ANNUAL REPORT

ON STATUS AND BUSINESS ACTIVITIES OF THE GROUP IN 2018

Zagreb, April 2019

This version of the Annual report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version takes precedence over this translation

Contents

1 MANAGEMENT REPORT

1.1 Introduction

In 2018, Zagreb Stock Exchange Group (hereinafter: the Group) recorded the following significant business events:

- The Croatian Financial Services Supervisory Agency (HANFA) granted approval to the Zagreb Stock Exchange to engage in trade report publishing on behalf of investment firms (post-trade disclosure), in accordance with Articles 20 and 21 of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (Text with EEA relevance) (OJ L 173, 12.6.2014), as a formal prerequisite for the Exchange to introduce the APA (approved publication arrangement) Service.

- On 2 January 2018, the Zagreb Stock Exchange began to use the Xetra Classic v 17.0 software on its trading platform, thus completing successfully the process of trade harmonization with the new European regulation – MiFID II and MAR.

- On 12 February 2018, the Zagreb Stock Exchange held its Annual General Meeting (AGM), which elected new members of the Supervisory Board for a three-year term and amended the Exchange activities, in accordance with the approval of HANFA for the provision of the APA service.

- In the course of February 2018, the Ljubljana Stock Exchange organized two conferences entitled “SME Financing”, targeting potential Progress Market advisers and issuers.

- On 21 March 2018, the Ljubljana Stock Exchange and the Technology Park Ljubljana organized events entitled “Fund-Raising Opportunities for SMEs”.

- On 23 March 2018, the Ljubljana Stock Exchange hosted a webcast attended by top-tier issuers and 40 investors from 12 countries.

- In the course of March 2018, the “Open Doors’ Week” organized by the Ljubljana Stock Exchange drew participation of more than 320 pupils from 10 different Slovenian schools.

- In April, the Zagreb Stock Exchange and HANFA, supported by the European Bank for Reconstruction and Development (EBRD), launched a project of revising their joint Code of Corporate Governance.

- The 5th Investment Days of the Zagreb and the Ljubljana Stock Exchange in May enlisted the participation of five Slovenian and eleven Croatian issuers, holding 197 one-on-one and group meetings with investors from six countries in two days.

- In June 2018, the fifth fund-raising campaign was launched via the Funderbeam SEE platform in 20% ownership of Zagreb Stock Exchange for the company named Entrio. It resulted in indicative interest to invest EUR 170,000 to be used by Entrio to penetrate new markets.

- The 9th course of annual education for the companies whose financial instruments are listed on the Zagreb Stock Exchange's regulated market was held on 8 June under the auspices of the Croatian Financial Services Supervisory Agency, the Central Depository and Clearing Company and the Zagreb Stock Exchange.

- The Zagreb Stock Exchange AGM was held on 11 June 2018 to present the Exchange's 2017 Annual Financial Statements and the consolidated financial statements; the AGM adopted resolutions on the 2017 loss coverage, on the grant of discharge to members of the Management and Supervisory Board for 2017 and on the appointment of auditors for 2018.

- The Ljubljana Stock Exchange AGM was held on 12 June 2018 to present the Exchange's 2017 Annual Financial Statements and the consolidated financial statements; the AGM adopted resolutions on dividend payment, on the grant of discharge to members of the Management and Supervisory Board for 2017 and on the appointment of auditors for 2018.

- On 30 June 2018, the Zagreb and Ljubljana Stock Exchanges harmonized their business with the requirement of RTS 27 and provided on time their first reports on the quality of transaction execution.

- On 2 July 2018 Ljubljana Stock Exchange signed with EBRD grand agreement for education of small and medium size enterprises for listing on the Exchange.

- On 23 August 2018, the Croatian Financial Services Supervisory Agency issued a decision approving amendments to the Exchange Rules proposed by the Zagreb Stock Exchange. In addition to harmonization with the EU legal and legislative framework, particularly in the part relating to personal data protection, the section relating to the segments of the regulated market was also amended by introducing a new market segment – the Prime Market.

- On 3 September 2018, the Ljubljana Stock Exchange hosted a webcast attended by top-tier issuers and 32 investors from 8 countries.

- On 4 September 2018, the Zagreb Stock Exchange and Atlantic Group signed an agreement on transition of Atlantic Group from the Official Market to the Prime Market, thus becoming the first issuer to be admitted to trading in this most demanding market segment.

- On 5 September 2018, the Zagreb Stock Exchange Quality Management System was successfully audited for compliance with the ISO 9001:2015 standard.

- A business cooperation agreement between the Zagreb Stock Exchange and the Croatian Banking Association (HUB) was signed on 21 September 2018, paving the way for specialist training in the area of investment services and capital market in general to be delivered by the ZSE Academy to HUB members.

- On 1 October 2018, the Zagreb Stock Exchange closed down the CE Enter market.

- Early in October 2018, the Zagreb Stock Exchange updated its Trading Manual by amending the liquidity criteria for share classification to continuous trading and auction trading. The amended Trading Manual entered into force on 5 October 2018.

- At the end of October 2018, the seventh joint conference of the Zagreb Stock Exchange and investment fund industry entitled "Challenge of Change" was held in Rovinj. The Conference represents a central event of the entire Croatian financial community, as well as that of the region.

- On 14 November 2018, the biggest Slovenian bank - Nova Ljubljanska banka d. d., has been listed on Ljubljana Stock Exchange

- On 22 November 2018, Ljubljana Stock Exchange held a Webcast "Slovenian Listed Companies Online"

- On 29 November 2018, Ljubljana Stock Exchange Investor Day was held and best listed companies and member firms were awarded

- On 29 November 2018, the Zagreb Stock Exchange presented a new communication platform named "Burzin brief", which was conceived as a place to discuss key issues for the Croatian economy as well as that of the region, but also on important global trends and technological innovations that will shape the capital market and influence the broader social context.

- On 30 November 2018, NEXE Group Company has been admitted to trading on PROGRESS as the first issuer in the market

- On 12 December 2018, the Zagreb Stock Exchange Awards were officially awarded

- At the end of December 2018, the Zagreb Stock Exchange signed the contracts with the Arena Hospitality Group, AD Plastik and Podravka for the transfer of these companies from the Official to the PRIME Market

- At the end of 2018, Ljubljana Stock Exchange has issued a publication entitled "Green Exchange", a guide to financing ecological projects through the Ljubljana Stock Exchange.

1.2 Group's Key Performance Indicators in 2018

Operating revenues in 2018 amounted to HRK 23.9 mil, down -1.4% compared to the 2017. Revenue reduction largely due to the lower trading fees, is mostly canceled from earnings from other bases.

Operating profit before interest, taxes, depreciation and amortization in 2018 is positive and it amounted to HRK 1.493 thousand while in 2017 was negative and amounted to HRK -2,403 thousand.

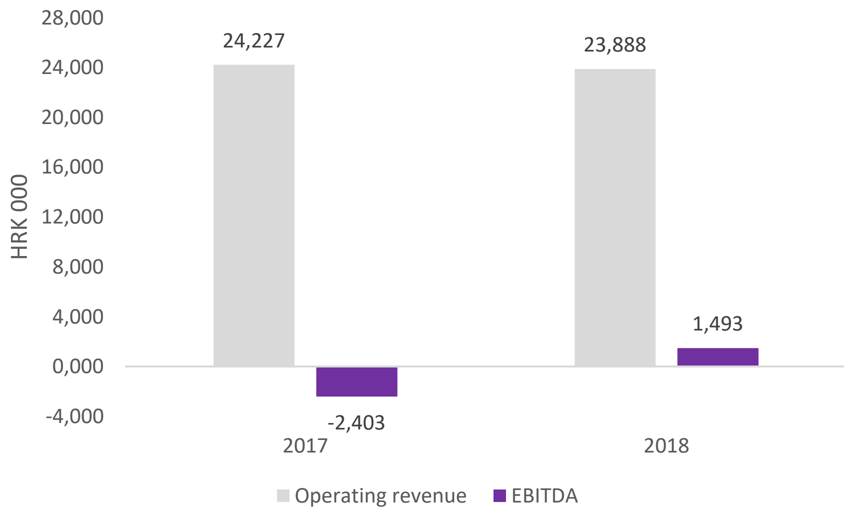

Figure 1. Operating revenue and EBITDA in 2017 and 2018

(000 HRK)	2018	2017
Issued share capital	46,357	46,357
Total equity	39,505	39,878
Total assets	46,022	46,443
Operating revenues	23,888	24,227
- revenue	15,421	15,858
- other operating income	8,467	8,369
Operating expenses	23,529	28,422
- staff costs	10,853	10,940
- depreciation and amortization	1,134	1,792
- other operating expenses	11,542	15,690
EBIT	359	-4,195
EBITDA	1,493	-2,403
Profit / loss before tax	289	-3,644
Income tax expense	-99	-111
Profit / loss for the year	190	-3,755

Table 1. Main business indicators in 2017 and 2018

1.3 Financial results and business operations of the Group in 2017

In 2018, the Group realized HRK 23,888 thousand in operating income, which is a slight decrease by -1.4% compared to 2017.

The drop in revenues is most noticeable in commissions that are down by -9%, as well as sales and lease of equipment that are down by -20%, while the membership fees are down by -8.8%. Revenues from API services are completely absent which is related to the transition to the new Xetra trading system, on July 1, 2017, when these revenues ceased to exist. In addition, in 2018 there was no income from grant in contrast to 2017 when EBRD funds were received. The loss of income from commissions and membership fees due to significant fall in turnover on both markets is canceled by other sources of income that the Group achieves.

The highest revenue growth was recorded at seminar revenues (+142%). Besides them, revenues from quotation fees (+35%) revenues from the supply of information (+15%) and revenues from quotation maintaining (+0,8%) also grew. Other revenues increased by +31%.

Total 2018 operating expenses of the Group amounted to HRK 23,529 thousand, down by -17,2% compared to 2017. The biggest impact on the aforementioned decrease was the decrease in the software costs and licenses for almost HRK 3 million or -45%, which is shown in other operating expenses (down by -26% compared to 2017). Except that, depreciation and amortization decreased by -36.7%, and staff costs slightly decreased by -0.8%.

The Group's financial income decreased by -89% in 2018 as a result of reduced return on investment.

Taking all this into consideration, the total result of the Group in 2018 amounted to HRK 190 thousand which is HRK 3.945 thousand higher than the previous year when it was negative and amounted to HRK -3,755 thousand. Operating profit before interest, taxes, depreciation and amortization in 2018 is positive and it amounted to HRK 1.493 thousand.

During 2018, the Group invested its available cash funds in investment funds (money market and bond funds) and deposits (a vista and fixed-term) in order to preserve the value of its assets. The available cash funds of the Group stood at HRK 24,220 thousand (units in investment funds, deposits and cash in bank) at the end of 2018.

1.4 Businesss analysis

1.4.1 Total operating revenues

Total operating revenues in 2018 amounted to HRK 23.9 mil, which is a -1.4% decrease compared to the 2017. The highest revenue growth was achieved in seminar revenues (+142%).

The largest stake in operating revenues, as in the previous year, stems from commissions (29,5%) and revenues from maintenance of quotations fees (28.5%).

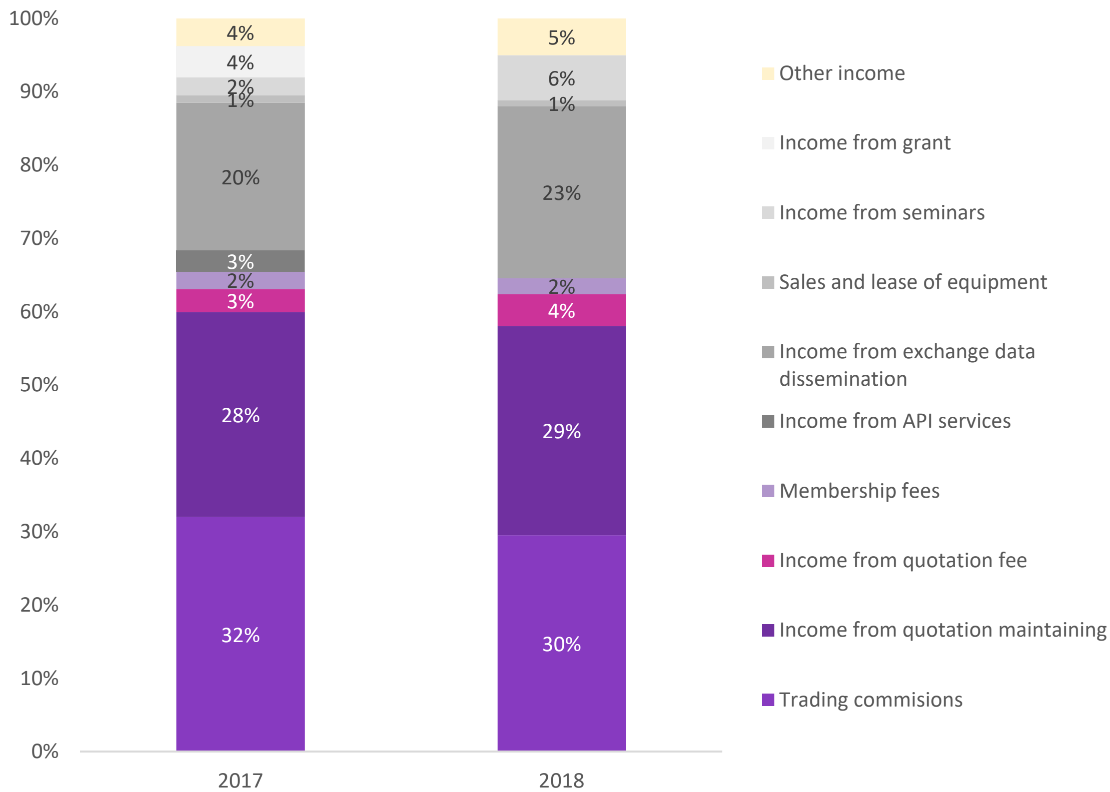

Figure 2. Total operating revenues structure in 2017 and 2018

1.4.2 Total operating expenses

Total 2018 operating expenses amounted to HRK 23,529 thousand, a decrease of -17,2% compared to 2017.

