X-Trade Brokers DM S.A.

ANNUAL REPORT FOR 2016

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PRESIDENT'S LETTER

1. President's letter

Dear Sirs!

On behalf of the Management Board of X-Trade Brokers DM S.A. I am pleased to present the 2016 report. This document is the summary of the XTB Capital Group's operations over the past year, including generated financial results and the most relevant events.

Year 2016 was special for us. We have strengthened our position as one of the leading European brokers. We were distinguished by our own innovative investment technology and constant development. We provided our investors with an access to more than 3 thousand derivative instruments based on currencies, indices, shares, commodities and many others as well as the educational support.

In may we had our debut on the Warsaw Stock Exchange. Joining the companies listed on the WSE played key role as part of our strategy of building XTB's long-term value. Transparency of our business model and finance, so important for our clients, has become another XTB's competitive advantage, next to modern technology, as well as diverse and constantly developed products and services portfolio.

In 2016 you could observe the volatility in terms of our results (income) on quarterly basis. This is typical for the Group's business model. The Group's revenues depend on the volume of transactions executed by the Group's clients and on the volatility on the FX/CFD market.

XTB consistently builds up customers base for future growth. The number of new accounts and the average number of active accounts was increasing from quarter to quarter. The Management Board believes that in combination with favorable for XTB market volatility, this constitutes solid foundations for future growth.

In January 2017 changes in the composition of the Management Board took place. This decision resulted from the need to ensure by the Supervisory Board proper dynamic of the Company's value growth. Implemented changes were strategic and were designed to provide both immediate intensification of development processes as well as the continuity of key operational activities of the Company until these duties are taken over by the newly appointed President of the Management Board.

The Management's plan for the upcoming periods is to accelerate the Company's growth, in particular by expanding the customers base, development of the products offer, further penetration of existing markets and acceleration of geographic expansion into new markets.

Thank you for your trust in us in 2016. I encourage you to read the annual report attached.

Yours sincerely,

Jakub Zabłocki
President of the Management Board

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

	IN PLN'000 12 MONTH PERIOD ENDED		IN EUR'000 12 MONTH PERIOD ENDED	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Comprehensive income statement:				
Total operating income	210 812	245 952	48 178	58 773
Profit on operating activities	80 905	138 774	18 490	33 161
Profit before tax	86 969	143 119	19 875	34 200
Net profit	72 999	115 021	16 683	27 485
Net profit and diluted net profit per share attributable to shareholders of the Parent Company (in PLN/EUR per share)	0,62	0,98	0,14	0,23
Cash flow statement:				
Net cash from operating activities	51 556	112 266	11 782	26 827
Net cash from investing activities	(1 458)	(1 966)	(333)	(470)
Net cash from financing activities	(94 334)	(93 820)	(21 559)	(22 419)
Increase/(Decrease) in net cash and cash equivalents	(44 236)	16 480	(10 109)	3 938

	IN PLN'000		IN EUR'000	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Statement of financial position:				
Total assets	775 371	721 642	175 265	169 340
Total liabilities	411 096	340 016	92 924	79 788
Share capital	5 869	5 869	1 327	1 377
Equity	364 275	381 626	82 341	89 552
Number of shares	117 383 635	117 383 635	117 383 635	117 383 635
Carrying amount and diluted carrying amount per share attributable to shareholders of the Parent Company (in PLN/EUR per share)	3,10	3,25	0,70	0,76

The above data was translated into EUR as follows:

- items in the comprehensive income statement and cash flow statement – by the arithmetic average of exchange rates published by the National Bank of Poland as of the last day of the month during the reporting period:
  - for the current period: 4,3757;
  - for the comparative period: 4,1848;
- items of statement of financial position – by the average exchange rate published by the National Bank of Poland as of the end of the reporting period:
  - for the current period: 4,4240;
  - for the comparative period: 4,2615.

FINANCIAL STATEMENTS

COMPREHENSIVE INCOME STATEMENT

(IN PLN'000)	NOTE	TWELVE-MONTH PERIOD 31.12.2016	31.12.2015
Result of operations on financial instruments	6.1	206 007	236 923
Income from fees and charges	6.2	4 729	6 912
Other income		76	2 117
Total operating income	**6**	**210 812**	**245 952**
Salaries and employee benefits	7	(55 168)	(53 862)
Marketing	8	(38 647)	(20 042)
Other external services	10	(17 227)	(14 582)
Costs of maintenance and lease of buildings	9	(5 772)	(5 420)
Amortisation and depreciation	20,21	(4 334)	(4 720)
Taxes and fees		(1 501)	(508)
Commission expenses	11	(3 564)	(3 314)
Other costs	12	(3 694)	(4 730)
Total operating expenses		**(129 907)**	**(107 178)**
Profit on operating activities		**80 905**	**138 774**
Finance income	13	7 154	7 814
Finance costs	13	(1 090)	(3 469)
Profit before tax		**86 969**	**143 119**
Income tax	31	(13 970)	(28 098)
Net profit		**72 999**	**115 021**
Other comprehensive income		**1 209**	**58**
Items which will be reclassified to profit (loss) after meeting specific conditions		1 209	58
- foreign exchange differences on translation of foreign operations		*(29)*	*284*
- foreign exchange differences on valuation of separated equity		*1 528*	*(279)*
- deferred income tax		*(290)*	*53*
Total comprehensive income		**74 208**	**115 079**
Earnings per share:			
- basic profit per year attributable to shareholders of the Parent Company (in PLN)	30	0,62	0,98
- basic profit from continued operations per year attributable to shareholders of the Parent Company (in PLN)	30	0,62	0,98
- diluted profit of the year attributable to shareholders of the Parent Company (in PLN)	30	0,62	0,98
- diluted profit from continued operations of the year attributable to shareholders of the Parent Company (in PLN)	30	0,62	0,98

The comprehensive income statement should be read together with the supplementary notes to the financial statements, which are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

(IN PLN'000)	NOTE	31.12.2016	31.12.2015
ASSETS			
Own cash and cash equivalents	15	233 942	275 592
Customers' cash and cash equivalents	15	352 830	282 793
Financial assets held for trading	16	90 224	62 452
Investments in subsidiaries	17	66 095	63 447
Income tax receivables		1 016	2 198
Loans granted and other receivables	18	12 036	13 930
Prepayments and deferred costs	19	2 891	2 181
Intangible assets	20	4 136	6 626
Property, plant and equipment	21	3 115	3 457
Deferred income tax assets	31	9 086	8 966
Total assets		**775 371**	**721 642**
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to customers	22	350 821	289 285
Financial liabilities held for trading	23	21 647	9 686
Income tax liabilities		4 227	4 561
Other liabilities	24	20 438	26 015
Provisions for liabilities	27	883	831
Deferred income tax provision	31	13 080	9 638
Total liabilities		**411 096**	**340 016**
Equity			
Share capital	28	5 869	5 869
Supplementary capital	28	71 608	71 608
Other reserves	28	212 416	188 954
Foreign exchange differences on translation	28	1 873	664
Retained earnings		72 509	114 531
Total equity		**364 275**	**381 626**
Total equity and liabilities		**775 371**	**721 642**

The statement of financial position should be read together with the supplementary notes to the financial statements, which are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Statement of changes in equity for the period from 1 January 2016 to 31 December 2016

(IN PLN'000)	SHARE CAPITAL	SUPPLEMENTARY CAPITAL	OTHER RESERVES	FOREIGN EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	RETAINED EARNINGS	TOTAL EQUITY
As at 1 January 2016	**5 869**	**71 608**	**188 954**	**664**	**114 531**	**381 626**
Total comprehensive income for the financial year						
Net profit	–	–	–	–	72 999	72 999
Other comprehensive income	–	–	–	1 209	–	1 209
Total comprehensive income for the financial year	**–**	**–**	**–**	**1 209**	**72 999**	**74 208**
Transactions with Parent Company's owners recognized directly in equity						
Appropriation of profit/offset of loss (note 29)	–	–	23 462	–	(115 021)	(91 559)
- dividend payment	–	–	–	–	(91 559)	(91 559)
- transfer to other reserves	–	–	23 462	–	(23 462)	–
As at 31 December 2016	**5 869**	**71 608**	**212 416**	**1 873**	**72 509**	**364 275**

The statement of changes in equity should be read together with the supplementary notes to the financial statements, which are an integral part of these financial statements.

Statement of changes in equity for the period from 1 January 2015 to 31 December 2015

(IN PLN'000)	SHARE CAPITAL	SUPPLEMENTARY CAPITAL	OTHER RESERVES	FOREIGN EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	RETAINED EARNINGS	TOTAL EQUITY
As at 1 January 2015	**5 869**	**71 608**	**188 954**	**606**	**77 031**	**344 068**
Total comprehensive income for the financial year						
Net profit	–	–	–	–	115 021	115 021
Other comprehensive income	–	–	–	58	–	58
Total comprehensive income for the financial year	**–**	**–**	**–**	**58**	**115 021**	**115 079**
Transactions with the Parent Company's owners recognised directly in equity						
Appropriation of profit/offset of loss (note 29)	–	–	–	–	(77 521)	(77 521)
- dividend payment	–	–	–	–	(77 521)	(77 521)
As at 31 December 2015	**5 869**	**71 608**	**188 954**	**664**	**114 531**	**381 626**

The statement of changes in equity should be read together with the supplementary notes to the financial statements, which are an integral part of these financial statements.

CASH FLOW STATEMENT

(IN PLN'000)	NOTE	TWELVE-MONTH PERIOD 31.12.2016	31.12.2015
Cash flows from operating activities			
Profit before tax		86 969	143 119
Adjustments:			
(Gain) Loss on sale or disposal of items of property, plant and equipment		(6)	886
Amortization and depreciation		4 334	4 720
Foreign exchange (gains) losses from translation of own cash		(2 636)	(1 081)
Other adjustments	35.3	1 171	54
Changes			
Chang in provisions		52	308
Change in balance of financial assets and liabilities held for trading		(15 811)	(6 225)
Change in balance of restricted cash		(70 037)	(33 579)
Change in balance of loans granted and other receivables	35.1	1 966	(1 959)
Change in balance of prepayments and accruals		(710)	(459)
Change in balance of amounts due to customers		61 536	34 314
Change in balance of other liabilities	35.2	(5 458)	4 545
Cash from operating activities		**61 370**	**144 643**
Income tax paid		(9 800)	(32 380)
Interests		(14)	3
Net cash from operating activities		**51 556**	**112 266**
Cash flow from investing activities			
Proceeds from sale of items of property, plant and equipment		11	5
Expenses relating to payments for property, plant and equipment	21	(1 285)	(1 167)
Expenses relating to payments for intangible assets	20	(184)	(182)
Loans granted		–	(622)
Net cash from investing activities		**(1 458)**	**(1 966)**
Cash flow from financing activities			
Payments of liabilities under finance lease agreements		(117)	(138)
Interests paid under lease		(10)	(17)
Expenses relating to payments for acquisitions of shares in subsidiaries		(2 648)	(16 144)
Dividend paid to owners		(91 559)	(77 521)
Net cash from financing activities		**(94 334)**	**(93 820)**
Increase (Decrease) in net cash and cash equivalents		**(44 236)**	**16 480**
Cash and cash equivalents – opening balance		**275 592**	**258 055**
Effect of FX rates fluctuations on balance of cash in foreign currencies		**2 586**	**1 057**
Cash and cash equivalents – closing balance	**15**	**233 942**	**275 592**

The cash flow statement should be read together with the supplementary notes to the financial statements, which are an integral part of these financial statements.

ADDITIONAL EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

1. General information

1.1 Name and registered seat of the Company

Name:	X-Trade Brokers Dom Maklerski Spółka Akcyjna
Legal form:	Joint Stock Company
Country:	Poland
Company registered seat:	Ogrodowa 58, 00-876 Warsaw
Regon statistical number:	015803782
Tax Identification Number:	527-24-43-955
Registration in the National Court Register:	0000217580

1.2 Company business

X-Trade Brokers Dom Maklerski is a joint-stock company established pursuant to a notarial deed of 2 September 2004 - Repertory A-2712/2004.

On 22 September 2004, the Company was entered in the National Court Register by the District Court for the Capital City of Warsaw, 12th Commercial Department of the National Court Register, under No. 0000217580. The Company was granted a statistical REGON number 015803782 and a tax identification (NIP) number 527–24–43–955.

The Company's operations consist of conducting brokerage activities on the OTC markets (currency derivatives, commodities, indices, stocks and bonds). The Company is supervised by the Polish Financial Supervision Authority and conducts regulated activities pursuant to a permit dated 8 November 2005, No. DDM–M–4021–57–1/2005.

1.3 Information on the reporting entities in the Company's organizational structure

The financial statements cover the following foreign branches which form the Company:

- X–Trade Brokers Dom Maklerski Spółka Akcyjna, organizačni složka – a branch established on 7 March 2007 in the Czech Republic. The branch was registered in the commercial register maintained by the City Court in Prague under No. 56720 and was granted the following tax identification number: CZK 27867102.
- X–Trade Brokers Dom Maklerski Spółka Akcyjna, Sucursal en Espana – a branch established on 19 December 2007 in Spain. On 16 January 2008, the branch was registered by the Spanish authorities and was granted the tax identification number ES W0601162A.
- X–Trade Brokers Dom Maklerski Spółka Akcyjna, organizačna zložka – a branch established on 1 July 2008 in the Slovak Republic. On 6 August 2008, the branch was registered in the commercial register maintained by the City Court in Bratislava under No. 36859699 and was granted the following tax identification number: SK4020230324.
- X–Trade Brokers Dom Maklerski S.A. Sucursala Bucuresti Romania (branch in Romania) – a branch established on 31 July 2008 in Romania. On 4 August 2008, the branch was registered in the Commercial Register under No. 402030 and was granted the following tax identification number: CUI 24270192.
- X–Trade Brokers Dom Maklerski S.A., German Branch (branch in Germany) – a branch established on 5 September 2008 in the Federal Republic of Germany. On 24 October 2008, the branch was registered in the Commercial Register under No. HRB 84148 and was granted the following tax identification number: 4721939029.
- X–Trade Brokers Dom Maklerski Spółka Akcyjna a branch in France – a branch established on 21 April 2010 in the Republic of France. On 31 May 2010, the branch was registered in the Commercial Register under No. 522758689.
- X–Trade Brokers Dom Maklerski S.A., Sucursal Portugesa – a branch established on 7 July 2010 in Portugal. On 7 July 2010, the branch was registered in the Commercial Register under No. 980436613.

1.4 Composition of the Company's Management Board

In the period covered by these financial statements, the Management Board was composed of the following persons:

NAME AND SURNAME	FUNCTION	DATE OF FIRST APPOINTMENT	TERM OF OFFICE
Jakub Malý	President of the Management Board	25.03.2014	from the 29 June appointed for the 3-years term of office ending 29 June 2019; dismissed on the 10 January 2017
Paweł Frańczak	Board Member	31.08.2012	from the 29 June appointed for the 3-years term of office ending 29 June 2019
Paweł Szejko	Board Member	28.01.2015	from the 29 June appointed for the 3-years term of office ending 29 June 2019

1.5 Public support

In 2016 and 2015, the Company did not receive any financial support from public resources.

1.6 Rate of return on assets

The rate of return on assets, calculated as the quotient of net profit and total assets, as of 31 December 2016 amounted to 9,41% and as of 31 December 2015 amounted to 15,94%.

2. Basis for drafting the financial statements

2.1 Compliance statement

These financial statements were prepared based on International Financial Reporting Standards (IFRS), which were endorsed by the European Union.

These financial statements constitute standalone financial statements of X-Trade Brokers Dom Maklerski S.A. and it is included in the consolidated financial statements of X-Trade Brokers Group. Information on company's subsidiaries is presented in note 17.

The financial statements of the X–Trade Brokers Dom Maklerski S.A. prepared for the period from 1 January 2016 to 31 December 2016 with comparative data for the year ended 31 December 2015 cover the Company's financial data and financial data of the branch offices.

These financial statements have been prepared on the historical cost basis, with the exception of assets and liabilities held for trading and financial instruments held for sale which are measured at fair value. The Company's assets are presented in the statement of financial position according to their liquidity, and its liabilities according to their maturities.

The Company and its branch offices maintain their accounting records in accordance with the accounting principles generally accepted in the countries in which these companies are established. The financial statements include adjustments not recognised in the companies' accounting records, made in order to reconcile their financial statements with the IFRS.

The financial statements were approved by the Management Board on 17 March 2017.

Drafting these financial statements, the Company decided that none of the Standards would be applied retrospectively.

The IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

2.2 Functional currency and reporting currency

The functional currency and the presentation currency of these financial statements is the Polish zloty ("PLN"), and unless stated otherwise, all amounts are shown in thousands of zloty (PLN'000).

2.3 Going concern

The financial statements were prepared based on the assumption that the Company would continue as a going concern in the foreseeable future. At the date of preparation of these financial statements, the Management Board of X–Trade Brokers Dom Maklerski S.A. does not state any circumstances that would threaten the company's continued operations.

2.4 Comparability of data and consistency of the policies applied

Data presented in the financial statements is comparable and prepared under the same principles for all periods covered by the financial statements.

2.5 Changes in the accounting policies

The accounting policies applied in the preparation of the attached financial statements are consistent with those applied in the preparation of the financial statements of the Company for the year ended 31 December 2015, except for the below amendments. These changes were applied in the attached financial statements on their effective date and had no significant impact on the disclosed financial information, did not apply to the Company's transactions, or the Company decided not to apply a newly introduced approach or model.

- Amendments arising from IFRS Improvements, 2010-2012 Cycle, including amendments to IFRS 2 Share-Based Payment, amendments to IFRS 3 Business Combinations, amendments to IFRS 8 Operating Segments, amendments to IAS 16 Property, plant and equipment and IAS 38 Intangible assets, amendments to IFRS 13 Fair Value Measurement, amendments to IAS 24 Related Party Disclosures, amendments to IFRS 7 Financial Instruments: Disclosures and amendments to IAS 19 Employee Benefits
- Amendments arising from IFRS Improvements, 2012-2014 Cycle, including amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, amendments to IAS 34 Interim Financial Reporting
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IAS 27 Equity Method in Separate Financial Statements
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
- Amendments to IFRS 11 Accounting for Acquisition of Interests in Joint Operations
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The Company has not decided to apply earlier any Standard, Interpretation or Amendment that has been issued, but has not yet become effective in light of the EU regulations.

2.6 New standards and interpretations which have been published but are not yet binding

The following standards and interpretations have been published by the International Accounting Standards Board but are not yet binding:

- IFRS 9 Financial Instruments (issued on 24 July 2014) – not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1 January 2018;
- IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014) – The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard– not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2016;
- IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014), including amendments to IFRS 15 Effective date of IFRS 15 (issued on 11 September 2015) - effective for financial years beginning on or after 1 January 2018;

- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (issued on 11 September 2014) - the endorsement process of these Amendments has been postponed by EU - the effective date was deferred indefinitely by IASB;
- IFRS 16 Leases (issued on 13 January 2016) - not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1 January 2019;
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016) - not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1 January 2018;
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (issued on 19 January 2016) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2017;
- Amendments to IAS 7 Disclosure Initiative (issued on 29 January 2016) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2017;
- Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2018;
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2018;
- Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016) - not yet endorsed by EU at the date of approval of these financial statements –Amendments to IFRS 12 are effective for financial years beginning on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 are effective for financial years beginning on or after 1 January 2018;
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2018;
- Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2018.

2.6.1 Implementation of IFRS 15

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. The basic principle of this standard is that the revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is currently at the stage of the preliminary analysis of the impact of IFRS 15 on its financial statements.

The Company runs homogenous business activity consisting in the sale of derivatives using the trading platforms to its customers. The Company is currently conducting a preliminary assessment of the impact of IFRS 15 on the amount of revenue from contracts with customers.

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice. The Company is currently at the stage of preparing the appropriate systems of internal control tests, policies and procedures necessary to collect and disclose the required information.

2.6.2 Implementation of IFRS 9

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for the financial instruments project: classification and measurement; impairment; and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company intends to apply the standard for the first time in the financial statements for 2018. The Company is currently at the stage of carrying out a preliminary analysis of the impact of IFRS 9 on its financial statements.

2.6.3 Implementation of other standards and interpretations

MSSF 16 was issued in January 2016. The new standards require lessees to recognize most of the lease contracts in their balance sheets as liabilities under the lease, together with the corresponding components of the asset for its right to use assets.

IFRS 16 is effective for annual periods beginning on January 1, 2019 onwards, with earlier application permitted. With regard to annual periods beginning on January 1, 2019 or later is required to complete retrospective application or modified retrospective application.

The Company does not expect the earlier application of the above standard. At the date of the authorization of these financial statements for publication, the Management Board has not yet completed its assessment of the impact of above standards and interpretations' implementation on the Company's accounting policies relating to its operations or financial results.

3. Professional judgement and uncertainty of estimates

In the process of applying the accounting principles (policy), the Management Board of the Company made the following judgements that have the greatest impact on the reported carrying amounts of assets and liabilities.

Classification of lease agreements

The Company classifies leases as operational or financial lease based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. This assessment is based on the economic content of each transaction.

Period for settlement of the deferred tax asset

The Company recognises a deferred tax asset based on the assumption that a tax profit will be generated in the future enabling its utilisation. A deterioration in tax results in the future might result in the assumption becoming unjustified. The deferred tax asset relates mainly to the losses generated by foreign operations and subsidiaries in the initial period of their operation recognised in the balance sheet. The Company analyses the possibility of recognising such assets, taking into consideration local tax regulations, and analyses future tax budgets assessing the possibility of recovering these assets.

4. Adopted accounting policies

4.1 Functional currency and reporting currency

Transactions executed in currencies other than the functional currency are entered on the basis of the exchange rate as at the transaction date. As at the balance sheet date, the monetary assets and liabilities in foreign currencies are translated using the average NBP rate as at that date. Non–cash items are carried based on historical cost.

The Company's functional currency is the Polish zloty, which is also the functional currency of these financial statements.

Foreign exchange differences are reported under revenue or expenses of the period in which they occur, except for:

- foreign exchange differences regarding construction–in–progress which are included in expenses connected with such construction–in–progress and treated as adjustments of interest expenses on loans in foreign currencies;
- foreign exchange differences arising from cash items of receivables or amounts due to foreign operations with whom no settlements are planned, or such settlements are improbable, representing a portion of net investments into a foreign operation and recognised under capital reserve on the translation of foreign operations and profit/loss on the disposal of a net investment.

