

# **HITA-SECURITIES**

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**incorporated investment firm**

**ZAGREB**

Annual report as at 31 December 2017

*These translated financial statements and auditor's report are equal to the original report*

April 2018

**HITA-SECURITIES Inc.**  
**ZAGREB**

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## STATEMENT OF RESPONSIBILITIES OF THE MANAGEMENT BOARD

Management Board is responsible for ensuring that financial statements for 2017 are prepared in accordance with International Financial Reporting Standards applicable in European Union and accounting regulations applicable to investment companies in Croatia, so that they give fair view of the financial position, operating results, changes in equity and cash flows of the Company for that period.

The Management Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing these financial statements, the responsibilities of the Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position and operating results of the Company, as well as their compliance with International Financial Reporting Standards applicable in European Union and accounting regulations applicable to investment companies in Croatia.

The Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Zagreb, 23 April 2018

HITA-SECURITIES Inc.

Management board:

Ivan Tadin, President of the Management board

Denis Cvitanović, Member of the Management board

## **INDEPENDENT AUDITOR'S REPORT**

**To Management Board and Shareholder of HIT A-SECURITIES Inc., Zagreb**

### **Report on the Financial Statements**

#### **Opinion**

We have audited the financial statements of HIT A-SECURITIES Inc. (the Company), which comprise the statement of financial position as at December 31, 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable to investment companies in Croatia and in accordance with International Financial Reporting Standards (IFRSs) which have been established by the European Commission and published in the Official Journal of the European Union.

#### **Basis for Opinion**

We conducted our audit in accordance with the Accounting act, Law on Audit and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

## INDEPENDENT AUDITOR'S REPORT

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### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include identified the most significant risks of significant misstatement due to error or fraud with the greatest impact on our audit strategy, the allocation of our available resources, and the time spent by the engaging audit team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### *Valuation of securities*

As a key audit matter, we highlight the valuation of the securities that are valued at fair value through other comprehensive income, as they are the most significant item in the Company's financial statements (54% of total assets).

By performing the audit procedures, we have selected a sample, and for the selected securities we have revised whether the Company is the owner of those assets and whether their values are presented in accordance with the stock market value, ie the estimate of the assets if they are not traded on the stock exchange.

The presented values of financial assets correspond to market values at the reporting date.

### **Other information in the annual report**

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Company but does not include the financial statements and our independent auditor's report.

Our opinion on the financial statements does not cover the other information, except in proportion where it is expressly stated in the part of our independent auditor's report under Report on other legal and regulatory requirements section and we do not express any form of conclusion assurance about them.

In connection with our audit of the financial statements, our responsibility is to read the other information and considering whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

In addition, based on the knowledge and understanding of the Company and its environment obtained in the process of the audit, we are required to report identified material misstatements in the Management Report in the case we have identified them. We have nothing to report in this respect.

## INDEPENDENT AUDITOR'S REPORT

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### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

## INDEPENDENT AUDITOR'S REPORT

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## INDEPENDENT AUDITOR'S REPORT

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### **Report based on the requirements of Regulation (EU) No. 537/2014**

1. On 29 June 2017, the Company's Assembly appointed us on the basis of the proposal of the Supervisory Board to perform an audit of the annual financial statements for 2017
2. At the date of this report we have been continuously engaged in performing the Company's legal audits starting with the Company's annual financial statements for the year 2014 until the Company's annual financial statements for 2017, which totals 4 years.
3. In addition to the matters that we have reported as Key Audit Matters in our Independent Auditor's report within the subtitle Report on the Financial Statements, we have nothing to report in the respect of the point (c) of Article 10 of Regulation (EU) No. 537/2014.
4. By performing our statutory audit of the Company's annual financial statements for the year 2017 we are able to detect irregularities, including fraud in accordance with the Section 225, Response to Non-Compliance with the IESBA Code and the Rules of the IESBA Code, which requires from us that during the performing of our audit engagement we perceive if the Company has complied with the laws and regulations that are generally recognized to have a direct impact on the determination of significant amounts and disclosures in their annual financial statements, as well as other laws and regulations that do not have a direct effect on the determination of significant amounts and disclosures in its annual financial statements, but compliance with which may be crucial for operational aspects of the Company's business, and its ability to continue with going concern or to avoid significant penalties. Except in the case when we encounter, or find out of, non-compliance with any of the above law or regulation which is apparently insignificant, according to our judgment of its content and its impact, financial or otherwise, for the Company, its stakeholders and the general public, we are obliged to inform the Company about it and request from them to analyse it and to take appropriate measures to resolve the irregularities and to prevent the occurrence of these irregularities in the future. If the Company does not correct irregularities on the balance sheet date, on the basis of which misstatements have occurred in the audited annual financial statements that are cumulatively equal to or greater than the amount of significance to the financial statements as a whole, we are required to modify our opinion in an independent auditor's report. By performing the audit of the Company's annual financial statements for 2017, we determined the significance for the financial statements as a whole in the amount of HRK 33
5. During the period between the initial date of the Company's audited annual financial statements for the year 2017 and the date of this report, we have not provided the Company with any prohibited non-audit services and in the business year before year above mentioned we did not provide services for design and implementation of internal control or risk management procedures related to the preparation and / or control of financial information or the design and implementation of technological systems for financial information, and we have maintained independence in the performance of the audit in relation to the Company.



### Report on Other Legal and Regulatory Requirements

1. In our opinion, based on the work that we performed during the audit, the information in the attached Annual report for the year 2017 are in accordance with the attached annual financial statements of the Company for 2017
2. In our opinion, based on the work that we performed during the audit, the information in the attached Annual report for the year 2017 are in accordance with the Accounting Act.
3. Based on the knowledge and understanding of the Company and its environment acquired in the context of the audit, we found that there are no significant misstatements in the Annual report of the Company.

RECONSULT d.o.o.  
Trg hrvatskih velikana 4/I  
10000 ZAGREB

ZAGREB, 27 April 2018

Certified auditor:

Dina Ćurić

Audit company:

Reconsult d.o.o.