The biggest impact on the reduction of total operating expenses is the decrease of other operating expenses by HRK -4,148 thousand or -26.4%, which includes the reduction of software cost and licenses for HRK -2,967 thousand or -45%. In addition, depreciation and amortization expense decreased by -36.7%, while staff costs decreased by -0.8% compared to 2017.

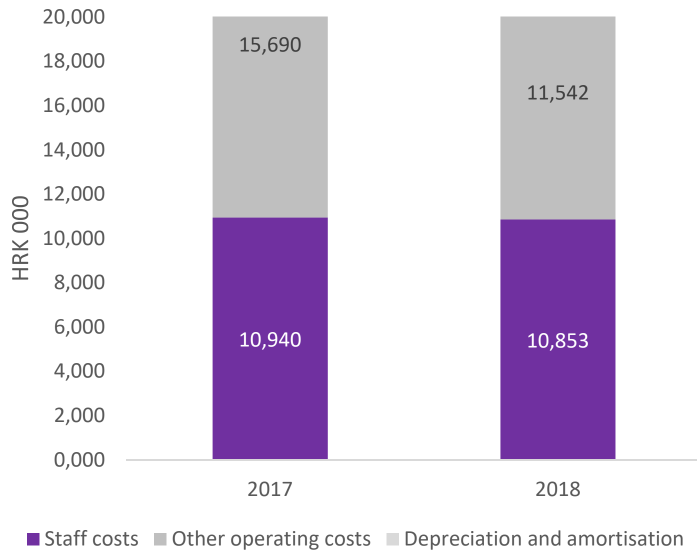

Figure 3. Total operating costs in 2017 and 2018

In addition to the above mentioned, other operating expenses also recorded a decrease in the write-off of a computer program (-95%), postal and telephone services (-42%), utility costs (-39%), professional services (-26%) and impairment (-6%). Business travel costs (+70%), representation (+37%), other costs (+9%), office space rent (+7%), and fees and charges (+7%) increased.

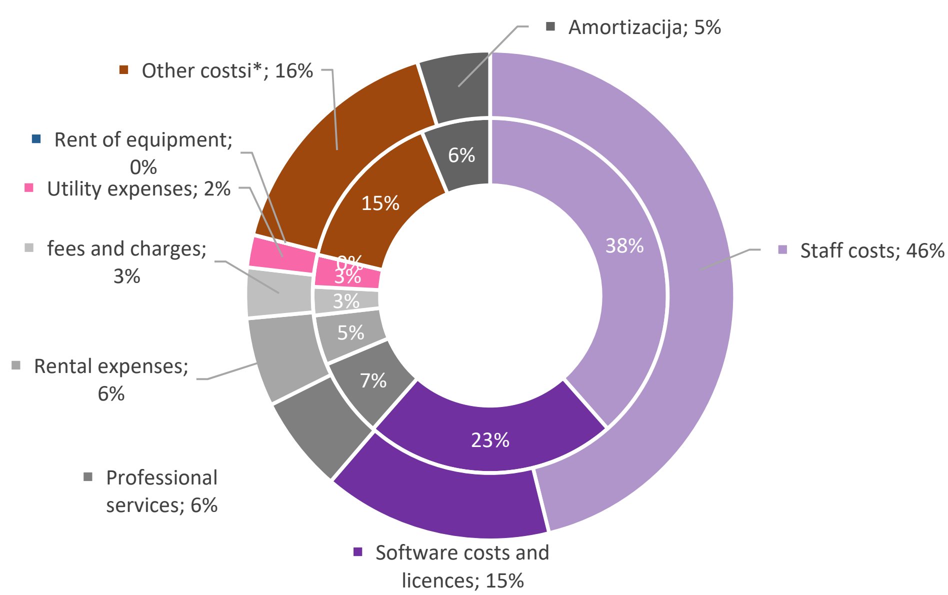

Figure 4. Operating costs structure in 2017 and 2018

1.4.3 Net profit / loss for the year

In 2018, net profit for the period was HRK 190 thousand, an increase of HRK 3,945 thousand compared to the previous year. As total operating income fell by -1.4%, the positive result came after decrease in the operating costs, primarily the software costs and licenses (-45%) shown in other operating costs.

Operating profit before interest, taxes, depreciation and amortization in 2018 is positive and it amounted to HRK 1.493 thousand while in 2017 was negative and amounted to HRK -2,403 thousand.

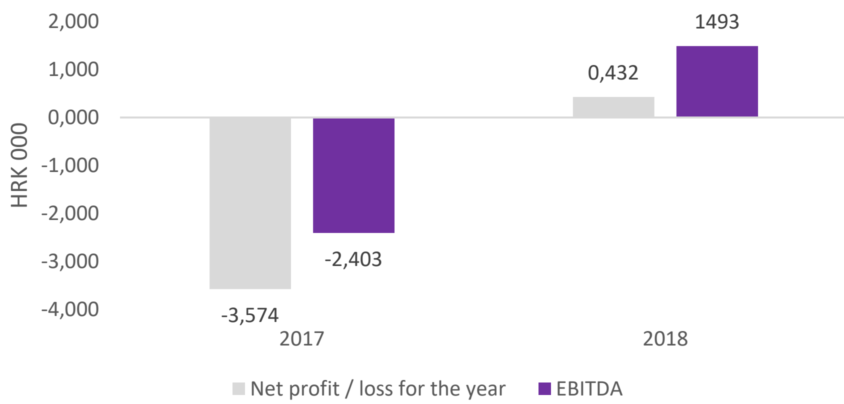

Figure 5. Net profit / loss for the year and EBITDA in 2017 and 2018

1.4.4 The Group's Assets

On 31 December 2018, total assets of the Group amounted to HRK 46 mil, which is a decrease of -0.9% compared to the previous year.

(000 HRK)	2018	2017
ASSETS		
Total non-current assets	17,258	20,000
Total current assets	28,764	26,443
Total assets	**46,022**	**46,443**
EQUITY AND LIABILITIES		
Total equity	39,505	39,878
Current liabilities	254	326
Long-term liabilities	4,141	4,027
Total equity and liabilities	**46,022**	**46,443**

Table 2. Assets and liabilities in 2017 and 2018

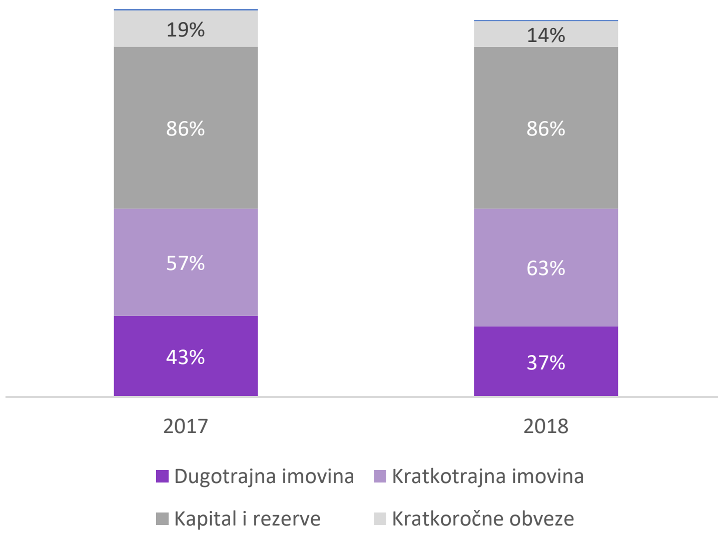

Figure 6. Assets and liabilities in 2017 and 2018

1.5 Significant events after the end of the financial year

There were no significant events after the end of the financial year that affected the reported results.

1.6 Expected development of the Group

In 2019, the Group will continue to focus on restoring confidence and raising Corporate Governance standards and reporting on a regulated market. The Group will also focus on greater promotion of existing issuers, with a focus on Prime Market.

The Group will press on with previously initiated projects, placing the greatest emphasis on the project of regional SME capital market development (Progress), and further activities related to financing and investing in start-ups (Funderbeam SEE).

By the end of 2019, extensive activities regarding moving to a new version of the T7 trading system will be ended.

1.7 Research and Development activities

The Group has pressed on with continuous efforts at developing and improving its own service offering and at expending service provision to the Slovenian market as well.

1.8 Acqusition of own shares

The Group was not the owner of its own shares on 31 December 2018. In 2018, the Exchange did not acquire its own shares.

1.9 Zagreb Stock Exchange Group

SEE Link d.o.o. is a company seated in Skopje established by the Bulgarian, Macedonian and Zagreb Stock Exchanges in May 2014 with the aim of seeting up the regional infrastructure for trading in securities listed in those three exchanges, holding equal equity participations. The issued share capital of SEE LINK is 80,000 EUR and Zagreb Stock Exchange participates with 33.33%.

Ivana Gažić is the President of the Supervisory Board of SEE LINK. Ivan Steriev, CEO of the Macedonian Stock Exchange is a member of the Supervisory Board and Ivan Takev, CEO of the Bulgarian Stock Exchange is also a member of the Supervisory Board.

On 30 December 2015, the Zagreb Stock Exchange took over a 100% participation in company Ljubljana Stock Exchange Inc. The issued share capital of Ljubljana Stock Exchange on 31 December 2018 is EUR 1,401,000, and the Zagreb Stock Exchange participates with 100%.

Ivana Gažić is the President of the Supervisory Board, while Patricia Bakšaj, Director of Legal Affairs and Compliance, Zagreb Stock Exchange, Tomislav Gračan, Member of the Management Board, Zagreb Stock Exchange, and Darja Jermaniš, Director of Market Operations, Ljubljana Stock Exchange are the memebers of the Supervisory Board.

Funderbeam South-East Europe d.o.o. is a company that the Exchange fonded in 2016 together with company Funderbeam Ventures OÜ. The issued share capital of the company on 31 December 2018 is 244,000 HRK, and the Exchage participates with 20%.

1.10 Financial instruments

The Group is fully funded by its own capital. The financial instruments the Group invests in are investment funds (money market and bond funds) and deposits (a vista and fixed-term deposits).

1.11 Business operation risks

Business operation risks of the Group are detailed in the notes to the financial statements (Note 23).

1.12 Internal controls and risk management system of the Group

Zagreb Stock Exchange internal controls system consists of procedures and processes for monitoring of business efficiency, financial reports reliability and legal compliance. All employees, including the Management and Supervisory Board, are included in internal controls system enforcement.
The Exchange enforces the internal controls system through two independent control functions: compliance with the relevant regulations function and internal audit function.

These control functions process and monitor the work of all organizational units, company activities and support services in their internal documents.

Risk management is a set of procedures and methods for determining, measuring, assesing, controlling and monitoring risks and also reporting on the risks to which the Exchange is or might be exposed in its operations.

The Exchange has adopted the following procedures related to risk management:

- Strategic internal audit plan,
- Annual internal audit plan,
- Risk management policy,
- Service agreements management procedure.

In order to successfully manage risks that affect completion of Company's objectives, the company assesses risks by identifying and analysing them.

Considering the Company's determined objectives and defined core processes, the Exchange has identified and determined risks that could influence the company's business processes. List of risks doesn't encompass all risks but only those on higher level. Other, more detailed risks (lower level risks) are identified during the internal audit of business processes.

The risks are grouped by those that influence the Exchange's organizational units that perform specific business processes within the company and by other risks that are connected with the Exchange's business in general.

Considering the previously defined company's core business processes and determined risks, the Exchange has adopted Risk assessment with regard to their impact on business processes.

Risk assessment encompasses every process's inherent risk and during the assessment, the very nature of those processes and best practice were taken into consideration.

