1. Letter to the shareholders

Dear Shareholders,
dear friends and supporters of NAGA,

In the 2018 financial year, we developed in line with our targets in terms of operations and successfully advanced many ambitious technological projects. On the other hand, there were considerable unpleasant effects from the developments on the capital markets - this was reflected in strong fluctuations and a negative performance of our share as well as in the decline in the value of cryptocurrencies of up to more than 90% during the course of the year.

A significant market shakeout caused many players and cryptocurrencies to disappear from the scene. NAGA has weathered this comparatively well because, despite all the enthusiasm and high investments beyond the financial goals, we have paid attention to the most stable foundation possible in the form of an orderly balance sheet and liquidity situation.

In hindsight, we continued to focus heavily on building and expanding our technology platform and successfully implemented over 15 projects. Looking at the uncertainties in the capital markets and the decreasing interest in entering cryptocurrencies, we used the phase to integrate all our products into one platform and started to market NAGA.COM as the Social Investment Network at the end of the year. This focused platform now allows our clients to invest together across all asset classes (stocks, forex, gaming items and cryptocurrencies). After the nevertheless very intensive build-up of the product, it was also decided to put all operational focus on customer satisfaction, product stability as well as reliable and controlled growth. This also goes hand in hand with planned cost savings and improved internal processes, which we already announced in mid-April 2019 as part of a new adjusted corporate strategy.

Since then, we have been working with an already greatly reduced team and with the utmost concentration on the changes that will make NAGA considerably leaner and even more effective. With the expansion of our location and new business premises in Limassol, Cyprus, we have attracted further talent from our industry and, at the same time, reduced the headcount at our sites in Hamburg and Spain as well as the number of Executive Board members. Following his departure from the Executive Board, Yasin Qureshi will remain closely associated with us as Chairman of the Advisory Board and largest single private shareholder.

However, it would not be a corporate strategy in action if we were only focused on cutting costs. Of course, the focus is much more on implementing various measures to significantly accelerate customer and deposit growth.

In parallel to our scalable online marketing activities and successful branding campaigns with the SKY pay-TV channel and the sponsorship of the Hamburg sports club, we have also expanded our B2B segment and since the beginning of 2019 have welcomed hundreds of new partners who are successfully marketing NAGA together with us worldwide. This is especially true in new markets such as NAGA Indonesia, NAGA Thailand and NAGA Vietnam. With NAGA Partners, we achieve gratifying growth figures from new customers at noticeably reduced marketing costs.

This is also in line with the vision of the platform, not only to offer an innovative and unique product for our nearly 600,000 customers, but rather a platform on which professional traders, financial service providers and small businesses can start their business with NAGA. For this purpose, we now offer à la Facebook Business "NAGA Business", which offers each partner its own professional profile to build up the business specifically and with direct customer contact with NAGA without having to operate their own website, conduct negotiations with brokers or advertise on non-relevant networks. The Executive Board sees considerable potential in this for the future, as NAGA can also build up further revenue channels here, e.g. in the form of paid placements, fee-based profiles and advertising. So NAGA is now no longer thinking B2C, but much more the complete B2B2C value chain.

For the year under review, we had expected and achieved a significant increase in sales. Unfortunately, however, we were unable to achieve our earnings targets. Contrary to our expectations, both earnings before interest, taxes, depreciation and amortization (EBITDA) and earnings before interest

In the first half of the year, profit for the period fell not just slightly but sharply compared with the previous year, although EBITDA was still slightly positive. The main reason for this was an increase in risk provisioning in the form of write-downs on trade receivables.

The goal of our strategy for the current fiscal year 2019 is to lead The Naga Group AG to profitability primarily through organic growth of customers and sales, despite considerable burdens from the restructuring, as a result of cost reductions and concentration on the NAGA platform. Despite the special charges associated with the restructuring, we see this goal as achievable at the level of earnings before interest, taxes, depreciation and amortization (EBITDA), but not yet at the level of earnings before interest (EBIT) or net profit for the year, primarily due to the continued high amortization of our software.

The financing of our corporate strategy is secured in view of our cash and cash equivalents.

We would like to thank our employees and our shareholders for their trust and confidence that we will lead NAGA successfully into the future with the strategy change we have initiated.

Yours sincerely

Benjamin BilskiAndreas Luecke

2. Report of the Supervisory Board

Dear Shareholders,

The financial year 2018 of The Naga Group AG was primarily characterized by customer and revenue growth as well as the expansion of the product portfolio. Due to the deteriorating mood on the capital markets, stricter financial market regulations and significant price losses on the markets for digital currencies (cryptocurrencies), the company began preparations at the end of the fiscal year to focus the group of companies more strongly on profitability at the expense of growth. This course significantly determines the current fiscal year 2019. From the 2020 financial year onwards, however, the Management Board and Supervisory Board expect significant increases in revenue and earnings on a significantly reduced cost base compared to the previous financial year.

Cooperation between the Supervisory Board and the Executive Board

In its function as a supervisory body, the Supervisory Board continuously advised the Executive Board and monitored its management activities in the 2018 financial year. It paid particular attention to the strategic development of the Group and provided intensive support. The Supervisory Board was involved in all decisions of fundamental importance and also dealt with personnel issues relating to the Executive Board.

The Executive Board regularly informed the Supervisory Board, both verbally and in writing, about the intended business policy, the profitability of the Company, corporate planning including financial, investment and personnel planning, and the situation of the Company and the Group. In addition, the Chairman of the Supervisory Board in particular maintained a constant dialog with the Executive Board. This ensured that the Supervisory Board was able to exercise the necessary control and perform its duties with great care in accordance with the law, the Articles of Association and the Rules of Procedure.

The Supervisory Board was informed in good time of all decisions of fundamental importance to the company and, where necessary, approved the resolutions.

The Supervisory Board approved the proposals of the Board of Management after thorough examination and discussion. The Executive Board also informed the Supervisory Board immediately about urgent matters between the joint meetings. The reports and documents required for the adoption of resolutions were always available in good time, supplemented where necessary by additional explanations from the Executive Board.

Meetings of the Supervisory Board

A total of four ordinary meetings of the Supervisory Board were held in the 2018 reporting year. These meetings were held in the form of face-to-face meetings and conference calls. The Supervisory Board was quorate at all of its meetings. In addition, at least one member of the Executive Board attended each of the meetings, and the auditors reported on their audit at the meeting in May.

A key component of all Supervisory Board meetings was the reporting by the Executive Board on the development of sales and earnings, the net assets, financial position and liquidity, investment projects, the risk situation and risk management system, compliance and the internal control system, as well as corporate planning and corporate strategy. Outside the meetings of the Supervisory Board, resolutions on individual topics were also adopted by written circulation procedure.

The meeting on February 8, 2018 focused on the report of the Management Board on the token sale of the Naga Coin (NGC) conducted in cooperation with the Naga Development Association Ltd. at the end of 2017 and on the conclusion or new conclusion of employment contracts with the members of the Management Board. Following this meeting, resolutions on the latter were adopted by written procedure in March and April 2018.

In May 2018, the Supervisory Board approved the acquisition of a 25% stake in Easyfolio GmbH, Frankfurt am Main, by way of resolution by written procedure.

At the meeting on June 22, 2018, the consolidated and separate financial statements of the Company presented by the Management Board and the agenda of the Annual General Meeting were discussed. Furthermore, the Executive Board reported on the business development in the first half of the 2018 financial year.

At the meeting on July 13, 2018 (balance sheet meeting), which was also attended by the company's auditors, who reported on their audit of the company's consolidated and single-entity financial statements for 2018, the aforementioned financial statements were then approved and the annual financial statements adopted. The delay in the adoption of the 2018 annual financial statements was due to the time-consuming clarification of individual issues relating to IFRS accounting standards in the course of the audit of the 2018 consolidated financial statements.

At the beginning of July 2018, the Supervisory Board approved the Executive Board's plan to conclude agreements with SKYMedia and the Hamburg sports club as part of a broad-based marketing campaign by adopting a resolution by written procedure.

Following the election of the new Supervisory Board member Stefan Schulte at the Annual General Meeting on August 31, 2018, the Supervisory Board held its constituent meeting by written procedure in the period from September 7 to 13, 2018.

Items on the agenda of the meeting on September 26, 2018 were primarily the discussion of the business plan for the period 2018 - 2022 submitted by the Executive Board and the approval of the acquisition of an additional stake of 25% + € 1.00 in Easyfolio GmbH, Frankfurt am Main.

In October 2018, the Supervisory Board then approved by resolution in writing the business plan for the period 2018 - 2020 revised by the Executive Board following the aforementioned meeting.

No special committees were formed in the reporting year. No conflicts of interest arose among the individual members of the Supervisory Board or the Board of Management in the

2018 financial year that were disclosed to the Supervisory Board.

Changes in the Supervisory Board and Executive Board

In the reporting year, the Executive Board consisted of Benjamin Bilski, Yasin Qureshi, Christoph Brück (until January 15, 2018) and Andreas Luecke (from January 16, 2018).

At the beginning of the 2019 financial year, the Management Board began planning the restructuring of the Group in close consultation with the Supervisory Board. As part of the planning, the Management Board and Supervisory Board came to the conclusion that it made sense to reduce the size of the Management Board from three to two persons as part of the restructuring measures. As a result, Mr. Yasin Qureshi resigned from the Management Board in agreement with the Supervisory Board as of April 30, 2019, and joined the Advisory Board newly established by the Company as its Chairman.

In the 2018 financial year, the Supervisory Board consisted of six members in the period January 01 to February 28, 2018 and June 01 to December 31, 2018. After Mr. Markus Duve resigned from the Supervisory Board effective February 28, 2018, the Supervisory Board consisted of five members from that date until May 31, 2018. As of June 01, 2018, Mr. Stefan Schulte, Düsseldorf, was then appointed as a further member of the Supervisory Board by the Hamburg Local Court at the request of the Board of Management and elected to the Supervisory Board at the Annual General Meeting on August 31, 2018 for a term of office of three years, so that the Supervisory Board again consisted of six members in the period from June 01 to December 31, 2018. As of December 31, 2018, the Supervisory Board comprised the following members: Mr. Hans Manteuffel, Langenfeld (Chairman), Mr. Robert Sprogies, Vaterstetten (Vice Chairman), Dr. Jiang Liang, Frankfurt am Main, Mr. Wieslaw Bilski, Königstein am Taunus, Mr. Hans-Jo- chen Lorenzen, Hamburg, and Mr. Stefan Schulte, Düsseldorf.

On the basis of the delegation rights of the shareholder Fosun Fintech Holdings (HK) Ltd., Mr. Robert Sprogies and Dr. Jian Liang were delegated to the Supervisory Board in the 2018 financial year.

Audit of annual and consolidated financial statements

Ernst & Young GmbH Wirtschaftsprü- fungsgesellschaft, Hamburg, which was elected by the Annual General Meeting on August 31, 2018, as the auditor of the annual and consolidated financial statements for the 2018 financial year, audited the annual financial statements of The Naga Group AG and the consolidated financial statements, including the management reports, and issued an unqualified audit opinion in each case. The individual financial statements were prepared in accordance with the principles of the German Commercial Code (HGB) and the consolidated financial statements in accordance with the principles of IFRS. Before issuing the written engagement letter, the Supervisory Board had satisfied itself that there were no doubts as to the independence of the auditor and that a declaration of independence was available.

The documents relating to the annual financial statements and the auditor's reports were made available to all members of the Supervisory Board in good time and in full. The Supervisory Board examined and discussed the financial statements and management reports at its meeting on June 24, 2019. The auditor attended this meeting, reported on its audit and the main audit findings, and answered questions from the Supervisory Board. The results of the Supervisory Board's own review corresponded to the results of the audit, so that the Supervisory Board raised no objections and approved the results of the audit. The Supervisory Board approved the annual financial statements of The Naga Group AG and the consolidated financial statements of The Naga Group prepared by the Management Board at the meetings held to adopt the financial statements on June 28, 2019 (consolidated financial statements) and July 19, 2019 (annual financial statements). The annual financial statements of The Naga Group AG are thus adopted.

We would like to thank all employees as well as the board members of The Naga Group AG for their dedicated work and we are looking forward to a good cooperation in the future!

Hamburg, July 19,

2019 The Supervisory

Board

Hans J.M. Manteuffel

Chairman of the Supervisory

Board

3. Group Management Report

of The Naga Group AG, Hamburg, for the financial year 2018

Basics of the representation

This group management report of The Naga Group AG (hereinafter either "NAGA AG" or the "Group") has been prepared in accordance with Sections 315 and 315e of the German Commercial Code (HGB) and German Accounting Standard (GAS) 20. All report contents and disclosures relate to the reporting date of December 31, 2018 or the financial year ending on this date.

Forward-looking statements

This Group management report may contain forward-looking statements and information. contain, which are indicated by phrases such as "expect", "want", "anticipate", "intend", "plan", "believe", "aim", "estimate", "will" or similar expressions. Such forward-looking statements are based on the expectations and certain assumptions prevailing at the time of preparation, which may involve a number of risks and uncertainties. The results actually achieved by NAGA AG may differ substantially from the statements made in the forward-looking statements. NAGA AG assumes no obligation to update these forward-looking statements or to revise them in the event of developments that differ from those anticipated.

1. Fundamentals of the Group

1.1. Business model of the Group

NAGA AG is a German fintech company based in Hamburg and listed in the stock exchange segment "Scale". The core business of the Group is online brokerage. In addition to traditional trading, NAGA AG also offers its own social trading platform "Naga Trader". Through the investments in the subsidiaries, further business models arise at the level of the Group, which are based on the development of innovative financial technology (hereinafter "Fintech") and blockchain technology.

NAGA AG wants to create and offer easy access to financial markets, as well as trading with virtual goods and cryptocurrencies for everyone. Through the in 2017 with our legally and economically independent cooperation partner Naga Develop- ment Association Ltd. , Belize City/Belize (hereinafter "NDAL"), the Naga To- ken Sale (hereinafter "NTS"), based on the ERC 20 standard, was created (hereinafter "NGC"). The NGC can be used by customers on all NAGA platforms as a means of payment. Henceforth, the NGC shall act as a link between the individual NAGA products and thus represent the core element of the NAGA ecosystem.

The scope of consolidation of the Group as of December 31, 2018 includes the following entities:

Society	Shareholdings
The Naga Group AG, Hamburg (parent company)	-
NAGA Markets Ltd, Limassol, Cyprus	100%
p2pfx GmbH, Hamburg	100%
Naga Technology GmbH, Hamburg (formerly SwipeStox GmbH and Swipy Technology GmbH)	100%
Naga Virtual GmbH, Hamburg (formerly Switex GmbH, Frankfurt am Main)	100%
Hanseatic Brokerhouse Securities AG (HBS), Hamburg (since Feb. 1, 2018)	72,16%
Naga Blockchain GmbH, Hamburg	100%
Zack Beteiligungs GmbH, Hamburg	100%
Easyfolio GmbH, Frankfurt am Main (seiet 31.12.2018)	50,02%

The operating subsidiaries of NAGA AG are as follows:

Naga Markets Ltd. (hereinafter "Naga Markets") has its registered office in Limassol, Cypern, and is a company regulated by the Cyprus SecuritiesandExchangeCommission (hereinafter
"CySEC") authorized and regulated securities trading bank. Naga Markets is responsible for the brokerage area and provides trading platforms for CFDs, Forex, ETFs and stock indices for its clients.

Naga Technology GmbH (hereinafter "Naga Technology"), Hamburg, consists of the former companies SwipeStox GmbH (hereinafter "SwipeStox") and Swipy Technology GmbH (hereinafter "Swipy Technology"). Swipy Techno- logy was merged into SwipeStox retroactively as of January 1, 2018 in the current fiscal year and then renamed Naga Technology. Naga Tech- nology, as universal successor, is the owner of the technology (software) of Naga Trader. Naga Trader is available for iOS, Android and as a web trader with tau- sends of active users. The innovative social network provides easy and fast access to trading Forex, CFDs, ETFs and cryptocurrencies. In the medium term, equity securities are also to be integrated into the platform.

Naga Virtual GmbH (hereinafter "Naga Virtual"), Hamburg (formerly Switex GmbH, Frankfurt am Main) operates the world's first independent, transparent and legal marketplace for virtual goods such as in-game items. The main focus of Naga Virtual is to provide gamers with a platform that offers the mutual buying and selling of items, thus making it possible to convert the effort and time invested in a game into counter-values. Naga Virtual offers individual sales interfaces for manufacturers, which serve as a direct source of income and distribution platform for new items in their games. The project is initially focused on gaming and was launched for the first time in fiscal year 2018. The game manufacturer Asobimo Inc. was already acquired as the first cooperation partner in 2017. Over time, further game manufacturers are to be connected to the platform. In the current fiscal year, the joint venture with Deutsche Börse was dissolved and the remaining shares acquired. The Group holds 100% of the shares as of the reporting date (previous year: 60%).

p2pfx GmbH (hereinafter referred to as "P2P") did not have any operating activities in the financial year 2018.

business activities. The Company is expected to be available during fiscal 2019 for the development and distribution of a novel trading platform for cryptocurrencies and will also be renamed as part of this change.

Naga Blockchain GmbH (hereinafter "Naga Blockchain"), Hamburg (formerly Trafex GmbH, Hamburg) acts as a distributor of innovative blockchain-based technology. Furthermore, it performs support services in many crypto areas.

