

ZAGREB STOCK EXCHANGE D.D.

**Annual report and financial statements for the year ended 31 December
2013 together with independent auditors' report**

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ZAGREBAČKA BURZA
THE ZAGREB STOCK EXCHANGE

ANNUAL REPORT

ABOUT THE STATE OF THE COMPANY AND ITS BUSINESS IN 2013

Zagreb, March 2014

Pursuant to Art. 250a of the Companies Act (Official Gazette no. 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12, 144/12, 68/13), and the provision of Art. 18 of Accounting Act (Official Gazette no. 109/97, 54/13), Management board of the Company submits to the General Assembly Report on the state of the Company at 31 December 2013 as follows:

1. The most important business events in 2013

1.1. The new indices

At the end of the February 2013 new equity indices were introduced: index CROBEXplus ©, and five sectoral indices. Five sectoral indices include the following sectors:

- CROBEXnutris © - Production and processing of food,
- CROBEXindustrija © - Industrial Production,
- CROBEXkonstrukt © - Construction,
- CROBEXtransport © - Transportation,
- CROBEXturist© - Tourism.

Formation of a working group consisting of capital market participants preceded to creating new indices. Calculating of CROBEX TR index started at the beginning of the 2014, which rounded palette of indices of the Zagreb Stock Exchange.

1.2. Archives and records

The company is in full conformity with the Law on archives and archival since beginning of the 2013 regarding the protection and conditions of use, storage, use and processing of archives.

1.3. Supervision of the HANFA

Direct supervision process was opened by issuing of the decision Class: UP/I-041-02/13-07/1, No: 326-771-13-1 from 10 April 2013. Supervision started at 22 April 2013 and ended at 27 September 2013 by issuing of the decision Class: UP/I-041-02/13-07/1, No: 326-771-13-36. The process of supervision covered the entire business of the Company for the period from 1 January 2012 until the end of supervision.

1.4. Cooperation with the business school Experta

In the middle of 2013, first generation of students has successfully completed the program "Investor relations manager." A new generation of students has started the program in November 2013.

1.5. Joint education of the HANFA, Central Depository and Clearing Company and Zagreb Stock Exchange

Joint education of the HANFA, Central Depository and Clearing Company and the Zagreb Stock Exchange was held for the fourth time at 14 June 2013. Education is designed for companies whose securities are listed on the regulated market of the Zagreb Stock Exchange. Education brought together about 150 representatives of listed companies who have listened to presentations on regulatory news related to the Croatian accession to the European Union, the details relating to the structuring of corporate actions, the role of specialists on the Zagreb Stock Exchange as well as the services provided by the Central Depository and Clearing Company.

1.6. New specialist

Members of the Zagreb Stock Exchange, Interkapital vrijednosni papiri d.o.o. and Erste&Steiermärkische Bank became a specialist in the share of Hrvatski Telekom in July 2013. Member of the Zagreb Stock Exchange, Interkapital vrijednosni papiri d.o.o. became a specialist in the share of Podravka in September 2013.

Members of the Zagreb Stock Exchange, Raiffeisenbank Austria d.d. and Zagrebačka banka d.d. became a specialists in the share of Atlantic Grupa d.d. in October 2013.

1.7. Amendments to the Pricelist of Zagreb Stock Exchange services

HANFA issued a decision for approving the Amendments to the Pricelist of Zagreb Stock Exchange services at 14 June 2013 and these amendments came into force at 24 June 2013.

1.8. New Rules of the Zagreb Stock Exchange

Final text of the new Rules of the Zagreb Stock Exchange was approved by HANFA at 6 September 2013 and as a result, the domestic capital market is fully harmonized with EU legislation.

1.9. *New trading hours*

Since 16 October 2013 the Zagreb Stock Exchange began working with new trading hours:

- opening session: from 9.00 am to 9.15 am + variable ending (maximum 5 minutes)
- regular trade: from the end of the opening session to 4.30 pm
- registration of OTC transactions: 08.30 am to 4.30 pm

1.10. *The Conference of the Zagreb Stock Exchange and the fund industry*

A joint conference of the Zagreb Stock Exchange and the fund industry was held from 6th to 10th October 2013. The conference was attended by over 350 participants with the registration fee paid. For the first time at the Conference, 1:1 meetings with six of the issuer were organized.

1.11. *Audit of ISO 9001 certificate*

The supervisory audit, which was carried out at 28 October 2013, concluded that the Zagreb Stock Exchange has established and maintains a management system in accordance with the requirements of ISO 9001 and that it proved the system's ability to consistently meet the agreed requirements for products or services in accordance with the policy scope and the organization's objectives.

1.12. *The implementation of the FIX protocol*

Zagreb Stock Exchange has carried out another upgrade of the trading platform X-Stream with the implementation of the FIX protocol (Financial Information eXchange Protocol) at the end of the 2013. FIX protocol is a specification of transactional messages that are used for electronic communication. The wide availability and high recognition of this protocol in the world should enable the Zagreb Stock Exchange easier connection with potential members with remote access, easier sale of information but also enabling a regional cooperation projects.

1.13. *Amendments to the Articles of Association of the Zagreb Stock Exchange*

The General Assembly of the Zagreb Stock Exchange adopted the Amendments to the Articles of Association of the Zagreb Stock Exchange at 7 November 2013.

1.14. *The award ceremony of the Zagreb Stock Exchange*

The second consecutive award ceremony of the Zagreb Stock Exchange was held on 12 December 2013.

The awards were given in seven categories with the following winners:

- share with the highest turnover: Hrvatski telekom d.d.;
- share with the highest growth rate : Atlantska plovidba d.d.;
- share with the highest increase in turnover : Ledo d.d.;
- share of the year according to the public choice: Valamar Adria Holding d.d.;
- member of the year: Interkapital vrijednosni papiri d.d. i Erste& Steiermaerkische Bank d.d.;
- Zagreb Stock Exchange Academy award for outstanding contribution to the education about capital market: Financijski klub;
- award for the outstanding contribution to the development of capital markets: prof. dr. sc. Silvije Orsag.