Based on the risk assessment results, main areas that will be covered by internal audit procedures and measures that will prevent the occurrence of risky events have been established.
Risk monitoring is not separated and entrusted to Company's independent organizational unit, but to one or more Company's departments, depending on the type of risk. Therefore, every employee of the Exchange is included in Company's risk management.

Each organizational unit, depending on the identified risks and risk management system, is in charge of risk monitoring and cooperation with other organizational units, especially with the Management Board who makes decisions on individual risk management and its control.

In addition, two mutually independent control functions are involved in Company's risk management system: compliance with relevant regulations function (within the Department of Legal Affairs and Compliance) and internal audit performed by the independent company Antares revizija d.o.o.

Ivana Gažić President of the Management Board	ZAGREBAČKA BURZA d.d. Zagreb 1	Tomislav Gračan Member of the Management Board

2 Statement on the application of the Corporate Governance Code

Pursuant to provision of Article 272, paragraph, in conjunction with provision of Article 250a, paragraph 4 of the Companies Act (Official Gazette no. 111/93, 34/99, 52/00, 118/03, 107/07, 148/08, 137/09, 125/11, 152/11, 111/12, 68/13, 110/15, hereinafter: CA) and provision of Article 22 of the Accounting Act (Official Gazette no. 78/15, 134/15 i 120/16, hereinafter: AA), the Management Board of company ZAGREB STOCK EXCHANGE Inc., Zagreb, Ivana Lučića 2a (hereinafter: the Company), on 26 April 2018, issued the following

STATEMENT
on the application of the Corporate Governance Code

1. The Company implements the Corporate Governance Code prescribed by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange Inc. Zagreb. The Code is published in Zagreb Stock Exchange website, www.zse.hr.

2. In financial year 2018 the Company essentially complied with and implemented recommendations established by the Code, publishing all information as envisaged by the positive regulations as well as information that are in the interest of Company's shareholders. Detailed explanations regarding minor deviations from the recommendations of the Code are presented by the Company in the Annual Questionnaire that is provided.

3. In accordance with Code requests, and pursuant to provisions of the Companies Act and Capital Market Act, the Supervisory Board conducts internal supervision of the Company by conducting regular controls of prepared reports. Members of the Supervisory Board receive on regular basis detailed information on management and work of the Company. All issues under the competence of the Supervisory Board, as prescribed by the CA, Capital Market Act and Articles of Association of the Company, are discussed and decided upon in the Supervisory Board meetings. Supervisory Board Report is part of the Company's Annual Report presented to the General Assembly. In addition, the Supervisory Board performs internal controls and supervision through Audit Board that provides expert support to the Supervisory Board and the Management Board in the efficient execution of obligations relating to corporate governance, risk management, financial reporting and control of the Company. The Management Board is bound to monitor that the Company keeps business books and other books and business documents, prepares book-keeping documents, provides realistic assessments of the assets and liabilities, drafts financial and other reports in accordance with accounting regulations and standards and applicable laws and regulations.

4. Top ten shareholders on 31 December 2018.

	Shareholder	No. of shares	Equity in %
1.	EUNEX-C d.o.o.	926,212	19.9800
2.	PBZ CO OMF	462,800	9.9834
3.	BAKTUN, LLC	364,957	7.8727
4.	ICAM OUTFOX MACRO INCOME	277,100	5.9775
5.	EBRD	240,000	5.1772
6.	SZAIF d.d.	228,000	4.9184
7.	OTP BANK d.d.	211,800	4.5689
8.	ERSTE & STEIRMARKISCHE BANK d.d.	152,800	3.2962
9.	HPB d.d.	133,800	2.8863
10.	ADDIKO BANK d.d.	133,800	2.8863
	Others	1,504,431	32.0000
	Total	**4,635,700**	**100.0000**

Pursuant to the Articles of Association of the Company, shareholder's voting rights are not limited to certain percentage or number of votes nor are there time limitations to acquire voting right. Each ordinary share provides a right to one vote in the General Assembly.

Rights and obligations of the Company deriving from the acquisition of own shares are met in accordance with the provision of the CA.

In 2018 the Company did not acquire own shares.

5. Management Board of the Company consists of two members. Mrs Ivana Gažić performs duties of the President of the Management Board, and Mr Tomislav Gračan performs duties of the member of the Management Board.

The Management Board runs Company business operations in line with the Articles of Association and legal regulations.

The Management Board is appointed and dismissed by the Supervisory Board that consists of the following members:

- Dubravko Štimac, President
- Borislav Centner, Deputy President
- Dunja Babić
- Tomislav Jakšić
- Matko Maravić
- Enrique Bernardo Mariano
- Mislav Ante Omazić
- Ivan Sardelić
- Ivan Tadin

6. There are several boards / committees of the Supervisory Board in the Company which provides expert support to the Supervisory Board and the Management board. The members of these boards / committees are appointed and recalled by the Supervisory Board.

The Supervisory Board has established Audit Committee composed of three members, namely:

- Matko Maravić,
- Enrique Bernardo Mariano,
- Ivan Tadin.

The Supervisory Board has established Remuneration Committee composed of three members, namely:

- Dubravko Štimac,
- Borislav Centner,
- Enrique Bernardo Mariano.

The Supervisory Board has established Strategy Committee composed of five members, namely:

- Matko Maravić,
- Borislav Centner,
- Enrique Bernardo Mariano,
- Ivana Gažić,
- Tomislav Gračan.

The Supervisory Board has established Commission for assessment of compliance with criteria for management board members composed of three members, namely:

- Ivan Tadin,
- Tomislav Jakšić,
- Mislav Ante Omazić.

Pursuant to provisions of Article 250a, paragraph 4 and Article 272, paragraph of the CA, and Article 22 of the AA, this Statement is a special section and integral part of the Company's Annual Report for 2018.

ZAGREBAČKA BURZA d.d.
Zagreb

Ivana Gažić
President of the Management Board

Tomislav Gračan
Member of the Management Board

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3 Responsibilities of the Management Board for the Annual report

The Management Board of Zagrebačka burza ("the Company") is required to prepare consolidated financial statements for each financial year, which give a true and fair view of the consolidated financial position of the Company and its subsidiary ("the Group") and of the results of its operations and cash flows, in accordance with International Financial Reporting Standards as adopted by the European Union. The Management Board is responsible for implementing and maintaining proper accounting records relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Management Board has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform to applicable accounting standards and then applying them consistently; making judgments and estimates that are reasonable and prudent; and preparing the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is also responsible for the preparation and content of the Management report and the statement of implementation of Corporate Governance Code, as required by the Croatian Accounting Act, and the rest of other information (together "other information").

The Management Board is responsible for the submission of the Annual report to the Supervisory Board which includes the consolidated financial statements and other information for acceptance, following which the Supervisory Board is required to consider, and if appropriate approve the annual financial statements for submission to the General Assembly for adoption.

The consolidated financial statements set on pages 23 to 64 and other information, set out on pages 1 to 15, are approved by the Management Board on 26 April 2019 and are signed and verified for the Supervisory Board.

Signed on behalf of the Zagreb Stock Exchange, Inc.:

ZAGREBAČKA BURZA d.d.
Zagreb
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Ivana Gažić
President of the
Management Board

Tomislav Gračan
Member of the
Management Board

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Independent Auditors' report to the shareholders of Zagrebačka burza d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Zagrebačka burza d.d. ("the Company") and its subsidiary (together referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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. 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.

This version of the independent Auditors' Report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version takes precedence over this translation

Independent Auditors' report to the shareholders of Zagrebačka burza d.d. (continued)

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters (continued)

Impairment of goodwill

Refer to page 34 (Group accounting policies), page 63 (Key accounting estimates and assumptions), page 50 (Intangible assets).

As at 31 December 2018, the carrying amount goodwill: amounts to HRK 1,168 thousand (31 December 2017: HRK 1,183 thousands) and no impairment losses recognized in 2018 (2017: nil).

Key audit matter	How our audit addressed the matter

As at 31 December 2018, the stated amount of goodwill in relation to the acquisition of Ljubljanska borza d.d., was HRK 1,168 thousand. Relevant accounting standards require that goodwill is tested, at least annually, for impairment.
 	
The assessment of the recoverability of goodwill requires significant judgment in determining the forecast future performance of the cash generating units (CGUs) to which goodwill is allocated.
 	
Management's impairment assessment involves significant estimation, primarily relating to the key assumptions for revenue growth rates, terminal growth rate and discount rates. The key assumptions applied by management are further described in Note 27 Key accounting estimates and assumptions.
 	
The subjectivity of the principal assumptions required an application of a significant amount of audit judgment and effort. Accordingly, we consider this area to be our key audit matter.
	Our audit procedures included the following:
	• Evaluating the appropriateness of the Group's determination of CGUs to which goodwill is allocated;
	• Assisted by our own valuation specialists, critically assessing the Group's assumptions and estimates used in value-in-use calculations to determine the recoverable amount of goodwill. This included, but was not limited to:
	  ◦ assessing the Group's discounted cash flow model for compliance with the relevant accounting standards;
	  ◦ assessing the reasonableness of key assumptions applied in the model (including those relating to revenue growth rate, terminal growth rate and discount rate) against market data derived from analyst and industry reports;
	• Comparing the Group's forecast for the current year made as of 31 December 2017 to the current year's outcomes to assess the quality of management's forecasting process;
	• Evaluating the Group's analysis of the sensitivity of the impairment tests' results, in particular in respect of the assumptions with the greatest potential effect on the test results, e.g. those relating to discount rates and operating profit adjusted by depreciation and amortization.
	• Assessing whether the Group's disclosures about the CGU's, the key assumptions used and sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.

Independent Auditors' report to the shareholders of Zagrebačka burza d.d. (continued)

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters (continued)

Revenue recognition

Sales revenue for 2018: HRK 15,421 thousand (2017: HRK 15,858 thousand)

Refer to pages 31, 44 (Significant accounting policies) and page 46 (sales revenue).

Key audit matter	How our audit addressed the matter
The Group earns sales revenues from service fees, which primarily include trading commissions, quotation maintenance, as well as quotation and membership fees. These revenues are generally recognised as the related services are performed, generally when the underlying transactions occur, or, in the case of the quotation maintenance or membership fees, on a systematic basis over the year. The process of revenue recognition is highly automated as it is mainly based on the application of fees from the published tariff on the underlying trading volumes or a number of quoted securities. Contracts entered into by the Group are of limited complexity and variety. However, there are a large number of transactions to be processed by the Group's IT systems. As such revenue recognition is an area of audit focus. Additionally, IFRS 15 'Revenue from contracts with customers', came into effect from 1 January 2018, which had impact on recognition of initial listing service fees which were under previous standard IAS 18 recognised when the services occurred, and under IFRS 15 over the period over which the customer has a material right to services rendered. Given the above involved judgment applied by the management, it is considered to be our key audit matter.	Our audit procedures included the following: • Understanding of the processes and controls associated with the revenue cycle; • Assisted by our own IT specialists, testing selected automated controls over the integrity of transfers of transaction volumes between the Group's trading and reporting systems, as well as general IT controls; • Assessing the Group's revenue recognition polices against relevant financial reporting standards; • Assessing the Group's revised accounting policy for revenue recognition and compliance with the new accounting standard and the IFRIC view on treatment of initial listing service fee, specifically on determination whether the above service represents separate performance obligation and whether there is a material right to the customer to renew the contract; • For trading commission revenue, on a sample basis, testing the recognition of revenue by reference to the appropriate fees derived from the published tariff and the number of underlying transactions or volumes of quoted securities derived from the stock exchange trading system; • For a sample of customer contracts, testing the revenue from membership fees by inspecting contractual terms and independently recalculating the amount of revenue by reference to those terms; • For all clients newly listed in 2018, independently recalculating the amount of quotation fees revenue by applying the published tariff. • Inspecting manual journal entries posted to revenue accounts focusing on unusual and irregular items, or entries modified subsequent to the balance sheet date. • Assessing the disclosures within the Annual Report and for compliance with the requirements of IFRS 15;

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Independent Auditors' report to the shareholders of Zagrebačka burza d.d. (continued)

Report on the Audit of the Financial Statements *(continued)*

Other Information

Management is responsible for the other information. The other information comprises the Management Report and Corporate Governance Statement included in the Annual Report of the Group, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider 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.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act,
- the specific information in the Corporate Governance Statement required by Article 22, paragraph 1, items 3 and 4 of the Accounting Act ("relevant sections of the Corporate Governance Statement") has been prepared in accordance with the requirements of Article 22 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report and the relevant sections of the Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report and the relevant sections of the Corporate Governance Statement have been prepared, in all material respects, in accordance with the requirements of Articles 21, 22 and 24 of the Accounting Act, respectively;
- the Corporate Governance Statement includes the information specified in Article 22 paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.