Hanseatic Brokerhouse Securities AG (hereinafter "HBS") was consolidated into the NAGA Group for the first time as of February 1, 2018. HBS is a stock corporation founded in 1999, which is active in the field of online brokerage. HBS also holds 100% in Naga Brokers GmbH (hereinafter "Naga Brokers"). HBS specializes in the marketing of CFD trading accounts and the creation of corresponding training content. A more comprehensive presentation is included in the consolidated financial statements.

Easyfolio GmbH, Frankfurt am Main, is a financial investment broker with a license from the Chamber of Industry and Commerce and is considered the oldest robo advisor on the German market. Easyfolio GmbH offers an online-based ETF-based investment service for financial advisors and private investors. Structured ETF portfolios are offered in the form of funds of funds. Easyfolio GmbH was consolidated for the first time on December 31, 2018.

Business activities of the Group

To date, the Group has mainly been active in brokerage and has direct B2C contact. Brokerage is handled by the subsidiary Naga Mar- kets. As a pure online broker, Naga Markets does not maintain any branches, but provides a trading platform for CFDs, Forex, ETFs and stock indices on the Internet. Through the di- rect connection from Naga Trader, the Group offers both a traditional and a
"Social Trading" Service.

Naga Markets stands out from most of its competitors with its discount pricing model, making it an alternative to fi- lial or direct banks for average investors as well as very active traders.

In addition to the brokerage area, the development of blockchain-based technology will play an increasingly important role at NAGA AG in the future. This is intended, among other things, to realize the global financial inclusion targeted by the Group across all assets, products and continents.

With the cooperation partner NDAL, the NAGA Wallet as well as the NAGA Exchange, each of which is operated by NDAL, further business areas are operated.

Locations

The head office of NAGA AG is in Hamburg. In addition, there is the location of Naga Markets in Limassol/Cyprus. Due to the acquisition of the HBS Group, the other locations Madrid, Valencia, Palma, Barcelona, Milan and Lisbon are added.

Products, services, platforms and business processes in the Group

The Group owns a software code ("Software") that is used in all NAGA AG applications. This Software enables NAGA AG to operate successfully in online brokerage and blockchain technology.

Sales markets, customers and distribution policy

NAGA AG sells its products and services worldwide, primarily targeting the global markets for trading financial instruments and virtual goods. In terms of distribution policy, the Group places a strong focus on online marketing and fully automated customer acquisition processes.

Framework

NAGA AG's business model is particularly dependent on the development of the capital and financial markets as well as on the overall European economic situation. High volatility on the financial markets ensures many actively trading customers and thus leads to a high number of transactions and sales.

1.2. Goals and strategies

The Group's goal is to become a leading provider of innovative technologies in individual sub-segments of the financial sector and to promote the financial integration of asset classes. In particular, the focus is on business models with sustainable growth and rapid market penetration opportunities.

In particular, the acquisition of a majority stake in HBS in February 2018 has already had a positive impact.

The strategic objective is to strongly increase trade and customer numbers by stimulating marketing activities and expanding the product range. In addition, the market share is to be increased while maintaining a high level of customer satisfaction. Thus, cryptocurrencies are already traded in the online brokerage business at NAGA AG and innovative trading account and deposit models have been introduced.

By building up Naga Virtual and further developing Naga Trader, the company aims to reach previously untapped market potential. In particular, the use of its own blockchain technology will play a major role in future growth. As a result, the Group aims to create an innovative ecosystem for financial services that will provide everyone with global access to financial markets, financial products, virtual goods and cryptocurrencies. For example, the NAGA ecosystem opens up the possibility for passionate users of computer games ("gamers") to monetize their earned in-game items via Naga Virtual and exchange them for NGC. NGC can be exchanged for other cryptocurrencies or used to invest in financial products via Naga Trader. With the NGC, NAGA AG connects two markets with trading volumes of several billion euros annually. Through the special range of products and services, NAGA products are also intended to appeal to people who previously had little or no access to bank accounts and financial services. In this context, the acquisition of cooperation partners and the associated synergy effects play an important role.

Financial targets of the Group

Taking into account the reporting date of December 31, 2018, the targets for the future include an increase in trading revenues and an increase in EBITDA. Furthermore, a stable development of cash and cash equivalents and equity is to be maintained.

Strategies for achieving the goals

The main strategies for achieving the targets at Group level are presented below:

Focus on core competencies: The Group's core business is based on the online brokerage of Naga Markets. Due to the marketing campaigns during fiscal 2018, the customer base was expanded.

In 2018, as in the previous year, a global branding strategy with "NAGA™" as the anchor name for all products and platforms was successfully completed. To ensure unified branding, NAGA AG acquired the domain www.naga.com in 2018, which is the central point of contact for all offerings in the NAGA ecosystem.

By entering into cooperations and partnerships for the NAGA ecosystem, on the one hand, the existing product range can be expanded and, on the other hand, the existing sales activities can be further developed (e.g. in the area of proprietary blockchain technology).

The aim is to maintain the high level of innovation in IT activities and to further develop the business model with new products and product applications. The aim is to set new standards in the area of financial market technologies by acting in a customer-oriented manner and to provide technological support for other companies in their ideas.

The operational business performance in fiscal year 2018 confirms the strategic management of the company. The combination of front-end in the B2C business, consulting in the B2B business and the and technology brings to light the synergy potential that makes a significant contribution to the profitability of NAGA AG and will continue to expand it in the future. Solution approaches as well as clear advantages for the customer are to form the basis for sustainable growth of the Group.

NAGA AG is meeting the overall economic challenges primarily through organic growth thanks to its high willingness to innovate, although it is also observing opportunities for inorganic growth as they arise.

1.3. Value-oriented management and controlling system

In order to achieve the overall corporate goals listed in the previous section, the implementation of the strategy formulated by the Executive Board is to be supported by the long-term establishment of a management and controlling system.

For the internal management of the Group, attention is paid to EBITDA, as is the case throughout the Group, as this represents a solid measure for further measures.

The central management tool of Group controlling is monthly reporting. In this reporting, all financial and key figures of the companies belonging to the Group are recorded and analyzed every month. Plausibility checks allow changes to be identified at an early stage so that countermeasures can be initiated in good time.

Corporate planning is based on the level of the Group as a whole and on the level of the subsidiaries. Business planning is continuously adjusted to the market environment, new product developments and structural changes. At Group level, the planning is finalized by the management. Newly added business areas are integrated into the planning process.

1.4. Development activities

The development activities have a high quality at NAGA AG and are controlled and supervised by our technical director (CTO). The majority of development activities are carried out by our close business partners and commissioned by us. The Executive Board controls the development and ensures the integration of new products and applications into the NAGA ecosystem.

With a programming company from Sarajevo/Serbia, NAGA AG has a strong partner at its side who carries out the essential developments and maintenance. Due to the flexible and solution-oriented cooperation, NAGA AG is very well positioned for further technical challenges. The daily communication and the team that is always available for NAGA AG make it possible to quickly incorporate improvements into the software.

2. Economic Report

2.1. Macroeconomic and industry-specific conditions

According to the International Monetary Fund ("IMF")[1] , the global economy grew by 3.6% in 2018. This represents a slight decline in growth after the significant jump in the previous year, from 3.2% in 2016 to 3.8% in 2017. The main reason for this is the somewhat reduced growth of major economies such as China and the euro zone. The global economy is still expected to grow robustly in 2019, but again with a slight decline to 3.3%. Global inflation2 should remain stable at 3.6% in 2019 (previous year 3.6%).

The most important domestic stock market index, the DAX3, was unable to continue the sustained positive performance of previous years on a year-on-year basis, falling from 12,917 points at the end of the previous year to 10,559 points at December 31, 2018 (-18%). The MDAX4 was quoted on an annual basis at

[1] http://www.imf.org/external/datamapper/NGDP_RPCH@WEO/WEOWORLD
[2] http://www.imf.org/external/datamapper/PCPIPCH@WEO/OEMDC/WEOWORLD
3 https://www.onvista.de/index/DAX-Index-20735
4 https://www.onvista.de/index/MDAX-Index-323547

was 18% lower and closed the 2018 stock market year at 21,588 points. The TecDAX5 was 3% lower year-on-year at 2,450 points. In the international environment, the Dow Jones6 closed 2018 down 7%, the S&P 5007 fell 7% and the Nasdaq8 was down 2%. The indices have a direct impact on the number of transactions as well as the risk appetite of customers.

Political tensions between the U.S. and other nations continued to shape the economy in 2018.

In the foreign exchange markets, the euro started the year with a significant downturn against the U.S. dollar and ended the year down around 4% year-on-year. Factors contributing to the descent include weak growth in the eurozone, in contrast to the U.S., and discussions about the U.K.'s exit from the European Union. In addition, the euro could come under pressure from the uncertain po- litics of the USA and continuing political instability in Italy. To date, Italy's uncertain development poses a not inconsiderable risk to financial stability in the euro zone and is therefore also relevant for Germany's overall economic situation. Both factors have a direct impact on customers' trading behavior and risk appetite.

In the past fiscal year, the consumer price index rose by 1.9%9. This was higher than in the previous year (1.8%) and is therefore close to the ECB's inflation target of 2.0%.

2.2. Business performance and position of the Group

NAGA AG achieved positive EBITDA for the second year in a row. The Group was able to close 2018 with EBITDA of EUR 270 thousand (previous year: EUR 2,878 thousand). Due to

[5] https://www.onvista.de/index/TecDAX-Index-6623216
[6] https://www.onvista.de/index/Dow-Jones-Index-324977
[7] https://www.onvista.de/index/S-P-500-Index-4359526
[8] https://www.onvista.de/index/NASDAQ-Index-325104
9 https://www.destatis.de/DE/Presse/Pressemitteilungen/2019/01/PD19_019_611.html

However, due to the high amortization of intangible assets, the net result for the period remains negative in fiscal year 2018. With a significant increase in equity, NAGA AG has created a solid capital structure. At the same time, the liquidity situation is ensured at Group level.

In the Brokerage business unit, improved trading results were achieved thanks to increased transaction numbers and the expansion of new customer numbers.

NAGA AG manages customer assets of EUR 16 million as of December 31, 2018 (previous year EUR 11 million) The number of customers was expanded from 12,000 to a total of 20,190. Average active users amounted to 4,300 per month in the past fiscal year, showing an increase compared to the previous year. The monthly trading volume decreased slightly compared to the previous year.

The income generated from consulting services in connection with the NGC, the NAGA Wallet and the NAGA Exchange with the cooperation partner NDAL contributed strongly to the good earnings situation.

Results of operations Group

Sales development

NAGA AG generates revenues from its brokerage business ("trading revenues"). These are mainly generated in Spain, Italy and Germany. In the 2018 financial year, additional service revenues were also realized in connection with the NGC, the NAGA Wallet and the NAGA Exchange via the cooperation partner NDAL. Overall, revenues increased by EUR 3,275 thousand year-on-year to EUR 16,119 thousand. The development of revenues in fiscal year 2018 was in line with expectations.

Trading revenue increased by EUR 1,222 thousand from EUR 6,522 thousand to EUR 7,744 thousand in 2018, despite low market volatility and the new ESMA regulations. This positive development is attributable to Naga Markets' customer base, which increased by 25,686 customers. In addition, the Group generated a trading volume of approx.

EUR 36 billion (previous year: EUR 42 billion). The slight downturn is attributable to the new ESMA rules. In addition to the trading revenue, there was a further EUR 375 thousand in revenue from license agreements.

In addition to trading revenues, other service revenues were generated to a considerable extent in connection with NDAL for the distribution and technical development of the NGC, the NAGA Wallet and the NAGA Exchange with NDAL in the past fiscal year. In total, the revenues amounted to EUR 8,001 thousand (previous year: EUR 6,322 thousand). this corresponds to 49.6% of the revenues (previous year: 49.2%).

Due to the very positive development of sales and the increase in capitalized own work, total operating performance of EUR 17,715 thousand was generated in fiscal year 2018, exceeding the total operating performance of the previous year by EUR 3,606 thousand.

Activated programming services

Of the capitalized programming services, EUR 885 thousand is attributable to Naga Trader, EUR 655 thousand to Naga Virtual, and EUR 55 thousand to the NAGA Local application, which is still under development. In fiscal year 2018, capitalization totaled EUR 1,595 thousand (previous year: EUR 1,266 thousand).

Other operating income

The increase in other operating income from EUR 3,534 thousand to EUR 4,719 thousand mainly comprises income from the recharging of expenses that NAGA AG had initially assumed for NDAL. The costs assumed mainly comprise marketing and development costs for the NGC, the NAGA Wallet and the NAGA Exchange.

Commission expense

The commission expense of EUR -29 thousand (previous year: EUR 2,579 thousand) has changed compared to the previous year in that the main introducing broker, the HBS Group, has been part of the Group since February 1, 2018. As a result, the commission expense is eliminated from the revenues. This leaves a small amount of commissions with other third-party brokers.

Personnel expenses

Personnel expenses in the Group increased to EUR 6,819 thousand in fiscal year 2018, up approximately 153% on the previous year (EUR 2,699 thousand). The increase in personnel expenses is due to the merger with the HBS Group as well as increased salaries and a bonus payment of EUR 500 thousand for 2017.

Marketing effort

Marketing and advertising expenses of EUR 1,774 thousand (previous year: EUR 206 thousand) rose sharply compared to the previous year, as significantly more marketing expenses were incurred for NAGA products. Since most of this was spent at the end of the year, a positive effect is not expected until 2019.

Other operating expenses

The main changes in other operating expenses were as follows:

in TEUR	2018	2017	Change
Legal and consulting fees	1.451	1.561	-110
Third-party services	503	168	335
Other	5.069	1.454	3.615
Total	**7.023**	**3.183**	**3.840**

The increase in other operating expenses is mainly driven by an increased allowance for doubtful accounts (EUR 1,803 k; prior year: EUR 87 k).

Depreciation, amortization and write-downs

Depreciation and amortization of EUR 5,086 k (prior year: EUR 4,778 k) mainly relate to the amortization of Swipy technology in the amount of EUR 2,538 k (prior year: EUR 4,001 k). The reason for the reduction is a newly made assumption about the remaining useful life of the software. Furthermore, the Naga Trader was written down by EUR 675 thousand. In addition, from fiscal year 2018, there is an amortization of the customer base of the HBS Group in the amount of EUR 480 thousand, which has a term of 5 years. In addition, an impairment loss of EUR 833 thousand was recognized on the Naga Virtual Software, which was not impaired as of the balance sheet date, in fiscal 2018.

EBITDA development

The pleasing development of earnings, which led to a positive EBITDA for the second time in succession, was mainly due to the additional revenue generated in connection with the services provided by NDAL. Operating expenses rose sharply compared to the previous year, which is also attributable to the merger of the HBS Group. EBITDA of EUR 270 thousand (previous year: EUR 2,878 thousand) was generated, which corresponds to a reduction of EUR 2,608 thousand.

Financial result

The financial result amounted to EUR -143 thousand in fiscal year 2018 (previous year: EUR -204 thousand). Financial expenses in the Group amounted to EUR 161 thousand in fiscal year 2018 (previous year: EUR 205 thousand). Interest expenses mainly include custody fees for bank balances.

Income taxes

Of the income taxes of EUR -860 thousand (previous year: EUR 141 thousand), EUR 447 thousand (previous year: EUR 71 thousand) relates to current taxes and EUR -1,307 thousand (previous year: EUR 70 thousand) to income from deferred tax assets. The increase in deferred tax assets is due to loss carryforwards of the HBS Group and Naga Technology, as these are recoverable as of the reporting date. The other loss carryforwards within the Group are not recoverable as of the reporting date.

Result for the period

The result for the period deteriorated by EUR 1,856 thousand from EUR -2,244 thousand to EUR -4,100 thousand in fiscal year 2018 compared to the previous year, mainly due to the impairment loss on Naga Virtual Software of EUR 833 thousand, as well as impairment losses on doubtful accounts of EUR 1,700 thousand.

Inflation and exchange rate effects did not have a material impact on earnings in fiscal 2018.

Financial position Group

Ensuring comfortable liquidity at all times and the operational management of cash flows are top priorities in financial management. Inflation and exchange rate effects did not have a significant impact on the financial position in fiscal 2018.

The capital structure of the Group is as follows:

	31.12.2018	31.12.2017	Change Percentage points
Equity ratio	96,2%	79,7%	16,4%
Debt ratio	3,8%	20,3%	-16,4%
Debt-equity ratio	4,0%	25,4%	-21,4%

Despite the increase in total assets and the negative overall result, the equity ratio was increased in fiscal year 2018, thus further strengthening financial stability. The reason for the higher equity ratio is the various equity contributions from contributions in kind amounting to EUR 103,095k.

In fiscal year 2018, a negative operating cash flow of EUR -2,927 thousand (previous year: EUR - 4,159 thousand) was generated.

in TEUR	2018	2017
Cash flow from operating activities	-2.927	-4.159
Cash flow from investing activities	-2.107	-1.597
Cash flow from financing activities	0	9.858
Cash and cash equivalents at the beginning of the period	8.728	4.626
Cash and cash equivalents at the end of the period	**3.694**	**8.728**

The investments of EUR 2,107 thousand (previous year: EUR 1,597 thousand) mainly relate to intangible assets.

Due to increased expenses and repayments of liabilities, cash and cash equivalents decreased by EUR 5,034 thousand from EUR 8,728 thousand to EUR 3,694 thousand.

