only one shareholder.

Voting limitations, attendance conditions and decision making

Shareholders cannot in general be denied their voting rights. In certain circumstances, the exercise of voting rights in the general meeting is prohibited by law, namely in cases of conflicts between the interests of a shareholder and the interests of the issuer.

- Voting rights were restricted for some shareholders at eight general meetings of six issuers held in 2015. In most of those cases, voting rights were restricted due to the reason referred to in Article 293(1) of the ZTD (issuance of clearance to members of management or supervisory boards or boards of directors). Pursuant to the said provision of the ZTD, voting rights may not be exercised by any person on their own behalf or on behalf of another person in the process of adopting a decision on whether the person should be issued clearance, on releasing the person from an obligation or on exercising rights claimed by the company with respect to that person. With respect to shares not permitting shareholders to exercise voting rights in this manner, no other person can do so on their behalf, either.

1.4 Audit and control

Audit and control are important self-regulatory mechanisms of the issuer. This chapter provides an analysis of the internal and external audit and control of issuers.

Internal control is the main regulatory mechanism for business operations within the company or issuer, including that for the corporate governance.

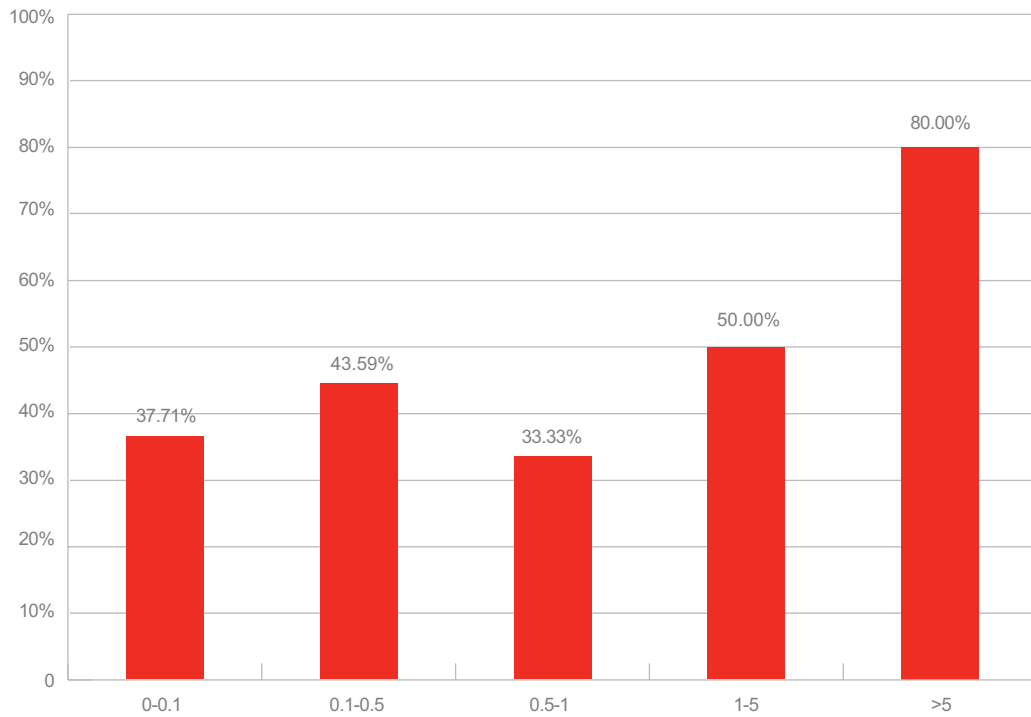
1.4.1 Internal audit and control

Pursuant to the Code of Corporate Governance, internal auditors' task is to carry out internal audit activities and to verify the compliance with regulations, guidelines and instructions. Internal auditors submit performance reports directly to the audit committee or to the supervisory board of the company.

One of the prerequisites to sound corporate governance in the interest of all shareholders is an adequate and efficient internal audit and internal control mechanism.

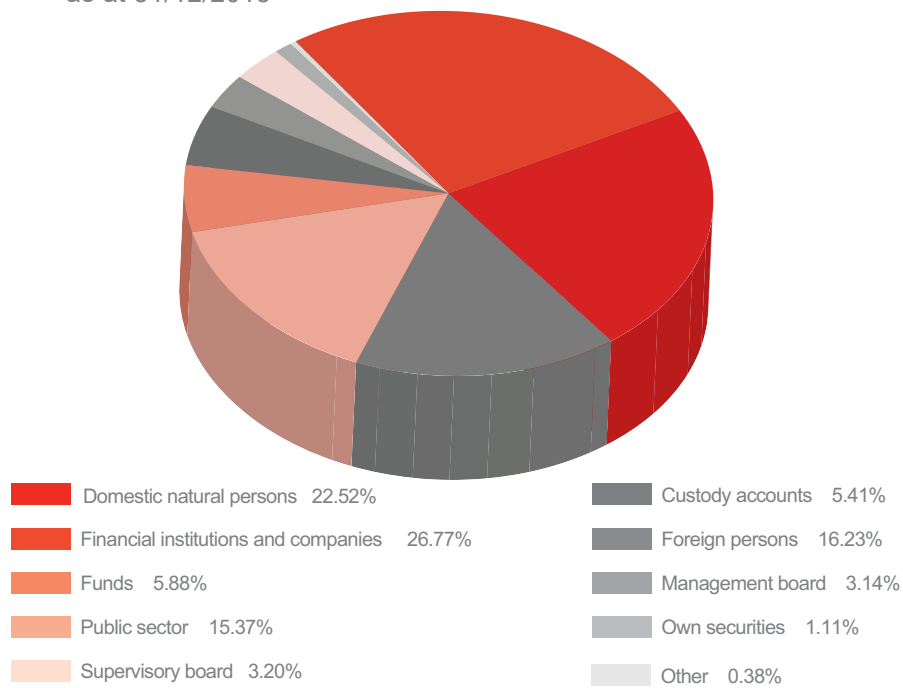
- A total of 54 or 42.19% of the issuers that submitted the 2015 Questionnaire reported having an internal audit system in place (a total of 40.43% and 40.74% of the issuers that submitted the Questionnaire for 2014 and 2013 respectively reported having an internal audit system in place).
- As at 31 December 2015, a total of 54 issuers with an internal audit system in place had a total market capitalisation of HRK 87.74bn (the total market capitalisation of 128 issuers that submitted their 2015 Questionnaires reached HRK 122.5bn as at 31 December 2015).
- The majority of issuers with an internal audit system in place came from the tourism industry (11) and banking sector (ten), followed by the food industry (seven).
- A total of 89 or 69.53% of the issuers that submitted the 2015 Questionnaire reported having an internal control system in place (69.50% in 2014 and 67.41% in 2013).
- Most of the issuers with an internal control system in place belonged to the tourism industry (22 issuers), followed by those from the food industry and the banking sector (ten issuers from each sector).