Independent Auditors’ report to the shareholders of Zagrebačka burza d.d. (continued)

Report on the Audit of the Financial Statements *(continued)*

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of the 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 Group’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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditors’ 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 auditors’ 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 International Standards on Auditing 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 International Standards on Auditing, we exercise professional judgment and maintain professional skepticism 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 controls.
- 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 Group’s internal controls.
- 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 Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ 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 auditors’ report. However, future events or conditions may cause the Group 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.

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Independent Auditors' report to the shareholders of Zagrebačka burza d.d. (continued)

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 controls 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 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 auditors' 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.

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 11 June 2018 to audit the consolidated financial statements of Zagrebačka burza d.d. for the year ended 31 December 2018. Our total uninterrupted period of engagement is 3 years, covering the periods ending 31 December 2016 to 31 December 2018.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 26 April 2019;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. Further, we have not provided any non-audit services to the Group and its controlled entities which are not reported in the Management report and the financial statements. We also remained independent of the Group in conducting the audit.

The engagement partner on the audit resulting in this independent auditors' report is Katarina Kecko.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

MG Croatia
.o.o. za reviziju
Eurotower, 17. kat
Lučića 2a, 10000 Zagreb

26 April 2019

Katarina Kecko
Director, Croatian Certified Auditor

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Consolidated Statement of comprehensive income
for the year ended 31 December

	Notes	**2018 HRK'000**	**2017 HRK'000**
Income statement			
Sales revenue	*4*	15,421	15,858
Other operating income	*5*	8,467	8,369
Staff costs	*6*	(10,853)	(10,940)
Depreciation and amortization	*10,11*	(1,134)	(1,792)
Other operating expenses	*7*	(11,542)	(15,690)
Operating profit/(loss)		**359**	**(4,195)**
Financial income	*8a*	66	612
Financial expense	*8b*	(7)	(9)
Net foreign exchange (loss)/gain		(5)	4
Net finance income		**54**	**607**
Share of loss of equity - accounted investees		(124)	(56)
Profit/(loss) before tax		**289**	**(3,644)**
Income tax credit	*9a*	(99)	(111)
Profit/(loss) for the period		**190**	**(3,755)**
Other comprehensive income			
Items that may not be reclassified to profit or loss			
Revaluation of non-current asset		-	1,306
Deferred tax on revaluation of non-current asset		-	(150)
Items that are or may be reclassified to profit or loss			
Foreign operations – foreign currency translation differences		(241)	(43)
Total comprehensive loss for the year		**(51)**	**(2,642)**
Basic and diluted loss per share (in HRK)	*18*	**0.04**	**(0.81)**

The accounting policies and other notes set form an integral part of these consolidated financial statements.

Consolidated Statement of financial position
as at

	Notes	**31 December 2018 HRK'000**	**31 December 2017 HRK'000**
Assets			
Non-current assets			
Property and equipment	*10*	12,275	14,194
Intangible assets	*11*	2,520	2,891
Investment in associate and joint venture	*12*	42	121
Financial assets at fair value through other comprehensive income	*13a*	197	-
Financial assets available for sale	*13b*	-	197
Guarantee deposits		250	249
Long-term deposits	15b	1,484	1,878
Loans to related parties		216	173
Deferred tax assets	*9*	274	297
Total non-current assets		**17,258**	**20,000**
Current assets			
Trade receivables and other assets	*14*	4,007	3,220
Prepaid expenses		530	509
Financial assets at fair value through profit or loss	*13c*	17,693	18,217
Short-term deposits	*15a*	4,083	2,633
Cash and cash equivalents	*16*	2,444	1,849
Inventories		7	10
Income tax receivable		-	5
Total current assets		**28,764**	**26,443**
Total assets		**46,022**	**46,443**
Equity and liabilities			
Equity			
Issued share capital	*17*	46,357	46,357
Share premium		13,860	13,860
Legal reserves		141	141
Accumulated loss		(21,448)	(21,376)
Revaluation reserve		1,096	1,156
Translation reserve		(501)	(260)
Total equity		**39,505**	**39,878**
Non-current liabilities			
Long-term financial liabilities	*19*	31	86
Deferred tax liability	*9*	223	240
Total non-current liabilities		**254**	**326**
Current liabilities			
Trade and other payables	*20*	1,946	2,943
Short-term financial liabilities	*19*	60	60
Income tax liability		81	-
Contractual liabilities and provisions	*21*	4,176	-
Deferred income and other liabilities	*22*	-	3,236
Total current liabilities		**6,263**	**6,239**
Total equity and liabilities		**46,022**	**46,443**

The accounting policies and other notes form an integral part of these consolidated financial statements.

Consolidated Statement of changes in equity

	Issued share capital	Share premium	Legal reserves	Accumulated loss	Revalorization reserve	Translation reserve	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
As at 1 January 2017	**46,357**	**13,860**	**141**	**(17,621)**	**-**	**(217)**	**42,520**
Loss for the year	-	-	-	(3,755)	-	-	(3,755)
Other comprehensive income							
Revaluation of land and building, net of deferred tax	-	-	-	-	1,156	-	1,156
Foreign operations – foreign currency translation differences	-	-	-	-	-	(43)	(43)
Total comprehensive loss for the year	-	-	-	**(3,755)**	**1,156**	**(43)**	**(2,642)**
As at 31 December 2017	**46,357**	**13,860**	**141**	**(21,376)**	**1,156**	**(260)**	**39,878**
First time adoption effect of IFRS 15	-	-	-	(322)	-	-	(322)
As at 1 January 2018	**46,357**	**13,860**	**141**	**(21,698)**	**1,156**	**(260)**	**39,556**
Loss for the year	-	-	-	190	-	-	190
Other comprehensive income							
Foreign operations – foreign currency translation differences	-	-	-	-	-	(241)	(241)
Depreciation of revaluation of building, net of deferred tax	-	-	-	60	(60)	-	-
Total comprehensive loss for the year	-	-	-	**250**	**(60)**	**(241)**	**(51)**
As at 31 December 2018	**46,357**	**13,860**	**141**	**(21,448)**	**1,096**	**(501)**	**39,505**

The accounting policies and other notes form an integral part of these consolidated financial statements.

Consolidated Statement of cash flows
for the year ended 31 December

	Notes	**2018 HRK '000**	**2017 HRK '000**
Cash flow from operating activities			
Profit/(loss) for the period		**190**	**(3,755)**
Adjustments:			
Depreciation and amortization	*10,11*	1,134	1,792
Net (losses)/gains from financial assets at fair value through profit or loss	*10*	31	(557)
Impairment allowance for trade receivables		(261)	278
Impairment of bonds at fair value through comprehensive income		-	44
Interest income	*8*	(72)	(55)
Interest expense	*8*	7	9
Net foreign exchange gains		5	(4)
Gain from sale of property and equipment		(196)	-
Provisions for unused holidays		-	(7)
Write-offs		27	1,553
Loss from investment in joint venture		124	56
Tax expense		99	(111)
Other adjustments		-	103
Cash flow before changes in operating assets and liabilities		**1,088**	**(654)**
Changes in operating assets and liabilities			
Decrease / (increase) in trade receivables		(569)	1,214
Decrease / (increase) in prepaid expenses		(21)	3,361
Decrease / (increase) in inventories		3	4
(Decrease) / increase in trade and other payables		(997)	(3,516)
Decrease in deferred income and accrued expenses and contractual liabilities and provisions		611	(1,799)
Change in operating assets and liabilities		**(973)**	**(736)**
Income tax		-	-
Net cash inflow/(outflow) from operating activities		**115**	**(1,390)**
Cash flow from investing activities			
Purchase of equipment		(541)	(3,355)
Proceeds from disposal of property and equipment		1,730	-
Purchase of software		(62)	(713)
Proceeds/expenditure from disposal/purchase of units in open investment funds		487	(9,572)
Proceeds/expenditure from investments in deposits		(1,056)	2,032
Investments in associates and joint ventures		(45)	-
Interest paid		(7)	-
Interest received		72	55
Net cash inflow from investing activities		**578**	**(11,553)**
Cash flow from financing activities			
Borrowings of loan principal		(43)	(173)
Long term loan repayment		(55)	(53)
Net cash inflows from financing activities		**(98)**	**(226)**
Net increase in cash and cash equivalents		**595**	**(13,169)**
Cash and cash equivalents at the beginning of the year		1,849	15,097
Changes in exchange rates on cash and cash equivalents		-	(79)
Cash and cash equivalents at the end of the year	*16*	**2,444**	**1,849**

The accounting policies and other notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 Reporting entity

Zagrebačka burza d.d. ("the Company") is a company domiciled in Republic of Croatia and was registered at the Commercial Court in Zagreb on 5 July 1991. The address of the Company's registered office is Eurotower, 22nd floor, Ivana Lučića 2a/22, Zagreb, Croatia.

The business activities of the Company include: management of the regulated market; collection, processing and publishing of trading data; management of Multilateral Trading Facility; development, maintenance and disposition of computer software used for management of the regulated market and for collection, processing and publishing of the data on securities trading; organizing and providing professional trainings for participants of capital markets.

At the year end the Company was owned by 217 shareholders (*2017:* 273 *shareholders*). The Company does not have an ultimate parent company.

At 29 July 2016 General Assembly made a decision to split 46,357 ordinary shares of nominal value of HRK 1,000 into 4,635,700 ordinary shares of nominal value of HRK 10. The decision was effective as of 11 August 2017.

At 31 August 2017 all of the 4,635,700 issued ordinary shares were listed to the Official Market of Zagreb Stock Exchange.

The activities of the Company are regulated by Croatian Agency for Supervision of Financial Services ("HANFA") and the activities of the Ljubljanska borza d.d. are regulated by the Slovenian Securities Market Agency (“ATVP”).

The Zagrebačka burza d.d. Group (“the Group”) consists of Zagrebačka burza d.d., Zagreb, Republic of Croatia, foreign subsidiary Ljubljanska borza d.d.,Ljubljana, Republic of Slovenia. The Group has also foreign joint venture SEE Link d.o.o., Skopje, Republic of Macedonia and associate Funderbeam South-East Europe d.o.o., Zagreb, Republic of Croatia.

These financial statements comprise consolidated financial statements of the Group as defined in International Financial Reporting Standard 10 *Consolidated Financial Statements*. Zagrebačka burza d.d. prepares separate financial statements, which are published as a separate document.

2 Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by European Union (“IFRS EU”).

These are the first financial statements of the Group that include the first application of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Assets. Changes in accounting policies are explained in Note 3.

These financial statements were authorised for issue by the Management Board on 26 April 2019 for approval by the Supervisory Board.

b) Basis of measurement

Financial statements are prepared on a historical cost basis, except for financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, land and buildings which are measured at fair value.

Notes to the consolidated financial statements (continued)

2 Basis of preparation (continued)

c) *Functional and presentation currency*

The financial statements are presented in the local currency, Croatian kuna ("HRK"), which is the currency of the primary economic environment in which the Company operates ("the functional currency"). The functional currency of Slovenian subsidiary is euro. All financial information presented in HRK has been rounded to the nearest thousand.

d) *Use of estimates and judgments*

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, and given the information available at the date of preparation of the financial statements, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have a significant effect on the amounts disclosed in the financial statements are described in Note 27.

e) *Foreign currency*

i) Foreign currency translations

Transactions in foreign currencies are translated into respective functional currency at the spot exchange rate at the date of transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is difference between the amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and amortized cost in foreign currency translated at the spot exchange rate at the reporting date.

Non-monetary assets and liabilities that are measured at fair value in foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognised in profit of loss.

In addition to HRK, the most significant currency in which the Group has assets and liabilities is Euro. The exchange rate used for translation on 31 December 2018 was EUR 1 = HRK 7.417575 (31 December 2017: EUR 1 = HRK 7.513648). Exchange rate used for translation of Group's share in joint venture loss on 31 December 2018 was MKD 1 = HRK 0.1193 (31 December 2017: MKD 1 = HRK 0.1221928).

Notes to the consolidated financial statements (continued)

2 Basis of preparation (continued)

e) Foreign currency (continued)

ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into HRK at the spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into HRK at the annual average exchange rates.

Foreign currency differences are recognised in other comprehensive income, and accumulated in the foreign currency translation reserve (translation reserve).

When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to NCI.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognised in OCI, and accumulated in the translation reserve within equity.

3 Significant accounting policies

a) Basis of consolidation

i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the total is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

a) Basis of consolidation (continued)

ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

iii) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in a joint venture and associate. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interest in joint venture is accounted for using the equity method. It is initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which joint control ceases.

Associates are entities over which the Group has significant influence but no control. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and are initially recognised at cost.

The Group's share of its associates' post-acquisition gains or losses is recognised in the income statement and its share of their post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

iv) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interest and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments (refer to accounting policy 3 c) Financial instruments) depending on the level of influence retained.

v) Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

b) New Standards, Interpretations and Amendments to published Standards Accepted by the European Union

The Group has initially applied IFRS 15 Revenue from contracts with customers and IFRS 9 Financial Instruments as of January 1, 2018. Except as described below, the accounting policies applied in these financial statements are the same as those applied in the Group's financial statements for the year ended 31 December 2017.