Cash and cash equivalents at the balance sheet date developed as follows:

in TEUR	31.12.	201831.12.	2017Veränderung
Means of payment	3.694	8.728	-5.034
Less current liabilities	3.673	7.033	-3.360
Subtotal	21	1.695	-1.674
Plus current assets	8.124	9.972	-1.848
Surplus / shortfall	**8.145**	**11.667**	**-3.522**

Of the current liabilities of EUR 3,673 thousand (previous year: EUR 7,033 thousand), 221% (previous year: 166%) are covered by current assets.

The following table shows the coverage ratio of medium- and long-term assets to medium- and long-term capital:

in TEUR	31.12.	201831.12.	2017Veränderung
Equity	119.472	27.683	91.789
Plus medium- and long-term debt	715	0	715
Less medium- and long-term committed assets	112.354	16.015	96.339
Surplus / shortfall	**7.833**	**11.668**	**-3.835**

Medium- and long-term assets are covered to 106% (previous year: 173%) by equity.

Net assets Group

NAGA AG's net assets developed as follows in the 2018 financial year:

in TEUR	31.12.	201831.12.	2017Veränderung
Assets	**124.247**	**34.716**	**89.532**
Non-current assets	112.354	16.015	96.339
Current assets	11.893	18.700	-6.807
Liabilities	**124.247**	**34.716**	**89.531**
Equity	119.472	27.683	91.789
Long-term debt	715	0	715
Short-term debt	4.060	7.033	-2.973

The increase in non-current assets by EUR 96,339 thousand is mainly attributable to the contribution in kind of the HBS Group.

Current assets include receivables from NDAL in the amount of EUR 2,690 thousand (previous year: EUR 4,554 thousand). In addition, current assets as of December 31, 2018 include credit balances in PayPal accounts, debit cards and credit balances in cryptocurrencies totaling EUR 848 thousand.

Despite the negative result for the period, equity increased from EUR 27,683 thousand to EUR 119,472 thousand. The strengthening of equity is attributable to capital measures completed in fiscal year 2018.

Current liabilities decreased in particular due to the payment of trade payables. As of December 31, 2018, current liabilities mainly include trade payables of EUR 1,344 thousand (prior year: EUR 5,212 thousand) and provisions of EUR 942 thousand (prior year: EUR 546 thousand) for outstanding purchase invoices, vacation not taken, and the preparation and audit of the annual and consolidated financial statements.

Inflation and exchange rate effects did not have a material impact on net assets in fiscal 2018.

2.3. Overall statement on the business performance and position of the Group

The increase in trading revenue was in line with expectations. The year-on-year decline in trading volumes was due in particular to the new ESMA regulation. Service revenue, which was mainly generated with NDAL, met expectations.

The merger with the HBS Group made a positive contribution to the Group's customer growth.

Unfortunately, the markets for cryptocurrencies have not developed as expected. All cryptocurrencies have suffered significant losses and as a result, the demand for cryptocurrencies has also fallen.

cryptocurrencies fell sharply. Due to this development, NAGA AG was not able to realize sales in this area.

The marketing campaigns implemented at the end of the year will only show their potential in the next fiscal year. There was not yet any positive effect in the 2018 financial year.

In total, NAGA AG gained 8,190 new customers for online brokerage in the past fiscal year.

The Group has created a high-growth structure and, in addition, has successfully driven the developments of its own NAGA ecosystem with NAGA Wallet and NAGA Exchange.

3. Supplementary report

Events after the balance sheet date are explained in the notes to the consolidated financial statements.

4. Forecast, opportunity and risk report

4.1. Forecast report of the Group

The forecast period used here relates to the 2019 financial year and is twelve months. Only continuing operations are included in the forecast.

Overall, we expect global economic growth to slow slightly in 2019 compared with the previous year. This is due to ongoing uncertainties about the development of the capital markets, such as the Brexit debate and the trade conflict.

between the USA and China. This can lead to fluctuations in the development of business. This may lead to an improvement or deterioration of NAGA AG's business.

In cooperation with NDAL, we expect further revenues in connection with the NGC, the NAGA Wallet and the NAGA Exchange. However, these will be down sharply on the previous year.

NAGA AG expects further organic growth in 2019.

Through the development of new markets and the restructuring in fiscal year 2019, early precautions were taken to make the Group profitable in the near future.

Forecast of significant financial performance indicators

Trading revenue

The development in the first quarter of 2019 indicates a weaker year, so that we have to reduce our expectations compared to the previous year. Despite the expectation of rising customer numbers and an increase in trading volumes compared with the past fiscal year, we anticipate a slight reduction in trading revenue.

Service revenues

Sales to the NDAL will decline sharply.

EBITDA

As a result of the slight decline in trading revenues and the sharp drop in service revenues, we expect EBITDA to be significantly lower in fiscal 2019 than in fiscal 2018. The restructuring measures initiated and the development of new markets will also not ensure that EBITDA remains at the same level as in the past fiscal year.

Result for the period

We expect net income for fiscal 2019 to fall sharply compared with the past fiscal year. This is due to non-recurring extraordinary expenses, The main reasons for this were the effects of the restructuring of the Group, the slight decline in trading revenues, and the sharp fall in service revenues.

Forecast of significant non-financial performance indicators

Due to our marketing campaign launched at the end of 2018 and the opening of new markets, we expect an increase in customer numbers and trading volumes compared to the 2018 financial year. Due to the number of new customers and the fluctuations in the global economy, we currently expect an increase in trading volumes of almost 50%.

4.2. Risk Report

NAGA AG is a young company that has only been competing since 2015 and is active in the dyna- mically growing fintech market.

Our business model is influenced by many factors, including the legal and macroeconomic environment, the maintenance of permits and licenses, cooperation with our business partners, and other contractual relationships. On this basis, we make assumptions about our development and profitability, transaction volumes and revenues, cost positions, staffing, financing, and material balance sheet items that may prove to be inaccurate or incomplete. In particular, further growth depends on whether and to what extent we will be able to attract new customers who will take up NAGA AG's offer to expand our existing portfolio and establish new sales channels.

In the worst case, the business model could prove to be unprofitable or no longer feasible. This could require impairment losses, particularly on capitalized non-current assets, and have other material adverse effects on the net assets, financial position and results of operations of NAGA AG.

Features of the risk management system

NAGA AG operates in a regulated market with the Naga Trader applications in the CFD, Forex, ETF and stock market. In addition to the constant changes in the company's economic environment, changes in the legal and regulatory framework are therefore also of key importance for the company's success. Current developments are constantly monitored and carefully analyzed. The Board of Management incorporates the emerging opportunities and potential risks into its business and risk strategy and adjusts it accordingly as required. At NAGA AG, monitoring and controlling risks are a central component of the company's management tools.

A pronounced risk awareness in all relevant business processes and the Group's high ethical standards are observed by management and employees. Furthermore, limiting risks is one of the key objectives for all NAGA AG managers within their respective areas of responsibility. In this context, each manager develops effective task-specific control processes and ensures their ongoing application.

For the overall and comprehensive assessment, limitation and management of risks, NAGA AG has also established a staff unit that has assumed the Group-wide tasks of the risk controlling function in accordance with the Minimum Requirements for Risk Management (MaRisk) AT 4.4.1 of BaFin. This employee is responsible for the Group-wide identification, assessment, management, monitoring and communication of risks. For this purpose, this unit has free access to all risk-relevant information and data of the Group.

The head of the Risk Management Department is involved in all important risk policy decisions of the Executive Board. The Supervisory Board is informed immediately in the event of a change in the management of the Risk Management Department of NAGA AG.

Risk identification and risk assessment

NAGA AG has a risk inventory, which is also updated on an ad hoc basis as required. This enables NAGA AG to divide risks, including risks from the use of financial instruments, to which it is exposed in the course of its operating activities, into the following categories:

Market risks,

Counterparty risks,

operational risks,

Liquidity risks,

other risks

The risk assessment takes into account risk-reducing measures taken and the given equity situation.

Monitoring and communication of risks

Management is kept informed of the current risk situation, key performance indicators and the earnings situation of NAGA AG by means of monthly reports. In addition, the Management Board has access to an overview showing selected key figures (such as EBITDA or trading revenues) of NAGA AG.

In the company's own assessment, the measures taken to analyze and monitor NAGA AG's risk situation are appropriate. The risk-bearing capacity was given at all times in the reporting period. At the time of preparing this risk report, no immediate risks that could jeopardize the continued existence of the company, including possible concentration risks, were identified.

The main risks to which NAGA AG is exposed in the course of its operating activities are described in more detail below. The following tabular evaluation methodology is used to assess the probability of occurrence and the extent of the risk:

Eintrittswahrscheinlichkeit	Beschreibung
< 5%	sehr gering
5 - 25%	gering
> 25 - 50%	mittel
> 50%	hoch

Risikoausmaß	Auswirkung auf Geschäftstätigkeit, Vermögens-, Finanz- und Ertragslage sowie Reputation
gering	begrenzte Auswirkung < TEUR 50 EBITDA Einzelrisiko
mittel	einige Auswirkungen > TEUR 50 EBITDA Einzelrisiko
hoch	beträchtliche Auswirkungen > TEUR 200 EBITDA Einzelrisiko
sehr hoch	schädigende Auswirkungen > EUR 1 Mio. EBITDA Einzelrisiko

Management and limitation of market price risks

NAGA AG defines market price risk as the risk of loss due to changes in market prices (share prices, exchange rates, precious metal/commodity prices, interest rates) and price-influencing parameters (e.g. volatilities).

At NAGA AG, market price risks arise in the brokerage trading book of Naga Markets. Naga Markets generally acts as a counterparty to its customers in the trading of various financial products. A corresponding specialist department handles the resulting risks in real time in accordance with internal guidelines.

To limit the resulting market price risks, NAGA AG has a multi-level limit system that is adapted to the legal requirements, the Company's equity and its risk profile. Compliance with these limits is monitored on a daily basis. If these limits are exceeded, appropriate countermeasures are initiated immediately.

NAGA AG assesses the remaining market price risks and their probability of occurrence as low.

In addition to the comprehensive measures taken to monitor the Group's market risks, appropriate measures are also taken to manage the other risk categories to which NAGA AG is exposed in the course of its operating business. The adequacy of these measures is monitored on an ongoing basis. Changes in the assessment of the underlying risks and necessary adjustments to their management are reflected in regular updates of NAGA AG's risk inventory. This is also available as a basis for risk-oriented audit planning by Naga Markets' Internal Audit department.

The additional risk arising for financial instruments from changing exchange rates (currency risk) is not considered to be significant at NAGA, as trading is predominantly conducted in euros. The resulting risks are also considered to be low with a very low probability of occurrence.

Turbulence on the national and international securities markets, a prolonged sideways trend with low turnover, and other market risks may lead to a decline in investor interest. The trading activity of the Group companies' customers depends on general stock market turnover and market volatility.

Management and limitation of counterparty risks

NAGA AG defines counterparty risk as the risk of losses or lost profits due to unexpected defaults or unforeseeable deteriorations in the creditworthiness of business partners.

Counterparty risks at NAGA AG result primarily from business and settlement partners in brokerage and services.

NAGA AG's business partners are assessed on the basis of predefined criteria, which are adapted to current circumstances if necessary and are based on specific characteristics of the business partners.

business partners are subjected to an audit. In addition, there is an ongoing assessment of the economic viability of the company on the basis of publicly available data. NAGA AG estimates the extent of the resulting risks as very high, but the associated probability of occurrence as very low.

Operational risks

Dependence on software and IT risks

For NAGA AG, operational risk exists in particular due to the dependence of operations on the IT infrastructure and the associated services. This also includes the dependence on the faultless provision of services by service providers outside the Group ("outsourcing"). Operational risks in IT can be divided into hardware, software and process risks. Extensive IT and internet systems are used throughout the Group and are essential for the proper conduct of business. The Group is particularly dependent on the trouble-free functioning of these systems. Despite comprehensive measures to back up data and bridge system disruptions, disruptions and/or complete failures of the IT and Internet systems cannot be ruled out. In addition, deficiencies in data availability, errors or functional problems in the software used and/or server failures due to hardware or software errors, accidents, sabotage, phishing or other reasons could lead to considerable image and market disadvantages and possible compensation payments for the Group.

There is also a risk of malfunctions and/or failures in the software we have developed ourselves. However, we see only a very low risk here, as we should be warned in good time by our control systems.

Significant investments are being made in IT equipment throughout the Group to ensure that the substantially increased volume of business can be handled appropriately and that adequate protection against failures is guaranteed. The probability of occurrence of the event resulting from the dependency on software and IT risks is estimated to be low, while the potential extent of damage is estimated to be medium.

Personnel risks

NAGA AG uses the monitoring and communication processes that have been set up to limit these risks, which are particularly personnel-related. Nevertheless, individual errors by individual employees can never be completely ruled out. We estimate the probability of occurrence of personnel risks as very low and the possible extent of damage as low.

Legal risks

As a regulated provider of financial services, NAGA AG operates in an environment with a rapidly changing legal framework. Legal violations can result in penalties or litigation risks. NAGA AG counters these legal risks by constantly monitoring the legal environment, maintaining internal legal know-how and, if necessary, by drawing on external legal expertise. We estimate the probability of occurrence of the event from legal risks as low, the extent of the risk as medium.

In particular, there is the risk of a fine being imposed by the German Federal Financial Supervisory Authority ("BaFin"). At present, two cases are still pending before BaFin on behalf of NAGA AG, with a positive outcome expected.

Process risks

As of the balance sheet date, there is an outstanding legal dispute arising from a labor court case. The amount of the financial obligation cannot be precisely determined as of the balance sheet date. According to the current status of the proceedings, the maximum financial risk amounts to approximately EUR 650k. However, as the risk of losing the proceedings is considered to be very low by the Management Board, no provision was recognized. The reason for this is that the evidence cited by the other party in support of its claim does not appear to be sufficient. If, contrary to expectations, there is no positive outcome, there is also a good chance that the financial damage will be compensated by way of recourse.

Management and limitation of liquidity risks

NAGA AG defines liquidity risk as the risk that it will not be able to meet its current or future payment obligations in full and on time from available financial resources.

In view of the sufficient liquidity resources and the risk-limiting measures taken, NAGA AG classifies the probability of occurrence of its remaining liquidity risks (in the narrower sense) as very low and also assesses the associated extent of damage as low.

General business risks due to dependence on technical developments and customer behavior

For NAGA AG, general business risks refer to those risks that arise due to changes in general conditions. These include, for example, the market environment, customer behavior and technical progress.

Technical innovations and changing customer behavior can have a significant influence on the conditions in the markets for financial services. This can open up opportunities for the products and services offered by NAGA AG, but can also have a negative impact on demand for its products and reduce the Group's financial success.

NAGA AG constantly monitors changes in the legal and regulatory environment as well as in the areas of customer behavior and technical progress with particular attention and continuously examines the resulting strategic implications. We estimate the probability of occurrence of events due to dependencies on technical developments and customer behavior to be low and the possible extent of damage to be medium.

Reputational risks

For NAGA AG, reputational risk is the risk of negative economic effects resulting from damage to the company's reputation.

In principle, the Group companies strive to achieve a high level of customer loyalty through a strong reputation in order to gain a competitive advantage over competitors. In addition to the direct financial impact, many of the above-mentioned risks entail the risk of damage to the Group's reputation, leading to financially disadvantageous consequences for the Group as a result of reduced customer loyalty.

NAGA AG takes general business risks and reputational risks into account, in particular by including them in its strategic guidelines and using its risk management processes to monitor the relevant environment on an ongoing basis. The associated risk assessments are carried out as part of the assessments of the Group's operational risks, which are conservatively assigned a medium probability of occurrence and a high level of risk, taking into account the principle of prudence, until the ongoing restructuring of the Group is completed.

4.3. Opportunities Report

Opportunities for the company are analyzed at regular intervals and reported to the Management Board. Management has identified significant opportunities arising in particular from synergies from the acquisition of Naga Markets in the past financial year. It is highly likely that these will lead to earnings in the millions over the next two financial years.

We monitor trends and developments in our product areas and identify operational opportunities. Thanks to our lean structures, we can respond quickly to customer requirements and market developments via short decision-making channels.

The cooperation with NDAL in the context of the NAGA Wallet and the NAGA Exchange offers great opportunities to generate revenues in the crypto area. However, this depends heavily on the development of these markets.

Issues such as transaction tax/stamp duty, EMIR regulation, ESMA regulations on CFD trading, and the MiFID II and MiFIR regulatory packages that came into force on January 1, 2018 may - depending on their political/regulatory design - develop into opportunities or risks for the Group's business model.

The majority of customers trading online are distributed among the four largest direct banks operating in Germany. In an environment of limited growth figures, new customers can only be won over in addition to a convincing price offer if new standards such as easy-to-use platforms, convincing and high-performance service, and a stable technical infrastructure are met by the providers.

Assessment by the Board of Management of the overall risk and opportunity situation

We understand the assessment of the overall risk situation as a cumulative consideration of all significant risk categories and individual risks. NAGA AG is convinced that neither one of the individual risks mentioned nor the risks in the group as a whole pose a threat to the company's continued existence as of the reporting date or after the date of preparation of the consolidated financial statements.

NAGA AG is convinced that it can continue to take advantage of opportunities that arise in the future without exposing itself to disproportionately high risks. Overall, a balanced relationship between opportunities and risks is strived for.