The following exchange rates were adopted for the purpose of measuring assets and liabilities as at the balance sheet date and for converting items of the comprehensive income statement:

CURRENCY	STATEMENT OF FINANCIAL POSITION		STATEMENT OF COMPREHENSIVE INCOME	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
USD	4,1793	3,9011	–	–
EUR	4,4240	4,2615	4,3757	4,1848
CZK	0,1637	0,1577	0,1618	0,1534
RON	0,9749	0,9421	0,9739	0,9421
HUF	0,0142	0,0136	–	–
GBP	5,1445	5,7862	–	–
TRY	1,1867	1,3330	–	–

4.2 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank deposits on demand. Other monetary assets are short–term, highly liquid investments that are readily convertible to specific amounts of cash and which are subject to an insignificant risk of changes in value. The classifies as cash equivalent investments which are readily convertible to a specific amount of cash, are subject to an insignificant risk of changes in value, and with payment terms of up to three months as of the date of acquisition.

Cash flows are inflows and outflows of cash and other monetary assets. The Company discloses cash flows from operating activities using the indirect method, whereby profit or loss is adjusted for the effects of non–cash transactions, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows and items of income or expense associated with investing or financing cash flows. Income from interest received on cash and other monetary assets and expenses from interest paid to customers are classified under operating activities, while expenses from interest paid under finance lease are classified under financing activities.

Cash comprises the Company's own cash and customers' cash. Customers' cash is deposited in bank accounts separately from the Company's cash. Customers' cash and cash equivalents are not analysed in the cash flow statements. The Company achieves economic benefits from investing the customers' cash and cash equivalents.

4.3 Financial assets and liabilities

Investments are entered as at the date of purchase and derecognised from the financial statements as at the date of sale (transactions are recognised as on the date of conclusion) if the agreement requires their delivery on a specific date set forth by the market, and their initial value is measured at fair value. Transaction costs of the acquisition of financial assets and liabilities at fair value through profit or loss are entered under costs for the period, while the transaction costs of other types of assets and liabilities are recognised at the initial value of these assets and liabilities.

Financial assets are classified as follows:

- financial assets at fair value through profit or loss,
- financial assets held to maturity,
- financial assets available for sale, and
- loans and receivables.

Financial liabilities are classified as follows:

- financial assets at fair value through profit or loss, and
- other financial liabilities.

The classification depends on the nature and designation of the financial assets and liabilities, and is determined at initial recognition.

4.3.1 Financial assets at fair value through profit or loss

This group of financial assets includes financial assets held for trading or classified as carried at fair value through profit or loss at initial recognition.

In this category, the Company discloses mainly OTC derivatives and derivatives in stock exchanges, as well as listed stocks.

A financial asset is classified as held for trading if:

- it was acquired principally for the purpose of selling in the short–term; or
- it is part of a specific financial instrument portfolio managed jointly by the Company in accordance with the current and actual model for generating short–term profits; or
- is a derivative instrument not classified and not operating as collateral.

Financial assets not held for trading may be classified at fair value through profit or loss at initial recognition if:

- such classification eliminates or significantly mitigates inconsistencies in the measurement or recognition existing under different circumstances; or
- such asset is an element of the Company's financial assets under management and its performance is measured at fair value in accordance with a documented risk or investment management strategy of the Company, under which information on clustering assets is provided internally; or
- it is part of a contract comprising one or more embedded derivatives, and under IAS 39 Financial Instruments: Recognition and Measurement, an entire contract (an asset or liability) may be classified as an item carried at fair value through profit or loss.

Financial assets at fair value through profit or loss are disclosed at fair value and the resulting financial profits or losses are entered in the comprehensive income statement. The net profit or loss disclosed in the comprehensive income statement includes dividend or interest generated by the given financial asset.

4.3.2 Loans and receivables

Trade receivables, loans and other receivables of established or identifiable cash flows, which are not traded in an active market, are classified as loans and receivables. They are measured at amortised cost using the effective interest rate method, taking into consideration their impairment. Interest income is recognised using the effective interest rate save for current receivables, where recognising interest would be negligible.

In this category, the Company classifies principally loans granted and amounts due from customers and counterparties.

4.3.3 Financial assets available for sale

Financial assets available for sale include non–derivative financial assets designated as available for sale or not classified in any of the above categories.

Gains and losses resulting from changes of adjustments to fair value are reported under other comprehensive income, except for impairment write–offs, interest calculated using the effective interest rate and negative and positive foreign exchange differences disclosed directly under income or expenses for the period. In the event of disposal or impairment of an investment, accumulated profit or loss disclosed previously under other comprehensive income is recognised under income or expenses for the period.

Dividend on equity investments available for sale is disclosed under income at the time the Company obtains the right to such dividend.

4.3.4 Fair value measurement

Fair value is the price that can be obtained at the date of valuation from the sale of an asset or can be paid for the transfer of liability in an ordinary transaction between market participants.

For financial instruments available on an active market, the fair value is measured based on quoted market prices. A market is considered to be active if the quoted prices are generally and directly available and represent current and actual transactions concluded between unrelated parties.

For instruments for which there is no active market, the fair value is determined on the basis of valuation models. Valuation models are applied in measuring vanilla options based on the Black–Scholes pricing formula and to digital options based on the distribution of probability of a concrete price of the underlying instrument on the expiration date of the option. Such probability distribution is established by means of translation of market-related volatility surface, using the Black–Scholes model equations.

The fair value of a financial instrument at initial recognition is the transaction price, i.e. fair value of the price paid or received.

Pursuant to IFRS 13 "Fair Value Measurement", the Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimizing the use of unobservable inputs, namely:

1. valuation based on the data fully observable (active market quotations);
2. valuation models using information which does not constitute the data from Level 1, but observable, either directly or indirectly;
3. valuation models using unobservable data (not derived from an active market).

Valuation techniques used to determine fair value are applied consistently. Change in valuation techniques resulting in a transfer between these methods occurs when:

- transfer from Method 1 to 2 takes place when, for financial instruments measured using Method 1, quoted prices from an active market are not available at the balance sheet date (and they used to be);
- transfer from Method 2 to 3 takes place when, for financial instruments measured using Method 2, the value of parameters not derived from the market has become material at a given balance sheet date (and it used to be immaterial).

4.3.5 Impairment of financial assets

Financial assets, aside from those carried at fair value through profit or loss, are tested for impairment at every balance sheet date. Financial assets are impaired when there is objective evidence that the events which occurred after initial recognition of the asset have an adverse impact on the estimated future cash flows of the given financial assets.

Concerning listed stock classified as available for sale, a material or long-term decline in share prices is considered to be objective evidence of impairment.

For certain categories of financial assets, e.g. trade receivables, specific assets which are not considered past due, are tested for impairment cumulatively. Objective evidence of impairment of a portfolio of receivables includes the Company's experience in collecting receivables; increase in the number of payments past due by 90 days on average and observable changes in the domestic or local economic environment which are connected with cases of the untimely payment of liabilities.

Regarding financial assets at amortised cost, the amount of an impairment write-off is the difference between the carrying amount of an asset and the current value of estimated future cash flows discounted based on the initial effective interest rate of the given financial assets.

In the case of financial assets at cost, the amount of an impairment write-off is the difference between the carrying amount of an asset and the current value of estimated future cash flows discounted based on the current market rate of return of similar financial assets.

For debt instruments classified as available for sale, if the amount of an impairment write-off decreases in the next reporting period, and its decrease can reasonably be connected with an event that occurred after the impairment, the previous write-off is reversed and recognised under income of the period.

For equity instruments classified as available for sale, impairment write-downs previously carried through profit or loss are not subject to reversal. Any increases in fair value after impairment are disclosed in other comprehensive income.

4.3.6 Derecognition of financial assets from the balance sheet

The Company derecognises a financial asset from the balance sheet only when contractual rights to cash flows generated by the asset expire or when the financial asset with essentially all risks and rewards of ownership of such asset is transferred to another entity. If the Company does not transfer or retain essentially all risks and rewards of ownership of such asset, and continues to control it, the Company recognises the retained share in such asset and related liabilities under payments due, if any. If, in turn, the Company retains essentially all the risks and benefits of the asset transferred, it continues to recognise the relevant financial asset. At the time of derecognising a financial asset in full, the difference between (i) the carrying amount and (ii) the sum of payment received and any accumulated gains or losses entered under other comprehensive income, is recognised under the income or expenses for the period.

4.3.7 Financial liabilities at fair value through profit or loss

This Company includes financial liabilities held for trading or classified as carried at fair value through profit or loss at initial disclosure.

A financial liability is classified as held for trading if:

- it was incurred primarily for repurchase over a short period of time;
- it is part of a specific financial instrument portfolio managed jointly by the Company in accordance with the current and actual model for generating short–term profits; or
- it is a derivative instrument not classified and not operating as collateral.

A financial liability not held for trading may be classified as measured at fair value through profit or loss at initial recognition, if:

- such classification eliminates or significantly mitigates inconsistencies in measurement or recognition that would occur otherwise; or
- a financial liability of the Company belongs to financial liabilities under management and its performance is measured at fair value in accordance with a documented risk or investment management strategy of the Company, under which information on clustering liabilities is provided internally; or
- it is part of a contract comprising one or more embedded derivatives, and under IAS 39, it is permissible to classify the entire contract (an item of assets or liabilities) as items carried at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are disclosed at fair value and the resulting financial profits or losses are entered under income or expenses for the period, and the resulting financial profit or loss is recognised as the income or expenses for the period, taking into account interest paid on a given financial liability.

4.3.8 Other financial liabilities

Other financial liabilities, including bank loans and borrowings, are initially carried at fair value less transaction costs.

Later on, they are measured at amortised cost using the effective interest rate method.

The effective interest rate method is used to calculate amortised cost of a liability and to allocate interest costs in the appropriate period. The effective interest rate is a rate effectively discounting future cash payments in the anticipated useful life of a given liability or a shorter period if necessary.

4.3.9 Derecognition of financial liabilities from the balance sheet

The Company derecognises financial liabilities from the balance sheet only if the appropriate liabilities of the Company are performed, invalidated or if they expire. At the time of derecognising a financial liability, the difference between (i) the carrying amount and (ii) the sum of payment made any accumulated gains or losses is entered under income or expenses for the period.

4.4 Investments in subsidiaries

Subsidiaries are understood as entities controlled by the Parent Company (inclusive of special purpose entities). It is recognized that control exists when the Company has the ability to influence through the power on risks and rewards of variable returns to investor from the investment.

Investments in subsidiaries in separate financial statements are valued at cost.

4.5 Clearings with the Central Securities Depository of Poland

The clearings with the Central Securities Depository of Poland (KDPW) include amounts due from the KDPW Group under the clearing fund, margins, transactions in derivatives and the liabilities for the services provided by the KDPW Group to the Company. The clearing fund is a fund used to secure the correct payment of the liabilities following from the clearing of transactions concluded on the regulated market by KDPW_CCP.

The KDPW group includes:

- Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych S.A. ("KDPW") – responsible for the clearing of transactions entered into on the regulated market and in the alternative trading system, as well as maintenance of the central securities depository;
- KDPW_CCP S.A. ("KDPW_CCP") – serves as a clearing house on the basis of the function of a central counterparty, and its task is to clear the transactions entered into in a regulated market and in the alternative trading system, and to operate a system for securing the liquidity of clearings.

4.5.1 Contributions to the compensation scheme

The Company makes obligatory payments to the compensation scheme maintained by KDPW which constitute long–term receivables of the compensation scheme participant due from the KDPW.

Pursuant to the Act on Trading in Financial Instruments of 29 July 2005 (Journal of Laws No. 183, item 1538, as amended, hereinafter, the "Act"), the Company participates in the obligatory compensation scheme. The purpose of the compensation scheme maintained by the KDPW is to secure the assets held in cash accounts and securities accounts of customers of brokerage houses and banks maintaining securities accounts, in the event of their loss, in accordance with the principles established in the Act. The compensation scheme is created from payments made by its participants and profits generated on such payments. Payments contributed to the compensation system may be returned to a brokerage house only when it is fully discharged from participation in the system (it winds up its operations specified in the decision on withdrawal, repeal of a permit to provide brokerage services or expiry of such permit) and provided that such funds have not already been used for purposes as specified. On a quarterly basis, the KDPW informs system participants of accrued profits. The Company's payments to the compensation system are reported as expenses, under "Other costs" in the comprehensive income statement.

The Company maintains a register of payments to the compensation system and profits generated in connection with the management of funds collected by the KDPW in the compensation scheme in a manner that enables calculation of the balances of payments made and profits accrued.

4.6 Intangible assets

Intangible assets include the Company's assets which do not exist physically, which are identifiable and can be reliably measured, and which will give the Company economic benefits in the future.

Intangible assets are disclosed initially at cost of acquisition or production. As at the balance sheet date, intangible assets are carried at cost less accumulated amortisation and impairment write–offs, if any.

Intangible assets arising as a result of development works are disclosed in the statement of financial position, provided that the following conditions are met:

- from a technical point of view, it is feasible to complete the intangible asset so that it is available for use or sale;
- it is possible to demonstrate the intent to complete the intangible asset and to use and sell it;

- the intangible asset will be fit for use or sale;
- it is known how the intangible asset will generate probable future economic benefits;
- technical and financial resources necessary to complete development works and its use or sale will be provided;
- it is possible to reliably measure the expenditures attributable to the intangible asset during its development.

The expenditures attributable to the intangible asset during its development and expenditures that do not meet the above criteria are disclosed as expenses in the comprehensive income statement as on the date they were incurred.

Amortisation of intangible assets is carried out on the basis of rates reflecting their estimated useful lives. The Company has no intangible assets with an indefinite useful life. The straight-line method is applied to depreciate intangible assets with a definite useful life. The useful life of the respective intangible assets is as follows:

TYPE	DEPRECIATION PERIOD
Software licences	5 years
Intangible assets manufactured internally	5 years

Intangible assets are tested for impairment, whenever there is an indication of impairment, however with regard to intangible assets in the period of realisation, a potential impairment is defined at each balance sheet date. Effects of impairment and of amortisation of intangible assets are disclosed under operating expenses.

Intangible assets held under finance lease agreements are depreciated over their expected useful life, in the same manner as own assets, but for a period no longer than the term of the lease.

Gains or losses from sale / liquidation or discontinued use of items of property, plant and equipment are defined as the difference between revenue from sales and the carrying amount of these items, and disclosed in the comprehensive income statement.

4.7 Property, plant and equipment

Property, plant and equipment include items of property, plant and equipment as well as expenses for property, plant and equipment under construction which the Company intends to use in connection with its operations and for administration purposes, in a period of over 1 year, and which will bring economic benefits in the future. Expenditures on property, plant and equipment include actual capital expenditures, as well as expenditures for future supplies of equipment and services connected with the development of items of property, plant and equipment (prepayments made). Property, plant and equipment include significant specialist spare parts which are elements of a tangible asset.

Property, plant and equipment and expenses for property, plant and equipment under construction are initially disclosed at cost of acquisition or production. Significant components are also treated as separate items of property, plant and equipment. As at the balance sheet date, property, plant and equipment is carried at cost less depreciation and impairment write-offs, if any.

Depreciation of property, plant and equipment, including their components, is carried out on the basis of rates reflecting their estimated useful lives, and starts in the month following the month they are accepted for use. Useful life estimates are reviewed on an annual basis. The straight-line method is applied to depreciate property, plant and equipment. The useful life of the respective items of property, plant and equipment is as follows:

TYPE	DEPRECIATION PERIOD
Computers	3 years
Vehicles	5 years
Office furniture and equipment	5 years

Assets held under finance lease agreements are depreciated over their expected useful life, in the same manner as own assets, but for a period no longer than the term of lease.

Gains or losses from sale / liquidation or discontinued use of items of property, plant and equipment are defined as the difference between revenue from sales and the carrying amount of these items, and disclosed in the comprehensive income statement.

4.8 Lease

Lease is classified as finance lease if, under an agreement, substantially all potential profits and risk from holding a leased object is transferred to the lessee. All other types of lease are treated as operating lease.

Assets used under finance lease agreements are treated as the Company's assets and measured at fair value at the time of acquisition, but no higher than the current value of the minimum lease payments. The liability to the lessor is disclosed in the statement of financial position, under "Other liabilities".

Lease payments are divided into the interest portion and reduction in the lease liability to ensure that the interest rate on the remaining liability is constant. Finance costs are entered directly in the comprehensive income statement unless they can be directly ascribed to appropriate assets. In such cases, they are capitalised in accordance with the Company's accounting policies concerning debt service costs. Contingent lease payments are entered under expenses at the time they were incurred.

Payments under operating lease are reported as expenses of the period, using the straight line method, over the term of lease, except for cases where another systematic settlement basis is more representative for the time pattern governing the consumption of economic benefits resulting from leasing a given asset. Contingent operating lease payments are entered under expenses at the time they were incurred. The Company has operating lease agreements for the lease of office premises.

If there were special incentives to enter into an operating lease agreement, they are recognised as liabilities. Aggregate benefits connected with such incentives are disclosed as a decrease in rent expenses, using the straight–line method, except for cases where another consistent basis is more representative of the time pattern governing the consumption of economic benefits resulting from leasing a given asset.

4.9 Impairment of property, plant and equipment and intangible assets except goodwill

As at each balance sheet date, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets for indications of impairment. If such indications are identified, the Company estimates the recoverable amount of a given asset in order to determine the potential write-down thereon. When an asset does not generate cash flows that are largely independent of those from other assets, an analysis is carried out for the Company's cash-generating assets to which a given asset belongs. Where it is possible to specify a reliable and uniform allocation basis, the Company's property, plant and equipment are allocated to the relevant cash-generating units or the smallest clusters of cash-generating units for which such reliable and uniform allocation bases can be established.

For intangible assets with an indefinite useful life, an impairment test is performed yearly and whenever there are any indications of potential impairment.

The recoverable amount is calculated as the higher of: fair value less selling costs or value-in-use. The latter value represents the current value of estimated future cash flows discounted using the discount rate before tax taking into account the current market time value of money and the asset-specific risk.

If the recoverable amount is lower than the carrying amount of an asset (or a cash-generating unit), the carrying amount of the asset or the unit is decreased to the recoverable amount. Impairment loss is recognised promptly as the cost of the period when it occurred.

If the impairment loss is then reversed, the net value of an asset (or a cash-generating unit) is increased to the newly estimated recoverable amount, however no higher than the carrying amount of the assets that would be established had the impairment loss of an asset / cash-generating unit not been recognised in the preceding years. A reversal of impairment losses is disclosed promptly in the comprehensive income statement.

4.10 Provisions for liabilities

Provisions for liabilities are established when the Company has an existing legal or constructive obligation connected with past events and it is probable that the performance of this obligation will result in an outflow of funds representing economic benefits, and the amount of the liability can be reliably assessed, although the amount or maturity of the liability are not certain.

The amount of the provision recognised reflects the most accurate estimates possible of the amount required to settle the current liability as at the balance sheet date, taking into account risk and uncertainty connected with this liability. In the event of measuring a provision using the estimated cash flow method necessary to settle the current liability, its carrying amount reflects the current value of such cash flows.

If it is probable that some or all of the economic benefits required to settle a provision can be recovered from a third party, such receivable will be recognised as an asset, provided that the probability of recovery is sufficiently high and can be reliably assessed.

4.10.1 Onerous contracts

Current liabilities under onerous contracts are disclosed as provisions. A contract entered into by the Company is considered to be onerous if it involves inevitable costs of performance of contractual obligations whose value exceeds the value of economic benefits expected under the contract.

4.11 Equity

Equity includes capitals and funds established in compliance with the mandatory legal regulations, i.e. applicable laws and the statute. Retained profit is also disclosed under equity. Share capital is disclosed in the amount set out in the Company's Statute. Unregistered payments to the share capital are disclosed under the Company's equity and reported in the nominal amount of the payment received.

4.12 Customers' financial instruments and nominal values of transactions on derivatives (off–balance sheet items)

Off–balance sheet items include: the nominal values of derivatives in transactions executed with customers and brokers in the OTC market, and the values of financial instruments of the Company's customers, acquired on the regulated stock exchange market and deposited in the accounts of the Company's customers.

4.13 The result of operations on financial instruments

The result of operations on financial instruments covers all realised and unrealised income and expenses connected with trading in financial instruments, including dividend, interest and FX rate differences. The result of operations on financial instruments is calculated as the difference between the value of the instrument at the sale price and the purchase price.

The result of operations on financial instruments is composed of the following items:

- Result on financial assets held for trading: result on financial instruments on transactions with customers and brokers;
- The net income/(costs) on financial assets held to maturity: result on debt securities (interest result calculated using the effective interest rate method);
- Gains from the sale of investments in a subsidiary.

Discounts for customers and commissions for introducing brokers depend on the actual volume of trading in the financial instruments. This item decreases the result on transactions in financial instruments.

4.14 Fee and commission income and expenses

Fee and commission income includes brokerage fees and other charges against financial services charged to customers, and is disclosed at the date when the customer enters into a given transaction.

Fee and commission expenses are connected with financial brokerage services acquired by the Company, and disclosed at the date when the services were provided.

4.15 Cost of employee benefits

Short–term employee benefits, including specific contributions to benefit schemes, are disclosed in the period when the Company received a given benefit from an employee, and in the case of profit distribution or bonus payments, when the following conditions are met:

- the entity has a present legal or constructive obligation to make such payments as a result of past events; and
- a reliable estimate of the obligation can be made.

For paid leave benefits, employee benefits are recognised to the extent of accumulated paid leave, at the time of performance of work that increases the entitlement to future paid absences (provision for unused holidays). Non–accumulating paid absences are recognised when the absences occur.

Post–employment benefits in the form of benefit schemes (retirement severance pays) and other long–term benefits (length of service bonuses, etc.) are determined using the projected personal right method, with an actuarial valuation performed at each balance sheet date. Actuarial gains and losses are disclosed in full in the comprehensive income statement. Past service costs are recognised promptly to the extent in which they pertain to benefits already gained, and in other cases amortised with the straight line method for the average period after which such benefits are gained.

Besides, the Company offers a share options scheme for key employees, who received the right to shares before 2012, constituting a payment Program in the form of shares settled in equity instruments. The costs of services rendered by the employees in return for the rights granted are included in the comprehensive income statement in correspondence with the equity (IFRS 2) in the period of rights acquisition.