Chart 1.26. Proportion of issuers having an internal audit system in place with respect to market capitalisation of issuers (in HRK billion)



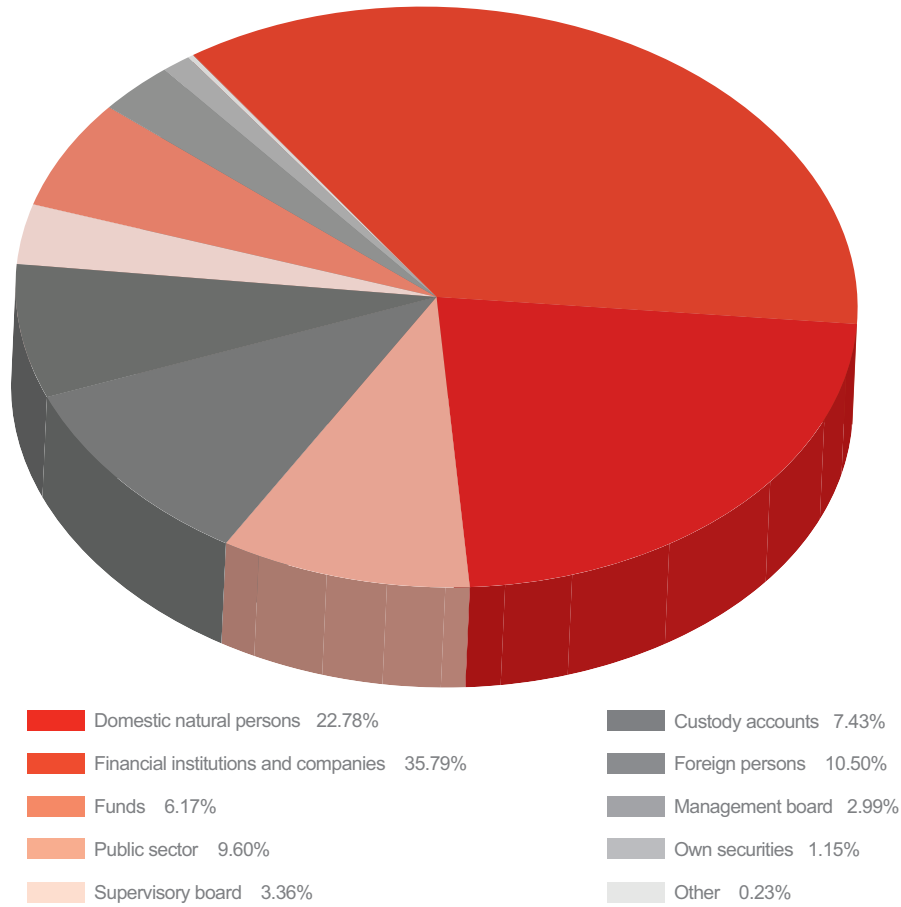
Source: Questionnaire, Zagreb Stock Exchange

Chart 1.27. Ownership structure of share issuers having an internal audit system in place as at 31/12/2015



Source: Questionnaire, CDCC

Chart 1.28. Ownership structure of share issuers without an internal audit system in place as at 31/12/2015



Source: Questionnaire, CDCC

- Financial institutions and companies dominate the ownership structure of issuers with an established internal audit system as at 31 December 2015, as well as the ownership structure of issuers without an established internal audit system (26.77% and 35.79% respectively).

1.4.2 Managing company risks

Managing company risks has proved to be of special importance, especially at the time of economic and financial crisis and uncertain business environment. Particular emphasis has been placed on financial institutions. The measurement of prudential risks, which comprise market, credit, operational and liquidity risks has been regulated by specific regulations. Apart from these risks, there is a whole range of other risks that may arise in the course of business operations of a company.

- A total of 39 issuers (same as in the previous year) reported having an internal regulation in place for the identification, management and prevention of risks.

- A total of 31 issuers reported having appointed a person in charge for risk management. Majority of issuers that appointed a person to be in charge of risk management came from the banking sector (10), followed by the food industry, tourism and other activities (three issuers from each sector).
- As in 2014, the most common risks reported by issuers were liquidity risk and credit risk, followed by macroeconomic environment risk, operational risk, political risk and interest rate risk.
- A total of 44 issuers reported some risks having materialised during 2015, and 38 of them (86.36%) managed to control and manage those risks.
- The most common materialised risks were liquidity risk, market risk and credit risk

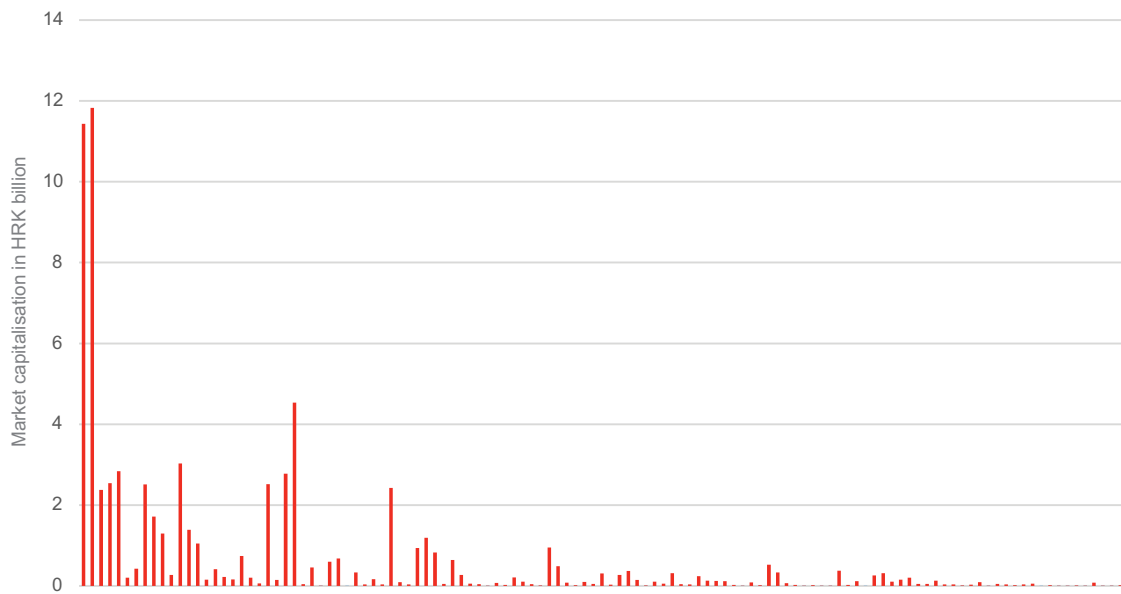
1.4.3 External audit

Pursuant to the Code of Corporate Governance, companies must have independent external auditors, who represent an important corporate governance tool. The main function of an external auditor is to ensure that financial statements of the company adequately reflect the current financial position of the company as a whole. Independent external auditors are not related through ownership or other interests with the company, nor do they provide any other services to the company.

Auditors have a crucial role in ensuring true and fair presentation of financial statements.