Statement of Comprehensive Income

	Note	2017 HRK	2016 HRK
Fee and commission income from investment services		3.141.550	2.873.608
Fee and commission expenses from investment services		(1.368.237)	(1.208.581)
Net fee and commission income/expenses	<b>3.10.</b>	<b>1.773.313</b>	<b>1.665.027</b>
Realised gains of financial assets through profit and loss		-	-
Realised losses of financial assets through profit and loss		-	-
<b>Net realisable gains/(losses) of financial assets through profit and loss</b>		<b>-</b>	<b>-</b>
<b>Net realised gains/(losses) financial assets available for sale</b>		<b>175.480</b>	<b>-</b>
<b>Net value adjustment of loans and assets held to maturity</b>		<b>-</b>	<b>-</b>
<b>Other net provisions and value adjustments</b>		<b>-</b>	<b>-</b>
Interest income		247.546	286.147
Interest expenses		(81)	(16.246)
<b>Net interest income/(expenses)</b>	<b>3.11.</b>	<b>247.465</b>	<b>269.901</b>
Positive foreign exchange differences		13	19.767
Negative foreign exchange differences		(82)	28.348
<b>Net foreign exchange differences</b>		<b>(69)</b>	<b>(8.581)</b>
Income from dividends, shares in profit and other securities		63.280	146.334
Other income		14.309	59.335
<b>Total other income</b>	<b>3.12.</b>	<b>77.589</b>	<b>205.669</b>
Depreciation		143.901	141.978
Employee expenses		1.031.094	1.166.381
Other expenses		1.030.708	819.548
<b>Total other expenses</b>	<b>3.13.</b>	<b>2.205.703</b>	<b>2.127.907</b>
<b>Total income</b>		<b>3.642.178</b>	<b>3.385.191</b>
<b>Total expenses</b>		<b>3.574.103</b>	<b>3.381.082</b>
<b>Profit or (loss) before tax</b>		<b>68.075</b>	<b>4.109</b>
<b>Income tax</b>	<b>3.14.</b>	<b>-</b>	<b>-</b>
<b>Profit or loss</b>		<b>68.075</b>	<b>4.109</b>
<b>Other comprehensive income</b>	<b>3.15.</b>	<b>(710.728)</b>	<b>(540.132)</b>
Change revaluation reserves (property, plant, equipment, intangible assets)		-	-
Actuarial gains/losses from defined receipts from pensions plans		-	-
Gains or losses from exchange differences on translating foreign operations		-	-
Unrealised gains/losses of financial assets available for sale		(866.741)	(675.165)
Gains/losses from hedging instruments		-	-
Income tax on other comprehensive income		156.013	135.033
<b>Total comprehensive income</b>		<b>(642.653)</b>	<b>(536.023)</b>
Reclassification adjustments		-	-

*Notes are component of Statement of Comprehensive Income*

Statement of Financial Position of the Investment Company

	Note	31 December 2017 HRK	31 December 2016 HRK
<b>ASSETS</b>			
Long term intangible assets		682.675	247.019
Long term tangible assets		17.166	6.170
<b>(IN)TANGIBLE ASSETS AND LONG TERM INVESTMENT</b>	<b>3.1.</b>	<b>699.841</b>	<b>253.189</b>
Cash	<b>3.2.</b>	19.986	85.252
Receivables from investment services	<b>3.3.</b>	48.447	45.633
Loans and receivables	<b>3.3.</b>	51.397	60.000
Prepayments and accrued income	<b>3.9.1.</b>	258.326	98.604
Other receivables	<b>3.3.</b>	209.235	372.405
<b>CASH AND RECEIVABLES</b>		<b>587.391</b>	<b>661.894</b>
Securities and financial instruments at fair value through profit and loss account		-	-
Securities and financial instruments available for sale		1.527.930	2.783.736
<b>FINANCIAL ASSETS</b>	<b>3.4.</b>	<b>1.527.930</b>	<b>2.783.736</b>
<b>TOTAL ASSETS</b>		<b>2.815.162</b>	<b>3.698.819</b>
<b>OFF BALANCE SHEET ITEMS</b>	<b>3.16.</b>	<b>26.673.902</b>	<b>36.528.822</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	<b>3.5.</b>	7.250.000	7.250.000
Profit reserves	<b>3.6.</b>	370.000	370.000
Retained earnings		-	-
Transferred loss	<b>3.7.</b>	(4.153.242)	(4.157.352)
Profit or loss for the period		68.075	4.109
Revaluation reserves	<b>3.6.</b>	(1.119.979)	(394.415)
<b>EQUITY AND RESERVES</b>		<b>2.414.854</b>	<b>3.072.342</b>
Liabilities connected with the trade with securities		107.358	94.556
Liabilities for received loans and advances		10.223	12.679
Trading liabilities		198.110	407.382
Employee liabilities		48.777	62.517
Liabilities for taxes and contributions		31.622	46.561
Deferred tax liabilities		-	-
Accruals and deferred income		4.218	2.782
Other liabilities		-	-
<b>LIABILITIES</b>	<b>3.9.</b>	<b>400.308</b>	<b>626.477</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2.815.162</b>	<b>3.698.819</b>
<b>OFF BALANCE SHEET ITEMS</b>	<b>3.16.</b>	<b>26.673.902</b>	<b>36.528.822</b>

Notes are component of Statement of Financial Position of the Investment Company

Cash Flow Statement

	Note	2017 HRK	2016 HRK
Net cash flows from operating activities		<b>522.831</b>	<b>202.650</b>
Profit/loss before tax		68.075	4.109
Depreciation of long term tangible and intangible assets		143.901	141.978
Value adjustment of receivables and other write-offs		26.000	-
Interest income		(247.546)	(286.147)
Interest expenses		81	16.246
Assets impairment		-	-
Increase/decrease of receivables from trading services		(2.814)	(14.430)
Increase/decrease other receivables		48.355	(148.308)
Increase/decrease of financial assets at fair value through profit and loss		-	-
Increase/decrease of financial assets available for sale		1.255.806	675.165
Increase/decrease of loans and receivables		8.603	-
Interest receipts		273.350	260.508
Interest payments		(81)	-
Dividends receipts		63.280	146.334
Increase/decrease of other asset items		(164.902)	84.781
Increase/decrease of liabilities for commissions related to trading of financial instruments		12.802	(23.779)
Increase/decrease of trade liabilities		(209.272)	(107.819)
Increase/decrease of employee liabilities		(13.740)	(5.056)
Increase/decrease of liabilities for taxes and contributions		(14.939)	(8.033)
Increase/decrease of other liabilities		1.436	7.232
Increase/decrease of other equity and liabilities items		(725.564)	(540.131)
Paid income tax		-	-
<b>Net cash flows from investing activities</b>		<b>(590.553)</b>	<b>(128.910)</b>
Increase/decrease of investment in tangible assets		(20.162)	(2.495)
Increase/decrease of investment in intangible assets		(570.391)	(126.415)
Increase/decrease of investment in associates and related companies		-	-
Increase/decrease of other investment items		-	-
<b>Net cash flows from financing activities</b>		<b>2.456</b>	<b>-</b>
Increase/decrease of liabilities for loans and advances		2.456	-
Increase/decrease of liabilities from issued financial instruments		-	-
Increase/decrease of other items		-	-
<b>Net increase/decrease of cash and cash equivalents</b>		<b>(65.266)</b>	<b>73.740</b>
Cash and cash equivalents at the beginning of the period		85.252	11.512
<b>Cash and cash equivalents at the reporting date</b>	<b>3.2.</b>	<b>19.986</b>	<b>85.252</b>