Pursuant to the requirements of the Regulation of the Minister of Finance of 2 December 2011 on the principles of defining the policy of variable remuneration elements for the management staff by brokerage houses, starting from 2012, the Company applies the policy of variable remuneration elements for the persons occupying key positions. Benefits granted to the employees within the framework of the Program of variable remuneration elements are granted in cash – 50 per cent and in the form of the financial instruments whose value is related to the Company's financial standing – 50 per cent. The part of benefits granted in the form of financial instruments whose value is related to the Company's financial standing, is paid in cash within three years after the date of being granted. The provision for employee benefits due to variable remuneration elements is recognised in accordance with IAS 19 in the comprehensive income statement in "Employee benefits and remuneration".

4.16 Finance income and costs

Finance income includes interest income on funds invested by the Company. Finance costs consist of interest expense paid to customers, interest on finance lease paid and other interest on liabilities.

Interest income and expenses are disclosed in profits or losses of the current period, using the effective interest rate method.

Dividend income is disclosed at the time when the shareholders' right to obtain such dividend is established.

Finance income and costs also include gains and losses arising from foreign exchange rate differences, disclosed in net amounts.

4.17 Tax

The entity's income tax comprises current tax due and deferred tax.

4.17.1 Current tax

Current tax liability is calculated on the basis of the tax result (taxable base) for a given financial year. The tax profit (loss) is different from the accounting net profit (loss) because it does not include non–taxable income and non–deductible expenses. Tax expenses are calculated on the basis of tax rates in force in a given financial year and pursuant to the tax regulations of the countries in which the branches of the Company and its subsidiaries are located.

4.17.2 Deferred income tax

Deferred tax is calculated using the balance sheet method, based on differences between the carrying amounts of assets and liabilities and corresponding tax values used to calculate the tax basis.

Deferred tax liability is established on all taxable positive temporary differences, while deferred tax assets are recognised up to the probable amount of a reduction in future taxable profit by recognised deductible temporary differences and tax losses or credits that the Company may use.

The value of deferred tax assets is assessed as on each balance sheet date and if the expected future taxable profits are not sufficient to realise an asset or its portion, a write-down will be performed.

Deferred tax is calculated based on tax rates that will be applicable when the asset is realised or the liability becomes due. In the statement of financial position, deferred tax is disclosed upon off-set to the extent that it applies to the same tax residency.

4.17.3 Current and deferred tax for the current reporting period

Current and deferred tax is disclosed in the comprehensive income statement, except for cases in which it pertains to items that credit or debit other comprehensive income directly, because then the tax is also disclosed in the other comprehensive income statement, or when it is the result of an initial calculation of a business combination.

4.18 Earnings per share

Earnings per share for each period is calculated by dividing the net profit for the period by the weighted average number of shares outstanding during the reporting period.

5. Material estimates and valuations

In order to prepare its financial statements in accordance with the IFRS, the Company has to make certain estimates and assumptions that affect the amounts disclosed in the financial statements. Estimates and assumptions subject to day-to-day evaluation by the Company's management are based on experience and other factors, including expectations as to future events that seem justified in the given situation. The results are a basis for estimates of carrying amounts of assets and liabilities. Although the estimates are based on best knowledge regarding the current conditions and actions taken by the Company, actual results may differ from the estimates. Adjustments to estimates are recognised during the reporting period in which the adjustment was made provided that such adjustment refers only to the given period or in subsequent periods if the adjustment affects both the current period and subsequent periods. The most important areas for which the Company makes estimates are presented below.

5.1 Impairment of assets

As at each balance sheet date, the Company determines whether there are any indications of impairment of a given financial asset or group of financial assets. In particular, the Company tests its past due receivables for impairment and writes down the estimated amount of doubtful and uncollectible receivables.

At each balance sheet date, the Company assesses whether there are objective indications of impairment of other assets, including intangible assets. Impairment is recognised when it is highly likely that all or a significant part of the respective assets will not bring about the expected economic benefits, e.g. as a result of expiry of licences or decommissioning.

5.2 Deferred income tax assets

At each balance sheet date, the Company assesses the likelihood of settlement of unused tax credits with the estimated future taxable profit, and recognises the deferred tax asset only to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised.

5.3 Impairment of property, plant and equipment

At each balance sheet date, the Company assesses whether there are any indications that assets may be impaired. If any such indication exists, the Company formally makes an estimate of the recoverable amount. When the carrying amount of a given asset exceeds its recoverable amount, its impairment is recognized and it is written down to its recoverable amount. The recoverable amount is the higher of the following two amounts: the fair value of a given asset or cash-generating unit, less costs of disposal or value in use determined for individual assets.

5.4 Fair value measurement

Information on estimates relative to fair value measurement is presented in note 42 – Risk management.

5.5 Other estimates

Provisions for liabilities connected with retirement, pension and death benefits are calculated using the actuarial method by an independent actuary as the current value of the Company's future amounts due to employees, based on their employment and salaries as at the balance sheet date. The calculation of the provision amount is based on a number of assumptions, regarding both macroeconomic conditions and employee turnover, risk of death, and others.

Provision for unused holidays is calculated on the basis of the estimated payment of holiday benefits, based on the number of unused holidays, and remuneration as at the balance sheet date.

Provisions for legal risk are calculated on the basis of the estimated amount of outflow of cash in the case in which it is probable that such outflow will occur, if the given case ends unsuccessfully.

6. Operating income

6.1 Result of operations on financial instruments

(IN PLN'000)	TWELVE-MONTH PERIOD	
	31.12.2016	31.12.2015
Financial instruments held for trading (CFD)		
Index CFDs	117 756	118 241
Currency CFDs	71 398	90 848
Commodity CFDs	58 069	72 827
Stock CFDs	1 454	736
Bond CFDs	1 116	10
Total CFDs	**249 793**	**282 662**
Options		
Currency options	3 434	2 057
Index options	1 212	500
Commodity options	672	409
Bond options	14	4
Total options	**5 332**	**2 970**
Gain on transactions in financial instruments held for trading	**255 125**	**285 632**
Gain on transactions in financial instruments available for sale	**17**	**130**
Gross gain on transactions in financial instruments	**255 142**	**285 762**
Bonuses and discounts paid to customers	(2 825)	(4 793)
Commission paid to cooperating brokers	(46 310)	(44 046)
Net gain on transactions in financial instruments	**206 007**	**236 923**

Bonuses paid to customers are strictly related to trading in financial instruments by the customer with Company. Customers receive discounts and bonuses under bonus campaigns where the condition for awarding a bonus is the generation of a top-down determined trade volume in financial instruments in a specified period.

The Company concludes cooperation agreements with introducing brokers who receive commissions which depend on the trade generated under the cooperation agreements. The income generated and the costs incurred between the Company and particular brokers relate to the trade between the broker and customers that are not his customers.

6.2 Income from fees and charges

(IN PLN'000)	TWELVE-MONTH PERIOD 31.12.2016	31.12.2015
Other fees and charges	4 729	6 907
Brokerage fees on transactions in financial instruments	–	5
Total income from fees and charges	**4 729**	**6 912**

Other fees and charges refer to commission received from institutional partners and regulatory commission charged to retail customers.

6.3 Geographical areas

(IN PLN'000)	TWELVE-MONTH PERIOD 31.12.2016	31.12.2015
Operating income		
Central and Eastern Europe	128 525	147 986
- including Poland	*79 619*	*93 660*
Western Europe	82 467	91 520
- including Spain	*45 117*	*58 157*
Latin America and Turkey	(180)	6 446
Total operating income	**210 812**	**245 952**

The countries from which the Company derives each time 15% and over of its revenue are: Poland and Spain. The share of other countries in the structure of the Company's revenue by geographical area does not in any case exceed 15%. Due to the overall share in the Company's revenue, Poland and Spain were set apart for presentation purposes within the geographical area.

The reasons for decline in operating income in Poland were described in note 6.1.

The Company breaks its revenue down into geographical area by country in which a given customer was acquired.

7. Salaries and employee benefits

(IN PLN'000)	TWELVE-MONTH PERIOD 31.12.2016	31.12.2015
Salaries	(44 890)	(44 021)
Social insurance and other benefits	(8 621)	(8 132)
Employee benefits	(1 657)	(1 709)
Total salaries and employee benefits	**(55 168)**	**(53 862)**

8. Marketing

(IN PLN'000)	TWELVE-MONTH PERIOD 31.12.2016	31.12.2015
Marketing online	(24 096)	(16 938)
Marketing offline	(6 618)	(2 905)
Advertising campaigns	(7 780)	–
Competitions for clients	(153)	(199)
Total marketing	**(38 647)**	**(20 042)**

Marketing activities carried out by the Company are mainly focused on Internet marketing, which is also supported by other marketing activities. In 2016, according to the implemented global marketing in the scope of retail segment, the Company has launched global branding campaign using an actor, Mads Mikkelsen. These activities led to significant increase in marketing costs.

9. Costs of maintenance and lease of buildings

(IN PLN'000)	TWELVE-MONTH PERIOD	
	31.12.2016	31.12.2015
Lease costs	(4 374)	(4 099)
Maintenance costs	(958)	(957)
Other costs	(440)	(364)
Total costs of maintenance and lease of buildings	**(5 772)**	**(5 420)**

10. Other external services

(IN PLN'000)	TWELVE-MONTH PERIOD	
	31.12.2016	31.12.2015
Legal and advisory services	(4 269)	(3 502)
Support database systems	(4 174)	(3 142)
Market data delivery	(3 669)	(2 031)
Internet and telecommunications	(2 023)	(2 250)
Accounting and audit services	(1 113)	(1 327)
IT support services	(1 017)	(1 516)
Recruitment	(265)	(122)
Postal and courier services	(145)	(229)
Other external services	(552)	(463)
Total other external services	**(17 227)**	**(14 582)**

11. Commission expenses

(IN PLN'000)	TWELVE-MONTH PERIOD	
	31.12.2016	31.12.2015
Bank commissions	(1 760)	(1 410)
Stock exchange fees and charges	(1 465)	(1 287)
Commissions of foreign brokers	(339)	(605)
Other commissions	–	(12)
Total commission expenses	**(3 564)**	**(3 314)**

12. Other expenses

(IN PLN'000)	TWELVE-MONTH PERIOD	
	31.12.2016	31.12.2015
Receivables impairment write–downs	(1 376)	(1 770)
Materials	(813)	(671)
Business trips	(694)	(525)
Insurance	(183)	(98)
Membership fees	(71)	(46)
Loss on liquidation of fixed assets	–	(895)
Other	(557)	(725)
Total other expenses	**(3 694)**	**(4 730)**

Write-downs of receivables are the result of the debit balances which arose in customers' accounts in that period.

13. Finance income and costs

(IN PLN'000)	TWELVE-MONTH PERIOD 31.12.2016	31.12.2015
Interest income		
Interest on own cash	149	530
Interest on customers' cash	1 130	1 102
Total interest income	**1 279**	**1 632**
Foreign exchange gains	5 791	6 120
Other finance income	84	62
Total finance income	**7 154**	**7 814**

(IN PLN'000)	TWELVE-MONTH PERIOD 31.12.2016	31.12.2015
Interest expense		
Interest paid to customers	(739)	(653)
Interest paid under lease agreements	(10)	(17)
Other interest	(175)	(165)
Total interest expense	**(924)**	**(835)**
Foreign exchange losses	(160)	(2 611)
Other finance costs	(6)	(23)
Total finance costs	**(1 090)**	**(3 469)**

Foreign exchange differences relate to unrealised differences on the measurement of balance sheet items denominated in a currency other than the functional currency.

14. Segment information

For management reporting purposes, the Company's operations are divided into the following two business segments:

1. Retail operations, which include the provision of trading in financial instruments for individual customers.
2. Institutional activity, which includes the provision of trading in financial instruments and offering trade infrastructure to entities (institutions), which in turn provide services of trading in financial instruments for their own customers under their own brand.

These segments do not aggregate other lower-level segments. The management monitors the results of the operating segments separately, in order to decide on the implementation of strategies, allocation of resources and performance assessment. Operations in segment are assessed on the basis of segment profitability and its impact on the overall profitability reported in the financial statements.

Transfer prices between operating segments are based on market prices, according to the principles similar to those applied in settlements with unrelated parties. The Company concludes transactions only with external clients. Transactions between operating segments are not concluded.

Valuation of assets and liabilities, incomes and expenses of segments is based on the accounting policies applied by the Company.

COMPREHENSIVE INCOME STATEMENT FOR TWELVE-MONTH PERIOD ENDED 31.12.2016 (IN PLN'000)	RETAIL OPERATIONS	INSTITUTIONAL OPERATIONS	TOTAL REPORTING SEGMENTS	COMPREHENSIVE INCOME STATEMENT
Net result on transactions in financial instruments	192 526	13 481	206 007	206 007
CFDs				
Index CFDs	108 008	9 748	117 756	117 756
Currency CFDs	67 437	3 961	71 398	71 398
Commodity CFDs	55 055	3 014	58 069	58 069
Stock CFDs	1 400	54	1 454	1 454
Bond CFDs	1 060	56	1 116	1 116
Options				
Currency options	3 424	10	3 434	3 434
Index options	1 210	2	1 212	1 212
Commodity options	666	6	672	672
Bond options	14	–	14	14
Gain on transactions in financial instruments available for sale	**17**	**–**	**17**	**17**
Bonuses and discounts paid to customers	(2 825)	–	(2 825)	(2 825)
Commissions paid to cooperating brokers	(42 940)	(3 370)	(46 310)	(46 310)
Fee and commission income	1 341	3 388	4 729	4 729
Other income	76	–	76	76
Total operating income	**193 943**	**16 869**	**210 812**	**210 812**
Salaries and employee benefits	(54 221)	(947)	(55 168)	(55 168)
Marketing	(38 647)	–	(38 647)	(38 647)
Other external services	(16 245)	(982)	(17 227)	(17 227)
Cost of maintenance and lease of buildings	(5 713)	(59)	(5 772)	(5 772)
Amortization and depreciation	(4 309)	(25)	(4 334)	(4 334)
Taxes and fees	(1 493)	(8)	(1 501)	(1 501)
Commission expense	(3 563)	(1)	(3 564)	(3 564)
Other expenses	(3 651)	(43)	(3 694)	(3 694)
Total operating expenses	**(127 842)**	**(2 065)**	**(129 907)**	**(129 907)**
Operating profit	**66 101**	**14 804**	**80 905**	**80 905**
Finance income	7 154	–	7 154	7 154
Finance costs	(1 090)	–	(1 090)	(1 090)
Profit before tax	**72 165**	**14 804**	**86 969**	**86 969**
Income tax	(11 592)	(2 378)	(13 970)	(13 970)
Net profit	**60 573**	**12 426**	**72 999**	**72 999**

ASSETS AND LIABILITIES AS AT 31.12.2016 (IN PLN'000)	RETAIL OPERATIONS	INSTITUTIONAL OPERATIONS	TOTAL REPORTING SEGMENTS	STATEMENT OF FINANCIAL POSITION
Customers' cash and cash equivalents	318 141	34 689	352 830	352 830
Financial assets held for trading	85 294	4 930	90 224	90 224
Other assets	330 784	1 533	332 317	332 317
Total assets	**734 219**	**41 152**	**775 371**	**775 371**
Amounts due to customers	316 132	34 689	350 821	350 821
Financial liabilities held for trading	19 583	2 064	21 647	21 647
Other liabilities	38 222	406	38 628	38 628
Total liabilities	**373 937**	**37 159**	**411 096**	**411 096**

COMPREHENSIVE INCOME STATEMENT FOR TWELVE-MONTH PERIOD ENDED 31.12.2015 (IN PLN'000)	RETAIL OPERATIONS	INSTITUTIONAL OPERATIONS	TOTAL REPORTING SEGMENTS	COMPREHENSIVE INCOME STATEMENT
Net result on transactions in financial instruments	227 841	9 082	236 923	236 923
CFDs				
Index CFDs	122 378	(4 137)	118 241	118 241
Currency CFDs	95 401	(4 553)	90 848	90 848
Commodity CFDs	54 036	18 791	72 827	72 827
Stock CFDs	246	490	736	736
Bond CFDs	–	10	10	10
Options				
Currency options	1 997	60	2 057	2 057
Index options	500	–	500	500
Commodity options	385	24	409	409
Bond options	8	(4)	4	4
Gain on transactions in financial instruments available for sale	**130**	**–**	**130**	**130**
Bonuses and discounts paid to customers	(4 793)	–	(4 793)	(4 793)
Commissions paid to cooperating brokers	(42 447)	(1 599)	(44 046)	(44 046)
Fee and commission income	2 407	4 505	6 912	6 912
Other income	2 117	–	2 117	2 117
Total operating income	**232 365**	**13 587**	**245 952**	**245 952**
Salaries and employee benefits	(52 813)	(1 049)	(53 862)	(53 862)
Marketing	(19 765)	(277)	(20 042)	(20 042)
Other external services	(14 107)	(475)	(14 582)	(14 582)
Cost of maintenance and lease of buildings	(5 352)	(68)	(5 420)	(5 420)
Amortization and depreciation	(4 664)	(56)	(4 720)	(4 720)
Taxes and fees	(498)	(10)	(508)	(508)
Commission expense	(3 314)	–	(3 314)	(3 314)
Other expenses	(4 686)	(44)	(4 730)	(4 730)
Total operating expenses	**(105 199)**	**(1 979)**	**(107 178)**	**(107 178)**
Operating profit	**127 166**	**11 608**	**138 774**	**138 774**
Finance income	7 814	–	7 814	7 814
Finance costs	(3 469)	–	(3 469)	(3 469)
Profit before tax	**131 511**	**11 608**	**143 119**	**143 119**
Income tax	(25 820)	(2 278)	(28 098)	(28 098)
Net profit	**105 691**	**9 330**	**115 021**	**115 021**

ASSETS AND LIABILITIES AS AT 31.12.2015 (IN PLN'000)	RETAIL OPERATIONS	INSTITUTIONAL OPERATIONS	TOTAL REPORTING SEGMENTS	STATEMENT OF FINANCIAL POSITION
Customers' cash and cash equivalents	230 693	52 100	282 793	282 793
Financial assets held for trading	59 532	2 920	62 452	62 452
Other assets	376 397	–	376 397	376 397
Total assets	**666 622**	**55 020**	**721 642**	**721 642**
Amounts due to customers	237 185	52 100	289 285	289 285
Financial liabilities held for trading	8 612	1 074	9 686	9 686
Other liabilities	41 045	–	41 045	41 045
Total liabilities	**286 842**	**53 174**	**340 016**	**340 016**

15. Cash and cash equivalents

Broken down by type

(IN PLN'000)	31.12.2016	31.12.2015
In current bank accounts	582 494	519 968
Short-term bank deposits	4 278	38 417
Cash and cash equivalents in total	**586 772**	**558 385**

Restricted own and customers' cash

(IN PLN'000)	31.12.2016	31.12.2015
Customers' cash and cash equivalents	352 830	282 793
Own cash and cash equivalents	233 942	275 592
Cash and cash equivalents in total	**586 772**	**558 385**

16. Financial assets held for trading

(IN PLN'000)	31.12.2016	31.12.2015
CFDs		
Index CFDs	54 459	35 376
Currency CFDs	20 164	12 981
Commodity CFDs	12 896	11 803
Stock CFDs	2 341	2 237
Bond CFDs	364	55
Total financial assets held for trading	**90 224**	**62 452**

Detailed information on the estimated fair value of the instrument is presented in note 40.1.1.

17. Investments in subsidiaries

(IN PLN'000)	31.12.2016	31.12.2015
At the beginning of the reporting period	63 447	47 303
Increase	2 648	16 144
At the end of the reporting period	**66 095**	**63 447**

Detailed information on subsidiaries

NAME OF SUBSIDIARY	COUNTRY OF REGISTERED OFFICE	31.12.2016		31.12.2015	
		NOMINAL VALUE OF SHARES (IN PLN'000)	SHARE IN CAPITAL %	NOMINAL VALUE OF SHARES (IN PLN'000)	SHARE IN CAPITAL %
XTB Limited	Great Britain	20 139	100%	20 139	100%
X Open Hub Sp. z o.o.	Poland	5	100%	5	100%
DUB Investments	Cyprus	4 568	100%	1 920	100%
X-Trade Brokers Menkul Degerler A.Ş.	Turkey	41 367	100%	41 367	100%
Lirsar S.A.	Uruguay	16	100%	16	100%
Total		**66 095**		**63 447**	

In February 2016 the Company acquired 1 000 new shares in the capital increase of its subsidiary DUB Investments Ltd with a total nominal value of EUR 1 000, additionally the value of each share was increased by share premium in the amount of EUR 599, the total value of share premium amounted to EUR 599 000. The value of shares in the reporting currency amounted to PLN 2 648 thousand.

As a result of the above transaction the Company kept 100% share in subsidiary's capital.

The scope of activities of subsidiaries:

- XTB Limited – brokerage activity
- DUB Investments Ltd – brokerage activity
- X Open Hub Sp. z o.o. – applications and electronic trading technology offering
- X Trade Brokers Menkul Değerler A.Ş. – brokerage activity
- Lirsar S.A. – financial advisory

18. Loans and other receivables

(IN PLN'000)	31.12.2016	31.12.2015
Gross amounts due from customers	11 578	9 669
Impairment write–downs of receivables	(2 539)	(1 044)
Total amounts due from customers	**9 039**	**8 625**
Deposits	1 096	946
Loans granted to related parties	730	658
Trade receivables due from related parties	638	3 205
Trade receivables	388	395
Statutory receivables	145	101
Total other receivables	**12 036**	**13 930**

Movements in impairment write-downs of receivables

(IN PLN'000)	TWELVE-MONTH PERIOD	
	31.12.2016	31.12.2015
Impairment write-downs of receivables – at the beginning of the reporting period	**(1 044)**	**(669)**
Write-downs recorded	(1 658)	(2 203)
Write-downs reversed	282	433
Write-downs utilized	(119)	1 395
Impairment write-downs of receivables – at the end of the reporting period	**(2 539)**	**(1 044)**

Write-downs of receivables resulted from the debit balances which arose in customers' accounts in those periods.