- A total of 34 different audit firms were reported in the 128 Questionnaires submitted for 2015. The largest number of issuers using services of the same audit firm was 25 (in 2014, 21 issuers used services of the same audit firm).
- A total of 56 issuers used services of the largest audit firms (the Big Four). The majority of issuers using services of the mentioned audit firms came from the banking sector, tourism industry and food industry (seven issuers from each sector).
- The market capitalisation of issuers using services of the largest audit firms amounted to HRK 107.3bn, or 87.59% of the total market capitalisation of issuers that submitted the 2015 Questionnaire.
- The average length of time during which issuers used services of the same audit firm was 6.87 years.
- The average length of time during which issuers used services of the same certified auditor in the same audit firm was 4.89 years.
- A total of 119 issuers reported the gross amount paid to an external audit firm for auditing services provided in 2015. The amount totalled an average of HRK 330.1 thousand, ranging from HRK 18.1 thousand to HRK 4.6m. The average gross amount paid to an external audit firm in 2014 reached HRK 326.6 thousand.
- A total of 13 issuers reported having paid an external audit firm for services other than auditing services provided in 2015. The average gross amount totalled HRK 248.17 thousand, ranging from HRK 1.8 thousand to almost HRK 919 thousand. The following were the services other than auditing services provided in 2015: legal and financial advice, tax advice, as-is analyses, seminars, advice on the increase of the initial capital etc.
- None of the issuers reported family or business relations between the external audit firm and auditor and the issuer, i.e. management and supervisory board members and senior management of the issuer.

Chart 1.29. Correlation between the gross amount paid to external audit firms for audit services provided during 2015 in relation to market capitalisation (in HRK billion) of issuers



Source: Questionnaire, Zagreb Stock Exchange

Correlation between the gross amount paid to external audit firms for audit services provided during 2015 and market capitalisation is as high as 0.839133.

1.5 Investor relations

Pursuant to the Code of Corporate Governance, the management board of the issuer must provide investors with access to accurate and precise information related to positive and negative aspects of issuer's business operations, which will allow investors to properly understand and assess the issuer's position, and to make an informed investment decision.

1.5.1 Website of the issuer

Issuers are obliged to ensure an efficient and practical information exchange through their publicly available websites. Pursuant to the Code of Corporate Governance, for the purpose of equal treatment of all shareholders irrespective of the country of origin, all the information published by issuers on their websites must be provided in both Croatian and English

- According to the data from the Questionnaires submitted in 2015, one issuer reported not having a website in Croatian, while 87 issuers (67.97%) reported having their website in English.
- A total of 38 issuers (29.69%) reported having a separate organisational unit or employees in charge of public (investor) relations exclusively. These issuers mostly belonged to the banking sector (seven issuers), food industry (six issuers) and tourism industry (five issuers).
- A total of 40 issuers (31.25%) reported having published the calendar of significant events on their website. In 2014, a total of 31.21% of the issuers provided the same answer.
- A total of 19 issuers reported having held one or more press conferences during 2015. The largest number of press conferences held by one issuer was 30 (issuer from the telecommunications industry), while the average number of such press conferences was five. The most common reasons for convening a press conference were presentations of business results (including financial data) and significant activities, presentations of new products, promotions, sponsorships etc.

1.5.2 Dividend payments

Ownership of shares entitles shareholders to receive dividends. A decision on dividend payment is adopted by the general meeting upon the proposal of the management board. Dividends may be paid out in money or in shares. In addition, the management board may adopt a decision on advance dividend payment subject to the consent of the supervisory board.

- According to the data from 128 Questionnaires submitted, 27 issuers (21.1%) adopted a decision on dividend payment in 2015.
- The average amount of dividend per share in 2015 totalled HRK 218.13 (it was HRK 160.06 in 2014).
- Same as in 2014, most of the issuers that adopted a decision on dividend payment in 2015 belonged to the tourism industry (seven issuers), followed by the food industry (four) and the banking sector (three).
- The total market capitalisation of issuers that adopted a decision on dividend payment in 2015 reached HRK 72.75bn. Among these issuers, the largest market capitalisation was reported by an issuer from the banking sector (HRK 11.84bn), and the smallest by an issuer from the transport sector (HRK 120.27m).

2. Annual Report on Corporate Governance of Corporate Bond Issuers

- At the end of 2015, a total of 15 corporate bonds were issued by 13 different issuers. All of them completed and submitted the Questionnaire for 2015.
- The interest rate ranged between 3.7500% and 9.7500% and totalled an average of 6.1083% (at the end of 2014, it amounted to an average of 7.0038%).
- In 2015, two issuers removed their corporate bonds from the official market (their bonds came due in the course of 2015).
- In 2015, two issuers issued new corporate bonds, which were listed on the regular market of the Zagreb Stock Exchange.
- At the end of 2015, one bond issuer belonged to the financial and 12 issuers to the nonfinancial sector. Regarding the non-financial sector, issuers came from telecommunications industry and construction industry (three issuers), other activities (two issuers), as well as from transport industry, trade, pharmaceutical industry and energy sector (one issuers from each of the sectors).
- As at 31 December 2015, none of the corporate bond issuers was undergoing bankruptcy proceedings.

2.1 Capital and origin of capital

Initial capital

Table 2.1 shows data on the initial capital of corporate bond issuers and share and corporate bond issuers.

Table 2.1. Initial capital of bond issuers as at 31/12/2013, 2014 and 2015

Bond issuers	Number of issuers				2013	2014	2015
	2013	2014	2015				
with admitted shares	3	3	5	Initial capital	552.162.200	385.428.710	1.268.189.840
				Market capitalisation	231.691.297	171.500.273	257.339.378
without admitted shares	11	9	8	Initial capital	23.076.060.547	23.190.111.948	23.044.712.948
				Market capitalisation	2.508.359.591	2.471.273.177	1.531.809.372
TOTAL	14	12	13	Initial capital	23.628.222.747	23.575.540.658	24.312.902.788
				Market capitalisation	2.740.050.888	2.642.773.449	1.789.148.749

Source: register of companies, Zagreb Stock Exchange

- At the end of 2015, out of 13 corporate bond issuers, five also had their shares on the regulated market of the Zagreb Stock Exchange.
- The total initial capital of all corporate bond issuers increased by 3.13% at the end of 2015, however, the number of issuers also increased by one in relation to 2014. The initial capital of corporate bond issuers with admitted shares rose by 229.03% (the number of issuers rose by two). The initial capital of corporate bond issuers without admitted shares decreased by 0.63% (the number of issuers decreased by one).
- The total market capitalisation of all corporate bonds issuers decreased by 32.3% relative to the previous year. At the end of 2015, the total market capitalisation of corporate bond issuers with admitted shares rose by 50.05%, whereas corporate bond issuers without admitted shares reported a 38.02% decrease in market capitalisation.

2.1.1 Ownership structure of corporate bond issuers

Data on the ownership structure of bond issuers have been produced on the basis of data received from the CDCC; therefore the following analysis comprises only corporate bond issuers established as joint-stock companies (11 issuers).