Due to the transition method chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated.

IFRS 15 Revenue from contracts with customers

On 1 January 2018, the Group adopted IFRS 15 'Revenue from contracts with customers' (IFRS 15).

Under IFRS 15, revenue is recognized according to the form of transfer of goods and services to customers. The amount recognized should reflect the amount the entity expects to be entitled to in return for those products and services.

The Group adopted IFRS 15, using the cumulative effect method, by recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance at January 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18, Revenue.

The impact of adopting the new standard has been reflected through transition adjustments to the Group's opening accumulated losses at the start of the current year, as presented in the consolidated statement of changes in equity. The table below provides a summary of the impact at the date of transition:

HRK '000

	As at 31 December 2017	Re-measurement	New Classification according to IFRS 15	**As at 1 January 2018**
Deferred income and accrued expenses	**2,729**	329	(3,058)	**-**
Contractual liabilities	**-**	-	3,058	**3,058**
Deferred tax	**(297)**	(7)	-	**(304)**
Accumulated loss	**(21,376)**	(322)	-	**(21,698)**

The effect of initially applying IFRS 15 is attributed to the timing of recognition of initial listing fees. Under IFRS 15, revenue is recognized when performance obligations have been satisfied. The identification of performance obligations and determining the timing of when performance obligations are satisfied, either at a point in time or over time, requires judgement.

Until 31 December 2017, the initial listing fees for securities were each accounted for as a separate performance obligation, and revenue was recognised when (or as) the promised service was transferred to the customer and the customer obtained control of such service. More specifically, this was the point in time when the initial listing took place. Under IFRS 15, the Group determined that the initial listing service and the initial year sustaining service contain one single performance obligation, and therefore concluded that the initial listing fee should be deferred over a period over which the customer has a material right to the services rendered.

There were no other changes to the recognition of revenue as a result of applying IFRS 15.

In 2018, the Group received HRK 1,601 thousand of total initial listing fees, of which HRK 1,029 thousand was recognised in profit or loss for the year 2018, with the balance of HRK 572 thousand to be recognised over the remaining deferral period. Initial listing fees received in 2017 in the amount of HRK 329 thousand were recognised during 2018.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

b) New Standards, Interpretations and Amendments to published Standards Accepted by the European Union

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

Details of the new significant accounting policies and the nature and effects of changes in the previous period are listed below.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

According to IFRS 9, derivative instruments embedded in contracts that result in a financial asset according to the standard are not separated from the contract. Instead, the hybrid financial instrument as a whole is assessed at the initial classification. IFRS 9 largely retains the existing requirements of IAS 39 related to the classification and measurement of financial liabilities.

Subsequent measurement of financial assets is as follows:

Financial assets at amortized cost are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is decreased by impairment losses. Interest income, foreign exchange differences and allowances are recognized in the income statement. Any gain or loss is recognized in the income statement.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Net gains and losses, including all interest income or dividends, are recognized in the income statement.

Financial assets at amortized cost of the Group as at 31 December 2018 include: Trade and other receivables, loans and cash and cash equivalents. They are classified as loans and receivables under IAS 39 and are now classified as assets held at amortized cost.

Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model. The new impairment model also applies to financial assets at amortised cost, certain loan commitments and financial guarantee contracts valued through other comprehensive income, but not to equity investments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The Group adopted IFRS 9, using the cumulative effect method, by recognizing the cumulative effect of initially applying IFRS 9 as an adjustment to the opening balance at January 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 39. The Group estimated that the new standard has no effect on the valuation of financial instruments, only on the classification.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

b) New Standards, Interpretations and Amendments to published Standards Accepted by the European Union (continued)

IFRS 9 Financial Instruments (continued)

The following table shows the original measurement categories in accordance with IAS 39 and the new categories of measurements in accordance with IFRS 9 for the financial assets and financial liabilities of the Group as of January 1, 2018.

in thousand HRK	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Borrowings to related parties	Loans and receivables	Amortized cost	173	173
Trade receivables	Loans and receivables	Amortized cost	3,143	3,143
Cash and cash equivalents	Loans and receivables	Amortized cost	1,849	1,849
Guarantee deposits	Loans and receivables	Amortized cost	249	249
Units in open investment funds	Fair value through profit and loss	Fair value through profit and loss	18,217	18,217
Investment in bond	Available for sale	Fair value through other comprehensive income	-	-
Investment in equity instruments	Available for sale	Fair value through other comprehensive income	197	197
Total financial assets			**23,828**	**23,828**
Financial liabilities				
Trade Payables	Other financial liabilities	Other financial liabilities	1,552	1,552
Total financial liabilities			**1,552**	**1,552**

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

c) Equipment and intangible assets

Property and equipment are stated at historical cost or deemed cost less accumulated depreciation and impairment losses, except for owner-occupied property which have been measured according to the revaluation method. The latter method requires that property, whose fair value can be measured reliably, to be recognized at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value of land and buildings is measured on the basis of market benchmarks, in an appraisal that is normally prepared by professionally qualified appraisers.

Subsequent cost is included in the asset's carrying amount or is recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the period in which they have incurred. Depreciation is provided on all assets except land and assets not yet brought into use on a straight-line basis at prescribed rates designed to write-off the cost over the estimated useful life of the asset.

The estimated useful lives are as follows:

Buildings	31 years
Computer and office equipment	4-7 years
Office furniture and equipment	5-7 years
Computer software	2-5 years
Trading system software	6-18 years
Leasehold improvements	period of lease

When an item of property is revalued, the carrying value of that asset is adjusted to the revalued amount so that the accumulated depreciation is eliminated against the gross carrying amount of the asset.

After initial recognition of property:

- if an asset's carrying amount is increased as a result of revaluation, the increase is recognized in Other comprehensive income and accumulated in equity under the revaluation reserve caption
- if the carrying amount is decreased as a result of revaluation, the decrease is recognized in Profit or loss
- if an asset's carrying amount is increased as a result of revaluation, the increase is recognized in Profit or loss to the extent that it reverses a revaluation decrease of the same property previously recognized in Profit or loss
- if the carrying amount is decreased as a result of revaluation, the decrease is recognized in Other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset

The useful life, the residual value and amortization methods are checked and corrected, if necessary, at each reporting date.

Goodwill

According to IFRS 3 *Business Combinations*, any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired on the date of the acquisition is presented as goodwill and recognised as an asset. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or the group of cash-generating units) to which the goodwill relates.

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Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

c) Equipment and intangible assets (continued)

Goodwill (continued)

Where the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro-rata to the other assets of the unit on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

d) Financial instruments

Policy applicable from 1 January 2018

Classification

Classification categories

After initial recognition, financial assets are classified as assets at amortized cost, assets at fair value through other comprehensive income (FVOCI) and assets at fair value through profit and loss (FVTPL).

Financial assets at amortized cost

Financial assets are measured at amortized cost if they meet both of the following conditions and if they are not valued at fair value through profit and loss (FVTPL):

- The purpose of a business model is to hold assets in order to collect contractual cash flows;
- The contractual terms of a financial asset presuppose cash flows that are solely principal and interest payments (SPPI), at specific dates.

This category includes: loans and receivables from customers, cash and cash equivalents and placements with banks.

Financial assets at fair value through other comprehensive income

A debt instrument is measured at fair value through other comprehensive income if it meets both of the following conditions and if it is not valued at fair value through profit and loss account (FVTPL):

- the purpose of the business model is the holding of assets for the purpose of collecting contractual cash flows and the sale of financial assets; and
- contractual terms of financial assets presuppose cash flows that are solely principal and interest repayment (SPPI), at specific dates.

In the initial recognition of an investment in equity instruments that are not held for trading, the Group may irrevocably decide to display subsequent changes in fair value through other comprehensive income. This choice is made on the basis of a particular investment.

This category includes shares and bonds.

Financial assets at fair value through profit or loss

All other financial assets are classified as financial assets at fair value through profit or loss.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

d) Financial instruments (continued)

Policy applicable from 1 January 2018 (continued)

Classification (continued)

Financial assets at fair value through profit or loss (continued)

In addition, at initial recognition, the Group may irrevocably evaluate financial assets at fair value through profit or loss, although it meets the measurement requirements at amortized cost or at fair value through other comprehensive income, if this eliminates or substantially reduces the accounting mismatch that would contrary.

As at 31 December 2018, financial assets at fair value through profit or loss refer to investments in open-end investment funds. These assets are classified as held for trade.

Financial liabilities

Group's financial liabilities that are not measured at fair value through profit or loss are measured at amortized cost, which includes liabilities for loans, guarantee deposits and other liabilities.

Reclassification

Financial assets are not reclassified after initial recognition, except in the period after the change in the financial model for the financial asset management.

Business Model Assessment

Business models determines how to manage a group of financial assets as a whole (portfolio) in order to achieve a specific business goal and define the way in which financial assets are expected to generate cash flows. Financial assets held for trading and whose performance is assessed on the basis of fair value are measured at fair value through profit and loss account, as it is not held for the purpose of collecting the contracted cash flows nor for collecting contractual cash flows and for sale.

Recognition and derecognition

Financial assets and financial liabilities at fair value through profit or loss are recognized at the trading date, ie the date on which the Group assumes the obligation to buy or sell the assets. Loans and receivables and other financial liabilities that are valued at amortized cost are recognized at the time the financial asset is transferred to the borrowers or liabilities received from the lender.

The Group ceases to recognise financial assets (in whole or in part) when the right to receive cash flows from a financial asset expires or when it loses control of the contractual rights over such a financial asset. This occurs when the Group substantially transfers all the risks and rewards of ownership to another business entity or when the rights have been exercised, ceded or expired. The Group ceases to recognize financial liabilities only when they cease to exist, ie when they are met, cancelled or expired. If the terms of the financial liability change, the Group will cease to recognize this obligation and start recognizing the new financial liability with the new terms.

Notes to the financial statements (continued)

3 Significant accounting policies (continued)

d) Financial instruments (continued)

Policy applicable from 1 January 2018 (continued)

Recognition and derecognition (continued)

From 1 January 2018, any cumulative gain or loss recognized in the comprehensive income from equity securities at fair value through other comprehensive income shall not be recognized in the income statement upon termination of recognition of such securities. All interest on transferred financial assets that meets the conditions for cessation of recognition is recognized as a separate asset or liability.

Initial and subsequent measurements

Financial assets and liabilities are initially recognized at fair value increased by, in case of financial assets and financial liabilities not at fair value through profit or loss, transaction costs that are directly related to the acquisition or issuance of a financial asset or a financial liability. Transaction costs of financial assets at fair value through profit or loss are recognized immediately in profit or loss, while other financial instruments are amortized. All financial assets at fair value through profit or loss are subsequently carried at fair value, excluding impairment of selling costs. Loans and receivables are valued at amortized cost less impairment losses and other financial liabilities at amortized cost. The amortized cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Fair value measurement principles

The fair value of financial assets at fair value through profit or loss is quoted bid market price at the reporting date, without any deduction for selling costs. The Group assesses separately each financial instrument to determine if there is an active or inactive market for the instrument.

Fait value hierarchy

The Group uses the following levels for determining the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities,

Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly,

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Policy applicable before 1 January 2018

Classification and recognition

The Group classifies financial assets in the following categories: financial assets and liabilities at fair value through profit or loss; loans and receivables; and financial assets at fair value through comprehensive income. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition and re-evaluates this designation at every reporting date.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

d) Financial instruments (continued)

Policy applicable before 1 January 2018 (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets which are classified as held for trading or, on initial recognition, designated by the Group as at fair value through profit or loss. The Group does not apply hedge accounting.

Trading assets are those that the Group acquires or incurs principally for the purpose of sale and repurchase in the near term, or held as part of a portfolio which is managed for the purpose of making profit in the short term. Those include investments in open-ended investment funds.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise guarantee deposits with banks classified as “guarantee deposits”, “short-term deposits”, “trade receivables and other assets” and ““borrowings to related parties”.

Financial assets at fair value through comprehensive income

Assets at fair value through comprehensive income relate to equity and debt securities. Financial assets at fair value through comprehensive income are initially recognized at fair value plus directly related transaction costs. They are subsequently measured at fair value, unless there is no reliable measure of fair value.

Recognition and de-recognition

Purchases and sales of financial assets at fair value through profit or loss and financial assets at fair value through comprehensive income are recognized on the settlement date. Loans and receivables and other financial liabilities carried at amortized cost are recognized when financial assets are placed with borrowers or received from lenders.

The Group derecognizes financial assets when the contractual rights to receive cash flows from the financial asset have expired or when it loses control over the contractual rights on those financial assets. This occurs when the Group transfers substantially all the risks and rewards of ownership to another entity or when the rights are realized, surrendered or have been expired.