19. Prepayments and deferred costs

(IN PLN'000)	31.12.2016	31.12.2015
CRM	1 298	666
Advertising	645	252
Licenses and news services	299	638
Insurance	221	126
Prepaid rent	182	203
Database application	76	–
Settlement of bonuses	11	73
Other	159	223
Total prepayments and deferred costs	**2 891**	**2 181**

20. Intangible assets

Intangible assets in the period from 1 January 2016 to 31 December 2016

(IN PLN'000)	LICENCES FOR COMPUTER SOFTWARE	INTANGIBLE ASSETS MANUFACTURED INTERNALLY	OTHER INTANGIBLE ASSETS	ADVANCES FOR INTANGIBLE ASSTES	TOTAL
Gross value as at 1 January 2016	**4 822**	**10 792**	**–**	**–**	**15 614**
Additions	184	–	–	–	184
Sale and scrapping	(4)	–	–	–	(4)
Net foreign exchange differences	29	–	–	–	29
Gross value as at 31 December 2016	**5 031**	**10 792**	**–**	**–**	**15 823**
Accumulated amortization as at 1 January 2016	**(3 696)**	**(5 292)**	**–**	**–**	**(8 988)**
Amortization for the current period	(516)	(2 159)	–	–	(2 675)
Sale and scrapping	2	–	–	–	2
Net foreign exchange differences	(26)	–	–	–	(26)
Accumulated amortization as at 31 December 2016	**(4 236)**	**(7 451)**	**–**	**–**	**(11 687)**
Net book value as at 1 January 2016	**1 126**	**5 500**	**–**	**–**	**6 626**
Net book value as at 31 December 2016	**795**	**3 341**	–	–	**4 136**

Intangible assets manufactured internally relate to a financial instrument trading platform and applications compatible with this platform.

Intangible assets in the period from 1 January 2015 to 31 December 2015

(IN PLN'000)	LICENCES FOR COMPUTER SOFTWARE	INTANGIBLE ASSETS MANUFACTURED INTERNALLY	OTHER INTANGIBLE ASSETS	ADVANCES FOR INTANGIBLE ASSTES	TOTAL
Gross value as at 1 January 2015	**4 632**	**12 590**	**–**	**–**	**17 222**
Additions	182	–	–	–	182
Sale and scrapping	(5)	(1 798)	–	–	(1 803)
Net foreign exchange differences	13	–	–	–	13
Gross value as at 31 December 2015	**4 822**	**10 792**	**–**	**–**	**15 614**
Accumulated amortization as at 1 January 2015	**(3 125)**	**(3 736)**	**–**	**–**	**(6 861)**
Amortization for the current period	(562)	(2 487)	–	–	(3 049)
Sale and scrapping	3	931	–	–	934
Net foreign exchange differences	(12)	–	–	–	(12)
Accumulated amortization as at 31 December 2015	**(3 696)**	**(5 292)**	**–**	**–**	**(8 988)**
Net book value as at 1 January 2015	**1 507**	**8 854**	**–**	**–**	**10 361**
Net book value as at 31 December 2015	**1 126**	**5 500**	**–**	**–**	**6 626**

Intangible assets manufactured internally relate to a financial instrument trading platform and applications compatible with this platform.

In 2015, the Company liquidated some of the intangible assets manufactured on its own due to the fact that they were not used in the Company's operations. The net value of the liquidated intangible assets amounted to PLN 866 thousand.

21. Property, plant and equipment

Property, plant and equipment in the period from 1 January 2016 to 31 December 2016

(IN PLN'000)	COMPUTER SYSTEMS	OTHER PROPERTY, PLANT AND EQUIPMENT	PROPERTY, PLANT AND EQUIPMENT UNDER CONSTRUCTION	ADVANCES FOR PROPERTY, PLANT AND EQUIPMENT	TOTAL
Gross value as at 1 January 2016	**7 710**	**6 115**	**141**	**–**	**13 966**
Additions	1 167	118	–	–	1 285
Sale and scrapping	(190)	(602)	–	–	(792)
Net foreign exchange differences	39	93	2	–	134
Gross value as at 31 December 2016	**8 726**	**5 724**	**143**	**–**	**14 593**
Accumulated amortization as at 1 January 2016	**(6 180)**	**(4 329)**	**–**	**–**	**(10 509)**
Amortization for the current period	(1 026)	(633)	–	–	(1 659)
Sale and scrapping	187	602	–	–	789
Net foreign exchange differences	(31)	(68)	–	–	(99)
Accumulated amortization as at 31 December 2016	**(7 050)**	**(4 428)**	–	–	**(11 478)**
Net book value as at 1 January 2016	**1 530**	**1 786**	**141**	**–**	**3 457**
Net book value as at 31 December 2016	**1 676**	**1 296**	**143**	–	**3 115**

Property, plant and equipment in the period from 1 January 2015 to 31 December 2015

(IN PLN'000)	COMPUTER SYSTEMS	OTHER PROPERTY, PLANT AND EQUIPMENT	PROPERTY, PLANT AND EQUIPMENT UNDER CONSTRUCTION	ADVANCES FOR PROPERTY, PLANT AND EQUIPMENT	TOTAL
Gross value as at 1 January 2015	**7 134**	**5 548**	**418**	**–**	**13 100**
Additions	864	580	(277)	–	1 167
Sale and scrapping	(289)	(28)	–	–	(317)
Net foreign exchange differences	1	15	–	–	16
Gross value as at 31 December 2015	**7 710**	**6 115**	**141**	**–**	**13 966**
Accumulated amortization as at 1 January 2015	**(5 475)**	**(3 645)**	**–**	**–**	**(9 120)**
Amortization for the current period	(968)	(703)	–	–	(1 671)
Sale and scrapping	266	29	–	–	295
Net foreign exchange differences	(3)	(10)	–	–	(13)
Accumulated amortization as at 31 December 2015	**(6 180)**	**(4 329)**	**–**	**–**	**(10 509)**
Net book value as at 1 January 2015	**1 659**	**1 903**	**418**	**–**	**3 980**
Net book value as at 31 December 2015	**1 530**	**1 786**	**141**	**–**	**3 457**

Non-current assets by geographical area

(IN PLN'000)	31.12.2016	31.12.2015
Non-current assets		
Central and Eastern Europe	6 801	9 535
- including Poland	*6 289*	*8 885*
Western Europe	450	548
- including Spain	*212*	*322*
Total non-current assets	**7 251**	**10 083**

22. Amounts due to customers

(IN PLN'000)	31.12.2016	31.12.2015
Amounts due to retail customers	316 132	237 185
Amounts due to institutional customers	34 689	52 100
Total amounts due to customers	**350 821**	**289 285**

Amounts due to customers are connected with transactions concluded by the customers (including cash deposited in the customers' accounts and concluded but unsettled transactions for securities at the Warsaw Stock Exchange).

23. Financial liabilities held for trading

(IN PLN'000)	31.12.2016	31.12.2015
CFDs		
Index CFDs	13 368	5 526
Commodity CFDs	3 485	1 113
Currency CFDs	3 406	2 267
Stock CFDs	1 345	764
Bond CFDs	43	16
Financial liabilities held for trading in total	**21 647**	**9 686**

24. Other liabilities

(IN PLN'000)	31.12.2016	31.12.2015
Provisions for other employee benefits	8 392	12 446
Trade liabilities	7 472	9 761
Statutory liabilities	3 690	2 922
Liabilities due to employees	573	479
Liabilities under finance lease	258	375
Amounts due to the Central Securities Depository of Poland	53	32
Total other liabilities	**20 438**	**26 015**

Liabilities under employee benefits include estimates, as at the balance sheet date, of bonuses for the reporting period, including from the Program of variable remuneration elements, as well as the provision for unused holiday leave, established in the amount of projected benefits, which the Company is obligated to pay in the event of payment of holiday equivalents.

Besides leasing liabilities, there are no other long-term liabilities.

Program of variable remuneration elements

Pursuant to the Variable Remuneration Elements policy applied by the Company, the employees of the Company in the top management positions receive variable remuneration paid in cash.

The value of provisions for employee benefits includes 50 per cent of variable remuneration granted in cash, which is paid out directly after the employment year, in which the employee's work results are assessed, and 50 per cent of the value based on financial instruments, paid in the years 2015–2018.

As at 31 December 2016, salaries and employee benefits included the provision for variable remuneration elements in the amount of PLN 1 173 thousand (as at 31 December 2015 in the amount of PLN 439 thousand).

25. Liabilities in respect of finance lease

The Company entered into finance lease contracts regarding passenger cars. After expiry of the lease contract, the Company has the option to acquire the leased vehicles for a price set in the contract.

Liabilities under finance lease

(IN PLN'000)	MINIMUM LEASE PAYMENTS		CURRENT VALUE OF MINIMUM LEASE PAYMENTS	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Up to 1 year	146	154	130	126
1 – 5 years	136	272	129	249
Total liabilities in respect of finance lease	**282**	**426**	**259**	**375**

Net carrying amount of items of property, plant and equipment under finance lease

(IN PLN'000)	31.12.2016	31.12.2015
Property, plant and equipment under finance lease	427	472

26. Operating lease agreements

The Company is a party to office space lease agreements classified as operating lease. Minimum payments under irrevocable operating lease agreements are as follows:

Future lease liabilities by maturity date

(IN PLN'000)	31.12.2016	31.12.2015
Less than 1 year	3 944	3 973
1 – 5 years	8 277	3 095
Over 5 years	–	90
Total minimum payments under irrevocable operating lease agreements	**12 221**	**7 158**

In 2016, the Company incurred the rent payments in respect of the agreements referred to above of PLN 4 374 thousand. In 2015 rent payments amounted to PLN 4 099 thousand.

27. Provisions for liabilities and contingent liabilities

27.1 Provisions for liabilities

(IN PLN'000)	31.12.2016	31.12.2015
Provision for retirement benefits	112	83
Provision for legal risk	771	748
Total provisions	**883**	**831**

Provisions for retirement benefits are established on the basis of an actuarial valuation carried out in accordance with the applicable regulations and agreements connected with obligatory retirement benefits to be covered by the employer.

Provisions for legal risk include expected amounts of payments to be made in connection with disputes to which the Company is a party. As at the date of preparation of these financial statements, the Company is not able to specify when the above liabilities will be repaid.

Movements in provisions in the period from 1 January 2016 to 31 December 2016

(IN PLN'000)	VALUE AS AT 01.01.2016	INCREASES	DECREASES		VALUE AS AT 31.12.2016
			USE	REVERSAL	
Provision for retirement benefits	83	29	–	–	112
Provision for legal risk	748	310	287	–	771
Total provisions	**831**	**339**	**287**	**–**	**883**

Movements in provisions in the period from 1 January 2015 to 31 December 2015

(IN PLN'000)	VALUE AS AT 01.01.2015	INCREASES	DECREASES		VALUE AS AT 31.12.2015
			USE	REVERSAL	
Provision for retirement benefits	73	10	–	–	83
Provision for legal risk	450	298	–	–	748
Total provisions	**523**	**308**	**–**	**–**	**831**

27.2 Contingent liabilities

The Company is party to a number of court proceedings associated with the Company's operations. The proceedings in which the Company acts as defendant relate mainly to employees' and customers' claims. As at 31 December 2016, the total value of claims brought against the Company amounted to approx. PLN 5,61 million (as at 31 December 2015: PLN 4,69 million). Company has not created provisions for the above proceedings. In the assessment of the Company there is low probability of loss in these proceedings.

On May 9, 2014, the Company issued a guarantee in the amount of USD 15 thousand to secure an agreement concluded by a subsidiary XTB Limited, based in the UK and PayPal (Europe) Sarl & Cie, SCA based in Luxembourg. The guarantee was granted for the duration of the main contract, which was concluded for an indefinite period.

In 2015 the Company issued a guarantee to secure office lease agreement concluded between subsidiary XTB Limited, based in UK and Canary Wharf Management Limited based in UK. The guarantee is to cover any costs arising from the lease agreement and over the remaining period for which it was concluded, ie. as at the balance sheet date up to the amount of PLN 2,58 million.

On the 30 June 2016 the Company concluded the agreement with K3 System Sp. z o.o. for lease of computer hardware which is secured with a bill of exchange with the bill declaration for the maximum amount of PLN 200 thousand.

28. Equity

Share capital structure as at 31 December 2016 and 31 December 2015

SERIES/ISSUE	NUMBER OF SHARES	NOMINAL VALUE OF SHARES (IN PLN)	NOMINAL VALUE OF ISSUE (IN PLN'000)
Series A	117 383 635	0,05	5 869

All shares in the Company have the same nominal value, are fully paid for, and carry the same voting and profit-sharing rights. No preference is attached to any share series. On 2 September 2015, the Extraordinary General Shareholders' Meeting of the Company passed a resolution on a share split and a change in the numbering of series of shares. As a result, the nominal value of the shares changed from PLN 18,25 to PLN 0,05 per share, and the number of shares changed from 321 599 to 117 383 635. The shares are now A-series ordinary registered shares.

Shareholding structure of the Company

To the best Company's knowledge, the shareholding structure of the Company as at each date was as follows:

31.12.2016	NUMBER OF SHARES	NOMINAL VALUE OF SHARES (IN PLN'000)	SHARE
XXZW Investment Group S.A.	78 206 465	3 910	66,62%
Systexan SARL	22 285 876	1 114	18,99%
Other shareholders	16 891 294	845	14,39%
Total	**117 383 635**	**5 869**	**100,00%**

On the 6 May 2016 the initial public offering was conducted, in which the key shareholder sold 16 433 709 shares in the Company. After the allotment of the offer shares was made under the offering made on the 29 April 2016, the Company received a notification from one of its shareholders, XXZW Investment Group S.A., with its registered office in Luxembourg, in accordance with Article 69 of the Polish Act on Public Offering, the Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies dated 29 July 2005, informing that following the sale of 16 433 709 A-series ordinary shares in the Company, the shareholder holds 78 446 216 shares/votes representing 66,83% share in the share capital/overall number of votes at the General Meeting of Shareholders.

On the 23 December 2016 two employees of X-Trade Brokers Dom Maklerski S.A. acquired 256 835 Company's shares by performance of the incentive scheme. Shares were transferred by the existing shareholders XXZW Investment Group S.A. and Systexan SARL.

31.12.2015	NUMBER OF SHARES	NOMINAL VALUE OF SHARES (IN PLN'000)	SHARE
XXZW Investment Group S.A.	94 879 925	4 744	80,83%
Systexan SARL	22 302 960	1 115	19,00%
Other shareholders	200 750	10	0,17%
Total	**117 383 635**	**5 869**	**100,00%**

Other capitals

Other capitals consist of:

- supplementary capital, mandatorily established from annual profit distribution to be used to cover potential losses that may occur in connection with the Company's operations, up to the amount of at least one third of the share capital, amounting to PLN 1 957 thousand and from surplus of the issue price over the nominal price in the amount of PLN 69 651 thousand, resulting from the capital increase in 2012 with a nominal value of PLN 348 thousand for the price of PLN 69 999 thousand,
- reserve capital, established from annual distribution of profit as resolved by the General Meeting of Shareholders to be used for financing of further operations of the Company or payment of dividend in the amount of PLN 212 416 thousand,
- foreign exchange differences on translation, including foreign exchange differences on translation of balances in foreign currencies of branches and foreign operations in the amount of PLN 1 873 thousand.

29. Profit distribution and dividend

Pursuant to the decision of the General Shareholders' Meeting of the Company, the net profit for 2015 in the amount of PLN 115 021 thousand was partially earmarked for the payment of a dividend in the amount of PLN 91 559 thousand, the remaining amount was transferred to reserve capital.

The dividend on ordinary shares for 2015, paid between 30 March to 8 April 2016, amounted to PLN 91 559 thousand (for 2014 dividend amounted to PLN 77 521 thousand). The amount of dividend per share paid for 2015 was equal to PLN 0,78.

As at the date of these financial statements the Management Board of the Parent Company has not made a decision on dividend payment.

30. Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. When calculating both basic and diluted earnings per share, the Company uses the amount of net profit attributable to shareholders of the Company as the numerator, i.e., there is no dilutive effect influencing the amount of profit (loss). The calculation of basic and diluted earnings per share, together with a reconciliation of the weighted average diluted number of shares is presented below.

(IN PLN'000)	TWELVE-MONTH PERIOD	
	31.12.2016	31.12.2015
Profit from continuing operations	72 999	115 021
Weighted average number of ordinary shares	117 383 635	117 383 635
Shares causing dilution (share option plan)	84 805	341 640
Weighted average number of shares including dilution effect	117 468 440	117 725 275
Basic net profit per share from continuing operations for the year in PLN	0,62	0,98
Diluted net profit per share from continuing operations for the year in PLN	0,62	0,98

31. Current income tax and deferred income tax

Regulations concerning the tax on goods and services, corporate income tax and the burden of social insurance are subject to frequent changes. These frequent changes result in lack of appropriate benchmarks, inconsistent interpretations and few established precedents that could be applied. The current regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies and companies.

Tax settlements and other areas of activity (for example, customs or foreign exchange) may be subject to inspection by control authorities that are entitled to impose high penalties and fines, and any additional tax liabilities resulting from inspections must be paid together with high interest. These conditions cause that tax risk in Poland is higher than in countries with more mature tax systems.

Consequently, the amounts reported and disclosed in the financial statements may change in the future as a result of a final decision of the tax audit.

On 15 July 2016 changes have been introduced to the Tax Code to take into account the provisions of the General Anti Avoidance Rules (GAAR). GAAR is to prevent the formation and use of artificial legal structures created in order to avoid payment of tax in Poland. GAAR defines tax avoidance operation as an action made primarily in order to achieve a tax advantage being in conflict with the subject and purpose of the provisions of the Tax Act. According to GAAR such activity does not result in the achievement of a tax advantage if the behaviour was artificial. Any occurrence of (i) unjustified sharing operations, (ii) the involvement of intermediaries, despite the lack of economic justification or business, (iii) the elements mutually terminating or compensating, and (iv) other actions with a similar effect to the aforementioned, may be treated as a condition of existence false operations covered by GAAR. The new regulations will require greater judgment when assessing the tax consequences of particular transactions.

GAAR clause should apply to transactions made after its entry into force and to the transactions that were carried out prior to the entry into force of the GAAR clause but for which the benefits have been achieved or are still. The implementation of these regulations will enable the Polish tax authorities to question legal arrangements and agreements carried out by the taxpayers, such as restructuring and group reorganization.

31.1 Income tax

Income tax disclosed in the current period's profit or loss

(IN PLN'000)	TWELVE-MONTH PERIOD	
	31.12.2016	31.12.2015
Income tax – current portion		
Income tax for the reporting period	(10 939)	(27 460)
Income tax – deferred portion		
Occurrence / reversal of temporary differences	(3 031)	(638)
Income tax disclosed in profit or loss	**(13 970)**	**(28 098)**

Reconciliation of the actual tax burden

(IN PLN'000)	TWELVE-MONTH PERIOD	
	31.12.2016	31.12.2015
Profit before tax	**86 969**	**143 119**
Income tax based on the applicable tax rate of 19%	**(16 524)**	**(27 192)**
Difference resulting from application of tax rates applicable in other countries	(194)	(213)
Non-taxable revenue	14	113
Non-deductible expenses	(473)	(1 072)
Realisation of tax losses for the preceding periods	3 394	108
Other items affecting the tax burden amount	(187)	158
Income tax disclosed in profit or loss	**(13 970)**	**(28 098)**

31.2 Deferred income tax

31.2.1 Unrecognized deferred income tax assets

Deferred income tax was not disclosed with respect to the items below:

(IN PLN'000)	31.12.2016	31.12.2015
Tax loss	1 115	1 076

Taking into account the risks connected with further business development in foreign markets, the Company's management has doubts relative to certain tax credits of foreign operations and whether their respective profits will make it possible to settle the tax losses. Therefore, no deferred tax assets connected with such tax loss in the amount of PLN 1 115 thousand as at 31 December 2016 and in the amount of PLN 1 076 thousand as at 31 December 2015.

UNRECOGNIZED TAX LOSSES AVAILABLE FOR USE (IN PLN'000)	31.12.2016	31.12.2015
until the end 2017	40	38
until the end 2018	258	249
until the end 2019	113	109
until the end 2020	129	125
until the end 2021	23	23
no limit	552	532
Total unrecognized tax losses available for use	**1 115**	**1 076**

31.2.2 Recognized deferred tax asset relating to tax losses

Balance of deferred tax asset relating to tax losses

RECOGNISED TAX LOSSES TO BE UTILISED (IN PLN'000)	31.12.2016	31.12.2015
Deferred tax on tax losses	8 926	8 841

As at 31 December 2016, the Company established deferred tax assets with regard to tax losses to be settled in future periods in the total amount of PLN 8 926 thousand (as at 31 December 2015: PLN 8 841 thousand). The management believes that due to dynamic development of business and growth of sales in foreign markets, the Company may generate taxable income in future periods, and tax losses will be settled accordingly.

Deferred tax losses may be utilised over an unlimited period in Germany and in France.