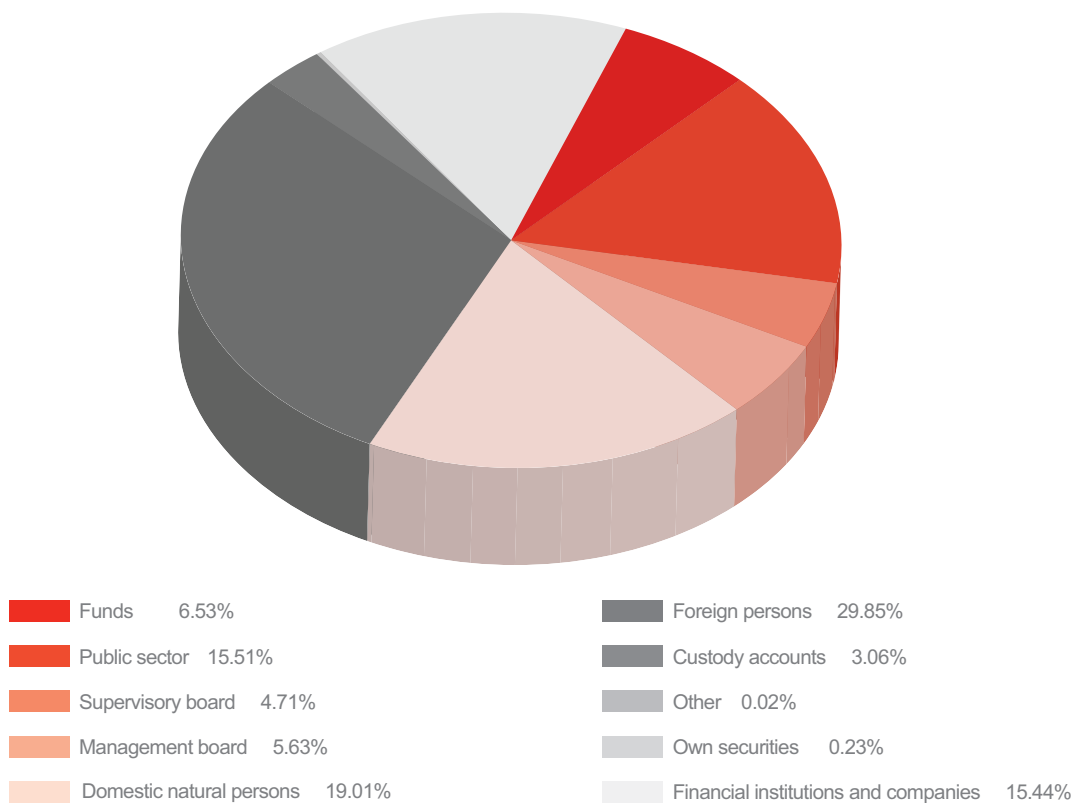
The ownership structure has been analysed by groups of the shareholders, with the sum of all groups making 100% of the ownership structure, meaning that one shareholder can be allocated to a single group only.

The structure of joint-stock companies is divided into following groups:

- own shares
- financial institutions and companies
- funds (investment and pension funds with their registered offices in the Republic of Croatia)
- public sector (Republic of Croatia)
- members of the management board
- members of the supervisory board
- domestic natural persons (except members of the management and supervisory board)
- foreign persons (except members of the management and supervisory board)
- custody accounts
- other.

Chart 2.1. presents the ownership structure of corporate bond issuers as at 31 December 2015 by the above-mentioned groups.

Chart 2.1. Ownership structure of corporate bond issuers as at 31/12/2015



Source: CDCC

- The ownership structure of corporate bond issuers established as joint-stock companies was dominated by foreign persons with a proportion of 29.85% (32.97% in 2014), followed by domestic natural persons with 19.01% (18.27% in 2014) and public sector with 15.51% (16.71% in 2014).

2.2 Issuers' governing bodies

This chapter presents an analysis of data on governing bodies of bond issuers, for the management board and supervisory board separately. Data on the general meeting has not been analysed because bond issuers have different legal forms (joint-stock company, limited liability company, special legal form).

Ten bond issuers established as joint-stock companies have a two-tier governance system, meaning that, besides a general meeting, they have two more governing bodies: a management board, which manages and represents the company, and a supervisory board, which supervises the company's business operations. One bond issuer has a one-tier governance system.

2.2.1 Management board

The following text presents an analysis of data on management board members of bond issuers established as joint-stock companies, as at 31 December 2013, 2014 and 2015.

The management board may consist of one or more persons. The statute of the issuer defines the number of management board members. ZTD does not stipulate the minimum number of management board members.

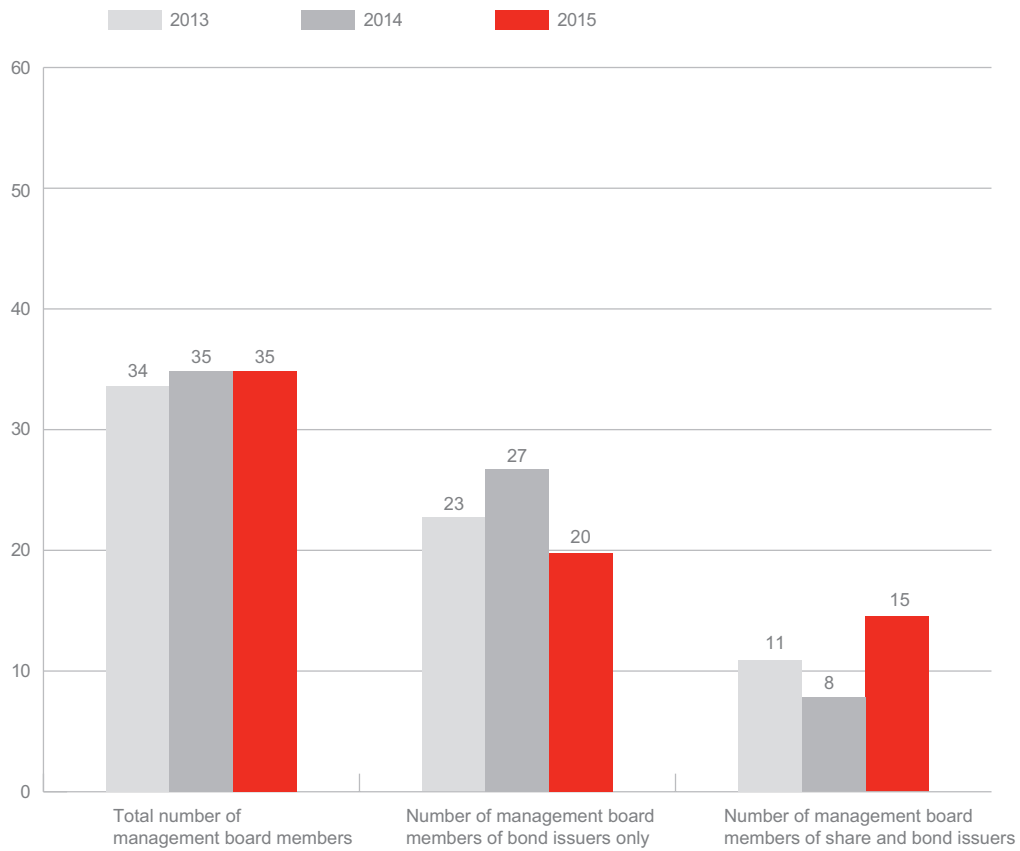
Only natural persons with full legal capacity may be appointed members of the management board.

The analysis of data on the size and structure of the management and supervisory board has taken into account only bond issuers established as joint-stock companies (11 issuers).

The following analysis shows the number of management board members of joint-stock companies – corporate bond issuers, totalling 11 at the end 2015 and 2013 i.e. 10 at the end of 2014.

Chart 2.2 shows the total number of management board members of bond issuers as at 31 December 2013, 2014 and 2015.