2. **Overview of the most important trade indicators**

2.1. *Total share turnover:*

Year (in billions HRK)	Year (in billions HRK)
2013	2012
2.72	2.91

2.2. *Market capitalization:*

Year (in billions HRK)	Year (in billions HRK)
2013	2012
183.7	191.6

2.3. *Number of shares listed on markets:*

Market	At 31 December 2013	At 31 December 2012
Official market	22	22
Regular market	159	178
MTP	27	26

Zagreb Stock Exchange stopped the listing of 19 companies from the Regular market during the 2013. In 8 cases reason was the decision of the General Assembly of the listed company, 6 due to the decision of the bankruptcy trustee, 4 because of the crowding-out of minority shareholders, and one company because of transformation.

3. Company`s business during 2013

Company continued to operate in the difficult business conditions as 2013 year was the fifth consecutive year with the decline in gross domestic product. Nevertheless, turnover and price level (as measured by market indices), remained stable, or even achieved a certain growth.

In the 2013 revenues increased by 3% compared to those in the 2012 and amounted to 14.6 million (2012: 14.2 million). The fees, which are the most important single category of revenues for the Company, decreased as much as 6% in the amount of 4.653 million. The loss in revenues on this basis is recovered from other sources, mostly from increase in revenues from quotation maintaining and quotation fees. In fact, there was a significant increase in number of quotation in order to increase capital during the 2013.

Additional savings were realized in relation to the 2012. The total expense amounted to 16.137 million and shows 14% decrease to the year before. All positions of the expenses were decreased, while the greatest impact on decreasing total expense is in the reduced depreciation expense amounting to 1.645 million (2012: 2.870 million). The reason for such difference is prolonged useful life of licenses for X-treme Trade system according to annex of the contract with NASDAQ OMX. Significant savings were also realized with the reducing of the software maintenance expense to 3.170 million (2012: 4.062 million).

At the end of the 2013 the Company had 21 employees (2012: 22 employees). Consequently, salary costs decreased from 5.713 million to 5.647 million. In 2013 there were no bonus payments.

Further to the above, the Company has achieved relatively better result than in the 2012 and that is mostly due to the further decrease of costs and slight improvement of revenues. The net result is still negative and amounts to -0.915 million (2012: -3.473 million). It should be mentioned that from the simplified cash flow (EBIT) point of view result is positive as the Company still have a high depreciation expense in the amount of 1.645 million.

During the 2013, the Company has invested in conservative instruments such as deposits with commercial banks and money funds, in order to preserve the value of assets. To ensure stable financial operations the Company retained almost the same amount of free funds as at the end of the 2012 in the amount of 31.614 million HRK (money funds, deposits and balances).

4. Corporate governance

Zagreb Stock Exchange creates value by taking a series of social roles and tasks. In that sense Zagreb Stock Exchange conducts its business activities in accordance with legal regulations, transparently, fairly, honestly, professionally, conscientiously and responsibly, with the aim of promoting ethical values of corporate governance to all stakeholders and the community.

Corporate governance plan of Zagreb Stock Exchange is based on business principles which are based on the Capital Market Act, the Companies Act and subordinated regulations.

Corporate governance of Zagreb Stock Exchange includes:

- clear organizational structure with well-defined powers and responsibilities,
- effective procedures to identify, measure and monitor risk, and reporting on the risks the Company is or to which it may be exposed,
- adequate internal control mechanisms, which include reasonable administrative and accounting procedures, strategies and procedures for ongoing assessment and review of the amount, composition and distribution of internal capital needed to cover current and future risks,
- fulfillment of the obligations and responsibilities to shareholders, employees and other stakeholders,
- safe and stable operations in accordance with the laws and regulations.

High standards of a corporate governance and transparency are the essential part of the identity of the Zagreb Stock Exchange, and are considered an essential element of a stable and safe operations of the Company

The basic principles of corporate governance of the Company are:

- the legality of work and business,
- transparency,
- public relations,
- clearly defined operating procedures,
- professionalism, expertise, objectivity and independence in their work,
- confidentiality and secrecy in business, and data protection,
- avoidance of conflicts of interest,
- effective internal controls,
- an effective system of responsibilities,
- fairness in business,
- respect for human rights and environmental protection,

for the purpose of fulfilling the objectives of corporate governance in accordance with the highest professional standards and core ethical values.

Zagreb Stock Exchange implements corporate governance by application of process approach management as requested by the international standard ISO 9001:2008 for the purpose of continuous quality improvement of established business processes.

Process approach requires continuous conduction of measurement, analysis and improvement of processes in the organization, continuous investing in employees and their maximum participation in the improvement of process steps with the purpose of their transformation in the intellectual capital of the company, with the timely interpretation of the requirements of users and the community, permanent alignment of business with applicable regulations and all with the aim of minimizing business risk, reduce costs omissions, and increase the competitiveness of the organization.

5. Business risks

Zagreb Stock Exchange identifies following risks as the potential financial risks in its business:

a) *Interest rate risk* - the Company does not have significant amount of variable interest-bearing assets. The most significant interest-earning assets are short-term deposits in banks. The Company has no obligation for paying the interest, so the impact of changes in market interest rates on the profit and loss is not significant. Also, maturity of the deposits that carry fixed interest income is up to three months, and for this reason, management believes that the fair value of these deposits is not materially different from their carrying values.

b) *Currency risk* - except for 503 thousand HRK (2012: 241 thousand HRK) of the funds on the gyro account denominated in foreign currency, there are no other financial assets and liabilities denominated or linked to other currencies. Therefore, the company has no significant exposure to foreign currency risk.

c) *Credit risk* - the maximum amount of credit risk of the Company is equal to the nominal value of deposits, investments and trade receivables and other assets.

d) *Price risk* - the risk that the value of financial instruments fluctuates due to changes in market prices, whether they are caused by characteristics specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Company's investments in open-end funds are measured at fair value where the changes in fair value are recognized in profit or loss. Accordingly, such changes in market conditions have a direct impact on the gains or losses from financial instruments recognized in profit or loss.