5. Internal control and risk management system in relation to the Group accounting process

The Supervisory Board of NAGA AG generally monitors the effectiveness of the internal control and risk management system (hereinafter referred to as "ICS" and "RMS") in accordance with Section 107 (3) of the German Commercial Code.

sentence 2 AktG. The scope and design of the ICS are at the discretion of the Executive Board. The functionality and effectiveness of the ICS in the Group and in the individual companies are regularly reviewed by the Executive Board.

The accounting-related ICS comprises the principles, procedures and measures to ensure the correctness of accounting. It is continuously developed further and aims to achieve the following:

These NAGA AG consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS"), as adopted by the European Union, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB. In addition, the accounting-related ICS also aims to ensure that the Group's annual financial statements are prepared in accordance with the provisions of German commercial law.

The basic rule for any ICS is that, regardless of how it is designed, there is no absolute certainty that it will achieve its objectives, as IT-related failures or human error or misconduct can have an influence. With regard to the accounting-related ICS, there can therefore only be relative, but no absolute certainty that material misstatements in the financial statements will be avoided or detected.

The Financial Accounting and Controlling departments manage the processes for Group accounting and the preparation of management reports. Laws, accounting standards and other pronouncements are continuously analyzed to determine whether and to what extent they are relevant and how they affect accounting. Standardized reporting formats, IT systems, and IT-supported reporting and consolidation processes support the achievement of uniform and proper Group accounting.

If necessary, NAGA AG makes use of external service providers in the form of experts. The employees involved in the accounting process receive regular training. They ensure that their accounting-related processes and systems run properly and in a timely manner.

Internal controls and consideration of risk aspects are implemented in the processes in the form of preventive and detective controls. These include, for example:

IT-based and manual reconciliations,

Separation of functions, in particular of external and internal accounting,

Four-eyes principle,

regularly monitored access system of the IT systems.

6. Other information

Responsibility statement by the legal representatives (balance sheet oath)

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Hamburg, June 24, 2019

The Naga Group AG
Board of Directors

B. BilskiA	. Luecke

4. IFRS Consolidated financial statements

of The Naga Group AG, Hamburg,

for the financial year 2018

- Consolidated balance sheet as of December 31, 2018
- Consolidated statement of comprehensive income from January 1 to December 31, 2018
- Consolidated Statement of Changes in Equity from January 1 to December 31, 2018
- Consolidated Cash Flow Statement from January 1 to December 31, 2018
- Notes to the consolidated financial statements for the fiscal year from January 1 to December 31, 2018

	Appendix	31.12.2018 TEUR	31.12.2017 TEUR
A c t i v a assets			
Non-current assets			
Intangible assets	6.a)	110.548	15.733
Property, plant and equipment	6.b)	236	113
Financial investments and other assets	6.c)	263	154
Deferred tax assets	6.i)	1.307	15
Total non-current assets		**112.354**	**16.015**
Current assets			
Trade receivables	6.e)	3.095	4.557
Other current assets	6.c)	1.606	2.509
Tax receivables	6.f)	373	5
Receivables from derivatives*	6.g)	3.050	2.901
Cash and cash equivalents	6.h)	3.694	8.728
Total current assets		**11.818**	**18.700**
Prepaid expenses		**75**	**0**
Total assets		**124.247**	**34.716**

As of the 2018 calendar year, "Receivables from derivatives" are reported separately. The previous year was adjusted accordingly.

Due to the consolidation of HBS as of February 1, 2018, comparability with the previous year is limited.

Passiva	Anhang	31.12.2018 TEUR	31.12.2017 TEUR
Eigenkapital			
Gezeichnetes Kapital	9.a)	40.204	21.008
Kapitalrücklage		97.992	8.849
Verlustvorträge		-13.636	-9.556
Den Aktionären des Mutterunternehmens zurechenbares Eigenkapital		**124.560**	**20.301**
Anteile nicht beherrschender Gesellschafter		438	-37
Eigene Anteile	9.a)	-5.526	0
Summe Eigenkapital		**119.472**	**20.264**
Geleistete Einlagen zur Durchführung einer Kapitalerhöhung		**0**	7.418
Langfristige Schulden			
Latente Steuerschulden	6.i)	715	0
Summe langfristige Schulden		**715**	**0**
Kurzfristige Schulden			
Verbindlichkeiten aus Lieferungen und Leistungen		1.344	5.212
Sonstige kurzfristige Verbindlichkeiten	6.j)	699	646
Verbindlichkeiten aus Derivaten*		75	558
Steuerschulden	6.k)	614	71
Sonstige Rückstellungen	6.l)	942	546
Summe kurzfristige Schulden		**3.673**	**7.033**
Vertragsverbindlichkeiten	6.m)	388	0
Summe Schulden		**4.775**	**7.033**
Summe Eigenkapital und Schulden		**124.247**	**34.716**

* Ab dem Kalenderjahr 2018 erfolgt der Ausweis der "Verbindlichkeiten aus Derivaten" gesondert. Das Vorjahr wurde entsprechend angepasst.

Aufgrund der Konsolidierung der HBS ab dem 01.02.2018 ist eine Vergleichbarkeit mit dem Vorjahr nur bedingt gegeben.

Consolidated statement of comprehensive income of The Naga Group AG, Hamburg, from January 1 to December 31, 2018

	Appendix	2018 TEUR	2017 TEUR
Trading revenue	6.n)	8.119	6.522
Service revenues	6.n)	8.001	6.322
Revenues		**16.119**	**12.844**
Activated programming services	6.o)	1.595	1.266
Total output		**17.715**	**14.109**
Other operating income	6.p)	4.719	3.534
Services received *	6.q)	2.899	3.248
Development effort *	6.r)	2.605	2.004
Direct expenses of trading revenues *	6.s)	1.071	847
Commission expense	6.t)	-29	2.579
Personnel expenses	6.u)	6.819	2.699
Marketing and advertising expenses	6.v)	1.774	206
Specific allowance for doubtful accounts from deliveries and services	6.v)	1.803	87
Other operating expenses	6.v)	5.220	3.096
Earnings before interest, taxes, depreciation and amortization (EBITDA)		**270**	**2.878**
Depreciation		5.086	4.778
Operating result (EBIT)		**-4.816**	**-1.900**
Financial income	6.w)	18	1
Financial expenses	6.w)	161	205
Earnings before taxes (EBT)		**-4.959**	**-2.104**
Income taxes (expense (+) / income (-))	6.x)	447	71
Deferred tax assets (expense (+) / income (-))	6.x)	-1.307	70
Profit for the period / total comprehensive income		**-4.100**	**-2.244**
Of the consolidated net income, the following are attributable to			
Shareholders of the parent company		-4.044	-2.198
Profit attributable to non-controlling interests		-56	-46

Due to the consolidation of the HBS Group as of February 1, 2018, comparability with the previous year is limited.

*From fiscal year 2018 onwards, "development expenses" are presented separately from "purchased services" and "direct expenses of trading revenues" for a better overview.
The prior-year figures have been adjusted accordingly.

Consolidated statement of changes in equity of
The Naga Group AG
from January 1 to December 31, 2018

	Signed Capital	Capital reserve	Loss carry-forwards	The shareholders of the parent company attributable equity	Non-controlling interests Shareholder	Own shares	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Status as of 12/31/2016	**50**	**21.882**	**-7.358**	**14.574**	**9**	**0**	**14.583**
Capital increase from company funds	17.975	-17.975	0	0	0	0	0
Capital increase from conversion of convertible debt	1.971	1.102	0	3.073	0	0	3.073
Capital transactions with shareholders	1.012	3.840		4.852	0	0	4.852
Total comprehensive income for the period 01.01.2017 - 31.12.2017	0	0	-2.198	-2.198	-46	0	-2.244
Status as of 12/31/2017	**21.008**	**8.849**	**-9.556**	**20.301**	**-37**	**0**	**20.264**
Company acquisition against issuance of shares	11.777	89.143	0	95.394	283	-5.526	95.677
Capital increase from contributions in kind	7.418	0	0	7.418	0	0	7.418
Acquisition of a subsidiary with non-controlling interests	0	0	0	0	211	0	211
Acquisition of remaining shares in subsidiaries	0	0	-37	-37	37	0	0
Total comprehensive income for the period 01.01.2018 - 31.12.2018	0	0	-4.044	-4.044	-56	0	-4.100
Status as of 12/31/2018	**40.204**	**97.992**	**-13.636**	**119.034**	**438**	**-5.526**	**119.472**

Consolidated cash flow statement
of The Naga Group AG
from January 1 to December 31, 2018

	Appendix	1.1. - 31.12.2018 TEUR		1.1. - 31.12.2017 TEUR	
Cash flow from operating activities					
Earnings before income taxes		**-4.959**		**-2.104**	
Depreciation	6.a)&b)	5.086		4.778	
Interest paid	6.w)	161			
Other non-cash income and expenses		1.733		140	
		2.021		2.814	
Cash flow before changes of net working capital					
Increase in provisions	6.l)	92		-209	
Increase in trade receivables	6.e)	-304		-4.360	
Increase in other assets		-518		-3.694	
Increase in trade accounts payable and other liabilities		-3.723		1.303	
Income taxes paid		-494		-14	
Operating cash flow			**-2.927**		**-4.160**
Cash flow from investing activities					
Payments for investments in intangible assets	6.a)	-2.128		-1.537	
Cash outflows from the acquisition of subsidiaries less acquired cash	3.	239		0	
Cash outflows for investments in financial assets	6.b)	-83		-26	
Payments made for investments in property, plant and equipment	6.b)	-135		-34	
Investing cash flow			**-2.107**		**-1.597**
Cash flow from financing activities					
Proceeds from additions to equity of shareholders of the parent company		0		11.360	
Repayment of financial liabilities		0		-1.502	
Financing cash flow			**0**		**9.858**
Net increase in cash and cash equivalents and cash equivalents			**-5.034**		**4.102**
Cash and cash equivalents At the beginning of the period	6.h)		8.728		4.626
Cash and cash equivalents At the end of the period	6.h)		**3.694**		**8.728**

5. Notes to the consolidated financial statements of The Naga Group AG, Hamburg,

for the fiscal year from January 1 to December 31, 2018

1. Company details

These consolidated financial statements are the consolidated financial statements of The Naga Group AG ("NAGA AG") and its subsidiaries (together: the "Group" or "NAGA"). NAGA AG has its registered office in Hamburg, Neustädter Neuer Weg 22, Germany (Hamburg Local Court, HRB 136811). As of December 31, 2018, the shares of NAGA AG are listed on the Frankfurt Stock Exchange in the over-the-counter market in the "Scale" segment.

The comparability of the financial statements for the fiscal year from January 1 to December 31, 2018 with the previous year (PY) from January 1 to December 31, 2017 is limited due to the first-time consolidation of the HBS Group.

The Group's business activities consist of brokerage with Contracts for Differences ("CFD"), development of technologies for the financial sector and the use of Blockchain technology. In fiscal 2018, the Group's proprietary broker, Naga Markets Limited, Limassol/Cyprus ("Naga Markets"), significantly expanded its business operations.

In the 2018 financial year, the product portfolio was expanded to include additional CFDs. In addition, the digital trading exchange for virtual goods from online computer games under the name Naga Virtual (formerly "Switex") was launched in the second quarter of 2018.

In fiscal 2018, the development of the software applications Naga Trader (formerly SwipeStox) and Naga Virtual was largely carried out by external service providers.

The consolidated financial statements were submitted to the Supervisory Board on June 24, 2019 (and will be released for publication on June 28). In principle, there is no possibility of amending the consolidated financial statements after publication.

2. Basics of the lineup

NAGA is currently not required to prepare IFRS consolidated financial statements as it is traded in the over-the-counter market (Scale segment). However, NAGA has made use of the option under
Section 315e (3) of the German Commercial Code (HGB) and voluntarily prepares consolidated financial statements in accordance with IFRS.

The consolidated financial statements have been prepared in accordance with Section 315e of the German Commercial Code (HGB) and comply with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The requirements of the standards applied have been met, so that a true and fair view of the net assets, financial position and results of operations is presented. The consolidated financial statements of NAGA have been prepared on a going concern basis. Valuation is based on historical cost with the exception of derivatives.

The financial statements of the subsidiaries have been prepared using uniform accounting policies. The nature of expense method has been used for the consolidated statement of comprehensive income.

The consolidated financial statements are presented in EUR, the functional currency of the Group. Unless otherwise stated, the financial information is rounded to the nearest tau-sender (EUR thousand), which may result in rounding differences.

NAGA

3. Scope of consolidation

In the 2018 financial year, the consolidated financial statements include the financial statements of NAGA AG and all of its controlled subsidiaries.

Compared to the previous year, the scope of consolidation has expanded to include HBS and Easyfolio GmbH, Frankfurt an Main. Easyfolio GmbH only became part of the Group as of the balance sheet date of December 31, 2018.

3.1. Acquisition of Hanseatic Brokerhouse Securities AG

Under an agreement dated December 10, 2015, NAGA AG undertook to acquire 60% of the shares in HBS by issuing new treasury shares.

By resolution of the Annual General Meeting on May 24, 2017, it was resolved to issue 11,777,039 new shares in return for the acquisition of a total of 45,000 shares in HBS by way of a capital increase against contribution in kind. The capital increase and contribution of the HBS shares was carried out in the fiscal year and entered in the commercial register on February 13, 2018. On the same day, NAGA finally gained control over HBS. For reasons of simplification, the initial consolidation is carried out as of January 31, 2018. As expected, the impact on the net assets, financial position and results of operations resulting from the different reporting dates is of minor significance. In addition to the 45,000 shares already acquired, there is also an option to acquire a further 10,500 shares. As this option was classified as substantial at the time of initial consolidation, it is already taken into account in the initial consolidation - determination of the shareholding and the purchase price.

- are taken into account. In addition, HBS holds the following shares via the shares acquired in the course of the share swap

1,137,139 shares in NAGA and, taking this option into account, 4,953 treasury shares, which are to be treated as treasury shares of NAGA AG in the consolidated financial statements. This results in a shareholding of ultimately 72.16%. There was no settlement of fractional shares in the share swap, as this was not necessary.

HBS is a stock corporation under German law founded in 1999 and active in the field of online brokerage. HBS currently holds a 100% interest in Naga Brokers, Hamburg. Naga Brokers also operates branch offices in Spain. HBS specializes in the marketing of CFD trading accounts and the creation of corresponding training content.

The main reason for the acquisition of the majority shareholding is the further development and expansion of customer relationships. There was already an intensive form of cooperation with HBS prior to the acquisition. The customer base could be used within the framework of a licensing agreement. The agreements were considered to be at arm's length at the time of acquisition.

Determination of the purchase price

The shareholding in HBS was acquired by way of an exchange of shares through the issue of 11,777,039 treasury shares of NAGA AG were acquired. The acquisition cost of the investment upon issuance of own marketable securities is to be derived from the stock market price of NAGA at the transaction date, i.e. February 13, 2018. This has resulted in a value of approximately 96 million euros, as the share price of NAGA at that time (February 09, 2018) was 8.10 euros.

The stock price was high at the time of registration and had its origins in the the- matical linking of the shares with the topics of blockchain and cryptocurrencies, such as bitcoin.

The following preliminary purchase price determination by HBS has resulted:

in TEUR	31.01.2018
Intangible assets	2.671
Property, plant and equipment	78
Financial investments and other assets	26
Other current assets	527
Receivables from affiliated companies	719
Cash and cash equivalents	341
Subtotal	4.361
Deferred tax liabilities	892
other current liabilities	1.027
Liabilities to affiliated companies	1.426
Subtotal	3.345
Net assets	**1.016**
Non-controlling interests (27.84%)	**283**
Purchase price	**95.394**
Goodwill	**94.661**

The gross amount of trade receivables acquired was thous.
As these were almost exclusively due from NAGA, no valuation allowances were recognized, so that the fair value of the acquired trade receivables corresponds to the gross amount.

Intangible assets mainly include the customer base of HBS in the amount of EUR 2,618 thousand and the BaFin license valued at estimated replacement cost in the amount of EUR 50 thousand. Deferred taxes have been recognized on each of the recognized hidden reserves, taking into account the Group tax rate of 32.275%. The recognized deferred tax liabilities amount to EUR 892 thousand.

In the measurement of non-controlling interests, use was made of the option under IFRS 3.19 to measure non-controlling interests at the corresponding share of net assets of EUR 283 thousand.

In the period since consolidation February to December 2018, HBS generated a loss of EUR 936 thousand after capitalization of deferred taxes and amortization of the customer base. In the process, a total of EUR 2,968k in sales revenue was generated, which in turn was divided into were fully consolidated within the Group. Due to the close cooperation with the NAGA Group, the consolidated statement of comprehensive income therefore also essentially shows the situation that would have arisen if HBS had been acquired at the beginning of the 2018 financial year.

There were no contingent liabilities as of the balance sheet date.

The business combination resulted in non-tax-deductible goodwill of EUR 94,661 thousand, which is allocated in full to the Brokerage CGU. This results from expected synergies with the activities of the CGU, as HBS is to establish and expand the customer relationships of the Group's internal broker Naga Markets. Furthermore, goodwill includes value drivers such as a qualified employee base, which may not be capitalized separately under IFRS.

No material transaction costs were incurred in this business combination.

3.2. Acquisition of Easyfolio GmbH

Easyfolio GmbH has its registered office in Frankfurt am Main and is registered with the Frankfurt am Main Local Court under the number HRB 104307. Easyfolio GmbH has share capital of EUR 207 k. In the past fiscal year, NAGA AG acquired a majority interest of 50.02% for EUR 522 k. As a result of the consolidation, cash of EUR 421 k was received. The consolidation resulted in an inflow of cash and cash equivalents amounting to EUR 421 thousand.