31.2.3 Deferred income tax assets and deferred income tax provision

Change in the balance of deferred tax for twelve-month period ended 31 December 2016

(IN PLN'000)	AS AT 01.01.2016	PROFIT OR (LOSS)	AS AT 31.12.2016
Deferred income tax assets:			
Property, plant and equipment	143	(26)	117
Loans granted and other receivables	3	4	7
Financial liabilities held for trading	1 840	2 273	4 113
Provisions for liabilities	16	34	50
Prepayments and deferred costs	1 645	(571)	1 074
Other liabilities	19	2	21
Tax losses of previous periods to be settled in future periods	8 841	85	8 926
Tax deferred income tax assets	**12 507**	**1 801**	**14 308**

(IN PLN'000)	AS AT 01.01.2016	PROFIT OR (LOSS)	AS AT 31.12.2016
Deferred income tax provision:			
Financial assets held for trading	11 866	5 277	17 143
Other liabilities	–	1	1
Loans granted and other receivables	33	(33)	–
Prepayments and deferred costs	–	21	21
Property, plant and equipment	1 092	(434)	658
Total deferred income tax provision	**12 991**	**4 832**	**17 823**
Deferred tax disclosed in profit or (loss)	**–**	**(3 031)**	–

(IN PLN'000)	AS AT 01.01.2016	INCLUDED IN EQUITY	AS AT 31.12.2016
Deferred income tax provision included directly in the equity:			
Separate equity of branches	188	291	479
Total deferred income tax provision included directly in the equity	**188**	**291**	**479**

Change in the balance of deferred tax for twelve-month period ended 31 December 2015

(IN PLN'000)	AS AT 01.01.2015	PROFIT OR (LOSS)	AS AT 31.12.2015
Deferred income tax assets:			
Property, plant and equipment	125	18	143
Loans granted and other receivables	–	3	3
Financial liabilities held for trading	2 740	(900)	1 840
Provisions for liabilities	14	2	16
Prepayments and deferred costs	1 400	245	1 645
Other liabilities	–	19	19
Tax losses of previous periods to be settled in future periods	9 200	(359)	8 841
Tax deferred income tax assets	**13 479**	**(972)**	**12 507**

(IN PLN'000)	AS AT 01.01.2015	PROFIT OR (LOSS)	AS AT 31.12.2015
Deferred income tax provision:			
Financial assets held for trading	11 583	283	11 866
Loans granted and other receivables	–	33	33
Property, plant and equipment	1 742	(650)	1 092
Total deferred income tax provision	**13 325**	**(334)**	**12 991**
Deferred tax disclosed in profit or (loss)	**–**	**(638)**	**–**

(IN PLN'000)	AS AT 01.01.2015	INCLUDED IN EQUITY	AS AT 31.12.2015
Deferred income tax provision included directly in the equity:			
Separate equity of branches	241	(53)	188
Total deferred income tax provision included directly in the equity	**241**	**(53)**	**188**

Geographical division of deferred income tax assets

(IN PLN'000)	31.12.2016	31.12.2015
Deferred income tax assets		
Central and Eastern Europe	114	71
- including Poland	–	–
Western Europe	8 972	8 895
- including Spain	–	–
Latin America and Turkey	–	–
Total deferred income tax assets	**9 086**	**8 966**

Data concerning the presentation of deferred income tax by country of origin and reconciliation of presentation in the statement of financial position as at 31 December 2016

(IN PLN'000)	DATA ACCORDING TO THE NATURE OF ORIGIN		DATA PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	
	DEFERRED INCOME TAX ASSETS	DEFERRED INCOME TAX PROVISION	DEFERRED INCOME TAX ASSETS	DEFERRED INCOME TAX PROVISION
Poland	5 221	18 301	–	13 080
Czech Republic	42	–	42	–
Slovakia	72	1	71	–
Germany	3 119	–	3 119	–
France	5 854	–	5 854	–
Total	**14 308**	**18 302**	**9 086**	**13 080**

Data concerning the presentation of deferred income tax by country of origin and reconciliation of presentation in the statement of financial position as at 31 December 2015

(IN PLN'000)	DATA ACCORDING TO THE NATURE OF ORIGIN		DATA PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	
	DEFERRED INCOME TAX ASSETS	DEFERRED INCOME TAX PROVISION	DEFERRED INCOME TAX ASSETS	DEFERRED INCOME TAX PROVISION
Poland	3 501	13 139	–	9 638
Czech Republic	30	7	23	–
Slovakia	82	33	49	–
Germany	3 102	–	3 102	–
France	5 792	–	5 792	–
Total	**12 507**	**13 179**	**8 966**	**9 638**

32. Related party transactions

32.1 Parent Company

XXZW Investment Group S.A. with its registered office in Luxembourg is the key shareholder of the Company. . As at 31 December 2016 it holds 66,62% of shares and votes in the General Meeting as per Company's best knowledge. XXZW Investment Group S.A. prepares consolidated financial statements.

Mr. Jakub Zabłocki is the ultimate parent company for the Company and XXZW Investment Group S.A.

32.2 Incomes and costs

(IN PLN'000)	1.01.2016 - 31.12.2016		1.01.2015 - 31.12.2015	
	INCOMES	COSTS	INCOMES	COSTS
Subsidiaries:				
XTB Limited	18 460	(24 894)	8 418	(23 993)
Dub Investments	157	(1 103)	151	(999)
X Open Hub Sp. z o.o.	1 708	(193)	1 166	(365)
X Trade Brokers Menkul Değerler A.Ş.	14 827	(16 231)	25 683	(16 444)
Lirsar S.A.	24	–	14	–

32.3 Receivables

(IN PLN'000)	31.12.2016	31.12.2015
Subsidiaries:		
XTB Limited	6 111	5 543
Dub Investments	24	13
X Open Hub Sp. z o.o.	516	468
X-Trade Brokers Menkul Degerler A.S	1 774	4 885
Lirsar S.A.	730	658

32.4 Liabilities

(IN PLN'000)	31.12.2016	31.12.2015
Subsidiaries:		
XTB Limited	3 115	3 849
Dub Investments	–	49
X Open Hub Sp. z o.o.	79	34
X-Trade Brokers Menkul Degerler A.S	3 648	6 574

32.5 Benefits to Management Board and Supervisory Board

(IN PLN'000)	TWELVE-MONTH PERIOD	
	31.12.2016	31.12.2015
Benefits to the Management Board members	(2 486)	(1 411)
Benefits to the Supervisory Board members	(89)	–
Total benefits to the Management Board and Supervisory Board	**(2 575)**	**(1 411)**

These benefits include base salaries, bonuses, contributions to social security paid for by the employer and supplementary benefits (money bills, healthcare, holiday allowances).

Members of the Management Board of the Company are included in the scheme of variable remuneration elements specified in note 21 of the financial statements. The value of the element settled in financial instruments in the years 2015 - 2018 acquired by the members of the Management Board amounts to PLN 1 173 thousand.

Members of the Management Board of the Company, within the framework of the Options Program described in note 27.6 of the financial statements, acquired 341 640 rights to shares with the total value of PLN 462 thousand as at the balance-sheet date.

32.6 Share-based payments

Pursuant to the Shareholders Agreement of the Company of 28 March 2011, the Company introduced an incentive scheme for the key employees, who received the right to shares of the Company before 2012, constituting a payment programme in the form of share options ("Options programme"). The value of the program depends on individual targets set for the employees in relation to the results of the Company in specific years. The scheme covers the years 2011-2014. For 2011, rights to shares were acquired by three employees in the amount of 177 025 items, for 2012, one employee acquired rights to shares in the amount of 41 245 items, for 2013, one employee acquired rights to shares in the amount of 123 370 items and for 2014 and 2015, according to the best knowledge of the Company's Management Board, no employee will acquire rights to shares. In total, the employees acquired 341 640 rights to shares. The estimated value of the scheme as at the balance-sheet date is PLN 462 thousand. The vesting period expired in 2015. Depending on individual contracts, the shares can be acquired starting from 2014 based on the participation rules specified in the Options Program.

On the 23 December 2016 two employees of X-Trade Brokers Dom Maklerski S.A. acquired 256 835 Company's shares by performance of the incentive scheme. Shares were transferred by the existing shareholders XXZW Investment Group S.A. and Systexan SARL.

For the shares options granted, the fair value of services rendered by the key employees is measured in relation to the fair value of rights granted as at the date of granting. The fair value of rights is determined based on option estimation models, which include among others execution price, share price as at the date of granting, expected variability of option value during the programme and other appropriate factors affecting fair value. The Company assesses the probability of acquiring the rights in the programme, which affects the programme value in the costs for the period.

The following ratios were adopted in the valuation of the share option plan: volatility ratio of 54,69%, risk-free interest rate of 5,03%, weighted average share price of PLN 494,42.

No other features relating to grant of options were taken into consideration during fair value measurement.

Unrealized rights to shares

	31.12.2016	31.12.2015
Unrealized rights to shares as at the beginning of the period	341 640	341 640
Realized rights to shares	(256 835)	–
Unrealized rights to shares as at the end of the period	**84 805**	**341 640**

Volatility used to measure the options was calculated on the basis of the average volatility of share prices of peer companies. Volatility in the peer group of companies was calculated based on historical daily rates of return. Based on the daily rates of return, the standard deviation was calculated and annualised, on the assumption that a trading year lasts 250 days. The period for which the rates of return were accounted for complied with the options exercise period. Volatility was calculated for each option in appropriate periods. Companies which were listed for a period shorter than the option exercise period were eliminated from the peer group.

32.7 Loans granted to the Management and Supervisory Board members

As at 31 December 2016 and 31 December 2015 there are no loans granted to the Management and Supervisory Board members.

33. Remuneration of the entity authorised to audit financial statements

REMUNERATION OF THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS DUE FOR THE FINANCIAL YEAR (IN PLN'000)	31.12.2016	31.12.2015
Statutory audit of annual financial statements	352	375
Other assurance services	31	31
Total remuneration of the authorised entity	**383**	**406**

34. Employment

The average number of employees in the Company was 329 persons in 2016 and 318 persons in 2015.

35. Supplementary information and explanations to the cash flow statement

35.1 Change in balance of loans granted and other receivables

(IN PLN'000)	TWELVE-MONTH PERIOD	
	31.12.2016	31.12.2015
Change in loans granted and other receivables	1 894	(2 617)
Loans granted	–	622
Accrued interests	24	14
Valuation of loan	48	22
Change in the balance of loans granted and other receivables	**1 966**	**(1 959)**

35.2 Change in the balance of other liabilities

(IN PLN'000)	TWELVE-MONTH PERIOD	
	31.12.2016	31.12.2015
Change in other liabilities	(5 577)	4 407
Payment of finance lease liabilities	119	138
Change in balance of other liabilities	**(5 458)**	**4 545**

35.3 Other adjustments

The "other adjustments" item includes the following adjustments:

(IN PLN'000)	TWELVE-MONTH PERIOD	
	31.12.2016	31.12.2015
Change in the balance of differences from the conversion of branches and subsidiaries	1 209	58
Foreign exchange differences on translation of movements in property, plant and equipment, and intangible assets	(38)	(4)
Change in other adjustments	**1 171**	**54**

Foreign exchange differences on translation of movements in tangible and intangible assets include the difference between the rates as at the opening balance and as at the closing balance adopted for valuation of the gross value of tangible and intangible assets in the Company's foreign entities and the difference between the rate applied to value amortization and depreciation cost of fixed assets and intangible assets in the Company's foreign entities and the rate of translation of amortization and depreciation amounts on such assets. This value results from the chart of movements in tangible and intangible assets.

36. Post balance sheet events

On 10 January 2017 during its meeting the Supervisory Board of X-Trade Brokers Dom Maklerski S.A. made changes to the composition of the Management Board. Mr Jakub Malý was dismissed from the position of the President of the Management Board. The Management Board was extended to 5 people. Mr Omar Arnaout was appointed new Member of the Management Board responsible for sales in the rank of Vice-President of the Management Board and Mr Filip Kaczmarzyk was appointed new Member of the Management Board responsible for trading. Due to the vacate on the position of the President of the Management Board, the Supervisory Board decided to delegate its Chairman, Mr Jakub Zabłocki, to temporarily perform the duties of the President of the Management Board in the period from 10 January to 10 April 2017 (which is for the period of 3 months).

On 10 February 2017 Turkish regulatory authority CMB (Capital Marekts Board of Turkey) introduced changes in regulations concerning conducting of investment services, investment activities and additional services. The key assumptions include the decrease of obligatory leverage used by investors to 10:1 and introduction of the minimum deposit of TRY 50 thousand (approx. USD 12 thousand). The above described amendments came into force with immediate effect for all clients and positions opened from 10 February 2017, and in relation to positions opened before this date there is 45 days period for adjustment to the new regulation.

X Trade Brokers Menkul Değerler made all the effort to implement the new regulations. It cannot be excluded, however, that the rule or requirement will be interpreted by the company inconsistently with the regulations or expectations of the regulator as to how to implement them, which may be involved with implementation of supervisory measures over the company and sanctions resulting from the existing legislation and may result in the need to incur further relevant funding and implementation of major organizational changes. As at the date of preparation of these financial statements the Company is not able to accurately estimate the impact of the regulatory changes to clients' activities on the Turkish market and to transactions made by these clients. It cannot be excluded that such significant restrictions implemented by CMB may contribute to a significant decrease in the number of clients and consequently to a significant reduction of Group activity in Turkey.

On 17 February 2017 the Company established a subsidiary XTB Chile SpA. The Company owns 100% shares in subsidiary. XTB Chile SpA will conduct services consisting in acquiring new customers from the territory of Chile.

On 23 February 2017 the Company purchased 100% of shares in CFDs Prime with its seat in Belize. CFDs Prime provides brokerage services based on obtained permission issued by International Financial Service Commission. As a result of the acquisition of 100% of the shares the Company took up control over the subsidiary. The fair value of the consideration paid was PLN 837 thousand and it was determined on the basis of a third–party valuation. The Company accounted for the transaction under the acquisition method. As at the acquisition date particular net assets of the acquired company CFDs Prime were measured at fair value. As a result of the accounting an intangible asset was isolated in the form of a licence for brokerage activities on Belize market of PLN 253 thousand. The estimated amortization period for this isolated intangible asset was established over a period of 10 years.

Fair value of main categories of CFDs Prime assets as at the acquisition date:

	FAIR VALUE (IN USD'000)	EXCHANGE RATE	FAIR VALUE (IN PLN'000)
Cash and cash equivalents	237	4,0840	968
Receivables – liabilities	(94)	4,0840	(384)
Intangible asset	62	4,0840	253
Total fair value	**205**		**837**

37. Customers' financial instruments and nominal values of transactions in derivatives (off balance sheet items)

37.1 Nominal value of derivatives

(IN PLN'000)	31.12.2016	31.12.2015
CFDs		
Index CFDs	1 832 652	1 140 266
Currency CFDs	1 753 101	1 065 917
Commodity CFDs	422 577	267 666
Stock CFDs	63 846	92 934
Bond CFDs	32 921	9 308
Total CFDs	**4 105 097**	**2 576 091**

The nominal value of instruments presented in the chart above includes transactions with customers and brokers. As at 31 December 2016, transactions with brokers represent 25% of the total nominal value of instruments (as at 31 December 2015: 12% of the total nominal value of instruments).

37.2 Customers' financial instruments

Presented below is a list of customers' instruments deposited in the accounts of the brokerage house:

(IN PLN'000)	31.12.2016	31.12.2015
Listed stocks and rights to stocks registered in customers' securities accounts	201	221
Other securities registered in customers' securities accounts	341	341
Total customers' financial instruments	**542**	**562**

38. Items regarding the compensation scheme

(IN PLN'000)	TWELVE-MONTH PERIOD	
	31.12.2016	31.12.2015
1. Contributions made to the compensation scheme		
a) opening balance	2 204	1 733
- increases	*483*	*471*
b) closing balance	2 687	2 204
2. XTB's share in the profits from the compensation scheme	**180**	**152**

39. Capital management

The Company's principles of capital management are established in the "Capital management policy in X–Trade Brokers Dom Maklerski S.A.". The document is approved by the Company's Supervisory Board. The policy defines the basic concepts, objectives and rules which constitute the Company's capital strategy. It specifies, in particular, long-term capital objectives, the current and preferred capital structure, contingency plans and basic elements of the internal capital estimation process. The policy is updated as appropriate so as to reflect the development in the Company and its business environment.

The objective of the capital management policy is to ensure balanced long-term growth for the shareholders and to maintain sufficient capital to enable the Company to operate in a prudent and efficient manner. This objective is attained by maintaining an appropriate capital base, taking into account the Company's risk profile and prudential regulations, as well as risk-based capital management in view of the operating goals.

Determination of capital-related goals is essential for equity management and serves as a basic reference in the context of capital planning, allocation and contingency plans. The Company establishes capital-related objectives which ensure a stable capital base, achievement of its capital strategy goals (in accordance with its general principles), and also match the

Company's risk appetite. To establish its capital-related goals, the Company takes into consideration its strategic plans and expected growth of operations as well as external conditions, including the macroeconomic situation and other business environment factors. The capital-related goals are set for a horizon similar to that of the business strategy and are approved by the Management Board.

Capital planning is focused on an assessment of the Company's current and future capital requirements (both regulatory and internal), and on comparing them with the current and projected levels of available capital. The Company has prepared contingency plans to be launched in the event of a capital adequacy problem, described in detail in the "Capital management policy in X–Trade Brokers Dom Maklerski S.A."

As part of ICAAP, the Company assesses its internal capital in order to define the overall capital requirement to cover all significant risks in the Company's operations and evaluates its quality. The Company estimates internal capital necessary to cover identified significant risks in compliance with procedures adopted by the Company and taking into account stress test results.

The Company is obligated to maintain the capitals (equity) to cover the higher of the following values:

- capital requirements calculated in accordance with the Regulation (EU) of the European Parliament and of the Council No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR) and
- internal capital estimated in compliance with the Ordinance of the Minister of Finance of 27 September 2012 on defining detailed technical and organizational conditions for investment firms and banks, as referred to in Article 70 par. 2 of the Act on Trading in Financial Instruments, and custodian banks and the conditions for internal capital estimation by brokerages (Journal of Laws 2012, item 1072, as amended).

The principles of calculation of own funds are established in the CRR resolution, "The procedure for calculating risk adequacy ratios in X–Trade Brokers Dom Maklerski S.A." and are not regulated by IFRS.

The Company calculated equity in accordance with part two of the Regulation of the European Parliament and of the Council (EU) No. 575/2013 dated 26 June 2013 on prudential requirements for credit institutions and investment firms, amending Regulation (EU) No. 648/2012 ("CRR"). At present, the total equity of the Company belongs to the best category – Tier 1.

In accordance with the Act on macroprudential supervision of the financial system and crisis management in the financial system of 5 August 2015, since 1 January 2016 the Company is obliged to maintain capital buffers. In the period covered by the financial statements the Company was obliged to maintain the capital conservation buffer and countercyclical buffer.

Key values in capital management

(IN PLN'000)	31.12.2016	31.12.2015
The Company's own funds	**236 394**	**213 911**
Tier I Capital	236 394	213 911
Common Equity Tier I capital	236 394	213 911
Supplementary capital Tier I	–	–
Tier II capital	–	–
Total risk exposure	**1 395 992**	**1 612 615**
Capital conservation buffer	17 450	N/A
Countercyclical capital buffer	470	N/A
Combined buffer requirement	**17 920**	**N/A**

The mandatory capital adequacy was not breached in the periods covered by the financial statements.

The table below presents data on the level of capitals and on the total capital requirement divided into requirements due to specific types of risks calculated in accordance with separate regulations together with average monthly values. Average monthly values were calculated as an estimation of the average values calculated based on statuses at the end of specific days.

In the table below, in order to ensure comparability of the presentation, the total capital requirement was presented as 8% of the total risk exposure, calculated in accordance with the CRR.

(IN PLN'000)	AS AT 31.12.2016	AVERAGE MONTHLY VALUE IN THE PERIOD	AS AT 31.12.2015
1. Capital/Own funds	236 394	230 183	213 911
1.1. Base capital/Common Equity Tier I without deductions	289 430	283 662	266 632
1.2. Additional items of common equity/Supplementary capital Tier I	–	–	–
1.3. Items decreasing share capitals	(53 036)	(53 479)	(52 721)
2. Amount of Tier II capital included in the value of capital subject to monitoring/Tier II capital	–	–	–
I. Level of capitals subject to monitoring/Own funds	**236 394**	**230 183**	**213 911**
1. Market risk	48 475	83 841	65 623
2. Settlement and delivery risk, contractor's credit risk and the CVA requirement	8 210	4 616	4 040
3. Credit risk	21 304	26 349	25 653
4. Operating risk	33 690	33 417	33 693
5. Exceeding the limit of exposure concentration and the limit of high exposures	–	–	–
6. Capital requirement due to fixed costs	N/A	N/A	N/A
IIa. Overall capital requirement	**111 679**	**148 223**	**129 009**
IIb. Total risk exposure	**1 395 992**	**1 852 788**	**1 612 615**
Capital conservation buffer	17 450	23 160	N/A
Countercyclical capital buffer	470	573	N/A
Combined buffer requirement	**17 920**	**23 733**	**N/A**

Pursuant to CRR the duty to calculate the capital requirement in respect of fixed costs arises only in the event that the entity does not calculate the capital requirement in respect of operating risk.

40. Risk management

The Company is exposed to a variety of risks connected with its current operations. The purpose of risk management is to make sure that the Company takes risk in a conscious and controlled manner. Risk management policies are formulated in order to identify and measure the risks taken, as well as to establish appropriate limits to mitigate such risk on a regular basis.

At the strategy level, the Management Board is responsible for establishing and monitoring the risk management policy. All risks are monitored and controlled with regard to profitability of the operations as well as the level of capital necessary to ensure safety of operations from the capital requirement perspective.

The Company has appointed a Risk Management Committee. Its key tasks include performing supervisory, consultative and advisory functions for the Company's statutory bodies in the area of capital management strategy, risk management policy, risk measurement methods, capital planning and the Company's capital adequacy. In particular, the Committee supports the Risk Control Department in the area of identifying significant risks within the Company and creating a catalogue of risks, approves policies and procedures of risk and ICAAP management, reviews and approves analyses carried out by owners of specific risks and the Risk Control Department as part of the risk and ICAAP management system within the Company.

The Risk Control Department supports the Management Board in formulating, reviewing and updating ICAAP rules in the event of the occurrence of new types of risk, significant changes in strategy and operating plans. The Department also monitors the appropriateness and efficiency of the implemented risk management system, identifies, monitors and controls the market risk of the Company's own investments, defines the overall capital requirement and estimates internal capital. The Risk Control Department reports directly to the Member of the Management Board responsible for the operation of the Company's internal control system.

The Company's Supervisory Board approves risk management system, including procedures for internal capital estimation, capital management and planning

40.1 Fair value

40.1.1 Carrying amount and fair value

The fair value of cash and cash equivalents is estimated as being close to their carrying amount.

The fair value of loans granted and other receivables, amounts due to customers and other liabilities is estimated as being close to their carrying amount in view of the short-term maturities of these balance sheet items.

40.1.2 Fair value hierarchy

The Company discloses fair value measurement of financial instruments carried at fair value, applying the following fair value hierarchy which reflects the significance of input data used to establish the fair value:

- **Level 1**: quoted prices (unadjusted) in active markets for the assets or liabilities;
- **Level 2**: input data other than quoted prices classified in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. based on prices). This category includes financial assets and liabilities measured using prices quoted in active markets for identical assets, prices quoted in active markets for identical assets considered less active or other valuation methods where all significant inputs originate directly or indirectly from the markets;
- **Level 3**: input data for valuation of a given asset or liability is not based on observable market data (unobservable inputs).

(IN PLN'000)		31.12.2016		
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets				
Financial assets held for trading	–	90 224	–	**90 224**
Total assets	**–**	**90 224**	**–**	**90 224**
Financial liabilities				
Financial liabilities held for trading	–	21 647	–	**21 647**
Total liabilities	**–**	**21 647**	**–**	**21 647**

(IN PLN'000)		31.12.2015		
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets				
Financial assets held for trading	–	62 452	–	**62 452**
Total assets	**–**	**62 452**	**–**	**62 452**
Financial liabilities				
Financial liabilities held for trading	–	9 686	–	**9 686**
Total liabilities	**–**	**9 686**	**–**	**9 686**

In the periods covered by the financial statements, there were no transfers of items between the levels of the fair value hierarchy.