Price risk of the Company is reduced by diversifying the portfolio of open-end funds in which it invests, like the different types of funds, managed by different management companies, and investing in money-market funds. Assuming all other variables unchanged, decrease / increase in market prices that would result from changing the value of - / + 1% at the reporting date would decrease / increase profit before tax by 162 thousand HRK (2012 160 thousand HRK).

e) *Liquidity risk* – the Company does not have received loans. Cash and cash equivalents, and short-term financial assets significantly outweigh the liabilities at the reporting date. The Company has had a satisfactory liquidity position over the years.

f) The cash-flow risk – due to the high liquidity position, the Company is not significantly exposed to cash flow risk

6. Expected development of the Company in the future

Zagreb Stock Exchange in 2014 continues the projects started in previous years.

Given the rapid departure of the companies from the Zagreb Stock Exchange plan is to enable trading with financial instruments even for those shareholders who remained deprived of the possibility of trading with an instrument they possess as a result of a departure of the companies from the Zagreb Stock Exchange. Therefore, during the 2014 the companies that have conditions for it will be received on the MTP Fortis on its own proposal.

Individual cases of possible listing of foreign shares that would be of interest to the Croatian market will be considered. Regulator was consulted to eliminate the potential conflict of interest situations as well as the Committee on Conflict of Interest and Committee on measures to protect the market.

Although the Company will not earn revenues from fees for admission to trading, it will fulfil its role as operator of organized markets in two ways - facilitating trade in an organized manner and with the appropriate amount of information, and to achieve a certain income from such trade.

Activities related to the establishment of regional cooperation will continue during 2014. During the 2013 four stock exchanges in the region (Zagreb, Belgrade, Ljubljana and Skopje) began a project of regional cooperation, which aimed to develop a system for the exchange of orders between the stock exchanges with the help of a single platform. At 7 August 2013 the stock exchanges have received the approval of the EBRD for financing project of regional cooperation in the form of grants.

Meanwhile, Ljubljana and Belgrade Stock Exchanges have dropped from the project. As a result Bulgaria was included and in March stock exchanges have received the modified approval by the EBRD which means that project will continue.

During the 2014 the Company is set to produce the Data Warehousing system and its goals are to process trade data, prepare statistical reports on trading and distribution to customers.

The establishment of the necessary infrastructure is based on the development of warehouse database that will incorporate the trade and derived data. Accordingly, the establishment of these bases and the corresponding application would mean the migration and upgrade of the current reporting system to work with the Warehouse database.

During the 2014, clearing and settlement system will experience significant changes following the EMIR directive introduction that has as a main objective the separation of central counterparty risk in a separate legal entity. This will have the effect that the CDCC will split into two entities. Business of depository and individual settlement will stay in existing company while contractual settlement would be transferred to new entity - wholly separate, highly capitalized company.

Above mentioned does not represent a big change in the business of Zagreb Stock Exchange, but if for any reason the CDCC does not obtain approvals in time, the transition to a individual settlement or processed individual settlement system, will represent a major change in business and make a new negative factor for the future liquidity of the Zagreb Stock Exchange. The Company will actively consider the situation regarding the adjustment of the CDCC with EMIR directive and consequently make appropriate decisions.

Part of the project will be transition to T +2 settlement date starting from 01 October 2014 since the time of the settlement must be harmonized across the EU no later than 01 January 2015.

7. Other information

7.1. Acquisition of own shares

As at 31 Decemeber 2013 the Company was not owner of own shares. In the 2013 the company did not acquire its own shares.

7.2. Research and development activities of the company

The Company continues to develop and improve trading platform and external services.

7.3. The existence of subsidiary companies

The Company does not have subsidiary companies.

7.4. Financial instruments

The Company is fully financed by its own capital, and except trade receivables and trade payables majority of financial instruments relates to investments in investment funds and deposits.

8. Statement of the persons responsible for financial statements

The annual financial statements are prepared in accordance with the Accounting Act and in accordance with International Financial Reporting Standards, and to the best of our knowledge give a true and fair view of assets and liabilities, profit and loss, financial position and operations of the Zagreb Stock Exchange, and are audited in accordance with International Standards on Auditing.

Management board

Ivana Gažić
President of the Management board

Tomislav Gračan
Member of the Management board

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Responsibility for the financial statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that the financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("IFRS") as adopted in EU, which give a true and fair view of the state of affairs and results of Zagreb Stock Exchange d.d. (the "Company") for that year.

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

The Management Board is responsible that:

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

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company, and must also ensure that the financial statements comply with the Croatian Accounting Law in force. The Management Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board:

Ivana Gažić
President of the Management Board

Tomislav Gračan
Member of the Management Board

Zagreb, 21 March 2014

Independent Auditor's report

Report on the financial statements

We have audited the accompanying financial statements ("the financial statements") of Zagreb Stock Exchange d.d., which comprise the balance sheet as at 31 December 2013, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information (as set out on pages 16 to 48).

Management Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Independent Auditor's report (continued)

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

Report on Other Legal Reporting Requirements

Management Board of the Company has prepared Annual report as set out on pages 1 to 12. The Management Board is responsible for the preparation of the Annual report in accordance with the Croatian Accounting Law and for its accuracy. Our responsibility is to perform procedures we consider necessary to reach a conclusion on whether the Annual report is consistent with the audited financial statements. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. In our opinion, the accounting information presented in the Annual report of the Company for the year 2013 is in consistent, in all material respects, with the audited financial statements for that year which are presented on pages 16 to 48.

Ernst & Young d.o.o.