*Notes are component of Cash Flow Statement*

Statement of Changes in Equity

	Share capital	Capital reserves	Profit reserves	Profit or loss for the year (period)	Retained earnings or transferred loss	Revaluation of financial assets available for sale	Other revaluation	Amount in HRK Share capital
<b>Balance 1 January 2016</b>	<b>7.250.000</b>	-	<b>370.000</b>	<b>309.622</b>	<b>(4.466.974)</b>	<b>145.716</b>	-	<b>3.608.364</b>
Accounting policies change	-	-	-	-	-	-	-	-
Correction of errors from previous periods	-	-	-	-	-	-	-	-
<b>Balance 1 January 2016 (corrected)</b>	<b>7.250.000</b>	-	<b>370.000</b>	<b>309.622</b>	<b>(4.466.974)</b>	<b>145.716</b>	-	<b>3.608.364</b>
Profit or loss for the period	-	-	-	4.109	-	-	-	<b>4.109</b>
Unrealised gains or losses from financial assets available for sale	-	-	-	-	-	(540.131)	-	<b>(540.131)</b>
Other non-owner changes in equity	-	-	-	(309.622)	309.622	-	-	<b>0</b>
<b>Total non-owner changes in equity (previous period)</b>	-	-	-	<b>(305.513)</b>	<b>309.622</b>	<b>(540.131)</b>	-	<b>(536.022)</b>
Increase/decrease of share capital	-	-	-	-	-	-	-	-
Other owner payments	-	-	-	-	-	-	-	-
Payment of shares in profit/dividends	-	-	-	-	-	-	-	-
Other transfers to owners	-	-	-	-	-	-	-	-
<b>Balance at the last day of reporting period</b>	<b>7.250.000</b>	-	<b>370.000</b>	<b>4.109</b>	<b>(4.157.352)</b>	<b>(394.415)</b>	-	<b>3.072.342</b>
<b>Balance 1 January 2017</b>	<b>7.250.000</b>	-	<b>370.000</b>	<b>4.109</b>	<b>(4.157.352)</b>	<b>(394.415)</b>	-	<b>3.072.342</b>
Accounting policies change	-	-	-	-	-	-	-	-
Correction of errors from previous periods	-	-	-	-	-	-	-	-
<b>Balance 1 January 2017 (corrected)</b>	<b>7.250.000</b>	-	<b>370.000</b>	<b>4.109</b>	<b>(4.157.352)</b>	<b>(394.415)</b>	-	<b>3.072.342</b>
Profit or loss for the period	-	-	-	68.075	-	-	-	<b>68.075</b>
Unrealised gains or losses from financial assets available for sale	-	-	-	-	-	(725.564)	-	<b>(725.564)</b>
Other non-owner changes in equity	-	-	-	(4.109)	4.109	-	-	-
<b>Total non-owner changes in equity</b>	-	-	-	<b>63.966</b>	<b>4.109</b>	<b>(725.564)</b>	-	<b>(657.489)</b>
Increase/decrease of share capital	-	-	-	-	-	-	-	-
Other owner payments	-	-	-	-	-	-	-	-
Payment of shares in profit/dividends	-	-	-	-	-	-	-	-
Other transfers to owners	-	-	-	-	-	-	-	-
<b>Balance at the last day of reporting period</b>	<b>7.250.000</b>	-	<b>370.000</b>	<b>68.075</b>	<b>(4.153.242)</b>	<b>(1.119.979)</b>	-	<b>2.414.854</b>

Notes are component of Statement of Changes in Equity

*Notes to the Financial Statements*

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**1 Statement of compliance with IFRS**

Financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). Financial statements are approved by the Management Board as at 23 April 2018 for further approval by the General Assembly.

Financial statements are compiled for financial instruments, financial assets and liabilities at fair value through profit and loss account, and financial assets available for sale, except those whose fair value cannot be reliably measured. Other financial assets are measured at amortised or historical cost. These financial statements are prepared on going concern assumption. Financial statements are presented in HRK.

As at 31 December 2017 exchange rate for 1 USD and 1 EUR was 6,27 HRK and 7,51 HRK (31 December 2016: 7,17 HRK and 7,56 HRK).

**New amendments and Standards that have been applied and effective**

**Initial application of new amendments to the existing standards effective for the current reporting period**

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- Amendments to IAS 7 “Statement of Cash Flows” - Disclosure Initiative – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 “Income Taxes” - Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).
- Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 8 February 2018 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to the existing standards has not led to any material changes in the financial statements.

**Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective**

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:

- IFRS 9 “Financial Instruments” - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 “Revenue from Contracts with Customers” and amendments to IFRS 15 “Effective date of IFRS 15” - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16 “Leases” – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 4 “Insurance Contracts” - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time),
- Amendments to IFRS 15 “Revenue from Contracts with Customers” - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).

*Notes to the Financial Statements*

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- Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 8 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

The Company has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Company anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Company in the period of initial application.

**New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU**

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at 23 April 2018 (the effective dates stated below is for IFRS in full):

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 2 “Share-based Payment” - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 9 “Financial Instruments” - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IAS 19 “Employee Benefits” - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 40 “Investment Property” - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),

**New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU**

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at 23 April 2018 (the effective dates stated below is for IFRS in full) (continued):

*Notes to the Financial Statements*

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- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018),
- IFRIC 23 “Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after 1 January 2019).

The Company anticipates that the adoption of these new standards, amendments to the existing standards and new interpretation will have no material impact on the financial statements of the Company in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Company’s estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: “Financial Instruments: Recognition and Measurement” would not significantly impact the financial statements, if applied as at the balance sheet date.

Significant accounting policies have been consistently applied to all periods presented in these financial statements.



## **2 Summary of significant accounting policies**

### **Income from commissions and fees**

Income from commissions and fees consists of fees for mediation services in purchase and sale of securities, portfolio management fees, and consulting services. Expenses from fees and commissions mostly consist of commissions for stock exchange services, securities depository and settlement services. Income and expenses are recognised in profit and loss account when the service is provided.

### **Income and expenses from interest**

Income and expenses from interest incurred from receivables and liabilities from business transactions calculated until the balance sheet date are recognised in the profit and loss account on accrual basis. Financial income and expenses are recognised in profit and loss account when incurred.

### **Income from dividends**

Income from dividends from investment in equity securities are recognised in profit and loss account at the date of announcement of rights on dividends.

### **Net loss / profit**

Net loss / profit includes gains and losses from sale of financial assets (realised net loss /gain) and change in fair value of financial assets at fair value through profit and loss (unrealised net loss / gain).

### **Foreign currencies**

Income and expenses from transaction in foreign currencies are converted into kuna (HRK) at the middle exchange rate ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are converted into HRK at the balance sheet date at the middle exchange rate of CNB. Foreign exchange rate differences arising on translation of foreign currencies are recognised in the profit and loss account.

Foreign exchange rate differences from equity instruments in foreign currencies classified as available for sale are stated in equity, with gains and losses from change in fair value, until sold.

### **Taxation**

The Company calculates and pays taxes according to Croatian tax laws. Income tax consists of currently payable and deferred tax.