Chart 2.2. Total number of management board members as at 31/12/2013, 2014 and 2015

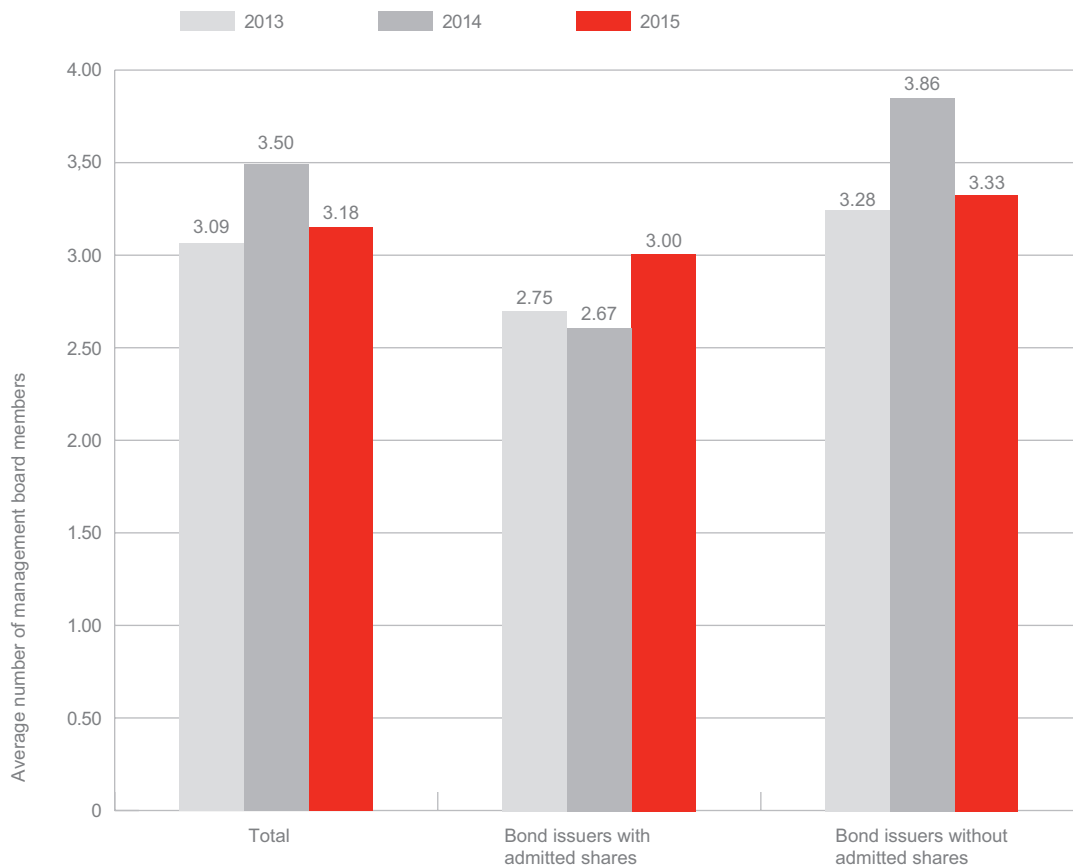


Source: register of companies, Hanfa

- As at 31 December 2015, the maximum number of management board members was five, which was the number of management board members reported by one bond issuer only. Six issuers had four management board members; two issuers had two management board members while two issuers had one management board member.

Chart 2.3 shows the average number of management board members of corporate bond issuers as at 31 December 2013, 2014 and 2015.

Chart 2.3. The average number of management board members of bond issuers as at 31/12/2013, 2014 and 2015



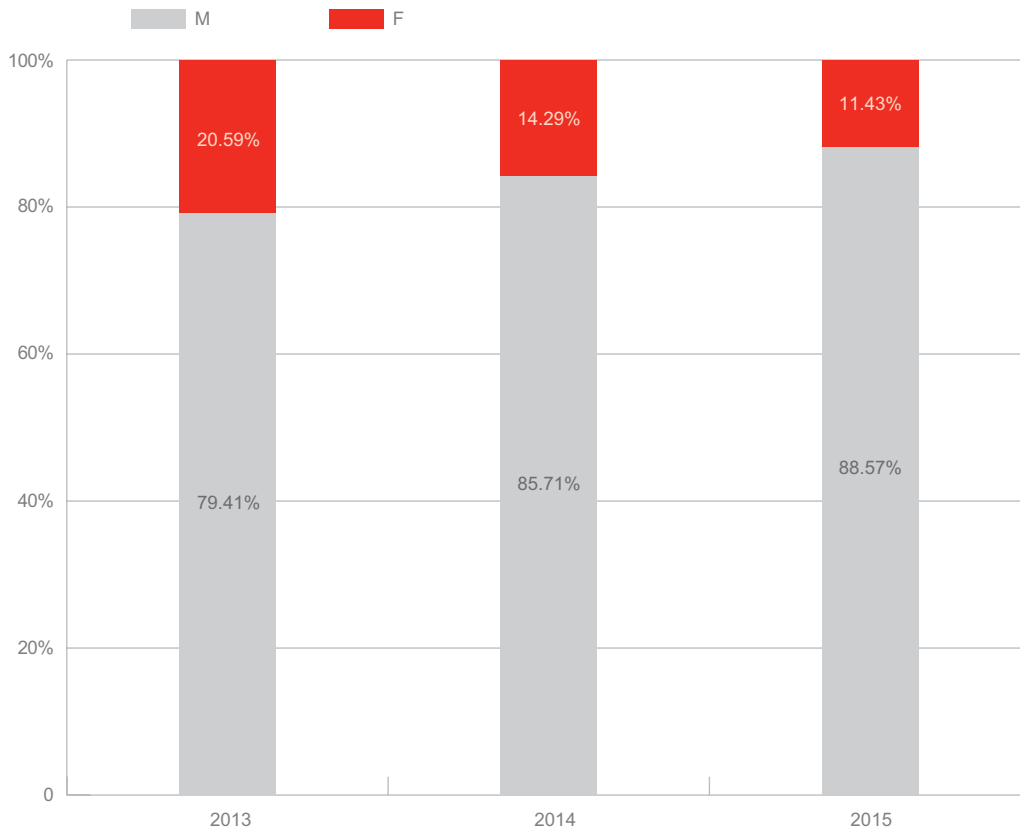
Source: register of companies, Hanfa

Management board member structure by gender, age and professional qualifications

- As at 31 December 2015, four women sat on management boards of corporate bond issuers. Five corporate bond issuers had a woman on their management board as at 31 December 2014.
- As at 31 December 2015, most management board members of corporate bond issuers (47.5%) were between 35 and 45 years old, 32.5% were 45 to 55 years old, 15% were older than 55 years of age, and only 5% were younger than 35 years of age.
- As regards the formal qualifications of management board members of corporate bond issuers, all of them had a university degree, and 7.5% had a PhD.

Chart 2.4 shows the proportion of men to women on management boards of corporate bond issuers as at 31 December 2013, 2014 and 2015.

Chart 2.4. Proportion of men to women on management boards of corporate bond issuers as at 31/12/2013, 2014 and 2015



Source: register of companies, Hanfa

Rules of procedure of the management board

- Nine corporate bond issuers reported having an internal regulation on management board activities (rules of procedure of the management board) for the year 2015, of which two issuers reported changes in this regulation occurring during the year. The changes were caused by a change in the number of management board members and by compliance with the ZTD.