Zagreb, 21 March 2014

Statement of financial position
as at 31 December 2013

	Notes	2013 HRK'000	2012 HRK'000
Assets			
Non-current assets			
Equipment and motor vehicles	4	740	436
Intangible assets	5	5,805	6,765
Financial assets available for sale	6a	237	237
Guarantee deposits		295	295
Total non-current assets		<u>7,077</u>	<u>7,733</u>
Current assets			
Trade receivables and other assets	7	1,670	1,801
Prepaid expenses	8	2,083	2,317
Income tax prepayment		4	4
Financial assets at fair value through profit or loss	6b	16,164	15,974
Short term deposits	20	14,600	6,237
Cash and cash equivalents	20	850	9,946
Total current assets		<u>35,371</u>	<u>36,279</u>
Total assets		<u>42,448</u>	<u>44,012</u>
Equity and liabilities			
Equity			
Issued share capital	9	40,408	40,408
Share premium		4,937	4,937
Legal reserves		141	141
Retained (loss)		(9,608)	(8,693)
Total equity		<u>35,878</u>	<u>36,793</u>
Non-current liabilities			
Non-current provisions	10	-	120
Total non-current liabilities		<u>-</u>	<u>120</u>
Current liabilities			
Trade payables and other liabilities	11	3,915	4,378
Deferred income and accrued expenses	12	2,655	2,721
Total current liabilities		<u>6,570</u>	<u>7,099</u>
Total equity and liabilities		<u>42,448</u>	<u>44,012</u>

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

Statement of comprehensive income
for the year ended 31 December 2013

	Notes	2013 HRK'000	2012 HRK'000
Revenue	13	10,287	9,707
Other operating income	14	4,312	4,467
Staff costs	15	(5,647)	(5,713)
Depreciation and amortisation	4,5	(1,645)	(2,870)
Other operating expenses	16	(8,845)	(10,124)
Financial income	17a	639	1,095
Financial expense	17b	(16)	(35)
(Loss) before tax		<u>(915)</u>	<u>(3,473)</u>
Income tax expense	18a	-	-
(Loss) for the year		<u>(915)</u>	<u>(3,473)</u>
Other comprehensive income, net of tax		-	-
Total comprehensive (loss) for the year		<u>(915)</u>	<u>(3,473)</u>

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

Statement of changes in equity
for the year ended 31 December 2013

	Issued share capital HRK'000	Share premium HRK'000	Legal reserves HRK'000	Retained earnings HRK'000	Total HRK'000
As at 1 January 2012	40,408	4,937	141	(5,220)	40,266
Total comprehensive (loss) for the year				(3,473)	(3,473)
As at 31 December 2012	40,408	4,937	141	(8,693)	36,793
As at 1 January 2013	40,408	4,937	141	(8,693)	36,793
Total comprehensive (loss) for the year				(915)	(915)
As at 31 December 2013	40,408	4,937	141	(9,608)	35,878

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

Cash flow statement

for the year ended 31 December 2013

	Notes	2013 HRK'000	2012 HRK'000
Net inflows from operating activities before tax	19	(175)	873
Decrease of income tax prepayments		-	302
Net cash from operating activities		<u>(175)</u>	<u>1,175</u>
Investing activities			
Net (purchases)/disposals of units in open investment funds		-	(7,778)
Purchase of equipment and intangible assets		(990)	(523)
Interest received from deposits	17a	432	745
Investment in short term deposits		(8,363)	(6,237)
Net cash (outflows)/inflows from investment activities		<u>(8,921)</u>	<u>(13,793)</u>
Financing activities			
Net cash inflows/(outflows) from financing activities		<u>-</u>	<u>-</u>
Net (decrease)/increase in cash and cash equivalents		(9,096)	(12,618)
Cash and cash equivalents at the beginning of the year		9,946	22,564
Cash and cash equivalents at the end of the year	20	<u>850</u>	<u>9,946</u>

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

Notes to the financial statements

1 Reporting entity

Zagreb Stock Exchange 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; organising and providing professional trainings for participants of capital markets.

At the year end the Company was owned by 50 shareholders (2012: 51). The Company does not have an ultimate parent company.

The activities of the Company are regulated by Croatian Agency for Supervision of Financial Services ("HANFA").

2 Basis of preparation

a) *Statement of compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted in EU.

b) *Basis of measurement*

Financial statements are prepared on a historical cost basis, unless requested or permitted otherwise, in accordance with Croatian Accounting Law and International Financial Reporting Standards as adopted in EU.

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"). All financial information presented in HRK has been rounded to the nearest thousand.

d) *Use of estimates and judgements*

The preparation of financial statements requires management to make judgements, 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 recognised in the period in which the estimate is revised and in future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have a significant effect on the amounts disclosed in the financial statements are described in Note 23.

Notes to the financial statements (continued)

2 Basis of preparation (continued)

e) *Foreign currency translations*

Transactions in foreign currencies are translated into functional currency using the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency using the foreign exchange rate ruling at that date.

Financial statements are presented in HRK which is the functional and reporting currency.

In addition to HRK, the most significant currency in which the Company has assets and liabilities is Euro. The exchange rate used for translation on 31 December 2013 was EUR 1= HRK 7.637643 (31 December 2012: EUR 1= HRK 7.545624). Income and expenses arising from transactions in foreign currencies are translated to HRK using the official exchange rates on the transaction date. Assets and liabilities denominated in foreign currencies are translated to HRK at the exchange rate ruling at the date of the statement of financial position. Gains and losses resulting from the foreign currency translation are included in the income statement for the year.

3 Significant accounting policies

a) Equipment and intangible assets

Equipment mainly comprises computer and office equipment, furniture and telephone equipment. Intangible assets comprise purchased computer software licences capitalised in the amount which is equal to the costs incurred to purchase and bring the software item to use.

Recognition and measurement

Equipment and intangible assets are stated at cost net of accumulated depreciation, amortization and impairment losses. Costs include expenditure that is directly attributable to the acquisition of these assets.

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and can be measured reliably. All other repairs and maintenance represent the cost of the financial period in which they incurred.

Depreciation and amortisation

Depreciation is recognised in income statement on a straight-line basis over the estimated useful lives of each part of an item of equipment. Assets acquired but not put into use are not depreciated.

The estimated useful economic lives are as follows:

	2013	2012
Computer and office equipment	2-10 years	2-10 years
Office furniture and equipment	5 years	5 years
Telephone lines	2 years	2 years
Computer software	2-5 years	2-5 years
Trading system software	10 years	7 years
Motor vehicles	5 years	5 years
Leasehold improvements	period of lease	period of lease

The depreciation and amortization method and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are included in income statement.