The fair value of contracts for differences (CFDs) is determined based on the market prices of underlying instruments, derived from independent sources, ie. from reliable liquidity suppliers and reputable news, adjusted for the spread specified by the Company. The valuation is performed using closing prices or the last bid and ask prices. CFDs are measured as the difference between the current price and the opening price, taking account of accrued commissions and swap points.

The impact of adjustments due to credit risk of the contractor, estimated by the Company, was insignificant from the point of view of the general estimation of derivative transactions concluded by the Company. Therefore, the Company does not recognise the impact of unobservable input data used for the estimation of derivative transactions as significant and, pursuant to IFRS 13.73, does not classify such transactions as level 3 of the fair value hierarchy.

40.2 Market risk

In the period covered by these financial statements, the Company entered into OTC contracts for differences (CFDs) and digital options. The Company may also acquire securities and enter into forward contracts on its own account on regulated stock markets.

The following risks are specified, depending on the risk factor:

- Currency risk connected with fluctuations of exchange rates
- Interest rate risk
- Commodity price risk
- Equity investment price risk

The Company's key market risk management objective is to mitigate the impact of such risk on the profitability of its operations. The Company's practice in this area is consistent with the following principles:

As part of the internal procedures, the Company applies limits to mitigate market risk connected with maintaining open positions on financial instruments. These are, in particular: a maximum open position on a given instrument, currency exposure limits, maximum value of a single instruction. The Trading Department monitors open positions subject to limits on a current basis, and in case of excesses, enters into appropriate hedging transactions. The Risk Control Department reviews the limit usage on a regular basis, and controls the hedges entered into.

40.2.1 Currency risk

The Company enters into transactions principally in instruments bearing currency risk. Aside from transactions where the FX rate is an underlying instrument, the Company also offers instruments which price is denominated in foreign currencies. Also, the Company has assets in foreign currencies, i.e. the so-called currency positions. Currency positions include the brokerage's own funds denominated in foreign currencies held for the purpose of settling transactions in foreign markets and connected with foreign operations.

The carrying amount of the Company's assets and liabilities in foreign currencies as at the balance sheet date is presented below. The values for all base currencies are expressed in PLN'000:

Assets and liabilities denominated in foreign currencies as at 31 December 2016

(IN PLN'000)	VALUE IN FOREIGN CURRENCIES CONVERTED TO PLN									CARRYING AMOUNT
	USD	EUR	GBP	CZK	HUF	RON	TRY	OTHER CURRENCIES	TOTAL	
Assets										
Own cash and cash equivalents	49 521	120 700	1 081	26 264	4 453	3 838	5 456	(1)	211 312	233 942
Customers' cash and cash equivalents	16 497	176 190	42	36 312	3 166	5 072	12	–	237 291	352 830
Financial assets held for trading	5 979	36 060	34	8 125	1 760	2 243	1 882	98	56 181	90 224
Investments in subsidiaries	–	–	–	–	–	–	–	–	–	66 095
Income tax receivables	–	14	–	1 001	–	–	–	–	1 015	1 016
Loans granted and other receivables	4 036	3 378	1 704	165	443	70	1 400	489	11 685	12 036
Prepayments and deferred costs	–	146	–	140	–	7	–	–	293	2 891
Intangible assets	–	32	–	39	–	–	–	–	71	4 136
Property, plant and equipment	–	504	–	364	–	24	–	–	892	3 115
Deferred income tax assets	–	9 044	–	42	–	–	–	–	9 086	9 086
Total assets	**76 033**	**346 068**	**2 861**	**72 452**	**9 822**	**11 254**	**8 750**	**586**	**527 826**	**775 371**
Liabilities										
Amounts due to customers	13 184	176 651	680	36 092	3 174	4 941	1 216	94	236 032	350 821
Financial liabilities held for trading	1 617	9 792	19	1 025	162	1 008	330	47	14 000	21 647
Income tax liabilities	–	296	–	–	–	–	–	–	296	4 227
Other liabilities	422	7 054	1 611	1 429	–	344	1 671	–	12 531	20 438
Provisions for liabilities	–	155	–	–	–	462	–	–	617	883
Deferred income tax provision	–	–	–	–	–	–	–	–	–	13 080
Total liabilities	**15 223**	**193 948**	**2 310**	**38 546**	**3 336**	**6 755**	**3 217**	**141**	**263 476**	**411 096**

Assets and liabilities denominated in foreign currencies as at 31 December 2015

(IN PLN'000)	VALUE IN FOREIGN CURRENCIES CONVERTED TO PLN								CARRYING AMOUNT
	USD	EUR	GBP	CZK	HUF	RON	TRY	TOTAL	
Assets									
Own cash and cash equivalents	67 637	132 088	3 924	32 734	7 967	2 620	8 769	255 739	275 592
Customers' cash and cash equivalents	23 305	146 290	1	25 558	2 337	4 066	88	201 645	282 793
Financial assets held for trading	3 025	27 224	226	4 435	779	1 394	1 211	38 294	62 452
Investments in subsidiaries	–	–	–	–	–	–	–	–	63 447
Income tax receivables	–	630	–	1 567	–	–	–	2 197	2 198
Loans granted and other receivables	5 408	2 599	718	141	77	101	4 540	13 584	13 930
Prepayments and deferred costs	–	221	–	143	–	6	–	370	2 181
Intangible assets	–	53	–	42	–	5	–	100	6 626
Property, plant and equipment	–	617	–	454	–	27	–	1 098	3 457
Deferred income tax assets	–	8 943	–	22	–	–	–	8 965	8 966
Total assets	**99 375**	**318 665**	**4 869**	**65 096**	**11 160**	**8 219**	**14 608**	**521 992**	**721 642**
Liabilities									
Amounts due to customers	25 034	146 149	8	25 527	2 338	4 127	4 550	207 733	289 285
Financial liabilities held for trading	694	4 431	233	363	33	562	23	6 339	9 686
Income tax liabilities	–	106	–	–	–	–	–	106	4 561
Other liabilities	200	7 687	3 214	1 611	75	425	1 753	14 965	26 015
Provisions for liabilities	–	–	–	–	–	748	–	748	831
Deferred income tax provision	–	–	–	–	–	–	–	–	9 638
Total liabilities	**25 928**	**158 373**	**3 455**	**27 501**	**2 446**	**5 862**	**6 326**	**229 891**	**340 016**

A change in exchange rates, in particular, the PLN exchange rate, affects the balance sheet valuation of the Company's financial instruments and the result on translation of foreign currency balances of other balance sheet items. Sensitivity to exchange rate fluctuations was calculated with the assumption that all foreign currency rates change by ±5% to PLN. The carrying amount of financial instruments was revalued.

The sensitivity of the Company's equity and profit before tax to a 5% increase or decrease of the PLN exchange rate is presented below:

(IN PLN'000)	31.12.2016		31.12.2015	
	INCREASE IN EXCHANGE RATES BY 5%	DECREASE IN EXCHANGE RATES BY 5%	INCREASE IN EXCHANGE RATES BY 5%	DECREASE IN EXCHANGE RATES BY 5%
Income (expenses) of the period	1 033	(1 033)	6 020	(6 020)
Equity, of which:	1 477	(1 477)	1 296	(1 296)
Foreign exchange differences on translation	1 477	(1 477)	1 296	(1 296)

The sensitivity of equity is connected with foreign exchange differences in the translation of value in functional currencies of the foreign operations.

40.2.2 Interest rate risk

Interest rate risk is the risk of exposure of the current and future financial result and equity of the Company to the adverse impact of exchange rate fluctuations. Such risk may result from the contracts entered into by the Company, where receivables or liabilities are dependent upon exchange rates as well as from holding assets or liabilities dependent on exchange rates.

The basic interest rate risk for the Company is the mismatch of interest rates paid to customers in connection with funds deposited in cash accounts in the Company, and of the bank account and bank deposits where the Company's customers' funds are invested.

In addition, the source of the Company's profit variability associated with the level of market interest rates, are amounts paid and received in connection with the occurrence of the difference in interest rates for different currencies (swap points) as well as potential debt instruments. As a rule, the change in bank interest rates does not significantly affect the Company's financial position, since the Company determines interest rates for funds deposited in customers' cash accounts based on a variable formula, in an amount not higher than the interest rate received by the Company from the bank maintaining the bank account in which customers' funds are deposited.

Interest rates applicable to cash accounts are floating, and related to WIBID/WIBOR/LIBOR/EURIBOR rates. Therefore, the risk of interest rate mismatch adverse to the brokerage house is very low.

Since the Company maintains a low duration of assets and liabilities and minimises the duration gap, sensitivity of the market value of assets and liabilities to calculations of market interest rates is very low. As part of a significant risk identification process, the Risk Management Committee established that the interest rate risk is not significant for the Company's operations.

Sensitivity analysis of financial assets and liabilities where cash flows are exposed to interest rate risk

The structure of financial assets and liabilities where cash flows are exposed to interest rate risk is as follows:

(IN PLN'000)	31.12.2016	31.12.2015
Financial assets		
Cash and cash equivalents	586 772	558 385
Total financial assets	**586 772**	**558 385**
Financial liabilities		
Amounts due to customers	95 994	62 132
Other liabilities	258	375
Total financial liabilities	**96 252**	**62 507**

Impact of a change in interest rates by 50 base points (BP) on profit before tax is presented below. The analysis below relies on the assumption that other variables, in particular exchange rates, will remain constant. The analysis was carried out on the basis of average balances of cash in 2016 and 2015, using the average 1M interest rate in a given market.

(IN PLN'000)	31.12.2016		31.12.2015	
	INCREASE BY 50 PB	DECREASE BY 50 PB	INCREASE BY 50 PB	DECREASE BY 50 PB
Profit (loss) before tax	2 502	(2 502)	5 153	(5 153)

Sensitivity analysis of financial assets and liabilities whose fair value is exposed to interest rate risk

The structure of sensitivity of financial assets and liabilities whose fair value is exposed to interest rate risk is presented in the table below.

(IN PLN'000)	31.12.2016	31.12.2015
Loans granted and other receivables		
Other receivables	730	657
Total assets	**730**	**657**

Impact of a change in interest rates by 50 base points (BP) on profit before tax is presented below. The analysis below relies on the assumption that other variables, in particular exchange rates, will remain constant.

(IN PLN'000)	31.12.2016		31.12.2015	
	INCREASE BY 50 PB	DECREASE BY 50 PB	INCREASE BY 50 PB	DECREASE BY 50 PB
Profit (loss) before tax	6	(6)	2	(2)

40.2.3 Other price risk

Other price risk is exposure of the Company's financial position to unfavourable changes in the prices of commodities, equity investments (equity, indices) and debt instruments (in a scope not resulting from interest rates).

The carrying amount of financial instruments exposed to other price risk is presented below:

(IN PLN'000)	31.12.2016	31.12.2015
Financial assets held for trading		
Commodity CFDs		
Precious metals	5 152	3 146
Base metals	198	335
Other	7 546	8 322
Total commodity CFDs	**12 896**	**11 803**
Equity CFDs		
Stocks	2 342	2 237
Indices	54 458	35 376
Total equity CFDs	**56 800**	**37 613**
Debt CFDs	**364**	**55**
Total financial assets held for trading	**70 060**	**49 471**

(IN PLN'000)	31.12.2016	31.12.2015
Financial liabilities held for trading		
Commodity CFDs		
Precious metals	955	200
Base metals	57	17
Other	2 473	895
Total commodity CFDs	**3 485**	**1 112**
Equity CFDs		
Stocks	1 346	764
Indices	13 367	5 526
Total equity CFDs	**14 713**	**6 290**
Debt CFDs	**43**	**16**
Total financial liabilities held for trading	**18 241**	**7 418**

The Company's sensitivity to fluctuations in the prices of specific commodities and equity investments by ±5 per cent with regard to equity and profit before tax is presented below.

(IN PLN'000)	31.12.2016		31.12.2015	
	INCRESE BY 5%	DECRESE BY 5%	INCRESE BY 5%	DECRESE BY 5%
Income (expenses) for the period				
Commodity CFDs				
Precious metals	(2 944)	2 944	(477)	477
Base metals	(54)	54	(180)	180
Other	(2 219)	2 219	(3 283)	3 283
Total commodity CFDs	**(5 217)**	**5 217**	**(3 940)**	**3 940**
Equity CFDs				
Stocks	18	(18)	2	(2)
Indices	4 305	(4 305)	(8 751)	8 751
Total equity CFDs	**4 323**	**(4 323)**	**(8 749)**	**(8 749)**
Debt CFDs	**1 015**	**(1 015)**	**264**	**(264)**
Total income (expenses) for the period	**121**	**(121)**	**(12 425)**	**12 425**

40.3 Liquidity risk

For the Company, liquidity risk is the risk of losing its payment liquidity, i.e. the risk of losing capacity to finance its assets and to perform its obligations in a timely manner in the course of normal operations or in other predictable circumstances with no risk of loss. In its liquidity analysis, the Company takes into consideration current possibility of generation of liquid assets, future needs, alternative scenarios and payment liquidity contingency plans.

The objective of liquidity management in X–Trade Brokers is to maintain the amount of cash on the appropriate bank accounts that will cover all the operations necessary to be carried on such accounts.

In order to manage liquidity in relation to certain bank accounts associated with the operations of financial instruments, the Company uses the liquidity model of which the essence is to determine the safe area of the state of free cash flow that does not require corrective action.

Where the upper limit is achieved, the Company makes a transfer to the appropriate current account corresponding to the surplus above the optimum level. Similarly, if the cash in the account falls to the lower limit, the Company makes a transfer of funds from the current account to the appropriate account in order to bring cash to the optimum level.

Tasks relating to the maintenance and updating of the rules of the liquidity model are performed by the Company's Risk Control Department. Risk Control Department employees are required to analyse liquidity at least once a week, as well as to transfer the relevant information to the Company's Accounting Department in order to make certain operations in the accounts.

The subsidiaries manage liquidity by analysing the anticipated cash flows and by matching the maturities of assets with the maturities of liabilities. The subsidiaries do not use any models for managing liquidity. Liquidity management based on the liquidity gap analysis is effective and sufficient – in subsidiaries, there were no incidents related to lack of liquidity or the lack of possibility of meeting financial obligations. In extraordinary cases, the subsidiaries' liquidity may be provided by the Company.

The procedure also provides for the possibility of deviating from its application, and such procedure requires the consent of at least two members of the Company's Management. Information on deviations is transmitted to the Risk Control Department of the Company.

The Company has also implemented liquidity contingency plans, which were not used in the period covered by the financial statements and in the comparative period, due to the fact that the amount of the most liquid assets (own cash and cash equivalents) greatly exceeds the amount of liabilities.

As part of ongoing business and the tasks related to liquidity risk management, the managers of appropriate organisational units of the Company monitor the balance of funds deposited in the account in the context of planned liquidity needs related to the Company's operating activities. In its liquidity analysis, the existing possibility of generation of liquid assets, future needs, alternative scenarios and payment liquidity contingency plans are taken into consideration.

Supervision and control operations concerning the balance of cash accounts are also performed by the Risk Control Department of Company on a daily basis.

The contractual payment periods of financial assets and liabilities are presented below. The marginal and cumulative contractual liquidity gap, calculated as the difference between total assets and total liabilities for each maturity bucket, is presented for specific payment periods.

Contractual payment periods of financial assets and liabilities as at 31 December 2016

(IN PLN'000)	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 – 5 YEARS	OVER 5 YEARS	WITH NO SPECIFIED MATURITY
Financial assets							
Cash and cash equivalents	586 772	586 772	586 772	–	–	–	–
Financial assets held for trading							
CFDs	90 224	90 224	90 224	–	–	–	–
Total financial assets held for trading	90 224	90 224	90 224	–	–	–	–
Investments in subsidiaries	66 095	66 095	–	–	–	–	66 095
Loans granted and other receivables	12 036	12 036	10 890	50	932	164	–
Total financial assets	**755 127**	**755 127**	**687 886**	**50**	**932**	**164**	**66 095**
Financial liabilities							
Amounts due to customers	350 821	350 821	350 821	–	–	–	–
Financial liabilities held for trading							
CFDs	21 647	21 647	21 647	–	–	–	–
Total financial liabilities held for trading	21 647	21 647	21 647	–	–	–	–
Other liabilities	20 438	20 438	13 160	7 129	149	–	–
Total financial liabilities	**392 906**	**392 906**	**385 628**	**7 129**	**149**	–	–
Contractual liquidity gap in maturities (payment dates)			302 258	(7 079)	783	164	66 095
Contractual cumulative liquidity gap			302 258	295 179	295 962	296 126	362 221

Contractual payment periods of financial assets and liabilities as at 31 December 2015

(IN PLN'000)	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 – 5 YEARS	OVER 5 YEARS	WITH NO SPECIFIED MATURITY
Financial assets							
Cash and cash equivalents	558 385	558 385	558 385	–	–	–	–
Financial assets held for trading							
CFDs	62 452	62 452	62 452	–	–	–	–
Total financial assets held for trading	62 452	62 452	62 452	–	–	–	–
Investments in subsidiaries	63 447	63 447	–	–	–	–	63 447
Loans granted and other receivables	13 930	13 930	12 760	–	1 170	–	–
Total financial assets	**698 214**	**698 214**	**633 597**	**–**	**1 170**	**–**	**63 447**
Financial liabilities							
Amounts due to customers	289 285	289 285	289 285	–	–	–	–
Financial liabilities held for trading							
CFDs	9 686	9 686	9 686	–	–	–	–
Total financial liabilities held for trading	9 686	9 686	9 686	–	–	–	–
Other liabilities	26 015	26 015	12 753	13 013	249	–	–
Total financial liabilities	**324 986**	**324 986**	**311 724**	**13 013**	**249**	**–**	**–**
Contractual liquidity gap in maturities (payment dates)			321 873	(13 013)	921	–	63 447
Contractual cumulative liquidity gap			321 873	308 860	309 781	309 781	373 228

The Company does not expect the cash flows presented in the maturity analysis to occur significantly earlier or in significantly different amounts.

40.4 Credit risk

The chart below shows the carrying amounts of financial assets corresponding to the Company's exposure to credit risk:

(IN PLN'000)	31.12.2016		31.12.2015	
	CARRYING AMOUNT	MAXIMUM EXPOSURE TO CREDIT RISK	CARRYING AMOUNT	MAXIMUM EXPOSURE TO CREDIT RISK
Financial assets				
Cash and cash equivalents	586 772	586 772	558 385	558 385
Financial assets held for trading*	90 224	11 347	62 452	3 266
Investments in subsidiaries	66 095	66 095	63 447	63 447
Loans granted and other receivables	12 036	12 036	13 930	13 776
Total financial assets	**755 127**	**676 250**	**698 214**	**638 874**

** As at 31 December 2016, the maximum exposure to credit risk for financial assets held for trading, not including the collateral received, was PLN 90 224 thousand (2015: PLN 62 452 thousand). This exposure was collateralised with customers' cash, which, as at 31 December 2016, covered the amount of PLN 78 877 thousand (2015: PLN 59 186 thousand). Exposures to credit risk connected with transactions with brokers as well as exposures to the Warsaw Stock Exchange were not collateralised.*

The credit quality of the Company's financial assets is assessed based on external credit quality assessments, risk weights assigned based on the CRR, taking account of the mechanisms used to mitigate credit risk, the number of days past due, and the probability of counterparty insolvency.

The Company's assets fall within the following credit rating brackets:

- Fitch Ratings – from F1 to F2
- Standard & Poor's Ratings Services - from A-1 to A-3
- Moody's – from P-1 to P-3

Cash and cash equivalents

Credit risk connected with cash and cash equivalents is related to the fact that own cash and customers' cash is held in bank accounts. Credit risk involving cash is mitigated by selecting banks with a high credit rating granted by international rating agencies and through diversification of banks with which accounts are opened. As at 31 December 2016, the Company had deposit accounts in 23 banks and institutions (2015: in 27 banks and institutions). The ten largest exposures are presented in the table below (numbering of banks and institutions determined individually for each period):

31.12.2016		31.12.2015	
ENTITY	(IN PLN'000)	ENTITY	(IN PLN'000)
Bank 1	120 491	Bank 1	96 946
Bank 2	98 762	Bank 2	71 254
Bank 3	87 823	Bank 3	62 549
Bank 4	76 076	Bank 4	60 058
Bank 5	32 713	Bank 5	46 973
Bank 6	29 421	Bank 6	36 647
Bank 7	29 222	Bank 7	26 786
Bank 8	28 474	Bank 8	26 265
Bank 9	14 631	Bank 9	25 213
Bank 10	14 402	Bank 10	24 201
Other	54 757	Other	81 493
Total	**586 772**	**Total**	**558 385**

The table below presents a short-term assessment of the credit quality of the Company's cash and cash equivalents according to credit quality steps determined based on external credit quality assessments (where step 1 means the best credit quality and step 6 – the worst) and the risk weights assigned based on the CRR. Long-term assessment of the credit quality were used in case of exposures without short-term assessment of the credit quality or maturity longer than 3 months.

CREDIT QUALITY STEPS	CARRYING AMOUNT (IN PLN'000) 31.12.2016	31.12.2015
Cash and cash equivalents		
Step 1	541 567	216 417
Step 2	1 782	313 330
Step 3	43 423	28 638
Step 4	–	–
Step 5	–	–
Step 6	–	–
Total	**586 772**	**558 385**

Financial assets held for trading

Ze względu na stosowane mechanizmy ograniczające ryzyko kredytowe, jakość kredytowa aktywów finansowych przeznaczonych do obrotu jest wysoka i nie wykazuje istotnego zróżnicowania.

Financial assets held for trading result from transactions in financial instruments entered into with the Company's customers and the related hedging transactions.

Credit risk involving financial assets held for trading is connected with the risk of customer or counterparty insolvency. With regard to OTC transactions with customers, the Company's policy is to mitigate the counterparty credit risk through the so-called "stop out" mechanism. Customer funds deposited in the brokerage serve as a security. If a customer's current balance is 30 per cent or less of the security paid in and blocked by the transaction system, the position that generates the highest losses is automatically closed at the current market price. The initial margin amount is established depending on the type of financial instrument, customer account, account currency and the balance of the cash account in the transaction system, as a percent of the transaction's nominal value. A detailed mechanism is set forth in the rules binding on the customers. In addition, in order to mitigate counterparty credit risk, the Company includes special clauses in agreements with selected customers, in particular, requirements regarding minimum balances in cash accounts.

Due to the mechanisms in place, used to mitigate credit risk, the credit quality of financial assets held for trading is high and does not show significant diversity.