Currently payable tax represents amount of tax payable on taxable amount of profit using tax rates enacted at the balance sheet date, and all corrections of tax liability amount.

Deferred tax is accounted for using the balance sheet liability method, considering temporary differences between the book values and amounts used for tax calculation. Amount of deferred tax is based on assumed realisation method or settlement of book value of assets and liabilities. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which unutilised tax losses can be utilised and deferred tax liability is recognised for all taxable temporary differences.

### **Property, equipment and intangible assets**

Property, equipment and office furniture are initially stated at purchase cost less accumulated depreciation. Cost comprises purchase price and all costs directly attributable to bringing the asset to working condition for its intended use.

Maintenance and repairs, replacement and improvements of minor importance are recognised in the profit and loss when incurred. More significant investment expenses are capitalised.

*Notes to the Financial Statements*

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Gains and losses from disposal of assets are recognised in profit and loss when incurred. Sections of property and equipment with different useful life are recorded as separate items of assets. Depreciation is recognised in profit and loss on a straight-line basis so that the depreciation expenses are allocated to residual estimated useful life of property, equipment and intangible assets. Estimated useful life of assets in current period:

furniture .....	4 years
computer equipment .....	2 years

**Financial instruments**

The Company classifies its financial assets and liabilities into following categories: at fair value through profit and loss, assets available for sale, and loans and receivables.

Newly acquired financial instruments are classified according to internal legal acts of the Company.

Financial assets at fair value through profit and loss relates to financial assets held for trading purposes and assets initially elected to classify at fair value through profit and loss. These assets are initially recognised at cost, and subsequently measured at fair value according to internal legal acts of the Company. All related realised and unrealised gains and losses are included in the profit and loss.

Financial assets available for sale are intended for indefinite hold but can be sold to maintain liquidity or when prices of equity instruments change. These assets are initially recognised at cost increased for transaction expenses, and subsequently stated at fair value based on the quoted prices or amounts derived from cash flow models. Gains and losses arising from changes in fair value of financial assets available for sale are recognised directly in equity until sale or impairment. Foreign exchange rate differences related to equity instruments classified as available for sale are reported in equity, together with fair value gains and losses.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating income from interest or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to net book value of financial asset or liability. Income is recognised using the effective interest rate method for those instruments that are not classified as at fair value through profit and loss.

The Company derecognises a financial asset only when contractual rights to the cash flows from that asset expire or it transfers the financial asset in accordance with IAS 39. Financial liability is derecognised when contractual liabilities are settled, cancelled or expired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They also include receivables and deposits to financial institutions.

**Operating lease expenses**

Operative lease payments are recognised in the profit and loss account using the straight-line method during the lease term.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash at banks and in hand.

*Notes to the Financial Statements*

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**Employee benefits**

During regular operations, at salaries payment, the Company on behalf of its employees that are members of mandatory pension funds performs regular payment of contributions according to law. Mandatory pension contributions are stated as part of salary expenses. The Company has no additional pension plan, thus has no other liabilities related to employee pensions. Onward, the Company has no liability to ensure any other employee benefits after their retirement.

The Company recognises severance pay when the employment contract of the employee is terminated before the regular date of retirement or by employee decision to voluntarily terminate employment in exchange for benefits. The Company recognises liability for jubilee awards evenly during the period in which the award is realised, on account of actual years of employment.

**Funds management in name and on behalf of others**

The Company manages funds in name and on behalf of legal and natural persons and charges fee for those services. Since those funds do not represent assets of the Company, they are excluded from the balance sheet in financial statements (presented as off-balance sheet item).

**Provisions**

Provisions for restructuring expenses, guarantees and litigation are recognised if the Company has present legal or constructive obligation as a result of past event, and if it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

**Share capital and reserves**

Share capital is stated in the amount recorded in the Court Register upon foundation or change in the amount in the register. Equity is stated in financial records as: share capital, reserves (legal, revaluation and other), retained earnings or transferred loss, and profit or loss for the year. Dividends are recognised as liability in period when established or paid from retained earnings.

**Liabilities**

Trade and other liabilities are recognised based on valid documentation (invoice, contract, calculation), and increased for interest according to signed contract or Company's decision.

Liabilities are classified according to maturity as long term (maturity at least 12 months after the balance sheet date) and short term (maturity within 12 months after the balance sheet date).

Liabilities from loans with interest are initially recognised at fair value, less transaction cost. Subsequent measurement is made by amortised cost and every difference between receipts (decreased by transaction expenses) and amounts paid on maturity is recognised in profit and loss account during the period of repayment using the effective interest rate method.

**Judgments and estimates**

The Company uses judgments and estimates related to future. Estimates and assumptions bearing significant risk of creating material differences in book value of assets and liabilities in next financial year are as follows:

- fair value of derivative and other financial instruments (not quoted on active market),
- provisions for value adjustment of loans and receivables (proof of un-collectability)
- estimated useful life of property and equipment.

*Notes to the Financial Statements*

**3 Information verifying items stated in the statement of financial position of the investment company, statement of comprehensive income, cash flow statement and statement of changes in equity**

**3.1. Long term tangible and intangible assets**

Long term tangible and intangible assets is recorded as follows:

*(amount in HRK)*

Description	Office equipment	Other tangible assets	Intangible assets	Total
<b>PURCHASE VALUE</b>				
<b>31 December 2015</b>	<b>456.055</b>	-	<b>1.764.483</b>	<b>2.220.538</b>
Value adjustment	-	-	-	-
Direct increase	2.495	-	126.415	<b>128.910</b>
Transfer from preparation	-	-	-	-
Sale or disposal	-	-	-	-
<b>31 December 2016</b>	<b>458.550</b>	-	<b>1.890.898</b>	<b>2.349.448</b>
Value adjustment	-	-	-	-
Direct increase	-	590.553	-	<b>590.553</b>
Transfer from preparation	20.162	(590.553)	570.391	-
Sale or disposal	(75.570)	-	(1.182.818)	<b>(1.258.388)</b>
<b>31 December 2017</b>	<b>403.143</b>	-	<b>1.278.471</b>	<b>1.681.614</b>
<b>ACCUMULATED DEPRECIATION</b>				
<b>31.12.2015.</b>	<b>438.174</b>	-	<b>1.516.107</b>	<b>1.954.281</b>
Value adjustment	-	-	-	-
Depreciation for 2016	14.206	-	127.772	<b>141.978</b>
Sale or disposal	-	-	-	-
<b>31 December 2016</b>	<b>452.380</b>	-	<b>1.643.879</b>	<b>2.096.259</b>
Value adjustment	-	-	-	-
Depreciation for 2017	9.167	-	134.734	<b>143.901</b>
Sale or disposal	(75.570)	-	(1.182.818)	<b>(1.258.388)</b>
<b>31 December 2017</b>	<b>385.977</b>	-	<b>595.795</b>	<b>981.772</b>
<b>NET BOOK VALUE</b>				
<b>31 December 2017</b>	<b>17.166</b>	-	<b>682.676</b>	<b>699.841</b>
<b>31 December 2016</b>	<b>6.170</b>	-	<b>247.019</b>	<b>253.189</b>

At the balance sheet date stock taking of long term tangible assets was performed and no differences compared to book value were established.