Notes to the financial statements (continued)

3 Specific accounting policies (continued)

b) Financial instruments

Classification and recognition

The Company classifies financial assets in the following categories: financial assets and liabilities at fair value through profit or loss; loans and receivables; and financial assets available for sale. 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.

Financial assets at fair value through profit or loss

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

Trading assets and liabilities are those assets and liabilities that the Company acquires or incurs principally for the purpose of sale or repurchase in the near term, or holds as a part of a portfolio which is managed for the purpose of making profit in the short term.

Financial assets at fair value through profit or loss 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 in the Statement of financial position of the Company which comprise guarantee deposits with banks classified as "cash and cash equivalents" and "trade receivables and other assets".

Available-for-sale financial assets

Available-for-sale assets in the statement of financial position relate to equity securities. Available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value, unless there is no reliable measure to be used as fair value.

Notes to the financial statements (continued)

3 Specific accounting policies (continued)

b) Financial instruments (continued)

Recognition and de-recognition

Purchases and sales of financial assets at fair value through profit or loss and available-for-sale financial assets are recognised on the settlement date. Loans and receivables and other financial liabilities carried at amortised cost are recognised when financial assets are placed with borrowers or received from lenders.

The Company derecognises 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 Company transfers substantially all the risks and rewards of ownership to another entity or when the rights are realised, surrendered or have been expired.

Financial assets at fair value through profit or loss and financial assets available-for-sale cease to be recognised at the settlement date. Loans and receivables are derecognised on the date of the transfer of funds by the Company.

Financial liabilities are derecognised 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 Company will cease recognising the liability and will immediately recognise a new financial liability, with new terms and conditions.

Initial and subsequent measurement

Financial assets and liabilities are initially recognised 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 Company measures financial instruments at fair value through profit or loss and financial assets available for sale at their fair value, without any deduction for selling costs. Equity securities classified as available-for-sale 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 amortised cost less impairment losses. Financial liabilities other than those at fair value through profit or loss are measured at amortised cost. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and they are amortised 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 recognised in income statement.

Notes to the financial statements (continued)

3 Specific accounting policies (continued)

b) Financial instruments (continued)

Gains and losses from subsequent measurement

Gains and losses from a change in the fair value of available-for-sale financial assets are recognised in other comprehensive income. For monetary assets which are available for sale, impairment losses, foreign exchange rate gains and losses, interest income and amortisation of premium or discount using the effective interest method are recognised in income statement.

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

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 Company takes into consideration every financial instrument separately in order to determine whether financial instrument quotes in an active market.

Fair value levels

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

1. Level 1: quoted (unadjusted) prices in active markets
2. Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly.
3. Level 3: techniques which use inputs which have a significant effect on the determination of fair value and which are not based on observable market data.

Impairment of financial assets

At each reporting date the Company 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 Company considers evidence of impairment on an asset-by-asset basis.

Notes to the financial statements (continued)

3 Specific accounting policies (continued)

b) Financial instruments (continued)

Objective evidence that financial assets are impaired include default or delinquency of a borrower, restructuring of a loan, or an advance received by the Company under the terms which the Company 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 amortised 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 recognised in profit or loss and recorded in an allowance account against loans and advances. Interest income on the impaired asset continues to be recognised as unwinding of the discount. When a subsequent event causes the decrease of the amount of impairment loss, the loss is reversed in income statement.

For of equity investments classified as assets available for sale, 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 available-for-sale equity investments, 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 recognised in income statement.

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

Trade receivables, other assets and deposits with banks

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

Investments in funds

Investments in open and close 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 recognised at fair value, and subsequently measured at amortised cost.

Notes to the financial statements (continued)

3 Specific accounting policies (continued)

c) Impairment of non-financial assets

The carrying amounts of the Company'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 Company did not have such assets) and intangible assets that are not yet available for use,

Assets that are subject to amortisation 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 recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised 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 recognised.

d) Leases

At the reporting date the Company does not have any finance leases.

All other leases are operating leases, and assets leased by the Company as lessee are not recorded in the Company's statement of financial position. Payments made under operating leases are recognised in income statement on a straight-line basis over the term of the lease.

e) Cash and cash equivalents

Cash and cash equivalents for the purpose of preparation of cash flow statements and the statement of financial position comprise giro accounts, cash in hand and short term deposits with banks with maturity up to three months.

f) Employee benefits

Defined contribution pension plans

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

Notes to the financial statements (continued)

3 Specific accounting policies (continued)

g) Taxation

Income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognised 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 realised, 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 recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.

The Company provides for tax liabilities in accordance with Croatian law. The current income tax rate is 20% (2012: 20%).

h) Provisions

A provision is recognised if, as a result of a past event, the Company 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 recognised when the Company 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 Company.

i) 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

Dividends on ordinary share capital are recognised as a liability after they are declared.

Notes to the financial statements (continued)

3 Specific accounting policies (continued)

j) Revenue

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

Income from commissions is recognised 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 for recognition over the period of the duration of the relevant quotation or subscription.

Finance income

Interest income is recognised in income statements in the corresponding time period for all interest-bearing financial instruments measured at amortised cost using the effective interest rate method.

Financial income also includes net positive foreign exchange differences resulting from translation of monetary assets and liabilities using the relevant exchange rate at the reporting date.

k) Adoption of new and amended standards and interpretations endorsed by European Union

The accounting policies adopted are consistent with those of the previous financial year, except for the following standards and amendments to IFRS effective as of 1 January 2013:

- *IFRS 1 First-time Adoption of International Financial Reporting Standards - Government Loans (Amendments) – effective January 1, 2013*
- *IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*
- *IFRS 7 Financial Instruments: Disclosures (Amendment), effective January 1, 2013*
- *IFRS 13 Fair Value Measurement – effective January 1, 2013*
- *IAS 12 Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets;*
- *IAS 19 Employee benefits (revised) – effective January 1, 2013*
- *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine – effective January 1, 2013*

Notes to the financial statements (continued)

3 Specific accounting policies (continued)

The adoption of the standards or interpretations is described below:

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Company.