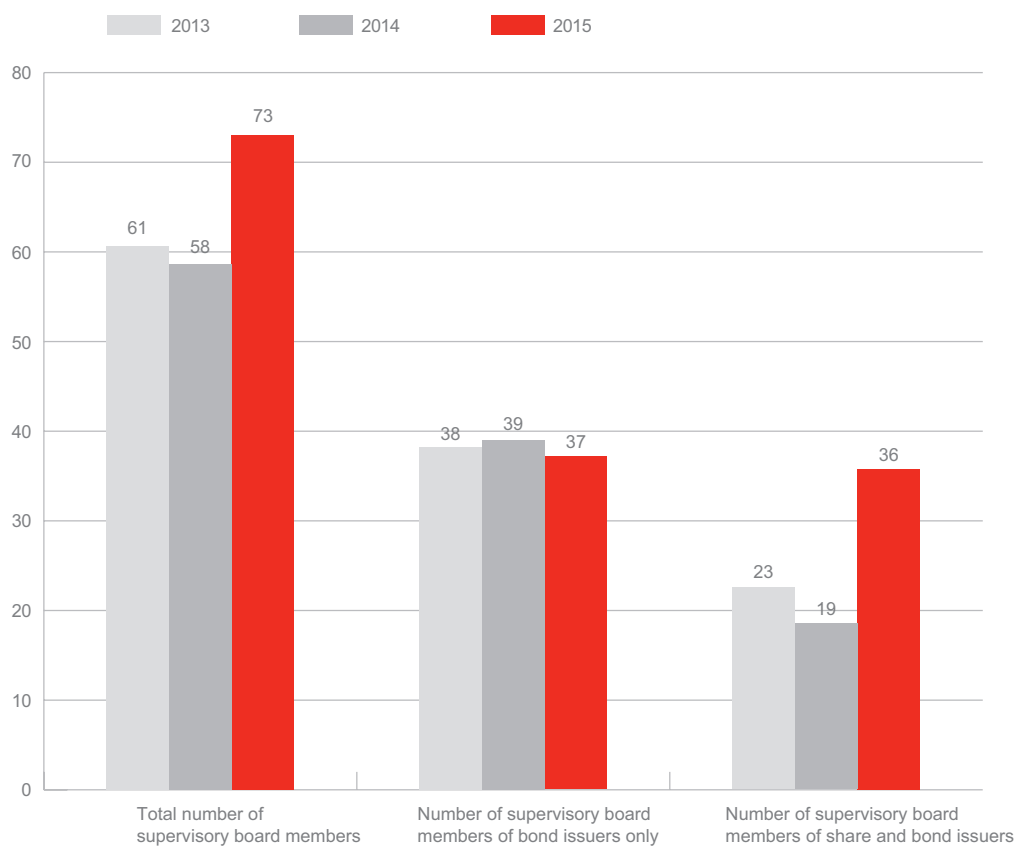
Meetings of the management board

- In 2015, six corporate bond issuers reported having a schedule of meetings of the management board, while three issuers reported having mechanisms for proxy voting at management board meetings.
- The average number of management board meetings was 33.7 (the maximum number of meetings held was 61, and the minimum number was seven).

2.2.2 Supervisory board

Chart 2.5 presents the total number of supervisory board members of corporate bond issuers at the end of 2013, 2014 and 2015.

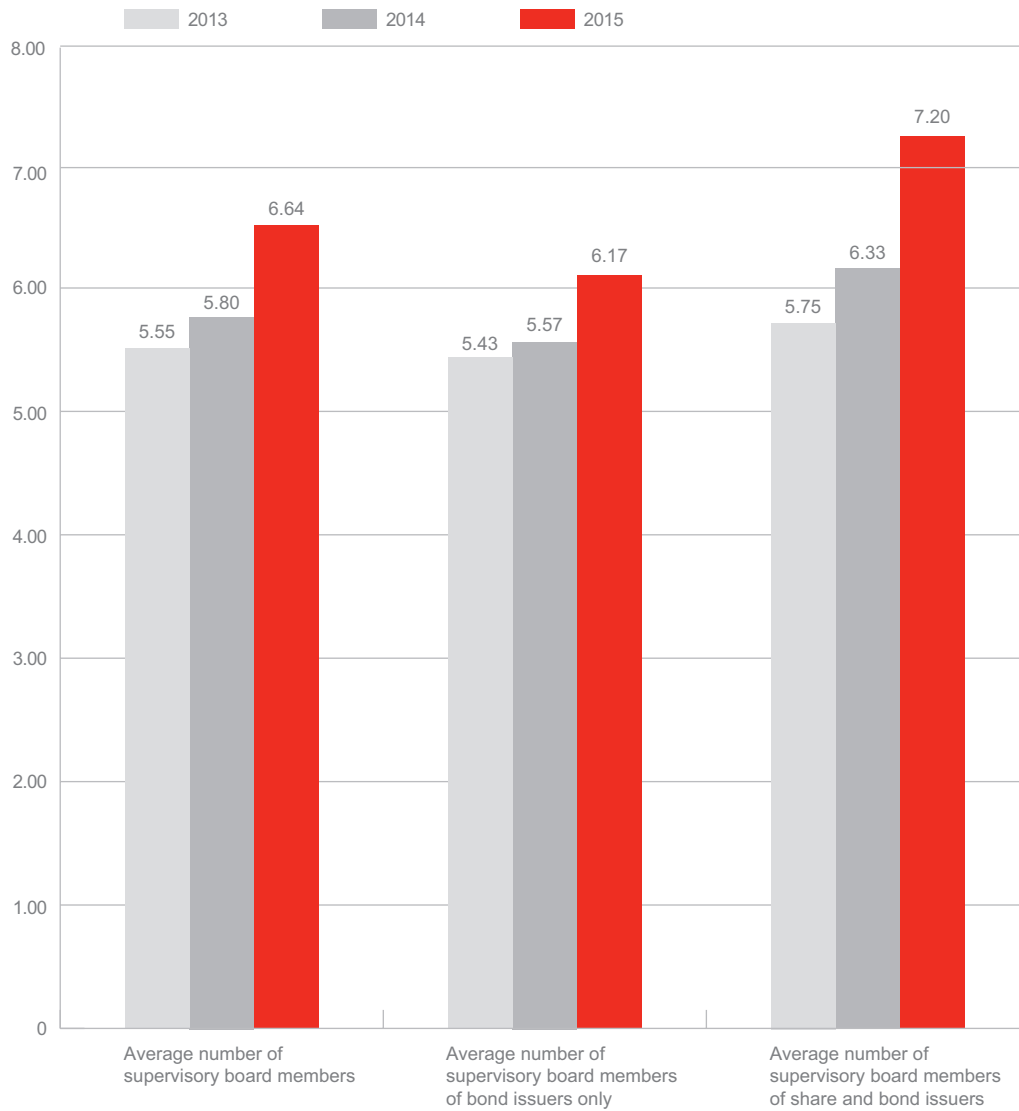
Chart 2.5. Total number of supervisory board members as at 31/12/2013, 2014 and 2015



Source: register of companies

Chart 2.6 presents the average number of supervisory board members of corporate bond issuers as at 31 December 2013, 2014 and 2015.