During the 2017 equipment and programs have been purchased, in the amount of 590.553 HRK.

Total depreciation of long term assets for 2017 amounts to 143.901 HRK.

The Company used the regulated amortization rates from the Profit Tax Act, Article 12, paragraph 5.

*Notes to the Financial Statements*

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**3.2. Cash and cash equivalents**

DESCRIPTION	31 December 2017	31 December 2016
	HRK	HRK
Giro accounts at banks and cash in hand	<b>19.986</b>	<b>85.252</b>

**3.3. Receivables**

DESCRIPTION	31 December 2017	31 December 2016
	HRK	HRK
Receivables from investment and supplementary services	48.447	45.633
Receivables from support services	81.743	180.356
Receivables for calculated interest and dividends	31.463	85.564
Trade receivables for equity securities	-	-
Loan receivables and deposits	51.397	60.000
Advances, Guarantee Fund	56.600	47.577
Prepayments and accrued income	28.847	-
Other receivables	10.583	58.910
<b>TOTAL</b>	<b>309.080</b>	<b>478.040</b>

At the balance sheet date all receivables were undue.

**3.4. Financial assets**

DESCRIPTION	31 December 2017	31 December 2016
	HRK	HRK
Financial instruments at fair value through profit and loss account	-	-
Financial instruments available for sale	1.527.930	2.783.736
<b>TOTAL</b>	<b>1.527.930</b>	<b>2.783.736</b>

During the 2017 evaluation of financial assets available for sale was carried out at fair value, resulting in a reduction in revaluation reserves.

During the 2017 a part of financial assets available for sale has been sold resulting in net realised gains of financial assets available for sale in the amount of 175.480 HRK.

**3.5. Share capital**

Share capital amounts to 7.250.000 HRK and it is paid wholly in cash.

The only member / founder of the Company is Ivan Tadin, Zagreb.

The key goal of the Company in capital management is the compliance with the legal condition of maintaining the minimum amount of the share capital which is in accordance with the Capital Market Law, which for this investment company equals minimum 1.000.000 HRK and to maintain the capital as to be higher than the sum of all capital requirements.

*Notes to the Financial Statements*

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Other goals of the Company regarding capital management are:

- maintain the capability of the Company to continue to do business according to the going concern basis
- comply with capital requirements
- maintain balance sheet with considerable components of cash and short term assets

The amount of share capital has no changes in 2017.

### 3.6. Reserves

DESCRIPTION	31 December 2017	31 December 2016
	HRK	HRK
Legal reserves	370.000	370.000
Revaluation reserves	(1.119.979)	(394.415)
<b>TOTAL</b>	<b>(749.979)</b>	<b>(24.415)</b>

Legal reserves were formed during 2009 according to Company Act, precisely 5,1% of the amount of the share capital. Legal reserves are paid in whole from retained earnings.

The decrease in revaluation reserves is the result of changes in fair value of financial assets available for sale during the 2017.

### 3.7 Retained earnings/transferred losses

Retained earnings / transferred losses include accumulated profit from previous periods.

Profit of the current year is transferred for covering of losses from previous periods in accordance with legal regulations.

### 3.8. Provisions

There was no need for provisions in 2017.

### 3.9. Liabilities

O P I S	31 December 2017	31 December 2016
	HRK	HRK
Trade liabilities	198.110	407.382
Liabilities connected with the trade with securities	107.358	94.556
Liabilities toward employees	48.778	62.517
Liabilities for contributions, taxes and local income tax	31.622	46.561
Other liabilities	14.441	15.461
<b>TOTAL</b>	<b>400.308</b>	<b>626.477</b>

Trade liabilities are paid in maturity. Liabilities connected with the trade with securities are paid within the legal deadline.

Liabilities towards employees are settled during January 2018.

*Notes to the Financial Statements*

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**3.9.1. Deferred tax assets**

Deferred tax assets are recognised based on the deductible temporary differences and unused tax losses in the portion in which sufficient tax basis is expected in future periods, according to tax laws.

On the balance sheet Company has recorded deferred tax assets in the amount of 258.326 HRK.

**3.10. Income and expenses from fees and commissions**

DESCRIPTION	2017 HRK	2016 HRK
Fees and commissions for completion of client's order	2.690.323	2.196.264
Fees and commissions for portfolio management	18.934	5.494
Fees and commissions from services without redeem obligation	36.000	183.500
Other income	396.294	488.350
Expenses for services of organised market	(616.148)	(539.612)
Expenses for services of clearing organisation	(419.074)	(342.455)
Other expenses	(333.016)	(326.514)
<b>NET INCOME / EXPENSES</b>	<b>1.773.313</b>	<b>1.665.027</b>

The increase in the business volume in the first quarter of 2017 resulted in a slight increase in revenues from regular operations, with simultaneous increasing in commission expenses and fee expenses.

**3.11. Net income / expenses from interest**

DESCRIPTION	2017 HRK	2016 HRK
Interest income	247.546	286.147
Interest expenses	(81)	(16.246)
<b>NET INTEREST INCOME / EXPENSES</b>	<b>247.465</b>	<b>269.901</b>

**3.12. Other income**

DESCRIPTION	2017 HRK	2016 HRK
Dividends income	63.280	146.334
Other	14.309	59.335
<b>OTHER INCOME</b>	<b>77.589</b>	<b>205.669</b>

**3.13. Other expenses**

DESCRIPTION	2017 HRK	2016 HRK
Depreciation	143.901	141.978
Personnel expenses	1.031.094	1.166.381
Other	1.030.708	819.548
<b>OTHER EXPENSES</b>	<b>2.205.703</b>	<b>2.127.907</b>

*Notes to the Financial Statements*

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**3.14. Income tax**

DESCRIPTION	31 December 2017	31 December 2016
	HRK	HRK
Accounting profit before tax	68.078	4.109
Expenses not approved by Tax Law	3.243	11.240
Non-taxable income	(63.280)	(146.334)
TAX PROFIT/LOSS	8.038	(130.985)
Tax loss brought forward	(2.346.713)	(4.741.215)

**3.15. Other comprehensive income**

Other comprehensive loss amounts to 710.728 HRK and it is result of decrease in fair value of financial assets available for sale. Total comprehensive loss amounts to 642.653 HRK.

**3.16. Off balance sheet items**

Off balance sheet items consist of foreign assets of the principal at the accounts for special purposes in banks, which refer to clients' assets.

During 2017 there were no remarks from the part of clients, nor from the part of Agency for performed transactions and their settlement.

The Company is the principal according to the Contract of issuing of guarantee issued by the bank in the amount of 515.000 HRK for settlement of the amount in cases of incompliance of liabilities towards CDCC based on contracted settlement.