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment shall be applied as from the commencement date of its first financial year starting on or after 1 January 2013. The amendment had no impact to the Company's financial position or performance.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments did not have impact on the Company's financial position or performance and are effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Standard did not affect financial position and performance of the Company but has affected the Company's fair value disclosures. Standard is effective for annual periods beginning on or after 1 January 2013.

Notes to the financial statements (continued)

3 Specific accounting policies (continued)

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment shall be applied as from the commencement date of its first financial year starting on or after 1 January 2013 and there has been no effect on the Company's financial position, performance or its disclosures.

IAS 19 Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment is effective for annual periods beginning on or after 1 January 2013. There has been no impact on the Company's financial position or results.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation did not have an impact on the Company.

Following standards becomes effective for annual periods beginning on or after January 1, 2013. The endorsement process within EU adopted the standards and decided that standards should be applied, at the latest, as from the commencement date of a financial year starting on or after January 1, 2014.

- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

Notes to the financial statements (continued)

3 Specific accounting policies (continued)

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Company.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Company's financial position or performance.

Standards endorsed by EU but not yet effective

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

Notes to the financial statements (continued)

3 Specific accounting policies (continued)

Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28)

In October 2012 IASB issued the amendments that are effective for annual periods beginning on or after January 1, 2014. These amendments will apply to investments in subsidiaries, joint ventures and associates held by a reporting entity that meets the definition of an investment entity. An investment entity will account for its investments in subsidiaries, associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as appropriate), except for investments in subsidiaries, associates and joint ventures that provide services that relate only to the investment entity, which would be consolidated or accounted for using the equity method, respectively. An investment entity will measure its investment in another controlled investment entity at fair value. Non-investment entity parents of investment entities will not be permitted to retain the fair value accounting that the investment entity subsidiary applies to its controlled investees. For non-investment entities, the existing option in IAS 28, to measure investments in associates and joint ventures at fair value through profit or loss, will be retained. The Company is currently assessing the impact that this standard could have on the financial position and performance.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. The Company has early adopted these amendments to IAS 36 in the current period since the amended/additional disclosures provide useful information as intended by the IASB OR , however, there are no effects these financial statements.

Standards not yet endorsed by EU

The standards and interpretations that are issued, but not yet endorsed by EU, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were carried forward unchanged to IFRS 9. The standard eliminates categories of financial instruments currently existing in IAS 39: available-for-sale and held-to-maturity. According to IFRS 9 all financial assets and liabilities are initially recognized at fair value plus transaction costs.

Notes to the financial statements (continued)

3 Specific accounting policies (continued)

Hedge accounting

A new chapter on hedge accounting has been added to IFRS 9. This represents a major overhaul of hedge accounting and puts in place a new model that introduces significant improvements principally by aligning the accounting more closely with risk management. There are also improvements to the disclosures about hedge accounting and risk management. The standard does not currently indicate the mandatory effective date. The IASB decided to defer the mandatory effective date of IFRS 9 until the date of the completed version of IFRS 9 is known. The standard has not yet been endorsed by EU. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued and endorsed by EU.

IFRIC 21 Levies

The interpretation is applicable to all levies other than outflows that are within the scope of other standards (e.g., IAS 12) and fines or other penalties for breaches of legislation. Levies are defined in the interpretation as outflows of resources embodying economic benefits imposed by government on entities in accordance with legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognized before the specified minimum threshold is reached. The interpretation does not address the accounting for the debit side of the transaction that arises from recognizing a liability to pay a levy. Entities look to other standards to decide whether the recognition of a liability to pay a levy would give rise to an asset or an expense under the relevant standards. The interpretation is effective for annual periods beginning on or after January 1, 2014. The new interpretation will have no impact on the Company.

Notes to the financial statements (continued)

4 Equipment and motor vehicles

	Computers	Motor vehicles	Furniture and other equipment	Asset under construction	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Cost					
At 1 January 2012	5,577	-	2,276	-	7,853
Additions	110	23	-	-	133
At 31 December 2012	5,687	23	2,276	-	7,986
At 1 January 2013	5,687	23	2,276	-	7,986
Additions	379	0	24	39	442
At 31 December 2013	6,066	23	2,300	39	8,428
Accumulated depreciation					
At 1 January 2012	(5,359)	-	(1,955)	-	(7,314)
Charge for the period	(72)	-	(164)	-	(236)
At 31 December 2012	(5,431)	-	(2,119)	-	(7,550)
At 1 January 2013	(5,431)	-	(2,119)	-	(7,550)
Charge for the period	(94)	(5)	(39)	-	(137)
At 31 December 2013	(5,525)	(5)	(2,158)	-	(7,687)
Carrying amount					
At 1 January 2012	218	-	321	-	539
At 31 December 2012	256	23	157	-	436
At 31 December 2013	541	18	142	39	740

Notes to the financial statements (continued)

5 Intangible assets

	Software	Leasehold improvements	Total
	HRK'000	HRK'000	HRK'000
Cost			
At 1 January 2012	17,885	1,072	18,957
Additions	352	38	390
At 31 December 2012	<u>18,237</u>	<u>1,110</u>	<u>19,347</u>
At 1 January 2013	<u>18,237</u>	<u>1,110</u>	<u>19,347</u>
Additions	540	8	548
At 31 December 2013	<u>18,777</u>	<u>1,118</u>	<u>19,895</u>
Accumulated amortisation			
At 1 January 2012	(9,126)	(823)	(9,949)
Charge for the period	(2,523)	(110)	(2,633)
At 31 December 2012	<u>(11,649)</u>	<u>(933)</u>	<u>(12,582)</u>
At 1 January 2013	<u>(11,649)</u>	<u>(933)</u>	<u>(12,582)</u>
Charge for the period	(1,455)	(53)	(1,508)
At 31 December 2013	<u>(13,104)</u>	<u>(986)</u>	<u>(14,089)</u>
Carrying amount			
At 1 January 2012	8,760	249	9,009
At 31 December 2012	<u>6,588</u>	<u>177</u>	<u>6,765</u>
At 31 December 2013	<u>5,673</u>	<u>132</u>	<u>5,805</u>

Notes to the financial statements (continued)

6 Investments

	31 December 2013 HRK'000	31 December 2012 HRK'000
a) Financial assets available for sale		
Shareholding in the Central Depository and Clearing Company (2.03% of share)	237	237
	<u> </u>	<u> </u>

The investment in the Central Depository and Clearing Company is carried at cost.