Easyfolio GmbH is a financial investment broker with an IHK license and is considered the oldest robo advisor on the German market. With easyfolio, Easyfolio GmbH offers an online-based ETF-based investment service for financial advisors and private investors. Structured ETF portfolios are offered in the form of funds of funds.

3.3. Overview of the scope of consolidation of NAGA as of December 31, 2018

Society	Shareholdings
The Naga Group AG, Hamburg (parent company)	-
NAGA Markets Ltd, Cyprus	100%
p2pfx GmbH, Hamburg	100%
Naga Technology GmbH, Hamburg (formerly SwipeStox GmbH and Swipy Technology GmbH)	100%
Naga Virtual GmbH, Hamburg (formerly Switex GmbH, Frankfurt am Main)	100%
Hanseatic Brokerhouse Securities AG (HBS), Hamburg (since Feb. 1, 2018)	72,16%
Naga Blockchain GmbH, Hamburg	100%
Zack Beteiligungs GmbH, Hamburg	100%
Easyfolio Ltd.	50,02%

In fiscal year 2018, the remaining shares in Naga Virtual were acquired, so that these now flow 100% into the Group. The obligation to contribute EUR 2,000 thousand to the capital reserve of Naga Virtual in the previous year no longer applies due to the 100% shareholding.

The shares in Naga Markets were transferred to NAGA Technology in fiscal year 2018, indirectly via Zack Be- teiligungs GmbH.

As of December 31, 2018, there are neither joint arrangements nor associated companies.

The shareholdings correspond to the voting rights.

3.4. Naga Development Association Ltd.

NAGA, in cooperation with Naga Development Association Ltd, Belize City/Belize, conducted a so-called Initial Token Sale ("ITS") in 2017. Through the ITS, NDAL raised financial resources - mainly in the form of cryptocurrencies - amounting to approximately USD 50 million (market value as of December 31, 2017) from tens of thousands of investors. The goal of the ITS was to generate financial resources to expand and improve the NAGA ecosystem and, accordingly, to increase the value of the NGC.
Unfortunately, the latter did not come true due to the decline in the cryptocurrency market.

The cooperation partner NDAL is a company that has no relationship under company law with NAGA AG or its subsidiaries. NDAL initiated the ITS for its own account, drawing on various consulting services provided by NAGA as well as the trademark rights "NAGA", "SwipeStox" and "Switex". Accordingly, NDAL is exposed to the opportunities and risks arising from possible price fluctuations of the cryptocurrencies received.

NDAL decides on the use of the funds received in the course of the ITS ("ITS funds") with the aim of achieving the highest possible share price increase for the benefit of the investors. NAGA only has the right to propose possible development or marketing projects. However, due to the concept of the ITS as defined in the white paper on the ITS, there is a common goal to establish or expand the application possibilities of the NGC on the trading platforms of NAGA as well as to increase the awareness of the NGC. Therefore, the cooperating partners have agreed that decisions on the release of ITS funds can only be made jointly. In doing so, the entire $50 million is subject to this joint decision. Furthermore, at the beginning of 2018, it was decided to exchange a significant portion of the cryptocurrency raised into fiat currency. This was the basis for payment of the 2017 and 2018 service revenues.

In addition to making the best possible use of ITS funds, NDAL is developing other business areas, including the development and operation of the NAGA Wallet, an electronic wallet for cryptocurrencies, and the investment in a university in Cyprus. The financing of the other business areas is mainly carried out by ITS funds or a strategic reserve to NGC.

NAGA continues to generate service revenue from NDAL, which relates in particular to the distribution and technical development of the NGC, the NAGA Wallet and the NAGA Exchange (trading place for cryptocurrencies).

4. Estimates and Assumptions and Accounting and Valuation Methods

In preparing consolidated financial statements in accordance with IFRS, the Management Board uses assumptions and estimates. These assumptions and estimates are made to the best of our knowledge in order to provide a true and fair view of the net assets, financial position and results of operations of the Group. Actual results and developments may differ from these estimates and assumptions.

Estimation uncertainties and accounting policies relating to the individual balance sheet items are presented in Note 6 for the respective balance sheet item and in Note 8 for financial management.

With regard to the business model, the following accounting policies in particular are significantly affected by estimates and judgments:

4.1. Assessment of whether control of a business operation exists

The acquisition of companies in the financial sector is subject to regulatory approvals. In addition, the acquisition of companies may be accompanied by options in the form of call or put rights, which may ensure control of the subsidiary even before the transfer of rights in rem. In these cases, the Board of Management exercises discretion by considering such rights to be substantial. Pending approvals by governmental institutions, on the other hand, normally prevent control by NAGA, so that in these cases initial consolidation is not carried out until the date of approval. In the financial year 2017, discretion was exercised for HBS and Naga Markets.

4.2. Impairments

At each reporting date, property, plant and equipment and intangible assets are tested for indications of impairment by comparing the recoverable amount and carrying amount. Examples include changes in the regulatory environment or insufficient customer acceptance. If the recoverable amount cannot be determined at the level of the individual asset, it is determined at the level of the cash-generating unit ("CGU") to which the respective asset is allocated. The allocation is made on an appropriate and consistent basis to the individual CGUs or to the smallest group of CGUs. As of the reporting date December 31, 2018, two CGUs, the brokerage business and the consulting business, were identified. The acquired goodwill was fully allocated to the Brokerage CGU, which includes Naga Markets. Additional CGUs will be created in the future as the business expands.

Intangible assets with indefinite useful lives or intangible assets not yet in use are tested for impairment at least annually and additionally if there are indications of impairment ("triggering event"). There was no indication of impairment in fiscal year 2018.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired company at the date of acquisition. Goodwill arising on acquisition is classified as an intangible asset. Capitalized goodwill is not amortized but tested for impairment at least once a year or more frequently if events or changes in circumstances indicate that it might be impaired, based on the CGU to which it is allocated. The impairment tests are performed to determine whether the recoverable amount exceeds the carrying amount of the tested units including the goodwill allocated to them. As of the reporting date December 31, 2018, there is goodwill at the Brokerage CGU.

The impairment test of the goodwill of the Brokerage CGU is based on the fair values less costs to sell. This is determined on the basis of a discounted cash flow (DCF) method by discounting the forecast cash flows, derived from the multi-year plan approved by management, with a determined cost of capital. The planning covers the subsequent years for a period of 3 years. This is followed by the perpetual annuity. The valuation method used to determine the fair values is allocated to level 3 of the fair value hierarchy.

The main assumptions made for the detailed planning period take into account, in particular, the estimate of the future development of trading revenues and costs as well as the resulting derivation of earnings before interest and taxes (EBIT) and the assumed cost of capital (WACC). For ZGE Brokerage, the key planning parameters underlying trading revenues are the number of customers, average deposits per customer, and the gross trading margin. A change in these key planning parameters has a material impact on the determination of fair value less costs to sell and ultimately on the amount of any impairment loss that may be required on goodwill or indefinite-lived brands.

In perpetuity, management assumes moderate growth overall. A capitalization interest rate with a growth discount of 0.5% per year was applied in each case. The calculation of the cash flows was based on past experience and takes into account future developments. Risk-oriented, market-based interest rates were used to determine the fair value less costs to sell. The after-tax discount rate (WACC) is 6.72%.

The data used by management is based on empirical values from previous fiscal years, as well as on internal analyses and forecasts. Management bases its planning on its own estimates, as NAGA is active in a new fintech segment, "social trading" or "social investing". No external sources could be used for the planning, as such sources are not available or the available sources refer to non-comparable business areas and companies.

In the detailed planning period, NAGA expects strong growth in business. In this context, growth in new target markets outside the EU is of particular importance. In these target markets, the company expects growth rates to be significantly higher than in the EU markets in which the company has been active to date.

The planning also takes into account significant measures to improve the cost structure that the company initiated at the beginning of fiscal 2019.

With regard to the Brokerage CGU with attributable goodwill of EUR 95.2 million, unforeseeable changes in key planning assumptions could lead to a significant impairment of goodwill. This relates in particular to the assumptions made regarding sales, EBIT, and the estimate of the respective cost of capital (WACC), provided that the other parameters of the impairment test are assumed to be constant. The recoverability in the Brokerage CGU would continue to be given up to a deterioration of future revenues by 2% in the planning period and by 1% in the perpetuity or a deterioration of EBIT by 3.6% or in case of an increase of the WACC by up to 0.27 percentage points compared to the parameters currently used. Currently the overfunding amounts to around 6% of the book value of the CGU.

4.3. Income taxes

Significant assumptions and estimates are necessary to determine the income tax liabilities, as the final income tax charge is uncertain for a number of transactions and calculations. To the extent that the final tax charge differs from the recognized liability, these differences affect current and deferred income taxes. The Group uses external service providers to determine its income tax expense.

4.4. Relationships with related parties

In the past fiscal year, the Group did not enter into any business relationships with related parties.

4.5. Other estimation uncertainties

In addition, significant assumptions and estimates relate to the determination of useful lives throughout the Group and to the determination of recoverable amounts for impairment testing. New information is taken into account as soon as it becomes available. At the time of preparation of the consolidated financial statements, it is not assumed that there have been any significant changes to the assumptions and estimates.

4.6. Financial instruments

Financial assets and liabilities are recognized when the Group has a contractual right to receive cash or another financial asset from another party or has a contractual obligation to transfer financial assets to another party. Financial assets and financial liabilities are recognized from the date on which the Group becomes a party to the contractual provisions of the financial instrument. Financial assets that are acquired or sold on an arm's length basis are generally recognized on the trade date.

5. Changes in accounting policies - Amended standards and interpretations

The following amendments to standards or interpretations are mandatory for the first time in fiscal year 2018.

5.1. New and amended standards and interpretations relevant for the financial year

New and amended standards and interpretations relevant for the financial year

Innovations and changes in accounting

Standard	Title/Regulatory Content	Date of first application EU IFRS
9	Financial Instruments	01.01.2018
IFRS 15	Revenues from Contracts with Customers	January 1, 2018
IFRIC 22	Foreign currency transactions and consideration paid in advance	01.01.2018

Changes in standards

Clarification IFRS 15:	Clarifications to IFRS 15 Revenue from Contracts with Customers	01.01.2018

Amendment IFRS 2: Clarification of the classification and measurement of share-based payment transactions	01.01.2018
Amendment IFRS 4: Application of IFRS 9 and IFRS 4 Insurance Contracts	01.01.2018
IASB Annual Improvement Project 2014-201601	.01.2018
Amendment to IAS 40: Classification of not yet completed real estate	01.01.2018

IFRS 9: Financial Instruments

IFRS 9 replaces IAS 39. The main new regulations and amendments and their impact on NAGA are listed below.

IFRS 9 introduces a new classification system for financial assets. The business model and the nature of the cash flows associated with the financial instrument are now decisive for the classification of financial assets. On the basis of

These criteria are used to decide whether the financial asset is to be measured at amortized cost or at fair value through profit or loss or not. The classification and the measure of subsequent measurement are determined at the time of addition of the financial instrument. The classification of financial liabilities remains essentially unchanged.

The following table and accompanying disclosures explain the original measurement category under IAS 39 and the new measurement category under IFRS 9 as of January 1, 2018 for each class of financial assets and financial liabilities recognized by the Group.

	Evaluation category		Carrying amount in TEUR	
Financial assets	**according to IAS 39**	**in accordance with IFRS 9**	**according to IAS 39**	**in accordance with IFRS 9**
	Loans and receivables	Amortized acquisition cost		
	Loans and receivables	Amortized acquisition cost		
	Loans and receivables	Amortized acquisition cost		
	at fair value through profit or loss (held for trading)	at fair value through profit or loss		
	Loans and receivables	Amortized cost		
Current financial liabilities				
	Amortized cost	Amortized cost		
	at fair value through profit or loss (held for trading)	at fair value through profit or loss		

154	154
2.509	2.509
4.557	4.557
2901	2.901
8728	8.728
5212	5.212
558	558

Financial investments and other assets (non-current)

Other current assets Trade receivables

Receivables from derivatives

Cash and cash equivalents

Trade accounts payable

Liabilities from derivatives

IFRS 9 also replaced the previous impairment model for financial assets based on incurred losses with the expected credit losses model. The model did not have any impact as of January 1, 2019.

In addition, IFRS 9 introduces new regulations on hedge accounting. NAGA does not currently use hedge accounting, but reserves the option under IFRS 9 to continue to apply the hedging criteria of IAS 39 in the future.

IFRS 9 has also amended IAS 1 to require allowances for doubtful accounts to be presented as a separate line item in the statement of comprehensive income.

As a company with bank-like activities, NAGA is subject to IFRS 9 with its trading revenues.

NAGA has applied IFRS 9 as of January 1, 2018. Prior-year figures were not adjusted. Overall, there were no material effects for NAGA.
Detailed information on financial instruments can be found in Note 8.

IFRS 15: Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15. It replaces existing guidance on revenue recognition, including IAS 18 Revenue, IAS 11 Customer Contracts and IFRIC 13 Customer Loyalty Programs. The new standard establishes a comprehensive framework for the amount and timing of revenue recognition. IFRS 15 provides for a uniform, five-step revenue recognition model that is to be applied to all contracts with customers.

1. Stage: Determination of the contract with the customer
2. Stage: Identification of the performance obligation
3. Stage: Determination of the transaction price
4. Stage: Allocation of the transaction price to individual performance obligations
5. Stage: Recognition of revenue upon fulfillment of the performance obligation

For NAGA, no impact arose from the new regulation. The services provided in fiscal year 2018 relate to the distribution and technical development of the NGC, the NAGA Wallet and the NAGA Exchange for the NDAL.
These revenues were recognized as soon as the power of disposal or the service was rendered in accordance with the contractual agreements. The individual contracts do not include multiple deliverables, so no allocation is necessary.

Trading revenue is accounted for in accordance with IFRS 9. For

details on revenue recognition, please refer to Note 6.14).

All other new pronouncements have no impact on NAGA.

5.2. New standards and interpretations whose application is not yet mandatory

The IASB and the IFRS IC have issued the following standards, interpretations and amendments to existing standards whose application is not yet mandatory for NAGA as of December 31, 2018. These standards have not been applied early.

<u>New or amended standards and interpretations not yet applied</u>

Future innovations and changes in accounting

Standards	Status	EU Effective date
IFRS 16	Leasing	01.01.2018
IFRS 17	Insurance contracts	01.01.2018
IFRIC 23	Uncertainties regarding the income tax treatment	01.01.2018

Changes in standards

Amendments IFRS 9: Early repayment provisions with negative Compensation01	.01.2019
Amendments IAS 28: Long-term participation in assozie01	.01.2019
Amendment IAS 19: Benefits to employers: Change of plan - reduction or compensation01	.01.2019
IASB Annual Improvement Project 2015-201701	.01.2019
Amendment IFRS 3: Definition of a business operation01	.01.2020
Amendment IAS 1 and IAS 8: Definition of materiality01	.01.2020
Change framework concept: Updating the references to the framework01	.01.2020

IFRS 16: Leases

In January 2016, the IASB published IFRS 16, which replaces IAS 17 and IFRIC 4, among others. IFRS 16 abolishes the previous classification of leases for lessees into operating leases and finance leases. Instead, IFRS 16 introduces a uniform accounting model, under which lessees are required to account for all leases, the Group recognizes an asset for the right of use and a lease liability for the outstanding lease payments. As a result, all leases will in principle have to be recognized in the consolidated statement of financial position in future, largely in line with the current accounting treatment of finance leases.

However, IFRS 16 allows the option of not recognizing the right-of-use asset and the lease liability for leases with a term of up to twelve months and for leases of low-value assets. NAGA exercises this option. The lease payments associated with these leases are recognized as an expense either on a straight-line basis over the lease term or on another systematic basis.

For the current status of the leases, please refer to Note 10. For 2019, there will be additional effects from the new leases of Naga Markets (see Note 13).

NAGA will apply the standard as of January 1, 2019 on the basis of the modified retrospective method. Prior-year figures will not be adjusted. Due to the small number of leases, NAGA expects the first-time application of the standard to have little overall impact.

Any other new announcements are not expected to impact NAGA.

6. Notes to individual items of the consolidated balance sheet and the consolidated statement of comprehensive income

6.1. Intangible assets

Purchased software, licenses and industrial property rights are recognized at cost and amortized on a straight-line basis over their expected useful lives of three to five years. The amortization period for intangible assets with finite useful lives is three to five years.

The useful life is reviewed at least at the end of each financial year. These assets are tested for impairment if there are indications of impairment.

The intangible assets relate in particular to the Swipy technology acquired by way of contribution in kind and the acquisition costs of Naga Trader and Naga Virtual Software. Due to NAGA's business activities, the assessment of the ability to capitalize development costs (mainly software) is very important.

Software relates to new applications and significant enhancements or improvements to existing applications. Development costs are capitalized under the following conditions:

- the product is technically and economically feasible;
- the future economic benefit is probable;
- the attributable expenses can be reliably determined and
- the Group has sufficient resources to complete the development project.

Future economic benefits are probable if the technical innovations can generate additional sales. The sales forecasts for these new products are based on the best estimates at the measurement date.

If a development project has not yet been completed, it is tested for impairment annually. Otherwise, a possible impairment requirement is only reviewed if impairment indicators exist.