The Company's top 10 exposures to counterparty credit risk taking into account collateral (net exposure) are presented in the table below (numbering of counterparties determined individually for each period):

31.12.2016		31.12.2015	
ENTITY	NET EXPOSURE (IN PLN'000)	ENTITY	NET EXPOSURE (IN PLN'000)
Entity 1	1 988	Entity 1	1103
Entity 2	892	Entity 2	376
Entity 3	840	Entity 3	299
Entity 4	838	Entity 4	211
Entity 5	669	Entity 5	172
Entity 6	429	Entity 6	131
Entity 7	390	Entity 7	100
Entity 8	384	Entity 8	90
Entity 9	299	Entity 9	78
Entity 10	159	Entity 10	56
Total	**6 888**	**Total**	**2 616**

Financial assets held to maturity

There were no financial assets held to maturity in the periods covered by the financial statements.

Other receivables

Other receivables do not show a significant concentration, and they arose in the normal course of the Company's business. Non-overdue other receivables are collected on a regular basis and, from the perspective of credit quality, they do not pose a material risk to the Company.

Warsaw, 17 March 2017

Jakub Zabłocki President of the Management Board	Omar Arnaout Vice-president of the Management Board
Paweł Frańczak Member of the Management Board	Paweł Szejko Member of the Management Board
Filip Kaczmarzyk Member of the Management Board	Ewa Stefaniak The person responsible for bookkeeping

xtb
online trading

MANAGEMENT BOARD REPORT ON THE OPERATIONS OF THE GROUP AND COMPANY

1. Basic information

1.1 General information

The Parent Company in the X–Trade Brokers Dom Maklerski S.A. Group (the "Group", "Capital Group") is X–Trade Brokers Dom Maklerski S.A. (hereinafter: the "Company", "Parent Entity", "Parent Company", "Brokerage", "XTB") with its headquarters located in Warsaw, at Ogrodowa street 58, 00–876 Warsaw.

X–Trade Brokers Dom Maklerski S.A. is entered in the Commercial Register of the National Court Register by the District Court for the Capital City of Warsaw, XII Commercial Division of the National Court Register, under No. KRS 0000217580. The Parent Company was granted a statistical REGON number 015803782 and a tax identification (NIP) number 527–24–43–955.

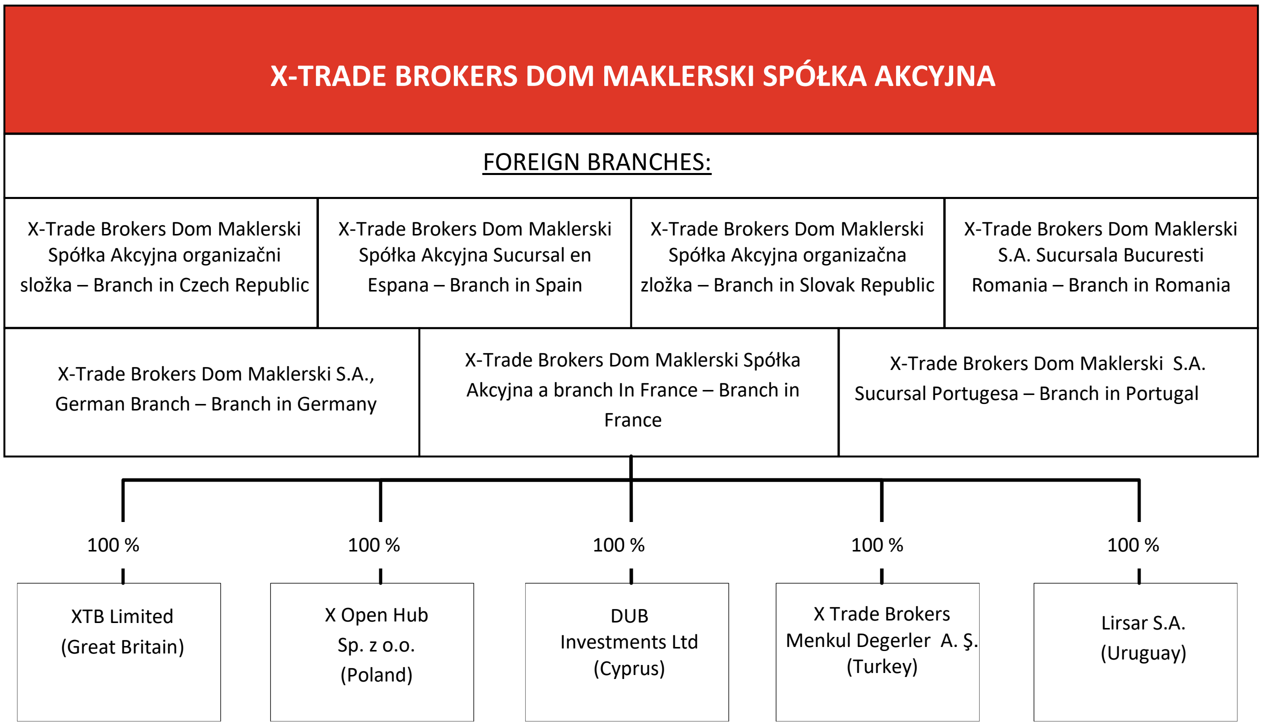
The Parent Company's operations consist of conducting brokerage activities on the stock exchange and OTC markets (currency derivatives, commodities, indices, stocks and bonds). The Parent Company is supervised by the Polish Financial Supervision Authority and conducts regulated activities pursuant to a permit dated 8 November 2005, No. DDM–M–4021-57-1/2005.

The foregoing Management Board report on the operations of X-Trade Brokers Dom Maklerski S.A. Capital Group for 2016 includes disclosure requirements for the Report on the operations of the Company X-Trade Brokers Dom Maklerski S.A. pursuant to § 83 section 7 of the Regulation on current and periodic information (…).

1.2 Composition of the Group

As at 31 December 2016 the Group comprised Parent Company and 5 subsidiaries. The Company has 7 foreign branches.

The chart below presents the corporate structure of the Group as at 31 December 2016, including Company's subsidiaries and foreign branches, together with the share in the share capital/in the number of votes at the general meeting or the meeting of shareholders which may be exercised by a given shareholder.



All subsidiaries' results are fully consolidated since the date of foundation/ acquisition. In the reporting period all subsidiaries have been subject to consolidation.

Subsidiaries

Basic information about the Group companies, which are directly or indirectly dependent on the Company, is provided below.

XTB Limited

XTB Limited business comprises, among other things, the following types of operations: (i) arranging (bringing about) investment deals; (ii) dealing in investments as an agent; and (iii) dealing in investments as the principal.

X Open Hub sp. z o.o.

Main scope of business of the company is offering electronic applications and trading technology.

DUB Investments Ltd

DUB Investments Ltd business comprises: (i) accepting and forwarding orders relating to one or more financial instruments; and (ii) managing share packages.

On 12 July 2016 Cypriot Securities and Exchange Commission "CySEC" approved to expand the brokerage licence of the company by the following investment services: (i) execution of orders on behalf of clients, (ii) dealing on own account and following ancillary services (i) safekeeping and administration of financial instruments on behalf of clients, including custodianship and related services such as cash/collateral management, (ii) granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction, and (iii) foreign exchange services where these are connected to the provision of investment services. Expanding of the brokerage license includes all financial instruments listed in Section C of the Annex 1 of MiFiD Directive.

X Trade Brokers Menkul Değerler A.Ş.

X Trade Brokers Menkul Değerler A.Ş. business encompasses among others: (i) investment consulting, (ii) trading in derivatives, (iii) leveraged trading on the forex market and (iv) trading intermediation.

Lirsar S.A.

Lirsar S.A. business comprises conducting operations within the scope of investment consulting.

1.3 Changes in the Group's structure

In the reporting period, i.e. from 1 January to 31 December 2016 there were no changes in the X-Trade Brokers Dom Maklerski S.A. Group's structure.

After the end of the reporting period and before the date of publication of this report, there were changes in the Capital Group's structure. On 17 February 2017 XTB Chile SpA was established. XTB owns 100% shares in subsidiary. XTB Chile will conduct services consisting in acquiring new customers from the territory of Chile for other Group companies. On 23 February 2017 the Company purchased 100% of shares in CFD's Prime Limited with its seat in Belize. CFD's Prime provides brokerage services based on obtained permission issued by International Financial Service Commission (financial regulatory body in Belize). Changes described above resulted in particular from the realization by XTB of the Group's strategic objectives in the area of expansion into new markets.

1.4 Branches of the Parent Company

The Company has 7 foreign branches, listed below:

- X–Trade Brokers Dom Maklerski Spółka Akcyjna, organizační složka – a branch established on 7 March 2007 in the Czech Republic. The branch was registered in the commercial register maintained by the City Court in Prague under No. 56720 and was granted the following tax identification number: CZK 27867102.

- X–Trade Brokers Dom Maklerski Spółka Akcyjna, Sucursal en Espana – a branch established on 19 December 2007 in Spain. On 16 January 2008, the branch was registered by the Spanish authorities and was granted the tax identification number ES W0601162A.
- X–Trade Brokers Dom Maklerski Spółka Akcyjna, organizačna zložka – a branch established on 1 July 2008 in the Slovak Republic. On 6 August 2008, the branch was registered in the commercial register maintained by the City Court in Bratislava under No. 36859699 and was granted the following tax identification number: SK4020230324.
- X–Trade Brokers Dom Maklerski S.A. Sucursala Bucuresti Romania (branch in Romania) – a branch established on 31 July 2008 in Romania. On 4 August 2008, the branch was registered in the Commercial Register under No. 402030 and was granted the following tax identification number: CUI 24270192.
- X–Trade Brokers Dom Maklerski S.A., German Branch (branch in Germany) – a branch established on 5 September 2008 in the Federal Republic of Germany. On 24 October 2008, the branch was registered in the Commercial Register under No. HRB 84148 and was granted the following tax identification number: 4721939029.
- X–Trade Brokers Dom Maklerski Spółka Akcyjna (branch in France) – a branch established on 21 April 2010 in the Republic of France. On 31 May 2010, the branch was registered in the Commercial Register under No. 522758689.
- X–Trade Brokers Dom Maklerski S.A., Sucursal Portugesa – a branch established on 7 July 2010 in Portugal. On 7 July 2010, the branch was registered in the Commercial Register under No. 980436613.

1.5 Organizational and capital ties

XXZW Investment Group S.A. with its registered office in Luxembourg is the key shareholder of the Company. It holds, as at 31 December 2016, 66,62% of shares and votes in the General Meeting. XXZW Investment Group S.A. prepares consolidated financial statements.

Mr. Jakub Zabłocki is the ultimate parent company for the Company and XXZW Investment Group S.A.

Apart from the organization of the Group and the Parent Company described above, neither the Parent company nor any of the Group companies holds any shares in other undertakings which could materially impact the assessment of its assets and liabilities, financial condition and profits and losses.

1.6 Changes to the management principles of the Company and its Capital Group

In the reporting period there were no changes in the management principles of the Company and its Capital Group.

2. The activities and development of the Parent Company and its Capital Group

2.1 Products and services

The Group is an international provider of trading and investment products, services and solutions, specialising in OTC markets with a particular focus on CFDs, which are investment products with returns linked to the changes in the prices and values of underlying instruments and assets.

The Group offers two main trading platforms to both retail clients and institutional clients: (i) xStation; and (ii) MetaTrader 4 (MT4), which are supported by the Group's sophisticated, proprietary technology infrastructure. The Group's retail clients are given access to one of the above-mentioned front-end trading platforms and to the range of its components, along with access to back-office systems. Institutional clients are granted full access to the set-up and management facilities, the branding system and the risk management tools.

The Group also offers its clients various trading alternatives based on the level of client sophistication (from beginner to expert) and on the mode of access (from smartphones to web-based interfaces to desktop applications). These applications provide retail clients investing in CFDs based on various financial instruments with tools, including charts, analytics, research and online trading.

The functionality of the Group's online offer enables clients to open and deposit funds in accounts, place and move orders and request statements via the Internet. The Group's core technology uses software products designed for their functionality and scalability.

As at the end of 2016, the Group offered more than 1 500 CFDs with leverage, including approximately 50 instruments based on currency pairs, approximately 20 based on commodities, approximately 25 based on indices, approximately 1 400 based on shares of companies listed on stock exchanges in 12 countries and approximately 60 based on American and European ETFs. Additionally, in April 2016 the Group introduced to its portfolio CFD derivatives without leverage based on shares from international stock exchanges (so-called synthetic shares). Taking into account the synthetic shares, as at the end of 2016, the Group increased its financial instruments portfolio to over 3 000.

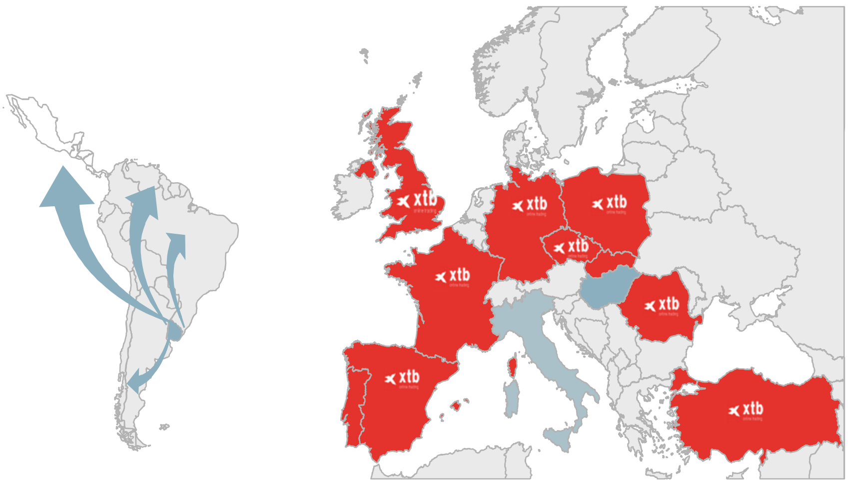
The Group offers to its clients also an access to a social trading platform xSocial, which is fully integrated with xStation. This platform enables clients to select investors and copy their trades or place opposite trades (a user can select an investor who has disclosed his/her trades, applied risk management and hedging methods). Institutional client may also use the xRisk platform, which provides a complete risk management system.

The scope of business of individual Group companies was described in Section *1. Basic Information*.

2.2 Main operating markets and their segments

The Group conducts its operations through two business segments: retail operations and institutional operations. The Group's retail business is focused on providing online trading in various instruments based on assets and underlying instruments from the financial and commodities markets to individual clients. For its institutional clients, the Group offers technologies that allow clients to set up their own trading environment under their own brands and acts as a liquidity provider to its institutional clients.

The Group operates on the basis of licences granted by regulators in Poland, the UK, Turkey, Cyprus and Uruguay. The Group's business is regulated and supervised by competent authorities on the markets on which the Group operates, including EU countries, where it operates on the basis of a single European passport. Currently, the Group is focusing on growing its business in 12 key countries, including Poland, Spain, the Czech Republic, Turkey, Portugal, France and Germany and has prioritised Latin America as a region for future development.



2.3 Events significantly influencing activities in 2016

Information about events and circumstances that had impact on the Company's and Group's operations in 2016 are presented in other parts of this report, in particular in note 3.2. Apart from the events described in this raport there were no other events which had significant impact on the Company's and the Group's activities in 2016.

2.4 Material contracts

In 2016, the Company and the Group companies did not enter into agreements material for XTB operations, different than described in this report, also the Company has no knowledge about contracts concluded between shareholders material for XTB operations.

2.5 Related party transactions

In the 12 months period ended 31 December 2016 and 31 December 2015 there were no related parties transactions concluded on other than arm's length basis.

Transactions and the balances of settlements with related parties were presented in detail in note 32 to the Separate Financial Statements.

2.6 Credits and loans

In the reporting period the Company and the Group companies did not execute or terminate any loan agreements.

In 2015, the Parent Company granted to its subsidiary - Lirsar S.A., a loan in the amount of USD 165 thousand. The loan bears interest rate was Libor USD 6 months + 2% margin. The loan was granted to finance the company's operations. The original repayment date was 26 March 2016. According to the annex of 18 April 2016 the repayment date was extended to 31 December 2016. As at the date of publication of this report, the loan was repaid.

In 2016 the Company and Group companies did not grant any loans.

2.7 Sureties and guarantees

On 9 May 2014 the Company issued a guarantee in the amount of USD 15 thousand to secure an agreement concluded by a subsidiary XTB Limited, based in the UK and PayPal (Europe) Sarl & Cie, SCA based in Luxembourg. The guarantee was granted for the duration of the main contract, which was concluded for an indefinite period.

In 2015 the Company issued a guarantee to secure office lease agreement concluded between subsidiary XTB Limited, based in UK and Canary Wharf Management Limited based in UK. The guarantee is to cover any costs arising from the lease agreement and over the remaining period for which it was concluded, ie. as at the balance sheet date up to the amount of PLN 2,58 million.

On the 30 June 2016 the Company concluded the agreement with K3 System Sp. z o.o. for lease of computer hardware which is secured with a bill of exchange with the bill declaration for the maximum amount of PLN 200 thousand.

Apart from described above, in 2016 XTB did not grant and did not receive other sureties and guarantees.

2.8 Post balance sheet events

On 10 January 2017 during its meeting the Supervisory Board of X-Trade Brokers Dom Maklerski S.A. made changes to the composition of the Management Board. Mr Jakub Malý was dismissed from the position of the President of the Management Board. The Management Board was extended to 5 people. Mr Omar Arnaout was appointed as the Bard Member responsible for Sale in the rank of the Vice-President of the Management Board and Mr Filip Kaczmarzyk was appointed new Member of the Management Board responsible for Trading. Due to the vacate on the position of the President of the Management Board, the Supervisory Board decided to delegate its Chairman, Mr Jakub Zabłocki, to temporarily perform the duties of the President of the Management Board in the period from 10 January to 10 April 2017 (which is for the period of 3 months).

On 10 February 2017 Turkish regulatory authority CMB (Capital Markets Board of Turkey) introduced changes in regulations regarding investment services, activities and ancillary services. Key assumptions include the reduction of the used leverage to 1:10 and the introduction of minimum deposit of TRY 50 thousand (or the equivalent in foreign currency – approx. 12 thousand USD). The changes referred to above entered into force with immediate effect for all clients and positions opened from 10 February 2017 and in relation to the positions opened before that date was a deadline 45 days to adjust the current state to the new regulations.

X Trade Brokers Menkul Değerler made all the effort to implement the new regulations. It cannot be excluded, however, that the rule or requirement will be interpreted by the Group inconsistently with the regulations or expectations of the regulator as to how to implement them, which may be involved with implementation of supervisory measures over the Group and sanctions resulting from the existing legislation and may result in the need to incur further relevant funding and implementation of major organizational changes. As at the date of preparation of the foregoing report the Company is not able to accurately estimate the impact of the regulatory changes to clients' activities on the Turkish market and to transactions made by these clients. It cannot be excluded that such significant restrictions implemented by CMB may contribute to a significant decrease in the number of clients and consequently to a significant reduction of Group activity in Turkey.

After the end of the reporting period and before the date of publication of this report, there were also changes in the Capital Group's structure. On 17 February 2017 XTB Chile SpA was established. XTB owns 100% shares in subsidiary. XTB Chile will conduct services consisting in acquiring new customers from the territory of Chile for other Group companies. On 23 February 2017 the Company purchased 100% of shares in CFD's Prime Limited with its seat in Belize. CFD's Prime provides brokerage services based on obtained permission issued by International Financial Service Commission.

2.9 External and internal factors important for the development of the Company and the Group

2.9.1 The number of active accounts, transaction volumes and deposit amounts

The Group's revenue and its results of operations are directly mostly depended on the volume of transactions concluded by the Group's clients and the amount of deposits placed by them. The transaction volumes and deposit amounts depend, in turn, on the number of new active accounts and the number of clients starting trading operations on CFDs offered by the Group.

Net deposits placed by retail clients comprise deposits less the amounts withdrawn by the Group's clients in a given period. The level of net deposits defines the ability of the Group's clients to execute transactions in derivatives offered by the Group, which affects the level of the Group's transaction volumes.

2.9.2 Volatility in financial and commodity markets

The Group's revenue depends directly on the volume of transactions concluded by the Group's clients which in turn is correlated with the general level of transaction activity on the FX/CFD market. From the Company's point of view, the favorable volatility relates to the situation when relevant price movements and visible trends occur on the market. In principle, the level of Group's revenue is positively affected by higher volatility on the FX/CFD market due to the fact that in the periods of increased volatility on financial and commodity markets, a higher level of transactions concluded by the Group's clients is observed. As a result, high volatility on financial and commodity markets, in principle, leads to an increased volume of transactions on the Group's trading platforms. On the other hand, lower volatility on financial and commodity markets and the related drop in transaction activity of the Group's clients, in principle, leads to a drop in the Group's operating income. In view of the above, the Group's operating income and profitability may drop in the periods of low volatility on financial and commodity markets and lower transaction activity on these markets.

Moreover, a more predictable trend may appear whereby the market is moving within a limited price range. This leads to market trends that may be predicted with higher probability than in the case of higher volatility on the markets, which creates favourable conditions for range trading. In such case, a higher number of transactions are observed that bring profits to clients, which leads to a drop in the Group's market making results.

Volatility in the market is due to a number of external factors, some of which are characteristic of the market, and some may be related to the general macroeconomic conditions.

2.9.3 General market, geopolitical and economic conditions

Changes in the general market and economic situation in the regions, in which the Group operates, to some extent affect the general buying power of the Group's clients, as well as their readiness to spend or save, which in turn to some extent affects the demand for the Group's products and services.

Unfavourable trends in the global economy may limit the level of disposable income of the Group's clients and induce them to limit their activity on the FX/CFD market, which may, in turn, reduce the volume of transactions in financial instruments offered by the Group and result in a drop in the Group's operating income.

2.9.4 Competition on the FX/CFD market

The FX/CFD market, both globally and in Poland, is characterised by high competitiveness. The Group competes with local entities (mainly brokerage houses being a part of or owned by commercial banks), local or Western European licenced institutions (such as Saxo Bank and IG Group) and other entities, both licenced and non-licenced which gain clients through the Internet (such as Plus500).

These entities compete with one another in terms of product and service prices, advanced technological solutions and brand strength. Activities undertaken by the Group and its competition affect the Group's competitive position and its share in the FX/CFD market. To maintain and expand its position in the markets in which it operates, the Group is investing in marketing activities.