The Company is the principal according to the Contract of issuing of guarantee issued by the bank in the amount of 50.000 HRK for settlement of the amount in cases of incompliance of liabilities towards CDCC based on contracted settlement for the custody.

**3.17. Contingent liabilities**

The Management board of the Company, according to its best estimate, has no indications about contingent liabilities that may lead to an outflow of resources and significantly affect the fair presentation of financial statements.

**3.18. Subsequent events**

There have been no events after the balance sheet date that should have been published in financial statements for 2017.

**3.19. Litigation**

Pursuant to statements by the Company's lawyer, Company has no passive litigations and therefore there is nothing to present.



*Notes to the Financial Statements*

**4 Classification of financial assets and financial liabilities**

**4.1. Financial assets available for sale**

The Company as at 31 December 2017 presented the financial assets in the value of:

DESCRIPTION	31 December 2017	31 December 2016
	HRK	HRK
Equity securities – quoted on the market	969.020	623.760
Equity securities – not quoted on the market	558.010	2.159.976
<b>TOTAL</b>	<b>1.527.930</b>	<b>2.783.736</b>

**5 Credit risk exposure for financial assets and liabilities classified as loans and receivables at fair value through profit and loss**

Credit risk is the risk of default in liability settlement or potential liability of a counterparty with which the Company made a transaction. Exposure of the Company to credit risk at the balance sheet date, arising from deposits at CDCC, cash and cash equivalents, and other receivables, arises from fair value of instruments whose positive value at the date is stated in the balance sheet. All transactions with quoted securities are settled or paid after delivery through certified brokers. Risk of default is retained to minimum since sold securities are delivered after the appropriate amount is deposited to the account. If either party defaults in its liability, purchase transaction is not completed.

**6 Amount of fair value change attributed to credit risk change**

There is no fair value change directly attributable to credit risk.

**7 Reclassification of financial instruments in assets which is measured (a) at cost or amortised cost instead at fair value or (b) at fair value instead at cost or amortised cost, the amount reclassified from one category to another category is to be published, as well as the reasons for the reclassification**

In 2017 there was no reclassification of financial assets.

**8 For the assets which is derecognised, following is to be published: a) nature of the assets (b) nature of the risks and premiums connected to ownership to which the Company stays exposed (c) when recognition for all the asset is continued, book value of the assets and related liabilities and (d) when recognition of the assets is continued in the terms of its engagement, total book value of original asset, the value of the asset that is continued to recognise and book value of related liabilities**

In 2017 there was no asset that was derecognized.

**9 Book value of financial asset that is pledged as a security for payment of real or unforeseen liabilities (collateral) is to be published, including the values which are reclassified in accordance with article**

As at 31 December 2017 all securities are free from pledge.

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- 10 Collateral (financial or non-financial asset) and it can sell or pledge again the collateral in the absence or because the owner of the collateral is not paying, obligation to publish is: fair value of the collateral in possession, fair value of the collateral that is sold or pledged again, and the liability of return**

In 2017 there was no collateral that was recognized.

- 11 Credit loss impairments instead of directly decreasing book value of the asset, should disclose reconciliation of changes on that account during the period for every class of financial assets.**

There have been no credit loss impairments in 2017.

- 12 If the subject issued the instrument which contains both the component of liabilities and the component of equity and it is about the instrument which has several built-in derivatives which values are interdependent (just like convertible debt securities with the rights of abortive redemption), it is indebted to publish the existence of such characteristic**

At balance sheet date the Company did not issue that kind of instruments.

- 13 For loan liabilities at report date publish: (a) details about eventual non-payment of the principal, interest, gradual repurchase or conditions of repurchase of loan liabilities (b) book value at report date of the loan liabilities which are not paid and (c) if the payment has been made or the conditions of loan instalments were audited before the financial statements were approved**

The Company has no loan liabilities as at 31 December 2017.

- 14 It is to be published following information for each kind of hedging (i.e. fair value hedging, cash flow hedging and hedging of the net investments in abroad):  
(a) description of each kind of hedging  
(b) description of financial instruments determined as instruments of hedging and its fair value at report date  
(c) the nature of risks towards which the hedging is performed.**

The Company has not used hedging transactions in 2017.

- 15 The Subject is obligated publish fair value of assets and liabilities for every class of financial assets and financial liabilities in a way which enables its comparison with book value.**

The Management board considers that the fair value of financial assets and liabilities is approximately equal to their book value.

- 16 Total amount of fees collected for the financial year by the independent auditor or audit company for legally stipulated audit of yearly financial statements, total amount of fees for other review services, total amount of fees for tax consulting services and total amount of fees for other services apart from audit.**

The Company has signed a contract for statutory audit of financial statements for 2017 for a fee in the amount of 30.000 + VAT.

*Notes to the Financial Statements*

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**17 Disclose information which enable users of financial statements to evaluate the type and range of risk arising from financial instruments to which the subject is exposed to at the balance sheet date a) credit risk b) market risk c) liquidity risk**

This note sets out the details on Company's exposure to risk and methods the Management uses to manage risks. The Company is exposed to risk generally relating to trade and mediation of securities. The Company is exposed to effects of change of conditions on domestic and indirectly on international markets.

The most significant risks to which the Company is exposed to are credit risk, liquidity risk, market risk (foreign exchange rate risk, interest rate risk, price risk) and operating risk.

Risk management ensures that preventive and control measures taken to reduce, eliminate or avoid risks are based on risk assessment results and to be effective, impartial and appropriate.

*Credit risk*

Credit risk is a risk of default in liability settlement or potential liability of a counterparty with which the Company made a transaction. Exposure of Company to credit risk at the balance sheet date, arising from deposits at CDCC, cash and cash equivalents, and other receivables, arises from fair value of instruments whose positive value at that date is stated in the balance sheet. All transactions with quoted securities are settled or paid after delivery through certified brokers. Risk of default is retained to minimum since sold securities are delivered after the appropriate amount is deposited to the account. If either party defaults in its liability, purchase transaction is not completed.

*Liquidity risk*

Responsibility for liquidity risk rests on Company's Management, which made an appropriate liquidity risk management framework, short, medium and long term financing and liquidity management requirements.

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserves of borrowed funds, by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets.

*Interest rate risk*

The Company is subject to risks related to effect of interest rate fluctuations on its financial position and cash flows. Risk is managed by maintaining adequate combination between fixed and variable interest rate on loans. At the moment the Company is not protected from these risks since most financial assets and liabilities (cash, cash equivalents, guarantee deposit at CDCC, and received loans) are interest-bearing.

*Foreign exchange rate risk*

The Company can invest in financial instruments, and execute transactions denominated in foreign currencies which are not its functional currency. However, the Company for now has no assets (except for cash) and liabilities denominated in foreign currencies. Hence, the Company at the balance sheet date was not exposed to the risk of foreign exchange rate risk because the assets that were denominated in foreign currencies were minor.