Financial assets at fair value through profit or loss and financial assets at fair value through comprehensive income cease to be recognized at the settlement date. Loans and receivables are derecognized on the date of the transfer of funds by the Group.

Financial liabilities are derecognized when the financial liability ceases to exist, i.e. when obligations per liability have been fulfilled, cancelled or the liability has expired. If the terms of a financial liability change, the Group will cease recognizing the liability and will immediately recognize a new financial liability, with new terms and conditions.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

d) Financial instruments (continued)

Policy applicable before 1 January 2018 (continued)

Initial and subsequent measurement

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset and liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuing of the financial asset or financial liability.

After initial recognition the Group measures financial instruments at fair value through profit or loss and financial assets at fair value through comprehensive income at their fair value, without any deduction for selling costs. Equity securities classified as at fair value through comprehensive income that are not quoted on an active market and whose fair value cannot be reliably determined are stated at cost less impairment.

Loans and receivables are measured at amortized cost less impairment losses, financial liabilities other than those at fair value through profit or loss are measured at amortized cost. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and they are amortized using the effective interest rate of the instrument.

Gains and losses from a change in the fair value of financial assets at fair value through profit or loss are recognized in the income statement.

Gains and losses from subsequent measurement

Gains and losses from a change in the fair value of financial assets through comprehensive income are recognized in other comprehensive income. For monetary assets which are at fair value through comprehensive income, impairment losses, foreign exchange rate gains and losses, interest income and amortization of premium or discount using the effective interest method are recognized in income statement.

Gains or losses arising from financial assets and financial liabilities carried at amortized cost are included in profit or loss over the period of amortization, using the effective interest rate method. Gains or losses may also be recognized in profit or loss when the financial instrument is derecognized or when its value is impaired.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

d) Financial instruments (continued)

Impairment of financial assets applicable from 1 January 2018

Financial instruments

The Group recognises impairment losses based on expected credit losses related to financial assets measured at amortized cost and contractual assets.

Impairment of trade receivables is always measured in the total amount of expected credit loss in the total economic life of the asset concerned.

When estimating expected credit losses, the Group considers reasonable and substantiated information that is relevant and available at no additional cost or effort. This includes quantitative and qualitative information and analysis, based on the Group’s historical experience and credit rating assessment, including information related to the future.

The Group considers that the risk of a financial asset is high if more than 90 days have elapsed since the date of its maturity. Such property is impaired in full.

At each reporting date, the Group assesses whether financial assets carried at amortised cost is credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following:

- the likelihood that the debtor will enter bankruptcy or other form of financial reorganization or restructuring; or
- significant financial difficulties of the debtor.

The Group considers that a financial asset is not recoverable if it is unlikely that the debtor will fulfil his obligations to the Group completely without the Group having to initiate actions such as the use of a collateral asset (if any). The maximum period to be taken into account when estimating expected credit loss is the maximum contracted period during which the Group is exposed to credit risk.

Measurement of Expected credit losses

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECL are discounted at the instrument’s effective interest rate.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

d) Financial instruments (continued)

Impairment of financial assets applicable before 1 January 2018

At each reporting date the Group assesses whether there is objective evidence that the financial assets which are not classified as financial assets at fair value through profit or loss have been impaired. Financial assets are impaired when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an adverse impact on estimated future cash flows.

The Group considers evidence of impairment on an asset-by-asset basis.

Objective evidence that financial assets are impaired include default or delinquency of a borrower, restructuring of a loan, or an advance received by the Group under the terms which the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a Group of assets, such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group of the similar assets.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss and recorded in an allowance account against relating asset. Interest income on the impaired asset continues to be recognized as unwinding of discount. When a subsequent event causes the decrease of the amount of impairment loss, the loss is reversed in income statement.

For investments classified as assets at fair value through comprehensive income, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the assets are impaired. If any such indication exists for financial assets at fair value through comprehensive income, the cumulative loss, measured as the difference between the acquisition cost and the current fair value on that financial asset is removed from other comprehensive income and recognized in income statement.

If, in a subsequent period, the fair value of a debt instrument at fair value through comprehensive income increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in income statement, the impairment loss is reversed through income statement. Any subsequent recovery in the fair value of an impaired equity security at fair value through comprehensive income is recognized in other comprehensive income, not in income statement.

Trade receivables, other assets and short-term deposits with banks

Trade receivables, other assets and short-term deposits with banks are initially recognized at fair value plus transaction costs, and subsequently carried at amortized cost less any impairment losses.

Investments in funds

Investments in open and closed-ended funds are classified as financial assets at fair value through profit or loss and are carried at fair value.

Trade payables and other liabilities

Trade and other payables are initially recognized at fair value, and subsequently measured at amortized cost.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

e) Impairment of non-financial assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is re-estimated.

The recoverable amount is estimated at each reporting date for intangible assets that have an indefinite useful life (at the reporting date the Group did not have such assets) and intangible assets that are not yet available for use.

Assets that are subject to amortization or depreciation are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in income statement.

The recoverable amount of equipment and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing the amount of impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows available (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. Non-financial assets that have been impaired are reviewed for reversals of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the carrying amount of the assets does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

f) Leases

Payments made under operating leases are recognized in income statement on a straight-line basis over the term of the lease.

Leases where all the risks and rewards incidental to ownership of an asset are transferred to the lessee are classified as finance leases. A liability at an amount equal to the present value of the future lease payments, including any guaranteed residual value, is recognised. Finance expense is recognised in profit or loss over the term of the lease using the effective interest rate method.

g) Cash and cash equivalents

Cash and cash equivalents for the purpose of preparation of cash flow statements and the statement of financial position comprise gyro accounts and cash in hand.

h) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS are calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS are determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

i) Employee benefits

Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are recognized as an expense in income statement of the period in which they have been incurred.

i) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

j) Taxation

Income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the reporting date, and considering the adjustments to tax payable in respect of positions from previous years.

Deferred taxes are calculated using the balance sheet method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable profit in the years in which those temporary differences are expected to be realized, or settled, based on tax rates enacted or substantially in force at the reporting date.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

k) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation which can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting of the expected future cash flows at a pre-tax rate that reflects current assessment of the time value of money and the risks specific to the liability.

Restructuring

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided by the Group.

l) Issued share capital, share premium and reserves

Share capital represents the nominal value of paid-in shares classified as equity and it is denominated in HRK. Share premium represents the excess of the paid-in amount (net of transaction costs) and nominal value of the issued shares upon initial issue of shares. Any profit for the year after appropriations is transferred to retained earnings.

A legal reserve has been created in accordance with Croatian law, which requires 5% of the profit for the year to be transferred to the reserve until the total of legal reserves and capital reserves reaches 5% of issued share capital. The legal reserve can be used for covering current and prior period losses in the amount of up to 5% of issued share capital.

m) Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of the services in the ordinary course of the Group's activities, as follows: trading commissions, membership fees, fees for the maintenance of quotations and other fees.

Commission income is recognized when the service is provided. Income from fees is deferred over the relevant period to which the fees relate.

Income from maintenance of quotations, subscriptions for information and subscriptions for the real time monitoring of trade is deferred over the period of duration of the relevant quotation or subscription.

Finance income

Interest income is recognized in income statement in the corresponding time period for all interest-bearing financial instruments measured at amortized cost using the effective interest rate method.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

n) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Management Board of the Bank (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The owners and the management (Chief operating decision makers –"CODM")) for the purpose of assessing performance and making resource allocations decisions identified operating segments on a geographical basis. Geographical segmentation is based on the domicile of the group subsidiaries.

The geographical information analyses the Group's revenue and non-current assets by the Group's country of domicile and other countries.

The Group does not specify any additional reportable segments per product or service type in this moment, given that it is sufficient for CODM to assess the performance and make resource allocation decision on the level of the entire group. Segment reporting analysis is presented in Note 26.

The Group has identified two primary segments: Croatia and Slovenia. The primary segmental information is based on the geographical location of business segments. Segmental results are measured at reported amounts in the financial statements.

o) Standards, interpretations and amendments to published standards that are not yet effective and were not used in preparation of these financial statements

Several new and altered Standards and Interpretations have been issued by the International Accounting Standards Board ("IASB") and its International Financial Reporting Interpretations Committee but are not applicable to entities reporting under IFRS as adopted by EU, for the year ended 31 December 2018, and have not been applied in preparation of these financial statements.

IFRS 16

The Group is required to apply IFRS 16 Leases from January 1, 2019, and it is necessary to assess the first-time adoption effect of IFRS 16 on the Group's financial statements. The final impact of the first-time adoption effect may differ as new accounting policies are subject to change until the first financial statements which will include the first-time adoption date are issued.

IFRS 16 was issued in January 2016 and supersedes IAS 17 Leases and related interpretations. IFRS 16 prescribes the principles for recognising, measuring, presenting and issuing leases and requires that lessees take into account all leases within a single accounting model similar to the financial leasing model under IAS 17. The new Standard introduces a number of limited scope exceptions for lessees which include - leases where the underlying asset has a low value ('small-ticket' leases, eg personal computers), and short-term leases (12 months or less). At the beginning date of the lease, the lessee will recognize the obligation to pay the lease as a liability and the rights to use the asset in question as an asset during the lease period.

The Group has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The effects of the new standard arise from lease of business premises and vehicles. There is no significant impact of the new standard expected on the Group's net assets.

Notes to the consolidated financial statements (continued)

4 Sales revenue

	2018 HRK '000	2017 HRK '000
Commissions	7,052	7,757
Income from quotation maintaining	6,819	6,767
Income from quotation fee	1,029	763
Membership fees	521	571
Total sales revenue	**15,421**	**15,858**

Commissions are charged from members based on value of realised transactions at the time of execution of the transaction.

Income from quotation maintenance represents an annual commission for the continuation of inclusion of the securities in the Official and Regular Market quotations.

Quotation fees are collected from issuers of securities on the Official and Regular Market.

Membership fees include one-time admission fee payable for acquiring the status of Exchange Member, as well as fees charged to existing members on a quarterly basis.

5 Other operating income

	2018 HRK '000	2017 HRK '000
Income from application programming interface services	-	704
Income from the supply of information	5,609	4,878
Sale and lease of equipment	196	246
Income from seminars	1,461	603
Income from grant	-	1,021
Other income	1,201	917
Total other operating income	**8,467**	**8,369**

6 Staff costs

	2018 HRK '000	2017 HRK '000
Salaries		
Net salaries	6,444	6,676
Payroll deductions	1,393	1,407
Payroll contributions	2,535	2,395
Total salaries	**10,372**	**10,478**
Other staff costs	481	462
Total staff costs	**10,853**	**10,940**

The number of employees at the end of 2018 was 37 (2017: 38). Staff costs include HRK 1,008 thousand (2017: HRK 989 thousand) of defined pension contributions paid into obligatory pension funds. Contributions are calculated as a percentage of employees' gross salaries. In 2018 bonus payments in Ljubljanska borza d.d. amounted to HRK 298 thousand (2017: HRK 201 thousand). In 2018 no bonuses were paid in Zagrebačka burza d.d., (2017: HRK 359 thousand).

Notes to the consolidated financial statements (continued)

7 Other operating expenses

	2018 HRK '000	2017 HRK '000
Software and licences	3,564	6,531
Professional services	1,497	2,042
Rental expenses	1,380	1,291
Post and telephone services	282	483
Utility expenses	506	831
Fees and charges	787	736
Entertainment	199	145
Business travel	254	149
Write off of software	27	616
Impairment of debt securities classified as available for sale	-	44
Impairment of trade receivables	261	278
Other expenses	2,785	2,544
Total other operating expenses	**11,542**	**15,690**

8 Financial income and expense

	2018 HRK '000	2017 HRK '000
a) Financial income		
Net (losses)/gains from financial assets at fair value through profit or loss	(31)	557
Interest income	72	55
Other financial income	25	-
Total financial income	**66**	**612**
b) Financial expense		
Interest expense	(7)	(9)
Total financial expense	**(7)**	**(9)**
Net financial result	**59**	**603**

Notes to the consolidated financial statements (continued)

9 Income tax

a) Income tax credit

	2018 HRK '000	2017 HRK '000
Current income tax expense	(86)	(73)
Deferred income tax	(13)	(38)
Total income tax credit	**(99)**	**(111)**

b) Reconciliation of accounting profit and current income tax liability

	2018 HRK '000	2017 HRK '000
Loss before tax	**289**	**(3,644)**
Tax calculated at 18% (2017: 18%)	52	(656)
Effects of different tax rates	14	7
Tax non-deductible expenses	117	113
Non-taxable income	(362)	(122)
Use of tax losses	40	(4)
Tax losses from Zagrebačka burza d.d. not recognised as deferred tax assets	24	627
Effect of tax rate change in Slovenia from 17% to 19%	-	10
Consolidation adjustments	214	136
Income tax credit	**99**	**(111)**
Effective income tax rate	34,25%	n/a

c) Tax losses carried forward

Gross tax losses arising from Zagrebačka burza d.d. amounting to HRK 10,363 thousand are available for offset against the future taxable profits of the Company at the end of 2018. A tax loss may be carried forward by the Company for five years subsequent to the year in which it arose, subject to review by the Ministry of Finance. At the end of 2017 the Company had HRK 11,182 thousand of tax loss available to be carried forward to subsequent years. At both reporting dates the Company did not recognise deferred tax assets in respect of tax losses carried forward, as it is uncertain when sufficient taxable profits will be available against which the deferred tax assets can be utilised.