Development costs of EUR 1,595 thousand (previous year: EUR 1,266 thousand) were capitalized in fiscal year 2018 and reported in the statement of comprehensive income as capitalized programming services. The capitalization rate for development costs was 61% in 2018 (previous year: 64%).

The Executive Board determines whether an activity is to be regarded as development or maintenance/bugfixing on the basis of the activity reports submitted by the external service providers. Due to the user-oriented development of software applications, maintenance and bug-fixing expenses of EUR 1,009 thousand (previous year: EUR 738 thousand) were recognized in the statement of comprehensive income in fiscal year 2018.

The recoverability of Swipy Technology was tested and confirmed by an impairment test in the fiscal year. The Group's 3-year business plan served as a basis.

Goodwill is subject to an annual impairment test. The method and assumptions are explained in Note 4.2).

With the acquisition of HBS, a customer base was acquired. This will be amortized over a period of 5 years.

Extension of useful life

In fiscal year 2018, a review of the useful life for the Swipy technology was performed. Previously, the Company assumed a useful life of 5 years. Based on the reassessment, a useful life of 7 years is assumed. This is based on the fact that after the Naga Trader (then SwipeStoxx) software reached market maturity in 2016, significant investments were made in the further development of this software in the two subsequent years. The capitalized further development costs amounted to EUR 993 thousand in 2017 and EUR 885 thousand in 2018. Also for the following years - with a slightly decreasing trend
- planned to invest in the further development of the software. This continuously extends the useful life of the software, i.e. it is subject to less wear and tear than initially assumed. This reduces the amortization for the current year by EUR 1,463 k and increases the amortization for future periods (remaining useful life of 5 years) by EUR 1,463 k. The residual carrying amount of Swipy Technology is EUR 10,153 k. The change has been accounted for prospectively as a change in accounting estimate.

The Naga Trader has a residual book value of EUR 2,349 thousand.

Intangible assets in fiscal 2018 and the previous year are as follows:

Composition of intangible assets (BJ)

31.12.2018	AK/HK to the additions		Disposals AK/HK as of		Cumulated		Book value to the	Depreciation
	Additions							
in TEUR	01.01.2018	Business success	31.12.2018		Depreciation and amortization as of 12/31/2018	31.12.2018		in fiscal year 2018
Business or company value	202	0	95.021	0	95.223	0	95.223	0
Customer base	0	0	2.618	0	2.618	480	2.138	480
Softw are	20.738	68	0	0	20.806	11.592	9.214	3.809
Capitalized development costs	3.142	1.595	0	103	4.634	1.313	3.321	657
- thereof completed	2.794	1595	0	0	4.389	1.313	3.076	657
- thereof under development	348	0		103	245	0	245	0
Licenses/Domain	90	509	53	0	652	0	652	50
Intangible assets	**24.172**	**2.172**	**97.692**	**103**	**123.933**	**13.385**	**110.548**	**4.996**

31.12.2017 in TEUR	AK/HK as of Additions 01.01.2017	Additions to the company's assets	Disposals AK/HK as of 31.12.2017		Accumulated depreciation as of Dec. 31, 2017	Book value as of 12/31/2017		Depreciation and amortization in fiscal year 2017
Business or company value	202	0	0	0	202	0	202	0
Softw are	20.691	47	0	0	20.738	7.783	12.955	4.254
Capitalized development costs	1.876	1.266	0	0	3.142	656	2.486	490
- thereof completed	1.801	993	0	0	2.794	656	2.138	490
- thereof under development	75	273	0	0	348	0	348	0
Licenses	90	0	0	0	90	0	90	0
Intangible assets	**22.859**	**1.313**	**0**	**0**	**24.172**	**8.439**	**15.733**	**4.744**

6.2. Property, plant and equipment

Property, plant and equipment used for more than one year and subject to wear and tear are measured at amortized cost. Property, plant and equipment are depreciated on a straight-line basis over their useful lives of three to five years. Maintenance and repair costs are expensed as incurred. A write-down to the recoverable amount is made if there are indications of impairment and the recoverable amount is below the amortized cost. There were no such indicators in the financial year 2018.

Property, plant and equipment includes office and business equipment.

31.12.2018

in TEUR	AK as of 01.01.2018	Additions	Disposals	AK as of 31.12.2018	Accumulated depreciation as of 12/31/2018	Book value as of 12/31/2018	Depreciation in the Fiscal year 2018
Other equipment, operating and Business equipment	185	213		398	162	236	90
Property, plant and equipment	**185**	**213**	**0**	**398**	**162**	**236**	**90**

31.12.2017

in TEUR	AK as of 01.01.2017	Additions	Disposals	AK as of 31.12.2017	Accumulated depreciation as of Dec. 31, 2017	Book value as of 12/31/2017	Depreciation and amortization Short fiscal year 2017
Other equipment, operating and Business equipment	153	42	10	185	72	113	34
Property, plant and equipment	**153**	**42**	**10**	**185**	**72**	**113**	**34**

6.3. Financial assets and other assets and current assets

Financial assets and other non-current and current assets relate to the following items:

Financial investments and other assets

in TEUR	31.12.2018	31.12.2017
Compensation fund for investors	123	110
Deposits	139	44
Long-term	263	154
Receivables from the HBS Group	0	1.319
Credit PayPal and Kraken account	848	833
Short-term loans	85	182
Sales tax receivable	357	164
Deposit	101	0
Other	215	11
Short term	1.606	2.509
Total	**1.869**	**2.663**

The obligation to deposit funds with the Investor Compensation Fund arises from regulatory requirements of CySEC. The non-current assets are subject to restraints on disposal.

Of the short-term loans, one is collateralized in excess of EUR 70 thousand. The credit default risk and recoverability are explained in Note 8.

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor past due but not impaired can be assessed using external information, such as credit ratings or experience values on default risks. In cases where no rating is available, the Company makes an assessment of future risks based on historical experience with the counterparty and known circumstances.

in TEUR	31.12.2018	31.12.2017
Fully serviced loan receivables (Unrated)		
Third parties without previous payment defaults	133	280
Total	**133**	**280**
Fully serviced trade receivables and other receivables		
Third parties without previous payment defaults	4.568	6.786
Total	**4.568**	**6.786**

6.4. Work in progress

There are no work in progress at the balance sheet date.

6.5. Trade receivables

Trade receivables are recognized at nominal value and amount to EUR 3,095 thousand as of the balance sheet date, of which EUR 2,690 thousand (previous year: EUR 4,544 thousand) are receivables from NDAL.

The receivables from NDAL have already been written down by EUR 1,700 thousand in accordance with IFRS 9.

Credit risk and recoverability are explained in Note 8.

6.6. Tax receivables

The tax receivables of EUR 373 thousand relate to HBS. These receivables relate to advance tax payments already made on losses generated for the years 2016 and 2017. The tax returns are currently being assessed at the tax office.

6.7. Receivables from derivatives

The derivative assets correspond to open positions in contracts for differences (CFDs) held mainly in a number of currency pairs with the customer. NAGA acts as counterparty from open positions held with the settlement partner ("Liquidity Provider"). In this way, NAGA partially hedges against financial risks arising from its open customer transactions.

6.8. Cash and cash equivalents

Cash and cash equivalents consist exclusively of short-term bank deposits of EUR 3,694 thousand (previous year: EUR 8,728 thousand).

The amounts of cash and cash equivalents included in the cash flow statement correspond to the corresponding item in the balance sheet. In the amount of thous.

1,305 thousand (previous year: ' 3,121 thousand) are subject to restraints on disposal, as these funds are held in trust for customers by the liquidity provider.

Cash and cash equivalents are held at banks with the following credit ratings:

in TEUR	31.12.2018	31.12.2017
A1	1.555	2.319
Baa1	454	201
Baa3	0	0
Caa2	0	18
Without rating	1.685	6.190
Total	3.694	8.728

The unrated cash and cash equivalents of EUR 1,685 thousand (previous year: EUR 6,190 thousand) are mainly deposited with a liquidity provider.

6.9. Deferred tax assets and liabilities

In fiscal year 2018, there are temporary differences in the following balance sheet items that lead to the recognized deferred tax assets:

in TEUR	31.12.2018	31.12.2017
Intangible assets	0	-11
Other liabilities	0	27
Loss carryforwards	1.307	0
Total deferred tax assets	**1.307**	**15**
Offsetting in accordance with IAS 12.74	0	0
Deferred tax assets according to balance sheet	**1.307**	**15**

Intangible assets	715	0
Total deferred tax liabilities	**715**	**0**
Offsetting in accordance with IAS 12.74	0	0
Deferred tax liabilities according to balance sheet	**715**	**0**

in TEUR	31.12.2018	31.12.2017

The deferred tax assets were mainly formed for the loss carryforwards of HBS and Naga Technology. When HBS was acquired, NAGA took over tax loss carryforwards amounting to EUR 2,223 thousand. These were not recognized in the purchase price allocation due to the loss situation of HBS. Against the background of the restructuring measures planned by NAGA, which also affect HBS, deferred tax assets were recognized on these as of December 31, 2018.

The assessment of the recoverability of deferred tax assets in excess of deferred tax liabilities is based on a three-year tax projection. Further tax loss carryforwards of Group companies in the amount of thous.
9,547 thousand, no deferred tax assets were recognized.

The deferred tax liabilities result mainly from the hidden reserves recognized in connection with the purchase price allocation of HBS.

6.10. Other current liabilities

Other non-current and current liabilities, some of which are financial in nature, are composed as follows:

in TEUR	31.12.2018	31.12.2017
Liabilities to HBS Group	0	300
Outstanding performance obligation from purchase price allocation	0	214
Short-term loans from related parties	0	3
Other current loans	7	0
Liability from wages and salaries	542	
Other	150	129
Short term	699	646
Total	**699**	**646**

Wage and salary liabilities mainly relate to wage tax for December 2018, which was paid in full in January 2019.

No new loans were taken out from related parties in fiscal year 2018.

Liquidity risk is explained in Note 8.

6.11. Tax liabilities

The expected tax liabilities of EUR 614 thousand relate to the financial year 2018 and previous years. In 2018, Naga Blockchain generated a taxable profit.

6.12. Other accrued liabilities

The recognition of provisions as liabilities requires an estimate of the amount and probability of cash outflows. Any differences between the original estimate and the actual outcome may have an effect on the net assets, financial position and results of operations of the Group in the respective period. For current provisions, an outflow of resources is generally expected within the following twelve months.
Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions developed as follows in fiscal year 2018:

in TEUR01	.01.2018	Allocation	Consumption	Reversal	Dec. 31, 2018
Vacation accruals	179	70	36	0	213
Annual financial statement, audit	197	169	153	35	178
costs Other accruals	170	476	87	8	551
Total	**546**	**715**	**276**	**43**	**942**

in TEUR01	.01.2017	Allocation	Consumption	Reversal	Dec. 31, 2017
Outstanding invoices:					
- Consulting costs	345	0	342	3	0
Vacation accruals	17	162	0	0	179
Annual financial statement, audit costs	284	197	284	0	197
Other accrued liabilities	32	253	73	42	170
Total	**678**	**612**	**699**	**45**	**546**

Reimbursements for the aforementioned provisions are not expected.

6.13. Contractual liabilities

Contractual liabilities of EUR 388 thousand mainly relate to license income of EUR 375 thousand with a remaining term of one year as of the balance sheet date. In 2019, these will be reversed through profit or loss in sales. The associated funds have already been received in 2018.

6.14. Revenue recognition

Currently, NAGA generates revenues from brokerage business ("trading revenues") and from consulting services related to third-party ICOs. Trading revenues may show a negative balance to the extent that individual transactions result in losses.

Revenue is measured at the fair value of the consideration received or receivable, net of discounts and sales taxes, and is recognized as a trade receivable in the ordinary course of the Company's activities.

Revenue is recognized as soon as the consideration can be reliably measured and there are no significant obligations to the customer and collection of the receivable is considered probable. This assessment represents a judgment in which NAGA relies, among other things, on empirical values of senior executives with regard to the respective collection and the amount of revenue.

The following criteria apply to the realization of the respective transaction type:

Trading revenue

Trading revenues result from customers' trading in contracts for difference ("CFD", "Contract for Difference"). Here, NAGA acts as counterparty for the trades executed by customers. To minimize risks, some trading contracts are passed on to third parties (so-called liquidity providers).

The Group generates revenues primarily from flow management, commis- sions and swap interest income arising in connection with the Group acting as a market maker for trading CFDs. Trading revenues are comprised of the following:

- Trading in the aforementioned financial instruments and
- Commissions charged for CFDs

Gains and losses from the measurement of open and closed positions as of the reporting date are recognized as trading revenue.

In the case of open positions, the profit or loss may differ significantly from the amount reported as of the reporting date, as the underlying asset underlying the trading contracts fluctuates over time and can significantly change the success of a trading contract. For closed positions, the profit or loss - with the exception of credit risks - is largely fixed as a result of the risk minimization strategy.

In fiscal year 2018, NAGA realized trading revenues of EUR 7,744 thousand (previous year: EUR 6,522 thousand). In addition, a further EUR 375 thousand was generated from license revenues.

Service revenues

In the financial year 2018, revenues from services totaled EUR 8,001 thousand (previous year: EUR 6,322 thousand). Of this amount, EUR 7,562 thousand was generated with the business partner NDAL. The remaining revenue is attributable to services provided to third parties as part of the ITS performed by them.

6.15. Activated programming services

The capitalized programming services of EUR 1,595 thousand (previous year: EUR 1,266 thousand) relate to the capitalizable programming services of external service providers. In the course of programming, NAGA bears the economic risk of unsuccessful implementation of the project. It also controls the progress of the project, which is why the capitalized programming services are reported separately from the expenses recognized under other operating expenses.

6.16. Other operating income

Other operating income is recognized on an accrual basis in accordance with the provisions of the underlying contracts. In fiscal 2018, income was primarily generated from recharges of expenses that NAGA had assumed for NDAL. The expenses assumed are mainly marketing costs and development costs for the NGC, the NAGA Wallet and the NAGA Exchange.

6.17. Services received

NAGA had purchased services in the area of marketing, development and external labor for NDAL in the amount of EUR 2,899 thousand. These purchased services were charged to NDAL at a 5% markup. These oncharges are recognized under other operating income.

6.18. Development effort

In fiscal year 2018, development expenses totaled EUR 2,605 thousand (previous year: EUR 2,004 thousand). Of this amount, EUR 1,456 thousand mainly relates to the Naga Trader application. Of the total development costs, EUR 1,595 thousand was recognized as capitalized programming expenses, leaving an expense of EUR 1,009 thousand.

6.19. Direct expenses of trading revenues

The direct expenses of EUR 1,071 thousand (previous year: EUR 847 thousand) are directly related to the trading income. As a result of the increase in trading revenues, direct expenses have also risen accordingly.

6.20. Commission expense

The commission expense of EUR -29 thousand (previous year: EUR 2,579 thousand) has changed compared to the previous year in that the main introducing broker, HBS, has been part of the Group since February 1, 2018. As a result, the commission expense is eliminated with the revenues of HBS. Commissions with other third party brokers remain to a minor extent.

6.21. Personnel expenses

The average number of employees in full-time equivalents for the 2018 financial year was 91.5 (previous year: 22). The sharp increase results from the merger with HBS.

Personnel expenses are as follows and have risen sharply compared with the previous year due to the merger with the HBS Group:

in TEUR	20182017	
Wages and salaries	6.0872	.373
Social security contributions Other		678310 5416
Total	**6.8192**	**.699**

In the financial year 2018, EUR 376 k (prior year: EUR 281 k) in contributions were paid into defined contribution plans. Furthermore, wages and salaries include subsequent bonus payments of EUR 500 k (prior year: EUR 0 k) for the financial year 2017.

Personnel expenses from HBS for Spain amounted to EUR 1,742 thousand.

6.22. Marketing and advertising expenses and other operating expenses

NAGA's business model is designed for broad-based growth and requires a high level of marketing and advertising expenditure to attract customers on a sustained basis.

Marketing expenses totaled EUR 1,774 thousand (previous year: EUR 206

thousand) Other operating expenses include the following items:

in TEUR	2018	2017
Legal and consulting fees	1.451	1.561
IT costs	30	528
Accounting and closing costs	186	188
Third-party services	503	168
Travel expenses	475	146
Rental expenses	651	151
Incidental costs of monetary transactions	8	32
Expenses for licenses and concessions	11	0
Adjustment of specific valuation allowance	1.803	87
Expenses relating to other periods	88	117
Other	1.817	205
Total	**7.023**	**3.183**

Rental expenses rose sharply year-on-year due to the fact that HBS operates various offices in Spain. Furthermore, NAGA AG rented new office space in Hamburg as of February 1, 2018 due to the relocation.

The specific valuation allowances of EUR 1,803 thousand relate in each case to doubtful receivables as of the balance sheet date.

The expenses relating to other periods amounting to EUR 88 thousand mainly relate to the costs in excess of the provisions recognized as of December 31, 2017.

Other expenses mainly include costs for various web services (EUR 684 thousand) and currency differences (EUR 575 thousand) on crypto stocks.

6.23. Financial result

Interest is recognized on an accrual basis using the effective interest method. For the first time, interest was charged on the Group's clearing accounts in the past fiscal year.

Interest income is recognized using the effective interest method.

The financial result includes interest expenses of EUR 161 thousand (previous year: EUR 205 thousand) and interest income of EUR 18 thousand (previous year: EUR 1 thousand). Internal interest has already been eliminated.