*Price risk*

Price risk is possibility of price fluctuations, which will affect fair value of investment and other instruments whose value is derived from certain investments. Primary exposure to price risk arises from Company's investments in equity instruments available for sale or at fair value through profit and loss. The Company actively trades in equity instruments.

*Operational risk*

Business events that cause operational risk and can lead to significant losses: internal fraud (theft, private trading), external fraud (counterfeiting, unauthorized use of computers), practices related to employment and workplace protection, clients, products, and business practices (eg breach of trust, abuse of confidential information on clients, inappropriate trading activities, money laundering and the sale of unauthorized products) and damage to property (terrorism, vandalism, earthquakes, fires and floods).

Exposure to operational risk arises from management / disposal by other means. The Company manages operational risk through ongoing oversight and internal control (which, among other things, implies a clear hierarchy of jurisdiction and division of duties), effective internal reporting, and planning in the event of unforeseen circumstances.

*Notes to the Financial Statements*

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*Fer value*

Fair value represents the amount at which an asset could be exchanged, or a liability settled on an arm's length basis in regular market conditions. Most financial instruments of the Company are stated at fair value at the balance sheet date.

Book value of cash and cash equivalents and loans and receivables is equal to amortised cost of those instruments which is approximately equal to its fair value. The Management Board considers that fair value of financial assets and liabilities is approximately equal to its book value.

**18 For assets acquired from ownership of collateral as security instrument disclose: (a) nature and book amount of assets acquired in such manner and (b) if the asset cannot be currently converted to cash, policies which regulate the availability of such assets, or sale of assets or its use in own operations**

At the balance sheet date, the Company held no such assets.

**19 Disclosure of all transactions with related parties**

The Company is under control of Ivan Tadin from Zagreb. The Company considers related parties all persons or entities in accordance with definition set out in IAS 24 Related party disclosures.

<b>2017</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Income</b>	<b>Expenses</b>
Euro jezici d.o.o.	52.877	-	30.433	-
Members of the Board	-	-	6.654	218.512
Members of the Supervisory board	-	-	-	84.683

Transactions with the deposit bank relate to a fee to the deposit bank, transaction costs and obligations on that basis, interest income and interest receivable.

Total Expenditures for Salaries of Management Members relate to paid gross salaries and benefits.

**20 Approval of financial statements**

The financial statements presented on the previous pages have been prepared and approved by the Management Board of the Company on April 23, 2018.

Zagreb, 23 April 2018

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**Ivan Tadin**  
President of the Management Board

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**Denis Cvitanović**  
Member of the Management Board

Pursuant to Article 250a of 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 and 110/15) the Management Board of investment company HITA-Securities Inc., Zagreb, Kumičićeva 10, OIB 32998446701 (hereinafter the Company) submits Assembly

## **ANNUAL REPORT**

### **of the Company for period 01 January 2017 to 31 December 2017**

#### **INTRODUCTION**

Despite the general improvement of the economic situation in the Republic of Croatia, the circumstances surrounding the collapse of the Agrokor Group and its related companies listed on the Zagreb Stock Exchange have resulted in the instability and loss of investor confidence in the capital market in the Republic of Croatia, which was manifested by pulling the investors capital from the Zagreb Stock Exchange and investing in other forms of property (real estate, cryptovalute, etc.). The operating results of the Company are particularly affected by following: low stock market turnover in the last three quarters caused by the extraordinary administration procedure in Agrokor and its related companies and high maintenance costs of compliance with applicable legislation.

#### **I. Ownership structure**

The only shareholder of the Company is Ivan Tadin, Zagreb, Božidara Adžije 22/1, OIB: 68476242538.

Share capital amounts to 7.250.000 HRK and it is divided into 37.000 shares without nominal value.

The Company's book of shares is maintained by the Central Depository and Clearing Company Inc. Zagreb, under the mark HITA-R-A. Issued quantity is 37.000 shares, without nominal value.

#### **II. Statutory changes**

There were no statutory changes.

##### a) Management board

Management Board of the Company comprised 2 members as at 31 December 2017:

1. Ivan Tadin, president of the Management Board, representing the Company solely and individually from March 13, 2013,
2. Denis Cvitanović, member of the Management Board, representing the Company solely and individually from March 13, 2013,

The members of the Management Board filed the Request for Extension of the Mandate in December 2017, in the accordance with the legal regulations and they were approved by the Agency on 15 February 2018.

##### b) Branch offices

The Company also works through branch offices.

The Company worked through 2 branch offices as at 31 December 2017:

1. Branch office OSIJEK, Trg Lava Mirskog 2,
2. Branch office SPLIT, Velebitska 27,

Branch offices are subordinated to Management Board of the Company and are authorised to provide investment services of reception and transmission of orders in relation to one or more financial instruments.

### c) Work licence

By the Decision from HANFA (CFSSA), class: UP/I-451-04/09-02/29, Nr.: 326-111/10-10 from 27 August 2009 the Company has been granted an operating licence to provide investment services and perform investment activities and related ancillary services as referred to in Article 5, paragraph 1, points 1 to 7 and paragraph 2, points 1 to 7 of the Capital Market Act, for indefinite period.

By the Decision from HANFA (CFSSA), class: UP/I-451-04/11-02/15, Nr.: 326-111-11-03, from 15 December 2011, licence of the Company to provide investment services and engage in investment activities referred to in Article 5, paragraph 1, points 3 and 6 of the Capital Market Act ceased to be valid.

Based on the mentioned the Company is licenced to provide and perform the following investment services and activities:

- reception and transmission of orders in relation to one or more financial instruments,
- execution of orders on behalf of clients,
- portfolio management,
- investment advice,
- services of placing financial instruments without a firm commitment basis,
- safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management,
- granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction,
- advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings,
- foreign exchange services where these are connected to the provision of investment services,
- investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments,
- investment services and activities as well as ancillary services related to the underlying of the derivatives where these investment services and activities are connected to the provision of investment or ancillary services.

Previously mentioned licence to provide investment services and perform investment activities or ancillary services relate to all financial instruments from Art. 3 par. 1 point 2 of the Capital Market Act, namely other negotiable instruments, money market instruments, units in collective investment undertakings and derivatives. The Company is allowed to hold clients' funds or securities.

### **III. Procurators**

The Company has no procurators.

### **IV. Employees**

The company had 11 employees as at 31 December 2017. The Company regularly settles all employee liabilities in accordance with regulations, especially liabilities related to payment of wages, calculation and payment of taxes, surtaxes, contributions and other benefits related to employee pay.

The company had 7 certified brokers as at 31 December 2017, out of which 3 had valid licences to perform investment advisory services. All Company employees perform services for which they have been highly skilled, in accordance with regulations and internal acts of the Company.