Chart 2.6. Average number of supervisory board members of corporate bond issuers as at 31/12/2013, 2014 and 2015



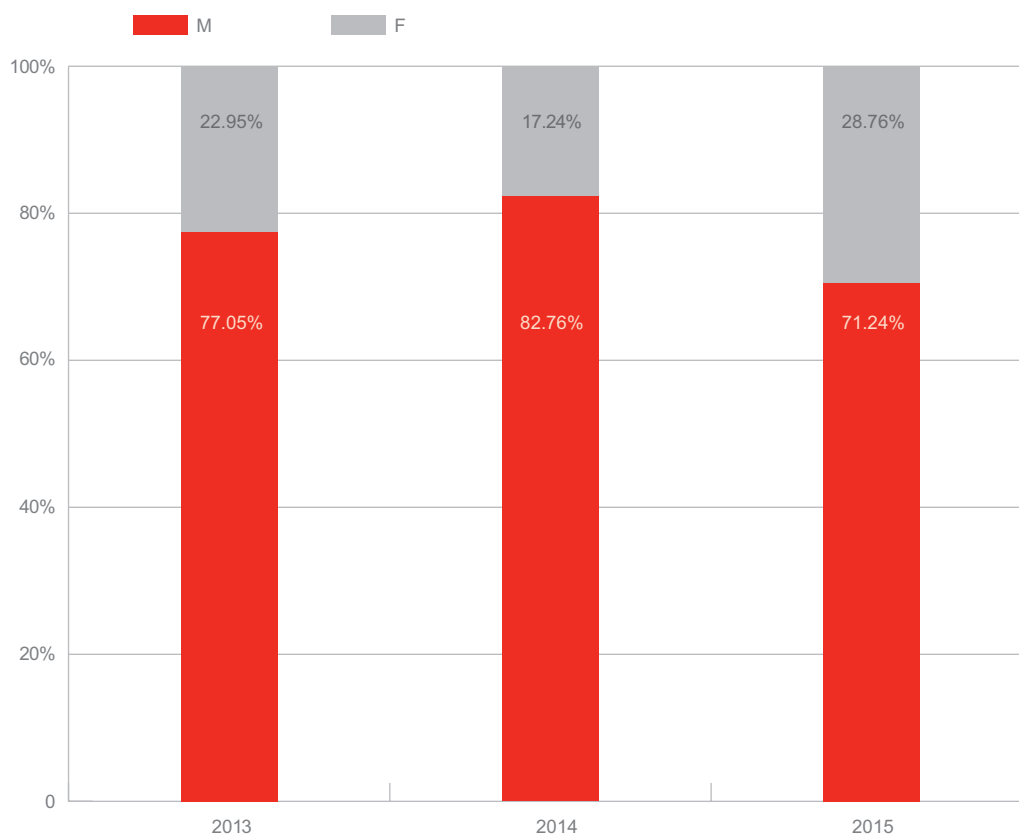
Source: register of companies

- The average number of supervisory board members of corporate bond issuers rose in 2015 in all observed categories.

Supervisory board member structure by gender, age and professional qualifications

Chart 2.7 shows the proportion of men to women on supervisory boards of corporate bond issuers as at 31 December 2013, 2014 and 2015.

Chart 2.7. Proportion of men to women on supervisory boards of corporate bond issuers as at 31/12/2013, 2014 and 2015



Source: register of companies

- In the observed period, the proportion of women on supervisory boards of corporate bond issuers totalled 22.98%, exceeding the average number of women on management boards of corporate bond issuers in the same period (15.44%), but still being far from the defined gender-balanced representation.
- As at 31 December 2015, most supervisory board members of corporate bond issuers (40%) were older than 55 years of age, 25.34% were between 45 to 55 years old, 29.33% were 35 to 45 years old, while 5.33% were younger than 35 years of age.
- As regards the formal qualifications of supervisory board members of corporate bond issuers, the majority (84%) had a university degree, while 13.33% had higher expertise. 13.33% of supervisory board members had a PhD.

Supervisory board committees

- Eight issuers reported having the audit committee, three issuers reported having the remuneration committee and four issuers reported having the nomination committee in place in 2015.

Internal working procedures of the committees

- Seven out of eight issuers that had the audit committee in place in 2015 reported having established internal working procedures for the audit committee.
- All the issuers that reported having a remuneration committee in place also reported having established their internal working procedures, while one issuer with a nomination committee in place did not establish internal working procedures for this committee.
- Two issuers reported the preparation of a report on the work of committees, with reports of one issuer being available to the public.

Meetings

- Six out of eight issuers that had the audit committee in place reported the committee meetings having been held in 2015. The average number of audit committee meetings during the year was 2.67.
- Two issuers reported 11 remuneration committee meetings, while three issuers reported eight nomination committee meetings having been held in 2015.

Other committees

- In 2015, four issuers reported having set up another committee. The committees were: risk committee, corporate governance committee and committee for monitoring synergistic effects.

2.3 Remuneration

2.3.1 Remuneration of management board members

In 2015, six corporate bond issuers reported having a remuneration policy for management board members (six and five issuers reported having such a policy in 2014 and 2013 respectively).

Table 2.2 presents the number of issuers which reported the average gross amount of fixed and variable remuneration paid to management board members of corporate bond issuers, the average amount of other benefits paid to management board members and the average value of options held by management board members, as well as the respective amounts in 2015, 2014 and 2013.

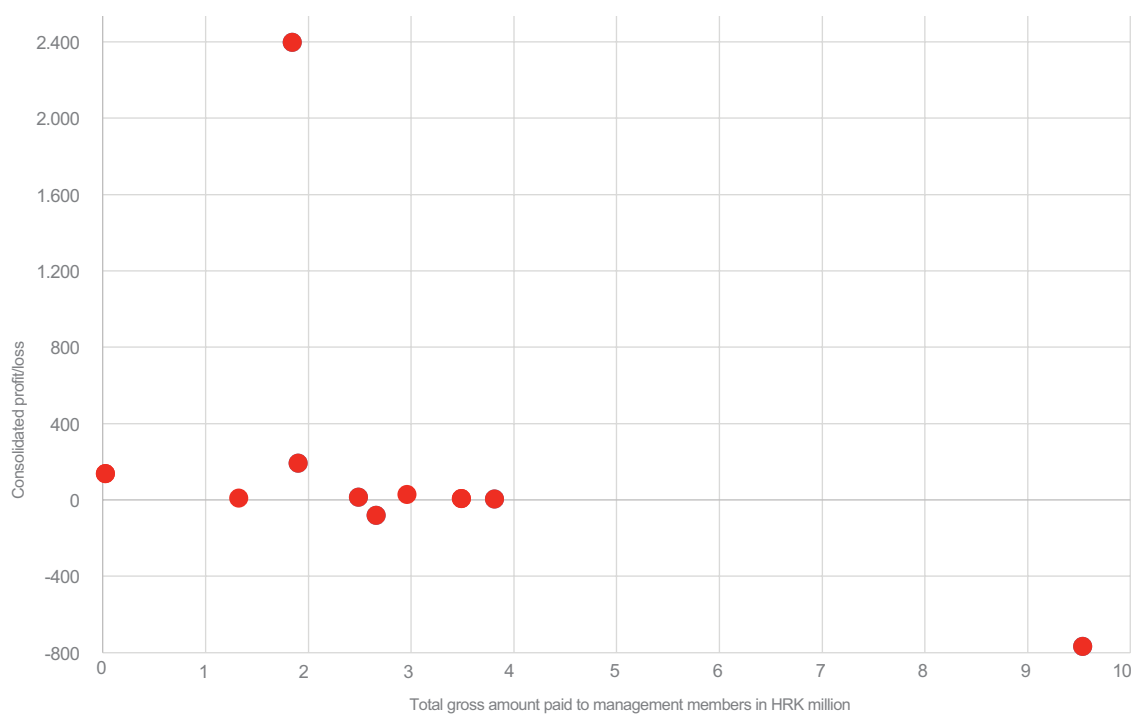
Tablica 2.2. Amount of remuneration of management board members of corporate bond issuers in 2015, 2014 and 2013