6.24. Taxes on income and earnings

Income tax expense for the period comprises current and deferred taxes. Taxes are generally recognized in profit or loss. Current taxes are calculated on the basis of the profit or loss for the financial year calculated in accordance with the applicable tax regulations.

Deferred taxes are recognized for differences between the carrying amounts of existing assets and liabilities in the consolidated financial statements and the amounts used for tax purposes.

At each balance sheet date, the Group assesses whether the realization of future tax benefits is sufficiently probable for the recognition of deferred tax assets.

Proof of recoverability is considered to be provided by reference to the loss carryforwards, which can be carried forward without restriction in Germany, taking into account the minimum taxation, to the extent that the deferred tax assets are offset by deferred tax liabilities in the same taxable entity.

Otherwise, this requires management to assess, among other things, the recoverability of the tax benefits to be recognized, based on available tax strategies and future taxable income, and to consider other positive and negative influences.
The Executive Board generally assumes that deferred tax assets are recoverable. Deferred tax assets were recognized on loss carryforwards for the first time.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or on different taxable entities, if the balance is to be settled on a net basis. In Germany, trade tax is levied by the municipalities, while corporate income tax and the solidarity surcharge are levied by the federal government. For reasons of simplification, deferred and current taxes are netted.

Tax expense in fiscal 2018 is comprised of the following:

Taxes on income and earnings

in TEUR	31.12.2018	31.12.2017
Current income taxes		
Current income tax expense	**447**	**71**
Deferred taxes		
Deferred taxes	**-1.307**	**70**
Income taxes according to the statement of comprehensive income	**-860**	**141**

In Germany, current taxes are calculated on the basis of a corporate income tax rate of 15% and a solidarity surcharge of 5.5%. In addition, trade tax is levied on the profits generated in Germany in accordance with the Hamburg assessment rate of currently 470%. For the sake of simplicity, a possibly obligatory apportionment of the trade tax assessment amount to the individual municipalities has been dispensed with, so that the overall tax rate applied is currently 32.275%.

The following table shows the reconciliation of the expected income tax expense based on earnings before taxes to the recognized income taxes.

in TEUR	31.12.2018	31.12.2017
Earnings before taxes	-4.959	-2.104
Expected income tax benefit (32.275 %)	-1.601	-679
Non-deductible operating expenses	**17**	**2**
Effect from differing tax rates	**-136**	
Consolidation items to which no deferred tax was formed	**912**	**1.451**
Loss carryforwards on which no deferred taxes are were formed	**511**	**-633**
Deferred taxes capitalized for the first time on Loss carryforwards	**-723**	
Taxes for previous years	**21**	
Other	**138**	
Total income taxes	**-860**	**141**

The consolidation items for which no deferred taxes were recognized mainly include the non-tax-effective depreciation of Swipy technology in the amount of EUR 2,538 thousand (previous year: EUR 4,007 thousand).

7. Earnings per share

As of December 31, 2018, the shares of NAGA AG are listed on the Frankfurt Stock Exchange in the "Scale" segment. As this is not an organized market within the meaning of Section 2 (5) of the German Securities Trading Act (WpHG), earnings per share are not mandatory. In order to provide a transparent presentation of NAGA's earnings power, earnings per share are calculated voluntarily in accordance with IAS 33 on the basis of a time-weighted number of shares issued (less own shares) of 36,809,144 (previous year: 21,000,048). In the financial year, earnings per share remained unchanged at EUR -0.11. The number of ordinary shares increased in the financial year 2018.

8. Financial instruments and financial risk management

8.1. Financial instruments

As of January 1, 2018, the Group classifies financial assets into the following measurement categories:

those to be measured at amortized cost,

those to be measured at fair value (either through OCI or through profit or loss)

Classification

The Group's financial instruments are classified into the following measurement categories as of December 31, 2018 in accordance with the classification in IFRS 9:

Amortized cost

Assets measured at fair value through other comprehensive income with reclassification (FVOCI)

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

Equity instruments measured at fair value through other comprehensive income (FVOCI)

The classification and subsequent measurement of financial assets depends on: (a) the entity's business model for managing the related portfolio assets and (b) the cash flow characteristics of the asset. At initial recognition, NAGA may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise occur.

All other financial assets are classified as measured at FVTPL. Gains and losses on assets measured at fair value are recognized either in profit or loss or directly in equity.

Financial assets - recognition and derecognition

All purchases and sales of financial assets that are required to be made by regulation or market convention are recognized as of the trade date. This is the date on which NAGA commits to deliver a financial instrument. All other purchases and sales are recognized when the Group becomes a party to the contractual provisions of the in strument.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and NAGA has transferred substantially all risks and rewards of ownership.

Financial assets - valuation

Upon initial recognition, NAGA measures a financial asset at fair value plus transaction costs, which, in the case of a financial asset not measured at fair value through profit or loss, are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets recognized at FVTPL are recognized in profit or loss. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is recognized only if there is a difference between the fair value and the transaction price that can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Debt securities

The subsequent measurement of debt instruments depends on NAGA's business model for managing the asset and the cash flow characteristics of the asset. There are three valuation categories into which NAGA classifies its debt instruments:

Amortized cost

Assets held for the collection of contractual cash flows that are solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in other income. Any gain or loss on derecognition is recognized directly in profit or loss and reported in other gains / (losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate item in the statement of comprehensive income.

Financial assets measured at amortized cost comprise: Cash and cash equivalents, bank balances with an original maturity of more than 3 months, trade receivables and financial assets measured at amortized cost.

2. FVOCI

Assets held for collection of contractual cash flows and for sale of financial assets whose cash flows represent solely cash and interest payments are measured in accordance with FVOCI. Changes in the carrying amount are recognized in other comprehensive income (OCI), except for the recognition of impairment losses, interest income and foreign currency income and expenses, which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other gains / (losses). Interest income from these financial assets is included in other income. Foreign currency gains and losses are reported in other gains / (losses), and impairment losses are reported as a separate line item in the statement of comprehensive income.

3. FVTPL

Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt security that is subsequently measured at FVTPL is recognized in profit or loss and reported net within other gains / (losses) in the period in which it arises.

Financial assets - Impairment - Allowance for expected credit loss (ECL)

As of January 1, 2018, NAGA measures "expected credit loss" (ECL) for financial assets (including loans) measured at amortized cost and FVOCI, and risk arising from loan commitments and financial guarantees, in accordance with IFRS 9. NAGA measures ECL and records the allowance for loan losses at each balance sheet date. The measurement of ECL reflects (a) an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, (b) the time value of money, and (c) all reasonable and supportable information available without undue cost or effort at the end of each reporting period about past events, current conditions, and projections of future conditions.
The carrying amount of financial assets is reduced using an allowance account.

Debt instruments measured at amortized cost are presented in the balance sheet net of the allowance for ECL.

For debt instruments at FVOCI, an allowance for ECL is recognized in profit or loss and affects the gains or losses recognized in OCI rather than the carrying amount of these instruments.

Expected losses are recognized and measured using one of the following two approaches:

general approach or

simplified approach.

For trade and other receivables, NAGA applies the simplified approach permitted by IFRS 9, which requires the recognition of lifetime expected losses from the initial recognition of the financial assets.

For all other financial assets subject to impairment under IFRS 9, NAGA applies the general approach - a three-step model for impairment.

Level 1

A financial instrument that is not creditworthy at initial recognition is classified in Level 1. For financial assets in Level 1, the ECL is measured at an amount equal to the portion of the lifetime ECL arising from default events that occur within the next 12 months or until the contractual maturity date, whichever is shorter ("12-month ECL").

Level 2

If NAGA identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is moved to Level 2 and its ECL is assessed based on the total duration of the instrument - until contractual maturity, taking into account expected prepayments - , if any ("Lifetime ECL").

Level 3

If NAGA determines that a financial asset is creditworthy, the asset is transferred to Level 3 and its ECL is assessed as lifetime ECL. NAGA's definition of credit-impaired assets and the definition of default are explained in Financial Risk Management.

Financial assets - reclassification

Financial instruments are only reclassified if the business model for managing these assets changes. The reclassification is prospective and takes place from the beginning of the first reporting period after the change.

Financial assets - amortization

Financial assets are written off in full or in part when NAGA has exhausted all practical remediation efforts and has concluded that there is no reasonable prospect of recovery. The write-off is a derecognition event. NAGA may write off financial assets that are still subject to foreclosure activities if the Company wishes to collect amounts contractually due but there is no reasonable expectation of collection.

Financial assets - modification

NAGA sometimes renegotiates or otherwise changes the contractual terms of financial assets. The Group assesses whether the change in contractual cash flows is material, taking into account, among other things, the following factors: new contractual provisions that materially affect the risk profile of the asset (e.g., profit sharing or share-based return), material change in interest rate , change in currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of credit when the borrower is not in financial difficulty.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at banks and cash held with liquidity providers. Cash and cash equivalents are stated at amortized cost because: (a) they are held to collect contractual cash flows and these cash flows represent SPPI, and (b) they are not designated at FVTPL.

Financial assets at amortized cost

These are held for the purpose of collecting NAGA's contractual cash flows and their cash flows represent payments of principal and interest only. Accordingly, they are measured at amortized cost using the effective interest method.

The financial assets are measured at amortized cost using the effective interest method less impairment losses. Financial assets measured at amortized cost are classified as current assets if they are due within one year or less (or, if longer, in the normal operating cycle). If not, they are reported as non-current assets.

Financial liabilities - measurement categories

Financial liabilities are initially measured at fair value and classified as amortized cost, except for (a) financial liabilities at FVTPL. This classification relates to derivatives and financial liabilities held for trading (e.g. short positions in securities) and potential consideration by an acquirer in a business combination and other financial liabilities designated as such upon initial recognition, and (b) financial guarantee contracts and loan commitments.

Trade accounts payable and other liabilities

Trade accounts payable and other liabilities are measured initially at fair value and subsequently at amortized cost using the effective interest method.

Customer funds

Customer funds are not recognized as assets because they are not resources controlled by the Company and the significant risks and rewards of ownership of these funds remain with the customer.

The following table shows the carrying amounts and fair values by measurement category of financial instruments as of December 31, 2018 and December 31, 2017

in TEUR	Carrying amount 31.12.2018	To be attached Current value 31.12.2018	Carrying amount 31.12.2017	To be attached Current value 31.12.2017
Loans and receivables	7.952	7.952	15.618	15.618
At fair value through profit or loss Financial assets measured at fair value (derivatives)	3.049	3.049	2.901	2.901
Financial assets and liabilities at fair value through profit or loss Liabilities (Derivatives)	-75	-75	-558	-558
Assets measured at amortized cost financial liabilities	1.563	1.563	6.688	6.688

Financial assets measured at amortized cost

This item includes cash and cash equivalents, trade receivables and other financial assets. They are measured at amortized cost using the effective interest method. Interest is recognized in the financial result. Any impairment losses are recognized in profit or loss.

In this context, the debtor's financial difficulties, the likelihood that the debtor will file for insolvency or undergo restructuring, and default
The impairment loss is recognized when there is an indication that the asset may be impaired.

Financial assets/liabilities at fair value through profit or loss

These two items include derivative assets and liabilities.

Financial liabilities measured at amortized cost

This category includes trade accounts payable and other financial liabilities. They are measured at amortized cost using the effective interest method.

There were no material effects on the Group from the reclassifications due to the first-time application of IFRS 9 as of January 01, 2018.

Fiduciary business

NAGA manages cash and cash equivalents of customers in its own name and for the account of third parties in separately managed bank accounts for the purpose of processing customer orders. NAGA acts as a trustee and the liquid funds are not part of the Group's assets or liabilities.

To date, NAGA has provided these services through its Cypriot subsidiary Naga Markets and is therefore subject to the regulatory requirements of the Cypriot banking supervisory authority CySEC. Accordingly, an auditor must report annually to the Cypriot banking supervisory authority on whether the measures put in place to protect customer funds are appropriate and are being complied with.

The assets held in trust by NAGA as of December 31, 2018 amount to EUR 15,798 thousand (previous year: EUR 10,567 thousand).

8.2. Financial Risk Management

The Group's business activities involve significant risk and are also subject to regulatory requirements. Consequently, NAGA has implemented a risk management system.

The Group's risk management focuses on the unpredictability of the financial markets and aims to minimize potential adverse effects on the Group's financial performance.

In the brokerage area, the Management Board prepares written policies for overall risk management and for specific areas, such as foreign currency risks, interest rate risks, credit risks, price risks, the use of derivative and non-derivative financial instruments, and the investment of excess liquidity. Risk management is carried out under

Oversight of the Risk Management Committee of Naga Markets, which acts in accordance with policies approved by the Board of Directors. The Risk Management Committee of Naga Mar- kets is independent, subject to oversight by CySEC, and is charged with the oversight of the following functions:

Adequacy and effectiveness of the Company's risk management policies and procedures

Compliance by the Group and the relevant personnel with the regulations, processes and mechanisms specified in the risk management policy

Adequacy and effectiveness of the measures applied to eliminate deficiencies in processes and systems

Identifying, assessing and managing financial risks in close cooperation with the company's operating units.

Financial risk factors

The Group is exposed to the following financial risks as a result of its business activities:

Market risks (including price risks, currency risks, fair value interest rate risks, and cash flow interest rate risks)

Counterparty risks

Credit risks and

Liquidity risks

Market risks (including price risks, currency risks, fair value interest rate risks, and cash flow interest rate risks)

Price risks

NAGA is mainly exposed to market price risk from fluctuations in foreign currencies, commodities and equity instruments attributable to open positions in CFDs held by Naga Markets as a counterparty with its customers, which are classified as derivative financial instruments on the balance sheet. NAGA itself does not enter into its own po- sitions based on the expectation of market movements, but enters into positions with liquidity providers to financially hedge a portion of its open customer contracts on a trade-by-trade basis.

To manage price risk, the Group has a formal risk policy established by the Board of Directors, which includes limits or a method for setting limits for each individual financial market in which the Company trades and for specific market groups and markets Group of financial instruments that the Board of Directors considers to be correlated. The Board of Directors monitors the Company's exposure to these limits on an ongoing basis.

NAGA benefits from a number of factors that also reduce the volatility of its revenues and protect it from market shocks, such as the diversification of its clientele and product range, as NAGA acts as a market maker in a number of trading instruments. Mainly CFDs on foreign currency pairs, equities, commodities and indices. This diversification of the product offering tends to result in reduced concentration risk within the market risk portfolio. During the year ended December 31, 2018, the Group traded with a large number of customers from different countries. This large interna- tional customer base has a number of different trading strategies that result in the Corporation enjoying a hidden level of natural hedging between customers. This "portfolio net effect" leads to a significant reduction in the Group's net market tri- sic.

NAGA

Another factor that is continuously considered and monitored in the context of risk limits is the capital adequacy that NAGA is required to maintain in accordance with the requirements of the local regulatory authorities. This relates to the subsidiary Naga Markets and the Cy-SEC.

NAGA's price risk is primarily dependent on short-term market conditions and customer activity during the trading day, and therefore the risk at each balance sheet date may not be representative of the price risk the Company faces over the year.

Market conditions	Common currency pairs	unusual and exotic currency pairs CFDs
Normal3 million	1.5 million	5 million
Extreme2 million	1 million	3 million

Foreign currency risks

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future transactions and recognized assets and liabilities are denominated in a currency that is not the Company's measurement currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the U.S. dollar. The Company's management continuously monitors exchange rate fluctuations and acts accordingly. The Company is mainly exposed to currency risk due to its foreign currency CFD positions.

Possible changes in exchange rates do not have a material impact on the Group's results of operations and financial position.

The impact of changes in foreign exchange rates on the Group's CFDs is part of price risk as it relates directly to the Group's operations.

The Executive Board does not consider the currency risk to be significant for the Group.

Fair value interest rate risks and cash flow interest rate risks

The Group's interest rate risk arises from interest-bearing assets and non-current liabilities. Due to the current low risk exposure, no sensitivity analysis is provided.

Counterparty risks

NAGA defines counterparty risk as the risk of losses or lost profits due to unexpected defaults or unforeseeable deteriorations in the creditworthiness of business partners.

Counterparty risks in NAGA result primarily from the business and settlement partners in brokerage.

NAGA's business partners are screened on the basis of predefined criteria, which are adapted to current circumstances as required and are based on specific characteristics of the business partners. In addition, creditworthiness is checked on an ongoing basis using publicly available data.

Credit risks

Credit risk arises from deposits with banks and financial institutions, as well as cre- dits to customers, including outstanding receivables.

Banks and financial institutions are only accepted as contractual partners after a thorough review. In addition to an independent rating, Naga Markets' risk committee takes past experience and other factors into account when reviewing creditworthiness. Transactions with customers are also handled with the help of banks or financial institutions that specialize in online brokerage and banking.

A credit risk affecting customers always arises when losses from loss-making trading positions exceed the minimum capital to be held by the customer, i.e., a customer is in danger of losing more money in a position than he has previously deposited.

The Company protects itself against this risk in the normal course of business by monitoring all trading positions both on the system side and by traders. Customer positions are closed by the system in an automatic process as soon as the account balances held to cover losses exceed a defined minimum value.

If a situation nevertheless arises, for example due to large unforeseeable price jumps, in which the losses incurred exceed a customer's deposit, a so-called "negative balance protection policy" applies, according to which NAGA waives all claims in excess of the deposit for private customers.