At 31 December 2018 the Group did not recognize deferred tax assets in respect of temporary differences (unused holiday provisions, receivables impairment allowances) and carried forward tax losses on Zagrebačka burza d.d., as it is uncertain if taxable profits will be available against which the deferred tax assets can be utilised. For the next reporting date, the Group will re-evaluate assumptions for the recognition of deferred tax assets.

Tax losses can't be transferred and used within group members. Despite the existence of tax losses from previous periods, Ljubljana Borza d.d. had a current income tax expense of 81 thousand kuna, since tax losses in Slovenia can only be used up to 50% of the profit. Therefore, Ljubljanska borza d.d. took advantage of tax losses of 40 thousand kuna.

Notes to the consolidated financial statements (continued)

9 Income tax (continued)

c) Tax losses carried forward (continued)

At 31 December the gross tax losses available to be carried forward are as follows:

	2018 HRK '000	2017 HRK '000
Up to 1 year	1,006	692
Up to 2 years	2,329	1,006
Up to 3 years	3,672	2,329
Up to 4 years	3,221	3,672
Up to 5 years	135	3,483
Total tax loss available to be carried forward	**10,363**	**11,182**

d) Deferred tax assets/liabilities

At 31 December 2018 the Group recognised deferred tax assets arising from temporary differences (trade receivables, depreciation and tax losses carried forward) from Ljubljanska borza d.d.

Deferred tax assets

as at	Trade receivables	Depreciation	Tax losses carried forward	Total
1 January 2017	94	10	225	329
(Decrease) / increase in deferred tax assets recognized in the income statement	(29)	2	(5)	(32)
Effects of changes in exchange rate	1	(1)	-	-
31 December 2017	**66**	**11**	**220**	**297**
1 January 2018	66	11	220	297
First time adoption effect of IFRS 15	-	-	7	7
(decrease) / increase in deferred tax assets recognized in the income statement	14	-	(44)	(30)
31 December 2018	**80**	**11**	**183**	**274**

Deferred tax liabilities

as at	Fair value adjustment of property
1 January 2017	84
increase in deferred tax liabilities recognized through other comprehensive income	150
Reduction in deferred tax liability recognized in profit or loss	(3)
Changes in deferred tax liability due to changes in rates in Slovenia from 17% to 19%	9
31 December 2017	**240**
1 January 2018	**240**
Reduction of deferred tax liability recognized through income statement	**(17)**
31 December 2018	**223**

Notes to the consolidated financial statements (continued)

10 Property and equipment

	Land and building	Computers	Furniture and other equipment	Leasehold improvements	Under construction	Total
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Cost						
At 1 January 2017	**9,589**	**6,201**	**2,608**	**1,118**	**73**	**19,589**
Additions	1,943	8	671	154	579	3,355
Disposals	-	(622)	(24)	-	(652)	(1,298)
Effects of movements in exchange rate	28	-	(31)	-	-	(3)
Change in fair value of property	1,306	-	-	-	-	1,306
Termination of amortization due to revaluation of the property	(548)	-	-	-	-	(548)
At 31 December 2017	**12,318**	**5,587**	**3,224**	**1,272**	**-**	**22,401**
At 1 January 2018	**12,318**	**5,587**	**3,224**	**1,272**	**-**	**22,401**
Additions	43	26	215	-	257	541
Disposals	(1,331)	(1,104)	(988)	-	(203)	(3,626)
Effects of movements in exchange rate	(155)		(39)		-	(194)
At 31 December 2018	**10,875**	**4,509**	**2,412**	**1,272**	**54**	**19,122**
Accumulated depreciation						
At 1 January 2017	**(274)**	**(5,740)**	**(1,734)**	**(1,100)**	**-**	**(8,848)**
Charge for the period	(279)	(118)	(152)	(11)	-	(560)
Disposals	-	622	-	-	-	622
Effects of movements in exchange rate	5	-	26	-	-	31
Termination of amortization due to revaluation of the property	548	-	-	-	-	548
At 31 December 2017	**-**	**(5,236)**	**(1,860)**	**(1,111)**	**-**	**(8,207)**
At 1 January 2018	**-**	**(5,236)**	**(1,860)**	**(1,111)**	**-**	**(8,207)**
Charge for the period	(345)	(111)	(268)	(35)	-	(759)
Disposal	-	1,104	988			2,092
Effects of movements in exchange rate	-	-	27	-		27
At 31 December 2018	**(345)**	**(4,243)**	**(1,113)**	**(1,146)**	**-**	**(6,847)**
Net book value at						
31 December 2017	**12,318**	**351**	**1,364**	**161**	**-**	**14,194**
31 December 2018	**10,530**	**266**	**1,299**	**126**	**54**	**12,275**

Notes to the consolidated financial statements (continued)

11 Intangible assets

	Software	Long-term deferred costs	Goodwill	Total
	HRK '000	HRK '000	HRK '000	HRK '000
Cost				
At 1 January 2017	**17,904**	**177**	**1,190**	**19,271**
Additions	689	20	-	709
Write-offs	(15,293)	(4)	-	(15,297)
Effect of movements in exchange rates	(52)	(1)	(7)	(60)
At 31 December 2017	**3,248**	**192**	**1,183**	**4,623**
At 1 January 2018	**3,248**	**192**	**1,183**	**4,623**
Additions	47	15	-	62
Write-offs	(996)	(4)	-	(1,000)
Effect of movements in exchange rates	(114)	(2)	(15)	(131)
At 31 December 2018	**2,185**	**201**	**1,168**	**3,554**
Accumulated amortization				
At 1 January 2017	**(15,256)**	**-**	**-**	**(15,256)**
Charge for the period	(1,232)	-	-	(1,232)
Write-offs	14,704	-	-	14,704
Effect of movements in exchange rates	52	-	-	52
At 31 December 2017	**(1,732)**	**-**	**-**	**(1,732)**
At 1 January 2018	**(1,732)**	**-**	**-**	**(1,732)**
Charge for the period	(375)	-	-	(375)
Write-offs	973	-	-	973
Effect of movements in exchange rates	100	-	-	100
At 31 December 2018	**(1,034)**	**-**	**-**	**(1,034)**
Net book value				
At 31 December 2017	**1,516**	**192**	**1,183**	**2,891**
At 31 December 2018	**1,151**	**201**	**1,168**	**2,520**

Notes to the consolidated financial statements (continued)

12 Investment in associate and joint venture

	31 December 2018 HRK '000	31 December 2017 HRK '000
Investment in SEE Link d.o.o. (33.33 %)	42	121
Investment in Funderbeam South-East Europe d.o.o. (20 %)	-	-
Total investment in associates and joint venture	**42**	**121**

As at 31 December the Group's associate and joint venture were as follows:

	Company	Country	Native of business	Holding 2018 %	Holding 2017 %
Joint venture	SEE Link d.o.o.	Macedonia	stock-exchange order routing	33.3	33.3
Associate	Funderbeam SEE d.o.o.	Croatia	finance intermediary	20	20

SEE Link d.o.o. is a joint venture (Zagrebačka burza d.d. has 1/3 ownership) that was founded in 2014. During 2017, all three owners paid in additional HRK 177 thousand in order to increase share capital of SEE Link d.o.o.

Summary of financial data for SEE Link d.o.o. is as follows:

	31 December 2018 HRK '000	31 December 2017 HRK '000
Non-current assets	1,018	1,490
Current assets	504	445
Out of which Cash and cash equivalents	197	406
Total assets	**1,522**	**1,935**
Non-current liabilities	-	-
Current liabilities	1,405	1,575
Out of which Current financial liabilities	-	-
Total liabilities	**1,405**	**1,575**
Total revenues	**735**	**979**
Depreciation and amortization	452	452
Net interest (expense)/income	(1)	(1)
Income tax	-	-
Loss for the year	**(239)**	**(156)**

Group investing in an associate and a joint venture is carried out according to the equity method.

Notes to the consolidated financial statements (continued)

12 Investment in associate and joint venture (continued)

Funderbeam South-East Europe d.o.o. is an associate established in 2017, while in 2018 it started operations. During 2018 the Company paid HRK 44.8 thousand on behalf of the Funderbeam South-East Europe d.o.o. as an increase in the Associate's share capital. Share ownership after increasing the amount of investment remained at 20%.

Summary of financial data for Funderbeam South-East Europe d.o.o. is as follows:

	31 December 2018 HRK '000
Ownership share	**20%**
Noncurrent assets	151
Current assets	263
Of which cash and cash equivalents	239
Total assets	**414**
Long term obligations	225
Short-term liabilities	1,005
Of which short-term financial liabilities	914
Total liabilities	**1,230**
Total revenue	**358**
Net interest (cost) / income	(34)
Income tax	-
Loss for the year	**(890)**

The Group has estimated that it doesn't have control over SEE Link d.o.o. and Funderbeam South-East Europe d.o.o. in accordance with the requirements of IFRS 10.

Notes to the consolidated financial statements (continued)

13 Financial assets

	31 December 2018 HRK '000	31 December 2017 HRK '000
a) Financial assets at fair value through other comprehensive income		
Investment in equity instruments	202	-
Investment in bonds	197	-
Impairment allowance for bonds	(197)	-
Impairment allowance for shares	(5)	-
Total	**197**	**-**
b) Financial assets available for sale		
Investment in equity instruments	-	202
Investment in bonds	-	197
Impairment allowance for bonds	-	(197)
Impairment allowance for shares	-	(5)
Total	**-**	**197**

Movement in impairment allowance for trade receivables

	2018 HRK '000	2017 HRK '000
Balance at 1 January	(202)	(158)
Impairment loss	-	(44)
Total	**(202)**	**(202)**

Investment in bonds relate to bond acquired for uncollected receivables. In 2018 the Group recognised impairment on this bond, which was recorded directly in profit or loss account (Note 7), given significant decline in value of investment.

The investment in equity instruments is carried at cost, given that they do not have quoted price and its fair value cannot be reliably measured.

	31 December 2018 HRK '000	31 December 2017 HRK '000
c) Financial assets at fair value through profit or loss		
Shares in open-ended investment funds	17,693	18,217
	17,693	**18,217**

Shares in open-ended investment funds are classified as fair value level 1 as at 31 December 2018 and 31 December 2017.

Notes to the consolidated financial statements (continued)

14 Trade receivables and other assets

	31 December 2018 HRK '000	31 December 2017 HRK '000
Trade receivables	5,607	5,072
Advances placed	41	54
Other assets	533	23
Impairment allowance	(2,174)	(1,929)
Total	**4,007**	**3,220**

In 2016 the Company launched SME Growth Market Project in cooperation with the European Bank for Reconstruction and Development ("EBRD"). The purpose of the grant is for consulting services for feasibility study of SME market stock exchange. As part of the project the Group recognised amount granted by the EBRD into other assets and into deferred income in the same amount.

Movement in impairment allowance for trade receivables

	2018 HRK '000	2017 HRK '000
Balance at 1 January	(1,929)	(1,915)
Impairment loss	(469)	(427)
Write off	16	264
Release of impairment allowance	208	149
Total	**(2,174)**	**(1,929)**

At the reporting date the Group had overdue receivables which were not impaired of HRK 644 thousand (31 December 2017: HRK 569 thousand). The Management holds these receivables to be fully recoverable.

Overdue receivables not impaired as at 31 December 2018 (HRK '000):

< *90* days	*91-120* days	*121-180* days	*181 - 360* days	>*360* days
526	62	-	56	-

Overdue receivables not impaired as at 31 December 2017 (HRK '000):

< *90* days	*91-120* days	*121-180* days	*181 - 360* days	>*360* days
498	1	37	33	-

Notes to the consolidated financial statements (continued)

15a Short-term deposits

	31 December 2018 HRK '000	31 December 2017 HRK '000
Short-term deposits with maturity over 3 months	4,083	2,633
Total short-term deposits	**4,083**	**2,633**

15b Long-term deposits

	31 December 2018 HRK '000	31 December 2017 HRK '000
Short-term deposits with maturity over 3 months	1,484	1,878
Total short-term deposits	**1,484**	**1,878**

Long-term deposit of EUR 250 thousand is a deposit in one business bank in Slovenia approved for 2 years at an interest rate of 0.45%.