		Average gross amount paid to management board members during the year		Average amount of other benefits paid to management board members during the year	Average value of options held by management board members
		Fixed remuneration	Variable remuneration		
2015	Number of issuers	11	4	0	1
	Amount	3.676.886	2.675.902	0	5.622.555
2014	Number of issuers	11	4	1	2
	Amount	2.858.047	1.222.545	2.304.000	85.187.595
2013	Number of issuers	11	2	1	2
	Amount	2.992.909	2.090.242	230.400	66.964.225

Source: Questionnaire

- Compared to 2014, there was an increase in average gross fixed amount paid to management board members, while the average gross variable amount paid to management board members more than doubled relative to 2014.
- Three issuers (same number as in 2014) reported the submission of the annual remuneration policy statement relating to management board members to the general meeting.

Grafikon 2.8. Total gross fixed amount (in HRK million) paid to management board members in 2015 in relation to consolidated financial statements of issuers (in HRK million)



Source: Questionnaire, Zagreb Stock Exchange

2.3.2 Remuneration of supervisory board members

- Two corporate bond issuers reported the level of supervisory board member remuneration being determined by the general meeting and two issuers reported that level being prescribed by the statute. Other issuers failed to provide their answers.

Table 2.3 shows the number of issuers which reported the average gross amount of fixed and variable remuneration paid to supervisory board members of corporate bond issuers, the average amount of other benefits paid to supervisory board members, as well as the respective amounts in 2015, 2014 and 2013.

Table 2.3. Amount of remuneration of supervisory board members of corporate bond issuers in 2015, 2014 and 2013

		Average gross amount of remuneration paid to supervisory board members during the year		Average amount of other benefits paid to supervisory board members
		Fixed remuneration	Variable remuneration	
2015	Number of issuers	9	1	1
	Amount	505.085	25.680	6.897
2014	Number of issuers	9	0	0
	Amount	493.758	0	126.951
2013	Number of issuers	8	0	0
	Amount	327.873	0	0

Source: Questionnaire

- Three issuers (same as in 2014) reported having submitted the annual remuneration statement relating to supervisory board members to the general meeting in 2015.

2.3.3 Related party transactions

- Five issuers reported having an internal regulation in place for cases of related party transactions in 2015 (in 2014, four issuers had such regulation in place).

Table 2.4 sets out the value of reported transactions during 2013, 2014 and 2015, concluded by the corporate bond issuer with the following stakeholder groups: shareholders with more than 5% of the initial capital of the issuer, management and supervisory board members of the issuer, senior management of the issuer and within the group the issuer belongs to or is its parent.

Table 2.4. Average value of reported related party transactions in 2013, 2014 and 2015

		Gross value of related party transactions concluded by the issuer			
		with shareholders owning more than 5% of the initial capital of the issuer	with management and supervisory board members of the issuer	with senior management of the issuer	within the group the issuer belongs to or is its parent
2015	Number of issuers having reported the transaction	2	1	1	4
	Average transaction value (in HRK)	2.740.055.064	13.065.650	34.542.009	284.748.431
2014	Number of issuers having reported the transaction	3	2	1	2
	Average transaction value (in HRK)	3.100.146.394	39.994.278	65.746.601	867.586.358
2013	Number of issuers having reported the transaction	4	3	1	3
	Average transaction value (in HRK)	2.391.022.419	22.005.241	71.944.839	669.129.984

Source: Questionnaire

- As in the previous years, during the year 2015, the highest transaction value by far was related to transactions concluded by issuers with shareholders owning more than 5% of the initial capital of the issuer.

2.3.4 Conflicts of interest

- In 2015, seven issuers reported having an internal regulation in place to identify, prevent and report conflicts of interest (one more than in 2014 i.e. two more than in 2013). The internal regulations contained the following basic provisions relating to conflicts of interest: legality of work and operations, professionalism, expertise, integrity, objectivity, independence, principle of non-discrimination and fight against corruption.
- In 2015, five cases of cases of conflicts of interest were reported in relation to one issuer. In none of the cases, the persons being in the conflict of interest failed to abstain from voting on entering related party transactions.

2.4 Audit and control

2.4.1 Internal audit and control

- In 2015, nine out of 12 issuers reported having an internal control system in place.
- Eight out of 12 issuers reported having an internal audit system in place.

2.4.2 Managing company risks

- In 2015, six issuers (same as in 2014) reported having an internal regulation in place for the identification, management and prevention of risks.
- Eight issuers (nine issuers in 2014) reported having appointed persons in charge for risk management. These persons performed the function of CFO, management board member, director of logistics, internal auditor and executive director.
- According to the corporate bond issuers, the most frequent risk was operational risk. Other reported risks were interest rate risk, credit risk, political risk and liquidity risk.
- Four issuers (five issuers in 2014) reported some of the following risks having materialised in 2015: currency risk, macroeconomic risk, credit risk and liquidity risk. According to the issuers, the following were the reasons for the risks having materialised: decrease in economic activity in the country, overall economic situation and the complexity of business operations.
- All issuers that reported some of the risks having materialised were able to control and manage those risks.

2.4.3 External audit

- In 2015, a total of 12 corporate bond issuers used services of seven different external auditors. A total of seven issuers used services of the largest audit firms (The Big Four).
- The largest number of issuers using services of the same audit firm was six.
- Four out of five corporate bond issuers which are, at the same time, bond issuers used services of the same auditing firm, from the group of largest audit firms.
- At the end of 2015, the average length of time during which issuers used services of the same external audit firm was 3.92 years (5.08 years in 2014 and 6.08 years in 2013).
- At the end of 2015, the average length of time during which issuers used services of the same external audit firm was 2.42 years (3.82 years in 2014 and 4.75 years in 2013).
- Twelve issuers reported the gross amount paid to the external audit firm for other services provided in 2015, and the amount ranged from HRK 117.5 thousand to HRK 1.3m. External auditors were paid on average HRK 350.3 thousand (HRK 328 thousand in 2014) for auditing services provided in 2015.
- Four issuers reported the gross amount paid to the external audit firm for other services provided in 2015, and the amount ranged from HRK 23.8 thousand to HRK 2.8m. The following were the services other than auditing services provided by external audit firms in 2015: professional training, translation, tax advice and activities related to issue of bonds.
- None of the corporate bond issuers reported relations between the external audit firm and auditor and the issuer, i.e. management and supervisory board members and senior management of the issuer.

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