However, due to the fact that NAGA primarily acts as a market maker, the Group is not exposed to any significant risk arising from the negative balance protection policy. The background to this is that NAGA currently passes on only an insignificant proportion of trading contracts to external liquidity providers. For a large part of the trading contracts, NAGA acts as counterparty. In this case, the waiver of settlement of loss-making customer positions only leads to an imputed loss, as realized profit is waived to this extent. Only in the case of direct on-lending does the risk of a liability to the liquidity provider arise, with a simultaneous loss of receivables from the customer.

Contracts with an imminent margin requirement and simultaneous forwarding to a li- quidity provider are therefore subject to a separate inter- national control associated with the stress tests. To minimize risk, NAGA may reopen the position to prevent a loss of liquidity in excess of the customer's deposit.

As of December 31, 2018, the Group is exposed to the following credit ri- sks, broken down by category:

in TEUR	31.12.2018	31.12.2017
Trade receivables	3.095	4.557
Other current assets	4.213	5.234
- Thereof derivatives	3.050	2.901
- thereof financial	1.163	2.333
Cash and cash equivalents	3.694	8.728
Total	**11.002**	**18.519**

Liquidity risk

Liquidity risk arises when the maturities of assets and liabilities do not match. A mismatched position increases profitability but may also increase the risk of loss. The Group has implemented measures to minimize losses and to maintain sufficient cash and other highly liquid, short-term assets.

Ongoing and forward-looking policies and procedures are implemented for the assessment and management of the Group's net financial position in order to reduce liquidity risk.

The following table shows the Group's financial liabilities in relevant maturity groupings based on the remaining terms to maturity - starting from the balance sheet date. The amounts shown in the table correspond to the contractual, undiscounted cash outflows. If the liability is due within twelve months, the carrying amount corresponds to the cash outflows, as discounting has no material effect. Where the liabilities are interest-bearing, no discounting is applied.

31.12.2018 in TEUR	less thanbetween a	c		more than
Other liabilities (financial nature)	1			
- thereof financial	6	0	0	0
- thereof derivatives	5	0	0	0
Trade accounts payable	4	0	0	0
Total	**1.57 5**	**0**	**0**	**0**

31.12.2017 in TEUR	less than 1 year	between 1 and 2 years	between 2 and 5 years	more than 5 years
Other liabilities (financial nature)	1.476			
- thereof financial	918	0	0	0
- thereof derivatives	558	0	0	0
Trade accounts payable	5.212	0	0	0
Total	**6.688**	**0**	**0**	**0**

8.3. Capital Management

NAGA is currently in a growth and development phase. Capital management is therefore geared towards financing further expansion. In addition to securing sufficient financing for planned sales activities, this includes further investment in software development.

In addition, the Cypriot banking regulator CySEC requires a minimum equity ratio for the Cypriot subsidiary Naga Markets. This amounts to 8% plus a capital conservation buffer of 1.25% as of the balance sheet date. The calculation method is based on the international Basel II and Basel III capital adequacy requirements. The adequacy of the Group's capital ratio is continuously monitored and reported to the regulatory authorities on a quarterly basis.

Estimation of the fair value

The following table shows the financial instruments measured at fair value according to the valuation method applied. The various input factors were defined as follows:

Level 1: Quoted prices (unadjusted) in active markets accessible to the entity at the balance sheet date for identical assets or liabilities;

Level 2: Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3: Inputs that are unobservable for the asset or liability.

in TEUR	31.12.2018 Level 1	Level 2	Level 3	31.12.2017 Level 1	Level 2	Level 3
Assets						
Derivative financial instruments	**3.049**	**0**	**0**	**2.901**	**0**	**0**
Debt						
Derivative financial instruments	**75**	**0**	**0**	**558**	**0**	**0**

Both the assets of EUR 3,050 k (prior year: EUR 2,901 k) and the liabilities of EUR 75 k (prior year: EUR 901 k) are recognized in the consolidated balance sheet.

9. Equity/dividends

9.1. Equity

As of December 31, 2018, the subscribed capital ("share capital") amounts to EUR 40,203,582 and is divided into 40,203,582 no-par value registered shares. There are no separate preferential rights for specific shares. According to the Articles of Association of May 24, 2017, the shares are no longer subject to restrictions on transferability in the financial year and therefore there are no restrictions on trading the shares (Section 68 AktG). The subscribed capital or shares outstanding increased as follows:

Shares outstanding at Dec. 31, 2016		**50.001**
Changes in the financial year from	Cash contribution	12.413
Changes in the financial year from	Company funds	17.975.232
Changes in the financial year from	Convertible bond	1.970.402
Changes in the financial year from	IPO (initial public offering)	1.000.000
Shares outstanding as of Dec. 31, 2017		**21.008.048**
Changes in the financial year from contributions in kind		19.195.534
Shares outstanding as of 12/31/2018		**40.203.582**

All issued shares are fully paid in. NAGA AG and its subsidiaries did not hold any treasury shares as of the balance sheet date December 31, 2018.

Authorized capital

The authorized capital 2017 was cancelled. By resolution of the Annual General Meeting on August 31, 2018, the Executive Board is authorized, with the approval of the Supervisory Board, to increase the share capital of NAGA AG on one or more occasions by a total of up to EUR 20,101,791.00 by issuing up to 20,101,791 new registered no-par value shares against cash and/or non-cash contributions in the period up to August 30, 2023, whereby subscription rights may be excluded.

Conditional capital

The share capital of NAGA AG is conditionally increased by up to EUR 1,369,860.00 by issuing up to 1,369,860 no-par value registered shares (Conditional Capital 2017). The conditional capital increase serves exclusively to grant rights to the holders of stock option rights from the stock option program, which the Supervisory Board was authorized to issue by resolution of the Annual General Meeting on March 22, 2017 (Conditional Capital 2017).

By resolution of the Annual General Meeting of May 24, 2017, the share capital of NAGA AG is conditionally increased by up to EUR 8,634,164.00 for the purpose of implementing convertible bonds and/or bonds with warrants issued on the basis of the authorization resolution of the Annual General Meeting of the same date by issuing up to 8,634,164 no-par value registered shares (Conditional Capital 2017).

As of December 31, 2018, NAGA AG has not utilized the conditional capital.

Contributions made to implement a capital increase

NAGA AG had already received payments in the previous year for a capital increase resolved on May 24, 2017. This capital increase was registered in the past fiscal year 2018. Therefore, this item is reported at EUR 0 thousand as of December 31, 2018.

Own shares:

As a result of the acquisition of HBS, NAGA indirectly holds treasury shares, as HBS itself holds 1,137,139 shares in NAGA AG as fixed assets. At the time of acquisition, the treasury shares were deducted from equity at cost in accordance with IAS 32.33 without affecting profit or loss. The acquisition costs of the treasury shares amounted to EUR 5,526 thousand at the time of acquisition.

The cost method has been chosen for the presentation of treasury shares. This means that the cost of acquisition is deducted from equity in a separate line and in a single amount.

9.2. Dividends

No dividend payments to shareholders were resolved or made during the reporting period.

10. Leasing

Under a lease, the lessor transfers to the lessee, by agreement, the right to use an asset or a number of assets for an agreed period in return for a payment or a series of payments.

The allocation of the leased asset to the lessee or lessor depends on whether the lease is a finance lease or an operating lease. In the case of finance leases, substantially all the risks and rewards incidental to ownership of the leased asset are transferred to the lessee.

and risks are transferred. Operating leases, on the other hand, are leases that do not constitute finance leases. The Group only acts as a lessee under operating leases.

NAGA has entered into commercial leases for office space and office and business equipment as lessee. These leases have a maximum term of 3 years. For office space, the maximum term is 2 years. NAGA is not subject to any restrictions when entering into these leases.

As of December 31, 2018, future minimum lease payments under fixed-term leases are as follows:

31.12.2018

in TEUR	less than 1 Year	between 1-5 years	more than 5 years
Office rent	292 €	14 €	- €
Leasing office and business equipment	25 €	17 €	- €
Total	**318 €**	**32 €**	**- €**

31.12.2017

in TEUR	less than 1 Year	between 1-5 years	more than 5 years
Office rent	114	317	109
Leasing office and business equipment	2	4	0
Total	**116**	**321**	**109**

The amounts shown above relate exclusively to minimum lease payments, while there are no contingent lease payments or payments under subleases. There are also no renewal or purchase options or price adjustment clauses.

NAGA has not concluded any lease agreements with variable lease payments. In fiscal year 2018, minimum lease payments of EUR 651 thousand (previous year: EUR 114 thousand) were recognized as an expense.

11. Auditor's fees

The following fees have been recognized for the services rendered by the auditor of the consolidated financial statements, Ernst & Young GmbH Wirtschafsprüfungsgesellschaft, Hamburg (in the previous year: Mazars GmbH & Co. KG Wirtschafsprüfungsgesellschaft, Steuerberatungsgesellschaft, Berlin):

in TEUR	2018	2017
Annual and consolidated financial statements	98	134

12. Related party disclosures

Balances and transactions between NAGA AG and its subsidiaries that are related parties have been eliminated on consolidation and are not disclosed in these notes. Details of transactions between the Group and other related parties are given below.

Related parties are the members of the Executive Board and Supervisory Board of NAGA AG and their close family members. In addition, companies over which related parties have a controlling influence are classified as related parties.

Board members and persons closely associated with them:

Yasin Sebastian Qureshi, Hamburg, businessman (Chairman, until April 30, 2019) and family

Christoph Brück, Hamburg, lawyer (until Jan. 15, 2018) and family

Benjamin Bilski, Hamburg, Business Economist (M. Sc.) (Director of Sales, Marketing and Corporate Strategy) and Family

Andreas Luecke, Hamburg, Attorney-at-Law/Tax Advisor (since Jan. 15, 2018, Chief Financial Officer, Legal Affairs, Human Resources) and Family

Supervisory Board members and persons closely associated with them:

Mr. Hans J. M. Manteuffel, Werne, lawyer (ret.) (Chairman) and family

Mr. Hans-Jochen Lorenzen, Hamburg, Certified Public Accountant/Tax Advisor and Family

Mr. Wieslaw Bilski, Frankfurt am Main, Managing Director and Family

Mr. Robert Sprogies, Vaterstetten, Managing Director (Deputy Chairman since 01.01.2018) and family

Dr. Jian Liang, Frankfurt am Main, Businesswoman and Family

Mr. Markus Duve, Hamburg, Managing Director (until February 28, 2018) and family

Mr. Stefan Schulte, Düsseldorf, lawyer/tax consultant (since June 1, 2018) and family

As of December 31, 2018, Mr. Qureshi and his related parties held 8,299,393 shares and Mr. Bilski 1,326,593 shares in NAGA AG.

Mr. Luecke is on the Supervisory Board of HBS as Chairman of the Supervisory Board. The other members of the Management Board did not hold comparable offices as of December 31, 2018.

The members of the Executive Board of NAGA received the following remuneration in fiscal year 2018:

in TEUR		31.12.2018	31.12.2017
Mr. Bilski			
	fix	455	240
	variable	250	
Mr. Qureshi			
	fix	450	240
	variable	250	
Mr. Brück			
	fix	19	240
	variable	0	
Mr. Luecke			
	fix	199	0
	variable	0	0
Total		**1.623**	**720**

There were neither share-based payments nor entitlements from pension plans.
In addition to reimbursement of their expenses, the members of the Supervisory Board received remuneration totaling EUR 106 thousand for their activities in the 2018 financial year. (previous year: EUR 63 thousand)

The following table compares the relationships with related parties in accordance with the provisions of IAS 24:

Products and services in TEUR	Related 31.12.2018	Provided 31.12.2018	Related 31.12.2017	Provided 31.12.2017
Board of Directors	0	0	0	0
Supervisory Board	0	0	6	0

Liabilities and receivables in TEUR	Debt/Loan 31.12.2018	Receivables 31.12.2018	Debt/Loan 31.12.2017	Receivables 31.12.2017
Board of Directors	0	0	0	0
Supervisory Board	0	0	0	0

Interest in TEUR	Get 31.12.2018	Due 31.12.2018	Get 31.12.2017	Due 31.12.2017
Board of Directors	0	0	0	0
Supervisory Board	0	0	0	0

13. Events after the balance sheet date

13.1. Board of Directors

Mr. Yasin Qureshi stepped down from the Executive Board at the end of April 30, 2019, and will move to the new Advisory Board of NAGA AG as Chairman. In this position, Mr. Qureshi will continue to advise the areas of strategy, innovation and business development.

13.2. Restructuring

It was decided to restructure the Group and implement significant cost savings. At the beginning of fiscal 2019, approximately 60% to 70% of costs are to be saved compared to the past fiscal year.

This includes a major reduction in the workforce, the closure of many offices in Spain and the re- duction of development expenses.

These measures will only take full effect in the course of the 2020 financial year, as one-off extraordinary expenses are still expected in the 2019 financial year.

13.3. Move

Naga Markets has moved to new offices in Limassol, Cyprus as of May 1, 2019. The lease agreement has a term of 2 years.

Hamburg, June 24, 2019

The Naga Group AG

Board of Directors

B. BilskiA . Luecke

6. Independent Auditor's Report

To The Naga Group AG

Audit Opinions

We have audited the consolidated financial statements of The Naga Group AG, Hamburg, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. We have also audited the group management report of The Naga Group AG for the financial year from January 1 to December 31, 2018.

In our opinion, based on the findings of our audit, the consolidated financial statements are as follows

the accompanying consolidated financial statements comply in all material respects with IFRSs as adopted by the EU and the additional requirements of German law pursuant to § 315e (1) HGB and give a true and fair view of the financial position of the Group as of December 31, 2018 and of its financial performance for the fiscal year from January 1 to December 31, 2018 in accordance with these requirements.

the accompanying Group management report as a whole provides a suitable view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and accurately presents the opportunities and risks of future development.

In accordance with § 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations concerning the propriety of the consolidated financial statements and the group management report.

Basis for the audit judgments

We conducted our audit of the consolidated financial statements and the group management report in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility under those provisions and standards is further described in the section "Auditor's Responsibility for the Audit of the Consolidated Financial Statements and the Group Management Report" in our auditor's report. We are independent of the Group companies in accordance with German commercial law and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements and the group management report.

Other information

The legal representatives are responsible for the other information. The other information comprises

the assurance of the legal representatives pursuant to Section 297 (2) sentence 4 HGB and Section 315 (1) sentence 6 HGB,

the report of the Supervisory Board,

the letter from the Board of Management to the shareholders.

Furthermore, the other information comprises the information obtained in the other parts of the Annual Report 2018, with the exception of the audited consolidated financial statements and the Group management report as well as our auditor's report thereon.

Our audit opinions on the consolidated financial statements and the group management report do not cover the other information and, accordingly, we do not express an opinion or any other form of conclusion on it.

In connection with our audit, we have a responsibility to read the other informa- tion and, in doing so, assess whether the other informa- tion is

are materially inconsistent with the consolidated financial statements, the group management report or our knowledge obtained in the audit, or

otherwise appear to be materially misrepresented.

Management's Responsibility for the Consolidated Financial Statements and for the Group Management Report

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing, as applicable, matters related to going concern. Furthermore, they are responsible for accounting on a going concern basis unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report, which as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

is consistent, in all material respects, with the consolidated financial statements, complies with German legal requirements, and suitably presents the opportunities and risks of future development. Furthermore, management is responsible for the arrangements and measures (systems) that it determines are necessary to enable the preparation of a group management report in accordance with the applicable German legal requirements and to provide sufficient appropriate evidence for the statements made in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and the Group management report.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements and the Group Management Report

Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides a suitable view of the Group's position and is consistent, in all material respects, with the consolidated financial statements and with our audit findings, complies with German legal requirements and suitably presents the opportunities and risks of future development, and to issue an auditor's report that includes our audit opinion on the consolidated financial statements and the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) will always detect a material misstatement. 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 consolidated financial statements and the group management report.

During the audit, we exercise professional judgment and maintain a critical attitude. Furthermore

Identify and assess the risks of material misstatement of the consolidated financial statements and the group management report, 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 audit opinion. The risk of not detecting a material misstatement is higher in the case of noncompliance than in the case of inaccuracy, as noncompliance may involve fraud, forgery, intentional omissions, misrepresentations, or the override of internal controls;

Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and the arrangements and actions relevant to the audit of the group management report 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 those systems;

We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

we conclude on the appropriateness of the going concern basis of accounting used by management 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 auditor's report to the related disclosures in the consolidated financial statements and the group management report or, if these disclosures are inadequate, to modify our opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit opinion. Future events or circumstances may, however, result in the Group being unable to continue as a going concern;

We assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRSs as adopted by the EU, and the additional requirements of German law pursuant to § 315e Abs. 1 HGB;

Obtain sufficient appropriate audit evidence regarding the accounting information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and on the Group management report. We are responsible for directing, supervising and performing the audit of the consolidated financial statements. We are solely responsible for our audit opinions;

We assess the consistency of the group management report with the consolidated financial statements, its compliance with the law and the view it conveys of the Group's position;

We perform audit procedures on the forward-looking statements made by management in the Group management report. In particular, based on sufficient appropriate audit evidence, we reproduce the significant assumptions underlying the forward-looking statements made by management and evaluate the appropriateness of the information derived from these assumptions. We do not express an independent opinion on the forward-looking statements or on the underlying assumptions. There is a significant unavoidable risk that future events may differ materially from the forward-looking statements.

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

Hamburg, 28 June 2019

Ernst & Young GmbH Auditing

Company

KlimmerDjeukou

WirtschaftsprüferWirtschaftsprüferin