	31 December 2013 HRK'000	31 December 2012 HRK'000
b) Financial assets at fair value through profit or loss		
<i>Shares in open-ended investment funds</i>		
Raiffeisen Invest	7	2,579
PBZ Invest	1,067	1,020
Erste Money	7,822	5,757
Allianz Cash	7,267	6,618
	<u>16,164</u>	<u>15,974</u>
	<u> </u>	<u> </u>

Shares in open-ended investment funds are classified as fair value level 2 as at 31 December 2013 and 31 December 2012.

Notes to the financial statements (continued)

7 Trade receivables and other assets

	31 December 2013 HRK'000	31 December 2012 HRK'000
Trade receivables	2,673	2,275
Advances placed	7	3
Other assets	24	197
Impairment allowance	(1,034)	(674)
	<u>1,670</u>	<u>1,801</u>

Movement in impairment allowance for trade receivables

	2013 HRK'000	2012 HRK'000
Balance at 1 January	(674)	(740)
Impairment loss	(606)	(774)
Write off	160	796
Collection of previously impaired receivables	86	44
Balance at 31 December	<u>(1,034)</u>	<u>(674)</u>

Overdue receivables which are not impaired amount to HRK 777 thousand as at 31 December 2013 (as at 31 December 2012: HRK 625 thousand). The Management holds these receivables to be fully recoverable.

Overdue unimpaired receivables as at 31.12.2013 ('000 HRK):

< 90 days	91-120 days	121-180 days	>180 days
409	18	111	239

Overdue unimpaired receivables as at 31.12.2012 ('000 HRK):

< 90 days	91-120 days	121-180 days	>180 days
375	18	135	97

Notes to the financial statements (continued)

8 Prepaid expenses

	31 December 2013 HRK'000	31 December 2012 HRK'000
Expenses related to future years	2,081	2,306
Other prepaid expenses	2	11
	<u>2,083</u>	<u>2,317</u>

9 Issued share capital and reserves

Issued share capital

	31 December 2013 HRK'000	31 December 2012 HRK'000
Authorised, issued and fully paid in 40,408 (2012: 40,408) ordinary shares at HRK 1,000 par value	<u>40,408</u>	<u>40,408</u>

As at 31 December 2013 the Company had 50 shareholders (2012: 51) with ownership interests in the Company ranging from between 0.01% and 9,94%.

10 Long-term provision for litigation losses

	2013 '000 HRK	2012 '000 HRK
Provision at the beginning of the period	120	120
Change of provision during the period	(120)	-
	<u>-</u>	<u>120</u>

Notes to the financial statements (continued)

11 Trade payables and other payables

	31 December 2013 HRK'000	31 December 2012 HRK'000
Trade payables	3,099	3,339
VAT liability	194	425
Other short-term payables	622	614
	<u>3,915</u>	<u>4,378</u>

12 Deferred income and accrued expenses

	31 December 2013 HRK'000	31 December 2012 HRK'000
Deferred income from quotation maintaining	2,417	2,515
Other deferred income	238	206
	<u>2,655</u>	<u>2,721</u>

Notes to the financial statements (continued)

13 Revenue

	2013 HRK'000	2012 HRK'000
Commissions and membership fees	4,653	4,938
Income from quotation maintaining	4,373	3,945
Income from quotation fee	1,261	794
Income from auctions	-	30
	<u>10,287</u>	<u>9,707</u>

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

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.

Income from quotation maintaining represents 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 for quotation on the Official and Regular Market.

MTP (Multilateral Trading Platform) fees are collected from submitter of request (issuers or members).

Income from sale of membership fees represents revenues arising from sale of member seat to new members.

14 Other operating income

	2013 HRK'000	2012 HRK'000
Income from API services	1,439	1,466
Income from the supply of information	948	1,128
Sale and lease of equipment	526	577
Income from seminars	368	409
Income from penalties charged	90	60
Collection of previously impaired receivables	131	58
Other income	811	769
	<u>4,312</u>	<u>4,467</u>

Notes to the financial statements (continued)

15 Staff costs

	2013 HRK'000	2012 HRK'000
Salaries		
Net salaries	2,792	2,829
Payroll deductions and contributions	2,660	2,707
	<u>5,453</u>	<u>5,536</u>
Other staff costs	194	177
	<u>5,647</u>	<u>5,713</u>
	<u><u>5,647</u></u>	<u><u>5,713</u></u>

The number of employees at the end of 2013 was 21 (2012: 22). Staff costs include HRK 917 thousand (2012: HRK 918 thousand) of defined pension contributions paid into obligatory pension funds. Contributions are calculated as a percentage of employees' gross salaries. In 2013 there were no bonus payments (2012: 0 HRK).