16 Cash and cash equivalents

	31 December 2018 HRK '000	31 December 2017 HRK '000
Gyro account in foreign currency (EUR)	1,045	1,706
Gyro account in domestic currency	1,396	137
Cash in hand	3	6
Total cash and cash equivalents	**2,444**	**1,849**

Notes to the consolidated financial statements (continued)

17 Issued share capital

Share number movement:

	Number of shares	Nominal value of share capital in HRK	Issued share capital in HRK '000
1 January 2017	4,635,700	10	46,357
31 December 2017	**4,635,700**	**10**	**46,357**
1 January 2018	4,635,700	10	46,357
31 December 2018	**4,635,700**	**10**	**46,357**

All of the issued shares are authorized and fully paid in ordinary shares. On 31 August 2017, all of the issued shares were listed to the Official Market of Zagreb Stock Exchange.

As at 31 December 2018 the Group had 217 shareholders (2017: 273 shareholders) with ownership interests in the Group ranging between 0.01% and 19.98%.

18 Loss per share

Calculation of profit per share as at 31 December 2018 was based on the profit of HRK 190 thousand and a weighted average number of ordinary shares outstanding of 46,357,000 calculated as follows:

	31 December 2018	31 December 2017
Net profit/(loss) for the period (HRK'000)	190	(3,755)
Weighted average number of ordinary shares during the period	4,635,700	4,635,700
Basic and diluted profit/(loss) per share (in HRK)	**0.04**	**(0.81)**

Diluted earnings per share are the same as basic given there is no potential dilution effect from any instruments.

19 Financial liabilities

	31 December 2018 HRK '000	31 December 2017 HRK '000
Long-term financial liability	31	86
Short-term financial liability	60	60
Total financial liabilities	**91**	**146**

Financial liabilities relate to the finance lease of a motor vehicle acquired in 2018.

Notes to the consolidated financial statements (continued)

20 Trade and other payables

	31 December 2018 HRK '000	31 December 2017 HRK '000
Trade payables	979	1,552
VAT liability	72	30
Other short-term payables	895	1,361
Total trade and other payables	**1,946**	**2,943**

21 Contractual liabilities

	31 December 2018 HRK '000
Contractual liabilities from quotation maintaining	1,922
Contractual liabilities from initial listing fees	572
Other contractual liabilities	431
Total contractual liabilities	**2,925**
Provisions for bonuses and severances of Ljubljanska borza d.d. and other provisions	1,251
Total contractual liabilities and provisions	**4,176**

The contractual liability as at 31 December 2018 is shown below:

Contractual liabilities mostly relate to received customer fees for which services have not yet been executed. Trends of the Group's contractual liabilities in 2018 are shown below:

Deferred income (note 22 without provisions for bonuses and severances)

	HRK '000
31 December 2017	**2,729**
First time adoption effect	329
1 January 2018 (adjusted)	3,058
Income recognised in the income statement	(3,058)
Increase due to received fees (excluding amounts recognised as income during the period)	2,925
31 December 2018	**2,925**

Notes to the consolidated financial statements (continued)

22 Deferred income and other liabilities

	31 December 2017 HRK '000
Deferred income from quotation maintaining	2,297
Deferred income from grant agreement	-
Provisions for bonuses and severances of Ljubljanska borza d.d.	507
Other deferred income	432
Total deferred income and accrued expenses	**3,236**

23 Operating leases

Total future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2018 HRK '000			31 December 2017 HRK '000		
	Office space	**Motor vehicles**	**Total**	**Office space**	**Motor vehicles**	**Total**
Less than one year	692	79	**771**	710	78	**788**
Between one and five years	917	228	**1,145**	234	86	**320**
More than five years	-	-	-	-	-	-
Total operating leases	**1,609**	**307**	**1,916**	**944**	**164**	**1,108**

Notes to the consolidated financial statements (continued)

24 Financial instruments – risk exposures

Interest rate risk

The Group does not have significant amount of variable interest-bearing assets. The most significant interest-earning assets are short-term deposits in banks. Interest-bearing liabilities relate to finance lease which outstanding amount of HRK 200 thousand does not represent significant interest rate risk. The impact of changes in market interest rates on income statement is therefore assessed as not significant. As at 31 December 2018 remaining maturity of deposit with fixed interest rate is short-term and therefore the Management of the Group believes that fair value of this deposit is close to its carrying value.

Foreign currency risk

Except for HRK 683 thousand (2017: HRK 740 thousand) of the funds on the gyro account denominated in euro, trade receivables in amount of HRK 31 thousand and HRK 12 thousand of trade payable denominated in euro, there are no other financial assets and liabilities denominated in foreign currency. Thus the Group is not significantly exposed to foreign currency risk.

Credit risk

The maximum net exposure to credit risk is as follows:

	31 December 2018 HRK '000	**31 December 2017 HRK '000**
Cash and cash equivalents (excluding cash in hand)	2,441	1,843
Short-term deposits	4,083	2,633
Trade receivables and other assets	4,007	3,220
Guarantee deposits	250	249
Long-term deposits	1,484	1,878
Loans given to related party	216	173
Total	**12,481**	**9,996**

The Group generally does not take collateral due to the nature of its operations. Other than short-term deposit and cash in domestic banks (Note 15, 16), the Group did not have significant concentration of credit risk at the reporting date.

Notes to the consolidated financial statements (continued)

24 Financial instruments – risk exposures (continued)

Price risk

Price risk is the risk that the value of financial instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer, or by factors affecting all instruments traded in the market. The Group's investment in open-ended investment funds (cash funds) are carried at fair value with fair value changes recognized in income statement. Accordingly, such changes in market conditions will directly affect gains or losses on financial instruments recognized in income statement.

Price risk is mitigated by the Group through diversification of its portfolio of investments in open-ended investment funds to various types of funds, managed by different investment companies, and investing in cash funds. Assuming all other variables unchanged, a decrease/increase in the market price of units in investment funds by -/+1% at the reporting date would result in decrease/increase of profit before tax by HRK 177 thousand (2017: HRK 182 thousand).

Liquidity risk

The Group does not have interest-bearing borrowings. Cash and cash equivalents and financial assets at the reporting date significantly exceed liabilities. During the year the Group had satisfactory liquidity position. Financial liabilities which include trade and other payables and deferred income and accrued expenses have maturity up to one year.

25 Related parties

The Group considers that it has an immediate related party relationship with its key shareholders, joint venture and associate, the Supervisory and Management Board members and other executive management (together "key management"); close family members of key management; and jointly controlled by Management Board members and their close family members, in accordance with definitions contained in International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

As at 31 December 2018, the Group has no obligation to key shareholders that relates to funds on transactions accounts and no obligation for rendered services.

During 2018 the Company granted to Funderbeam South-East Europe d.o.o. a loan in the amount of HRK 45 thousand, with a one-time repayment upon maturity in 2021 (2017: HRK 150 thousand and EUR 3 thousand). During 2018 the Company did not have expenses towards SEE link d.o.o. (2017: HRK 31 thousand).

Remuneration to key management (together Zagrebačka burza d.d. and Ljubljanska borza d.d.) throughout the year was HRK 3,149 thousand (2017: HRK 3,148 thousand). The total remuneration of Supervisory Board members amounted to HRK 47 thousand (2017: HRK 47 thousand).

Notes to the consolidated financial statements (continued)

26 Segment reporting

In presenting the geographic information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets.

HRK '000	2017				
	Croatia	**Slovenia**	**Reportable segments total**	**Adjustments**	**Consolidation totals**
External revenues	14,002	10,741	**24,743**	**-**	**24,743**
Staff costs	(6,348)	(4,592)	**(10,940)**	**-**	**(10,940)**
Depreciation and amortization	(1,245)	(531)	**(1,776)**	**(16)**	**(1,792)**
Other operating expenses	(10,733)	(4,957)	**(15,690)**	**-**	**(15,690)**
Financial income	568	44	**612**	**-**	**612**
Financial expense	(1)	(8)	**(9)**	**-**	**(9)**
Net foreign exchange gain/(loss)	4	-	**4**	**-**	**4**
Segment (loss)/profit before tax	**(3,753)**	**697**	**(3,056)**	**(588)**	**(3,644)**
Segment income tax credit	**-**	**(104)**	**(104)**	**(7)**	**(111)**
Segment (loss)/profit for the year	**(3,753)**	**593**	**(3,160)**	**(595)**	**(3,755)**
Capital expenditure	476	3,589	**4,065**	**-**	**4,065**

HRK '000	2018				
	Croatia	**Slovenia**	**Reportable segments total**	**Adjustments**	**Consolidation totals**
External revenues	13,351	10,768	**24,119**	**(231)**	**23,888**
Staff costs	(6,274)	(4,579)	**(10,853)**	**-**	**(10,853)**
Depreciation and amortization	(368)	(766)	**(1,134)**	**-**	**(1,134)**
Other operating expenses	(6,693)	(4,958)	**(11,651)**	**109**	**(11,542)**
Financial income	1,299	12	**1,311**	**(1,245)**	**66**
Financial expense	-	(7)	**(7)**	**-**	**(7)**
Net foreign exchange gain/(loss)	(5)	-	**(5)**	**-**	**(5)**
Segment (loss)/profit before tax	**1,310**	**470**	**1,780**	**(1,491)**	**289**
Segment income tax credit	**-**	**(122)**	**(122)**	**23**	**(99)**
Segment (loss)/profit for the year	**1,310**	**348**	**1,658**	**(1,468)**	**190**
Capital expenditure	39	564	**603**	**-**	**603**

Notes to the consolidated financial statements (continued)

27 Key accounting estimates and assumptions

The Management Board uses estimates and assumptions concerning the future events. The resulting accounting estimates will therefore, by definition, seldom equal the actual results. The estimates and judgments which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of trade receivables

Trade receivables are estimated at each reporting date and are impaired according to the estimate of probability of collection. Each customer is evaluated individually based on the expected date of collection of the amount due and estimated probability of collection of the outstanding amount. The Management holds that trade receivables are stated at their recoverable amount at the reporting date.

Income tax

The Group provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records. There are different possible interpretations of tax laws; therefore amounts in the financial statements may be changed subsequently depending on the decision of the tax authorities.

Useful life of property and equipment and intangible assets

The Group reviews the estimated useful lives of property and equipment and intangible assets at the end of each reporting period.

Classification of investment in joint venture

The Group has assessed that investment in SEE Link d.o.o. represents investment in joint venture considering that the Group has rights to the net assets of the arrangement.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis, in accordance with accounting policy 3b. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The recoverable amount of cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections from financial budgets approved by management and cover a period of five years.

Goodwill

Goodwill relates entirely to goodwill arising on acquisition of the subsidiary Ljubljanska borza d.d. The Group annually performs an impairment test in order to assess whether the recoverable amount of goodwill indicates potential impairment of its carrying amount. The calculation of the recoverable amount of goodwill is based on five year plans for revenue on the Slovenian market and business plans of the subsidiary developed by the Group bearing in mind it's corporate and marketing strategy, relevant markets trends.

The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five year period amounting to 2%. Cash flows created from such plans are discounted using the discount rate which reflects the return of the underlying asset, which is defined for the purposes of the goodwill impairment test as a weighted cost of capital for the Slovenian market.

The sensitivity analysis indicates that an impairment loss in respect of goodwill arising on acquisition of Ljubljanska borza d.d. would arise in case of increase of the weighted average cost of capital by 700 basis points (assuming an unchanged terminal growth rate) an impairment loss would arise in the amount of HRK 291 thousand.

Notes to the consolidated financial statements (continued)

27 Key accounting estimates and assumptions (continued)

Goodwill (continued)

The calculations of value in use for the CGU is most sensitive to the following assumptions:

Revenue and gross margins - Revenue and gross margins are based on average values achieved in the recent years preceding to the start of the business plan period. These are increased over the business plan period for anticipated expansion in business, synergies and efficiency improvements.

Growth rates - The business plan terminal growth rates are based on market outlook. Average revenue growth rate for business plan period is 2.09%.

Discount rates - Discount rates represent the current market assessment of the risks specific to the CGU. This is the benchmark used by the Group to assess operating performance and to evaluate future investment proposals.

Borrowings to related parties

The Group believes that the loans granted are fully recoverable and that there are no indicators of impairment at the reporting date.

Recognition of deferred tax assets

At the balance sheet date, the Group did not recognise deferred tax assets related to carry forward tax losses in the amount of HRK 10,363 thousand, as the Management has assessed that it is not probable that sufficient taxable profits will be available to utilise the deferred tax assets. This will be reassessed at the next balance sheet date.

28 Audit fees

The audit fee for the financial statements of the Group amounted to HRK 160 thousand (2017: HRK 138 thousand). During the year, the external auditor has provided services, other than legally obligatory, related to compliance verification. In accordance with the EU Regulation, services provided during 2018 are permitted non-audit services.

29 Events after the Reporting Period

No other events or transactions have occurred since 31 December 2018 or are pending that would have a material effect on these separated financial statements at that date or for the period then ended, or that are of such significance in relation to the Group's affairs to require mention in a note to the separate financial statements.