## V. Organization chart

During 2017 the Company continued to provide services in accordance with the following organisation structure:

### 1. INVESTMENT SERVICES SECTOR

- Brokerage directorate
- Custody directorate
- Corporate finance and ancillary services

### 2. MONITORING AND RISKS SECTOR

- Monitoring compliance directorate (Compliance officer)
- Prevention of money laundering and terrorist financing

### 3. OPERATIONAL SUPPORT SECTOR

- Accounting and finance directorate
- IT and telecommunications directorate

### 4. BUSINESS NETWORK

- Branch offices
- Tied agents

## VI. Tied agents

The following tied agents performed activities of tied agents on behalf of the Company as at 31 December 2017:

- Slaven Maretić
- N vesting d.o.o.
- Argus savjetovanje d.o.o.
- Zvonko Petrović

## VII. Development and Company results during 2017

During 2017 the Company directed its business operations to maintaining and increase of service quality, aimed at long term increase of capital market share in Republic of Croatia.

Furthermore, the Company continued to develop information system based on advanced technologies.

After 12 years, the Company stopped providing services in the business premises in Palmotićeveva street and moved to the new address of Kumičićeva 10. In the new business premises, the Company's employees will have improved working conditions which will result in higher quality of services provided by the Company. In the Court Registry of the Commercial Court in Zagreb, a business address change was made in May 2017.

Total income of the company in 2017 amounted to 3.642.178 HKR, with total expenses in the amount of 3.574.103 HRK. Income are mostly realised from commissions and fees for performed investment services on behalf of clients, while expenses mostly relate to employee expenses, rent and marketing and other services. Income increase in comparison to 2016 amounts to 7,59%, and expenses amounts to 5,71%

Profit after tax amounted to 68.075 HRK. Thanks to excellent results in the first quarter of 2017 and a small increase in average commission it has been realized revenue increase. The Board believes low commissions lead to exhaustion of the Company's resources and in the long term to the inability to invest in new technologies that are necessary for further development of the Company.

Company trade volume of shares at the Zagreb Stock Exchange amounted to 1.081.897.464 HRK in 2013, 688.121.542 HRK in 2014, 542.479.874 HRK in 2015, 499.589.685 HRK in 2016 and 585.802.359 HRK in 2017.

Market share of the Company in total share turnover at the Zagreb Stock Exchange has been 17,67% in 2013, 11,14% in 2014, 9,20% in 2015, 7,79%, in 2016 and in 2017 market share has been increased to 8,92%.

The Company is the fourth largest investment company by share trade volume in 2017 with market share of 8,92%, twelfth largest investment company by bonds trade volume with market share of 0,25%. According to total trade volume the Company is sixth largest with market share of 7,87%. The Company is still second largest by number of transactions (69.243 in 2014, 56.505 in 2015, 46.963 in 2016 and 65.856 in 2017) realised at the Zagreb Stock Exchange with market share of 17,36%.

The rate of regular total capital of the company is 23,90 and the required capital adequacy rate is at least 8,00%, which is why the Company is well capitalized.

The Company pays special attention to the protection of client assets that it carries out in accordance with the applicable regulations and the CML.

### **VIII. Significant subsequent business events**

There have been no significant business events that would have significant effect on Company operations.

### **IX. Risk management**

The Company introduced risk management system in 2009, and for that purpose the Company enacted Risk Management Strategy which has been upgraded in 2014 and defined the principles and procedures of risk management. The strategy set out the policies and procedures of risk management for risks the Company can be exposed to in its operations. It set out risk appetite, defined clear lines of responsibility and accountability, method for determining and measurement estimated risk the Company is exposed to or could be exposed to, and defined other matters significant for risk management.

#### **Market risk**

Market risk is risk of negative effects on the financial result and equity of the investment company due to change of value of financial instruments portfolio.

Risks arising from market risks, to which the Company has been exposed to during 2017 are: position risk.

The Company has not been exposed to: settlement risk and other contractual party risk, currency risk nor to risk of exceeding allowed exposures.

Position risk is risk of loss arising from unfavourable price movement of shares owned by the investment company and can be conditioned by wrong investment decision or general unfavourable movement in capital market.

#### **Credit risk**

Credit risk is risk of loss arising from client's default of cash liability towards the investment company. Credit risk also includes the risk of decrease in value of receivables due to change in credit worthiness of the client, as well as risk of inability to collect receivables.

Accounting and finance directorate monitors all Company receivables and its due dates and term exceeding. If some term exceeding exist, Accounting and finance directorate reports it to the Management Board member and Risk management function executive.

The Company strived to minimise credit risk exposure in its operations during 2017 and has created receivables portfolio as diversified as possible in line with Company operations, taking into account the type, position and client rating.



## **Operational risk**

Operational risk is risk of losses arising from errors, disruptions or damages caused by inadequate internal processes, people, systems or external events, including risk of change in legal framework. Operational risk includes fraud risk from relevant people or clients, risk of error from relevant people or clients, IT system risk.

During 2017 the Company did not incur any adverse events with significant damage arising from operational risk, nor did any crisis situation or unforeseen event occur that would influence daily operations of the Company.

## **Liquidity risk**

Liquidity risk is risk that investment company comes to a position of inability to settle financial liabilities at due date.

The Company manages liquidity risk in accordance with Liquidity risk management strategy and Bylaw on liquidity of investment companies.

By using the liquidity risk strategy management, the Company strives to define tolerable exposure to liquidity risk, maintain optimal level of liquid assets, define system of planning, tracking and reporting on liquidity risk.

Aiming to adequately manage liquidity risk, the Company appointed person responsible for maintaining liquidity risk, who is authorised for tracking and calculation of liquidity ratios of the Company. Responsible person is obliged to permanently monitor, suggest reconciliation and manage cash flow with aim of decreasing liquidity risk. Responsible person daily calculates liquidity of the Company.

Management Board member regularly checks the state of the liquidity of the Company.

The Company has been liquid throughout the year.

## **X. Expected development of the Company in the future**

The Company continues its technological growth which is necessary to maintain its competitive position, visible through development of the information system for Clients.

Expanding of the business network is to be expected throughout representatives and increase of income from providing counselling on capital structure, business strategies and relevant matters, as well as counselling and services connected to merger and acquisition of shares in companies.

## **XI. Treasury shares**

The Company did not acquire its own shares in 2017, nor has it in the treasury.

## **XII. The Company's R & D Activities**

The Company is not engaged in research. The Company for its own needs develops a financial instrument trading system for Company Clients.

## **XIII. CONCLUSION**

During 2017 the Company operated in accordance with legal regulation. The Company ended 2017 as the fourth largest investment company in Republic of Croatia by total trade volume, and as the sixth by trade volume.

Management Board of the Company thinks that in the business conditions which marked business year 2017: low stock market turnover, instability caused by the collapse of the largest group in the country, high maintenance costs of compliance with applicable legislation, very good results have been achieved.

Zagreb, 23 April 2018

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**Ivan Tadin**  
President of the Management Board

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**Denis Cvitanović**  
Member of the Management Board