Notes to the financial statements (continued)

16 Other operating expenses

	2013. HRK '000	2012. HRK '000 kn
Maintenance of software	3,170	4,062
Rent of premises	1,142	1,193
Post and telephone services	799	829
Professional services	513	633
Utility expenses	656	670
Value adjustment of trade receivables	607	774
Fees paid to Croatian Financial Services Supervisory Agency	706	690
Maintenance of phone lines, equipment and leasehold premises	154	210
Disposals and write offs of assets	88	182
Entertainment	80	86
Business travel	99	71
Marketing	25	54
Professional education	41	68
Gifts and donations	3	30
Insurance	26	23
Design, photocopying and graphic services	10	7
Other expenses	727	542
	<u>8,845</u>	<u>10,124</u>

Notes to the financial statements (continued)

17 Finance income and expense

	2013 HRK'000	2012 HRK'000
a) Financial income		
Net gains from financial assets at fair value through profit or loss	205	350
Interest income	434	745
Dividend income	-	-
Total financial income	<u>639</u>	<u>1,095</u>
b) Financial expense		
Net foreign exchange losses	(11)	(15)
Other	(5)	(20)
Total financial expense	<u>(16)</u>	<u>(35)</u>
c) Net financial result	<u>623</u>	<u>1,060</u>

18 Income tax expense

	2013 HRK'000	2012 HRK'000
a) Income tax expense		
Current income tax expense	-	-
Deferred income tax expense	-	-
Total income tax expense	<u>-</u>	<u>-</u>

Notes to the financial statements (continued)

18 Income tax expense (continued)

b) Reconciliation of accounting profit and current income tax

	2013 HRK'000	2012 HRK'000
Profit before tax	(915)	(3,473)
Tax calculated at 20%	<u>-</u>	<u>-</u>
Non-deductible expenses	260	169
Non-taxable income	(59)	(60)
Income tax expense	<u>-</u>	<u>-</u>
Effective income tax rate	<u>n/a</u>	<u>n/a</u>

c) Tax losses carried forward

Gross tax losses amounting to HRK 9,608 thousand are available for offset against the future taxable profits of the Company at the end of 2013. 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 2012 the Company had HRK 8,693 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 2013 the Company did not recognize deferred tax assets in respect of temporary differences (unused vacation days) and carried forward tax losses, 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 Company will re-evaluate assumptions for the recognition of deferred tax assets.

Notes to the financial statements (continued)

19 Reconciliation of profit before tax to net cash inflow from operating activities before taxation

	2013 HRK'000	2012 HRK'000
(Loss) before tax	(915)	(3,473)
Depreciation and amortisation	1,645	2,868
Net financial (income)	(623)	(1,060)
Unused vacation days, net	28	18
Impairment loss on trade receivables	616	951
(Loss)/profit from operating activities before working capital changes	751	(696)
Decrease in trade receivables and other assets	(484)	607
Decrease in deferred expenses	234	894
Increase/(decrease) in accrued expenses and deferred income	(66)	477
(Decrease) in trade and other payables	(610)	(409)
Net cash inflow from operating activities before taxation	(175)	873

20 Cash and cash equivalents

	31 December 2013 HRK'000	31 December 2012 HRK'000
Short term deposits with maturity over 3 months	14,600	6,237
Short term deposits at domestic banks	-	9,000
Gyro account in domestic currency	113	651
Interest receivables	230	50
Gyro account in foreign currency	503	241
Cash in hand	4	4
Cash and cash equivalents	850	9,946
	15,450	16,183

The Company placed short term deposits with domestic banks with fixed interest rates.

Notes to the financial statements (continued)

21 Financial instruments – risk exposures

Interest rate risk

The Company does not have significant amount of variable interest-bearing assets. The most significant interest-earning assets are short term deposits in banks. The company does not have interest-bearing liabilities. The impact of changes in market interest rates on income statement is therefore assessed as not significant. Remaining maturity of deposits with fixed interest rate is less than 3 months and Management of the Company believes that fair values of these deposits is the close to their book values.

Foreign currency risk

Except for HRK 503 thousand (2012: HRK 241 thousand) of the funds on the gyro account denominated in foreign currency, there are no other financial assets and liabilities denominated in foreign currency. Thus the Company is not significantly exposed to foreign currency risk.

Credit risk

The maximum exposure to credit risk equals the nominal value of the Company's investments and trade receivables and other assets.

Total credit risk exposure	31 December	31 December
	2013	2012
	HRK'000	HRK'000
Cash and cash equivalents (excluding cash in hand)	850	9,942
Short term deposits	14,600	6,237
Financial assets at fair value through profit or loss	16,164	15,974
Trade receivables and other assets	1,670	1,801
Guarantee deposits	295	295
Income tax prepayments	4	4
Financial assets available-for-sale	237	237
	<u>33,820</u>	<u>34,490</u>

Notes to the financial statements (continued)

21 Financial instruments – risk exposures

The Company generally does not take collateral due to the nature of its business.

The Company did not have significant concentration of credit risk at the reporting date (except credit risk related to deposits in domestic banks, as stated in Note 20).

Concentration of credit risk in relation to trade receivables:

	31 December 2013		31 December 2012	
	HRK'000	%	HRK'000	%
Institutional investors and brokers	675	40	885	49
Corporate	983	59	719	40
State	12	1	197	11
	<u>1,670</u>	<u>100</u>	<u>1,801</u>	<u>100</u>

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 Company's investment in open-ended investment funds are carried at fair value with fair value changes recognised in income statement. Accordingly, such changes in market conditions will directly affect gains or losses on financial instruments recognised in income statement.

Price risk is mitigated by the Company 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 remained unchanged, a decrease/increase in the market price of units in investment funds by $\pm 1\%$ at the reporting date would result in decrease/increase of profit before tax by HRK 162 thousand (2012: HRK 160 thousand).

Liquidity risk

The Company does not have interest-bearing borrowings. Cash and cash equivalents at the reporting date significantly exceed liabilities. The Company maintained a satisfactory liquidity position throughout the year.

22 Related parties

Remuneration to Management Board members was HRK 1,438 thousand (2012: HRK 1,507 thousand). The total remuneration of Supervisory Board members amounted to HRK 75 thousand (2012: HRK 152 thousand).

As significant amounts of transactions of the Company are carried out under controlled and regulated conditions which are equal for owners of the Company as well as for other participants on the market, further related party disclosures are not practical to identify and disclose.

Notes to the financial statements (continued)

23 Key accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that 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 value of the cash flows that are expected to be received. Each customer is evaluated individually based on the expected date of collection of the amount due, collateral 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 Company 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. Since there are different possible interpretations of tax laws, amounts in the financial statements may be changed subsequently depending on the decision of the tax authorities.