In addition, the Group's ability to strengthen the current competitive position in the markets in which it operates, depends on many factors beyond the control of the Group, including in particular the recognition of the brand and the Group's reputation, attractiveness and quality of products and services offered by the Group as well as the functionality and quality of its technological infrastructure.

In addition, results of operations depend to some extent on the level of spreads in the derivatives CFD. Increased competition in the market FX / CFD leads to a reduction in spreads in derivative transactions CFD. Smaller spreads and increased competition may reduce the revenues and profitability of the *market making* business model.

2.9.5 Regulatory environment

The Group operates in a strictly regulated environment that places specific significant obligations on the Group within the scope of a number of international and local regulations and provisions of applicable law. Among others, the Group is subject to regulations relating to: (i) sales practices, including gaining of clients and marketing activities; (ii) maintaining capital at a specified level; (iii) anti-money laundering and preventing the financing of terrorism practices and "know your client" procedures (KYC); (iv) reporting obligations towards regulators; (v) personal data protection and professional confidentiality obligations; (vi) obligations concerning investor protection and providing them with the relevant data on risks related to the brokerage services provided; and (vii) supervision over the Group's operations.

The Group is subject to supervision by specific regulatory authorities and public administration authorities in jurisdictions in which the Group operates. In Poland, the conduct of brokerage activities requires a licence from the PFSA and is subject to a number of regulatory requirements. The Company is a brokerage house operating based on a licence for the conduct of brokerage activities and is subject to regulatory supervision by the PFSA.

Thanks to the "single passport" rule arising from the MiFID Directive, the Company operates as a branch based on and as part of the licence granted by the PFSA in the following member states of the EU: the Czech Republic, Spain, Slovakia, Romania, Germany, France and Portugal.

Moreover, the Company and XTB Limited, subject to the supervision by the FCA, conduct operations without establishing a branch (the MiFID Outward Service) in a number of jurisdictions, focusing mainly on the Italian and Hungarian markets. The Company also conducts cross-border operations in Austria, Belgium, Bulgaria, Greece, the Netherlands, Sweden and the United Kingdom. Moreover, the operations of XTB Limited without establishing a branch (the MiFID Outward Service) cover all the remaining member states of the EU and Gibraltar, Iceland and Norway. Additionally, the Company has a 100% interest in the following entities operating based on separate licences for the conduct of brokerage activities issued by the supervision authorities in foreign jurisdictions: (i) XTB Limited – a brokerage house registered in the United Kingdom subject to supervision by the FCA; (ii) DUB Investments – an investment firm conducting brokerage activities registered in Cyprus and subject to supervision by the CySEC; (iii) X Trade Brokers Menkul Değerler – a company conducting brokerage activities, registered in Turkey and subject to supervision by CMB; and (iv) Lirsar S.A. – a company providing investment advisory services, registered in Uruguay and subject to supervision by the Central Bank of Uruguay.

The Group has created compliance functions for each of the Group Companies in order to ensure compliance with the regulatory provisions and requirements applicable to the Group.

The regulatory environment in which the Group operates is constantly evolving. In recent years, the financial services sector has been subject to more and more extensive regulatory supervision. Supervision authorities and public administration authorities regulating and supervising the Group's operations introduced a number of changes in the regulatory requirements applicable to the Group and may in the future undertake additional initiatives in this scope.

2.10 The Group's activities in 2016 and development outlook

The Group's strategy is to strengthen its position as a technology driven international provider of trading and investment products, services and solutions in the EU, Turkey and Latin America by increasing its brand awareness, attracting more clients to its trading platforms and increasing clients' long-term investment profiles and loyalty. The Group's strategic plan is to enhance its growth through expansion into new markets, to continue penetrating existing markets and to expand the product and service offer of the Group, as well as the development of the institutional segment (X Open Hub).

The Management Board believes that the Group has developed a strong foundation from which it is well positioned to generate future profitable growth.

In 2016 the Group, consistently implementing its strategic objectives, has introduced new instruments in the asset class Equity CFD DMA. Several hundred new leveraged instruments based on underlying assets listed on global stock exchanges were prepared. In addition, the Group expanded the instruments portfolio with derivatives CFD without leverage based on shares from the international stock exchanges (i.e. the synthetic shares). Taking into account the synthetic shares, as at the end of 2016, the Group increased total number of financial instruments portfolio to more than 3 000.

The Group consistently implemented in its branches the modern tools for the comprehensive management of customer relations from the first contact through further service stages to signing the agreement and maintaining post-sale relations. The tools allow reporting and performing real-time analyses at every level of detail. It gives a better understanding of users and customers, which helps optimize the costs of obtaining and retaining customers and allows preparing an offer that better suits customers' needs and results in more effective realization of client's instructions.

In order to increase the quality and competitiveness of services provided, as well as to increase the reliability and security of the trading systems, the servers located in Germany were modernized in 2016, resulting in an even faster execution of the customers' orders.

In 2016, the new platform xStation5, the successor of xStation3, was implemented, as well as xStation version for SmartWatch and a new, improved version of xStation for Android. The possibility of submitting and modifying orders outside trading hours was implemented, as well as optimizing clients' onboarding on both desktop and mobile platforms. Also a subsystem of customers notifications via SMS and email was launched. Further works concerning shortening the time of execution and increasing throughput of xServer system is also carried out.

Year 2016 was also a period of increased marketing and sales activities of the Group in selected markets. In the second quarter, the Group launched a global branding campaign with actor Mads Mikkelsen.

The Group was also actively engaged in the process of investors education through the organization of free workshops and conferences, and providing access to educational materials for both beginners and more experienced investors. An educational project with the participation of football player Grzegorz Krychowiak was launched, which allows the beginners to acquire the necessary knowledge on financial instruments, the possibilities offered by the capital market, but also the risks associated with it, so that they can smoothly enter the world of investments.

The Group continues to closely monitor all investment opportunities in companies providing similar products and services in the markets in which the Group operates that could complement the product and service offering of the Group.

In 2017 the Group will undertake further activities in order to fulfill the above described Strategy.

2.10.1 Factors which in the Management's Board belief may impact the Group's operations and perspectives

The Management Board believes that the following trends have impact and will maintain and continue to impact the Group's operations until the end of 2017 and in some cases also longer:

- The Group's revenue depends directly on the volume of transactions concluded by the Group's clients which in turn is correlated with the general level of transaction activity on the FX/CFD market. As higher volatility the Group understands mainly moments when strong and long-term market trends appear and in these moments higher income is generated.
  In principle, the level of Group's revenue is positively affected by higher volatility on the FX/CFD market due to the fact that in the periods of increased volatility on financial and commodity markets, a higher level of transactions concluded by the Group's clients is observed. As a result, high volatility on financial and commodity markets, in principle, leads to an increased volume of transactions on the Group's trading platforms. On the other hand, lower

volatility on financial and commodity markets and the related drop in transaction activity of the Group's clients, in principle, leads to a drop in the Group's operating income. In view of the above, the Group's operating income and profitability may drop in the periods of low volatility on financial and commodity markets and lower transaction activity on these markets. Moreover, a more predictable trend may appear whereby the market is moving within a limited price range. This leads to market trends that may be predicted with higher probability than in the case of higher volatility on the markets, which creates favourable conditions for range trading. In such case, a higher number of transactions are observed that bring profits to clients, which leads to a drop in the Group's market making results.

The volatility on FX/CFD markets may significantly influence revenues generated by the Group in subsequent quarters. This is typical for the Group's business model. To illustrate this, historical quarterly financial results of the Group were presented below:

(IN PLN'000)	3-MONTH PERIOD ENDED							
	31.03.2015	30.06.2015	30.09.2015	31.12.2015	31.03.2016	30.06.2016	30.09.2016	31.12.2016
Total operating income	95 510	33 983	95 695	57 354	82 765	31 050	42 802	93 959
Total operating expenses	(31 548)	(33 344)	(34 745)	(41 835)	(40 464)	(54 730)	(34 378)	(38 889)
Operating profit (loss)	63 962	639	60 950	15 519	42 301	(23 680)	8 424	55 070
Net profit (loss)	49 842	1 750	50 939	16 504	31 859	(8 812)	4 238	50 422

- Starting from 2013, the Group also provides services to institutional clients, including brokers, start-up businesses and other financial institutions within the institutional business line (X Open Hub). As of the date of the foregoing report the Group is in the process of development of this segment's operations, which still is in the early stage of development. Products and services offered by the Group within X Open Hub operations differ from those offered within retail operations. Therefore they are associated with different risks and challenges. As a consequence, the Group's income from this segment may be subject to large fluctuations in subsequent periods. The table below presents the percentage share of the institutional segment in the total operating income.

	2016	2015	2014	2013
% share of operating income from institutional operations in total operating income	7,8%	4,7%	14,1%	4,6%

The Management Board believes that the potential low volatility on the financial and commodity markets in 2017, regulatory changes as well as other factors may unfavorably impact the situation of XTB institutional partners and therefore lead in the upcoming periods to drop in volume traded in lots as well as XTB income from these clients. On the other hand the Management Board of XTB can't exclude the higher rotation of clients in the institutional segment in the upcoming quarters.

- The Management Board expects that total operating expenses in 2017 will be lower than in 2016. In the quarterly view, they may reach similar levels than in the I or IV quarter of 2016. The decrease should mainly result from lower marketing costs. The final level of total operating expenses will depend on the variable items of remuneration paid to employees and on marketing costs level. The variable items of remuneration is in turn dependent on the Groups results. The marketing costs level will depend on the evaluation of the costs efficiency from the Group's results and profitability perspective and the degree of clients responsiveness on the undertaken actions and activities.

Due to the uncertainty regarding future economic conditions, expectations and predictions of the Management Board are subject to a particularly high degree of uncertainty.

2.11 Risk factors

2.11.1 Risk management

The Group is exposed to a variety of risks connected with its current operations. The purpose of risk management is to make sure that the Group takes risk in a conscious and controlled manner. Risk management policies are formulated in order to identify and measure the risks taken, as well as to establish appropriate limits to mitigate such risk on a regular basis.

At the strategy level, the Management Board is responsible for establishing and monitoring the risk management policy. All risks are monitored and controlled with regard to profitability of the operations as well as the level of capital necessary to ensure safety of operations from the capital requirement perspective.

The Parent Company has appointed a Risk Management Committee. Its key tasks include performing supervisory, consultative and advisory functions for the Group's statutory bodies in the area of capital management strategy, risk management policy, risk measurement methods, capital planning and the Group's capital adequacy. In particular, the Committee supports the Risk Control Department in the area of identifying significant risks within the Group and creating a catalogue of risks, approves policies and procedures of risk and ICAAP management, reviews and approves analyses carried out by owners of specific risks and the Risk Control Department as part of the risk and ICAAP management system within the Group.

The Risk Control Department supports the Management Board in formulating, reviewing and updating ICAAP rules in the event of the occurrence of new types of risk, significant changes in strategy and operating plans. The Department also monitors the appropriateness and efficiency of the implemented risk management system, identifies, monitors and controls the market risk of the Group's own investments, defines the overall capital requirement and estimates internal capital. The Risk Control Department reports directly to the Member of the Management Board responsible for the operation of the Company's internal control system.

The Parent Company's Supervisory Board approves procedures for internal capital estimation, capital management and planning.

In the reporting period there were no significant changes in the risk management system.

2.11.2 Risk factors

The Group within its operations monitors and assesses risks and undertakes activities in order to minimize their impact on the financial situation on the ongoing basis.

As at 31 December 2016 and as at the date of this report, the Group identifies the following risks associated with the Group's operations and with the regulatory environment.

Risks associated with the Group's operations:

- the Group's revenue and profitability are influenced by trading volume and volatility in financial and commodity markets that are impacted by factors that are beyond the Group's control;
- economic, political and market factors beyond the Group's control may harm its business and profitability;
- the Group may incur material financial losses from its market making model;
- the Group's risk management policies and procedures may prove ineffective;
- the Group may experience disruptions to or corruption of its infrastructure necessary for the conduct of the Group's business;
- the Group's business relies, to a great extent, on the Group's ability to maintain its good reputation and the general perception of the FX/CFD market;
- the Company may not be able to pay dividends in the future or pay lower dividends than provided in the Group's dividend policy;
- the Group may fail to implement its strategy;
- as a result of implementing its strategy relating to developing its operations in Latin America the Group may be exposed to various risks specific to Latin America;
- the Group may experience difficulties in attracting new retail clients and maintain its active retail client base;

- the Group may be unable to effectively manage its growth;
- the Group is subject to counterparty credit risk;
- the Group is exposed to client credit risk;
- the Group is exposed to the risk of losing its liquidity;
- the Group may lose access to market liquidity;
- the decline in interest rates may have an adverse impact on the Group's revenue;
- the Group's operations in certain regions are subject to increased risks associated with political instability and the risks that are typical of the developing markets;
- the Group operates on a highly competitive market;
- the Group may not be able to maintain technological competitiveness and respond to dynamically changing client demands;
- the Group may be unable to effectively protect or to ensure the continued use of its current intellectual property rights;
- the development of the Group's product and services portfolio and expansion of the Group's operations to include new lines of business may involve increased risks;
- the Group may not be able to hire or retain qualified staff;
- risks related to the Group's cost structure;
- the Group's insurance coverage relating to its operations may be insufficient or not available;
- within its operations the Group is significantly dependent on third parties;
- the Group may not be able to prevent potential conflicts between its interest connected with its activities and the interests of the clients;
- other factors beyond the Group's control could have a material, negative impact on its operations.

Risks associated with the regulatory environment:

- the Group operates in a heavily regulated environment and may fail to comply with the rapidly changing laws and regulations. Additional information regarding the Group's regulatory environment were presented in section 5.2.;
- the Group is required to adapt its business to the new PFSA Guidelines, which may force the Group to incur significant financial expenditures and to implement material organisational changes, and may adversely affect the Group's competitive position;
- the Group is required to adapt its operation to the new ESMA Guidelines, which may require it to incur considerable financial outlays and implement significant organisational changes, and may adversely affect the Group's competitive position;
- the Company is required to maintain minimum levels of capital, which could restrict the Company's and as a consequence Group's growth and subject it to regulatory sanctions;
- the Company may be required to maintain higher capital ratios;
- maximum leverage ratios may be further reduced by regulators;
- the interpretation of the applicable laws may be unclear, and the laws may be subject to change;
- the Group may be exposed to increased administrative burdens and compliance costs as a respect of entering new markets;
- the procedures utilised by the Group, including in respect of anti-money laundering, preventing the financing of terrorism and 'know your client', may not be sufficient to prevent money laundering, the financing of terrorism, market manipulation or to identify other prohibited trades;
- the Group may be exposed to risks related to personal data and other sensitive data processed by the Group;
- a breach of consumer protection regulations may result in adverse consequences for the Group;
- advertising regulations and other regulations may impact the Group's ability to advertise;
- changes in tax law regulations specific for the Group's business, their interpretation or changes to the individual interpretations of tax law regulations could adversely affect the Group;

- the related-party transactions carried out by the Company and the Group Companies could be subject to inspection by the tax or fiscal authorities;
- court, administrative or other proceedings may have an unfavourable impact on the Group's operations, and the Group is exposed, in particular, to the risk of proceedings relating to client complaints and litigation, and regulatory investigation;
- as a brokerage house XTB may be required to bear additional financial burdens under Polish law, including contributions to the investment compensation scheme established by the NDS and contributions for the purpose of financing the PFSA's supervision of capital markets;
- risk related to increased reporting obligations due to the applicability of FATCA and the automatic exchange of information on tax matters;
- the Group will be required to observe and to adjust its business to the MiFID II/MiFIR Package after it enters into force, which may be expensive and time-consuming and may result in significant restrictions in terms of the manner and scope in which the Group may offer its products and services;
- risk related to the implementation into the Polish legal system of the EU regulations concerning the recovery and resolution of financial institutions;
- the Group will be required to adjust its business and to comply with the requirements of the MAD Directive after its implementation into the Polish legal order and the requirements of the MAR Regulation after its entry into force, which may be expensive and time-consuming, and it cannot be excluded that this will lead to substantial restrictions the manner and extent of offering their products and services by the Group.

2.11.3 Market risk

In the period covered by these consolidated financial statements, the Group entered into OTC contracts for differences (CFDs) and digital options. The Group may also acquire securities and enter into forward contracts on its own account on regulated stock markets.

The following risks are specified, depending on the risk factor:

- Currency risk connected with fluctuations of exchange rates
- Interest rate risk
- Commodity price risk
- Equity investment price risk

The Group's key market risk management objective is to mitigate the impact of such risk on the profitability of its operations. The Group's practice in this area is consistent with the following principles:

As part of the internal procedures, the Group applies limits to mitigate market risk connected with maintaining open positions on financial instruments. These are, in particular: a maximum open position on a given instrument, currency exposure limits, maximum value of a single instruction. The Trading Department monitors open positions subject to limits on a current basis, and in case of excesses, enters into appropriate hedging transactions. The Risk Control Department reviews the limit usage on a regular basis, and controls the hedges entered into.

2.11.4 Currency risk

The Group enters into transactions mainly on the foreign exchange derivative contracts. In addition to transactions whose underlying is the exchange rate, the Group has instruments which price is denominated in foreign currency.

Brokerage also manages the market risk generated by the assets held in foreign currencies, the so-called currency positions. Currency position consists of own resources of Brokerage denominated in foreign currencies in order to settle transactions on foreign markets and related to the conduct of foreign branches.

Accounting Department supervises the state of own funds on bank accounts. Risk Control Department is actively involved in setting limits related to market risk, monitors the effectiveness of the control systems of market risk, reconciles bank balances and balances with customers balances in transactional systems, monitors changes in balances and adherence to internal limits.

2.11.5 Credit risk

Credit risk is mainly affected by the risks associated with maintaining cash both own and customers' on bank accounts. The credit risk related to cash is limited by the choice of banks with high credit ratings awarded by international rating agencies and through diversification of banks in which accounts are opened. Risk Control Department continuously monitors the probability of default and credit ratings of banks, undertaking where appropriate the actions described in internal procedures. The concentration of exposures is monitored daily in order to avoid excessive negative impact on the Company of single event in the field of credit risk.

Counterparty credit risk is associated with the risk of insolvency of the Customer or other partner, with which the Company enters into transactions in financial instruments. In relation to the transactions with clients in the OTC market, the Brokerage has a policy of hedging against counterparty credit risk by the use of stop-out and margin call mechanisms. These mechanisms avoid the occurrence of a loss higher than the deposit. Cash deposited by client in the Brokerage are protection of execution of the obligation. For other clients, the Company actively monitors and controls the open positions and the ability of partners to perform its obligations.

Transactions made by customers on the regulated market practically does not generate relevant credit risk, since the vast majority of customers' orders is fully covered by the cash account.

2.11.6 Interest rate risk

Interest rate risk is the risk of exposure of the Company's current and future financial result and equity to the adverse impact of interest rate fluctuations. Such risk may result from the contracts entered into by the Company, where receivables or liabilities are dependent upon interest rates as well as from holding assets or liabilities dependent on interest rates.

As a rule, the change in bank interest rates does not significantly affect the Company's financial position, since the Company determines interest rates for funds deposited in customers' cash accounts based on a variable formula, in an amount not higher than the interest received by the Group from the bank maintaining the bank account in which customers' funds are deposited.

Interest rates applicable to cash accounts are floating, and related to interest rates on the interbank market. Therefore, the risk of interest rate mismatch adverse to the brokerage is very low.

Since the Group maintains a low duration of assets and liabilities and minimises the duration gap, sensitivity of the market value of assets and liabilities to fluctuations of market interest rates is very low.

2.11.7 Liquidity risk

For the Company, liquidity risk is the risk of losing its payment liquidity, i.e. the risk of losing capacity to finance its assets and to perform its obligations in a timely manner in the course of normal operations or in other predictable circumstances with no risk of loss. In its liquidity analysis, the Group takes into consideration current possibility of generation of liquid assets, future needs, alternative scenarios and payment liquidity contingency plans.

Currently at the Brokerage the value of the most liquid assets (own cash) far exceeds the value of liabilities, hence liquidity risk is relatively low. These values are continuously monitored.

2.11.8 Operational risk

Due to the dynamic development of the Parent Company, the expansion of product offerings and IT infrastructure, the Company to a large extent is exposed to operational risk, defined as the possibility of losses due to mismatch or failed internal processes, human and systems errors or external events, while the legal risk is considered to part of the operational risk.

The Brokerage applies a number of procedures for the operational risk management, including business continuity plans of the Company, emergency plans and personnel policy. As in the case of other risks, the Company approaches to operational risk in an active way - trying to identify risks and take action to prevent their occurrence, or limiting their effects and an important element of this process is the analysis of the frequency of site and the type of events in the field of operational risk.

2.11.9 Hedge accounting

XTB does not apply hedge accounting.

2.12 Assessment of financial funds management

The Group manages its financial funds through ongoing monitoring of possibility to finance its assets and to perform its obligations in a timely manner in the course of normal operations or in other predictable circumstances with no risk of loss. In its liquidity analysis, the Group takes into consideration current possibility of generation of liquid assets, future needs, alternative scenarios and payment liquidity contingency plans.

The objective of liquidity management in XTB is to maintain the amount of cash on the appropriate bank accounts that will cover all the operations necessary to be carried on such accounts.

In order to manage liquidity in relation to certain bank accounts associated with the operations of financial instruments, the Parent Company uses the liquidity model. The essence of the model is to determine the safe area of the state of free cash flow that does not require corrective action.

Where the upper limit is achieved, the Parent Company makes a transfer to the appropriate current account corresponding to the surplus above the optimum level. Similarly, if the cash in the account falls to the lower limit, the Parent Company makes a transfer of funds from the current account to the appropriate account in order to bring cash to the optimum level.

Tasks relating to the maintenance and updating of the rules of the liquidity model are performed by the Parent Company's Risk Control Department. Department employees are required to analyse liquidity at least once a week, as well as to transfer the relevant information to the Parent Company's Accounting Department in order to make certain operations in the accounts.

The subsidiaries manage liquidity by analysing the anticipated cash flows and by matching the maturities of assets with the maturities of liabilities. The subsidiaries do not use any models for managing liquidity. Liquidity management based on the liquidity gap analysis is effective and sufficient – in subsidiaries, there were no incidents related to lack of liquidity or the lack of possibility of meeting financial obligations. In extraordinary cases, the subsidiaries' liquidity may be provided by the Parent Company.

The procedure also provides for the possibility of deviating from its application, and such procedure requires the consent of at least two members of the Parent Company's Management Board. Information on deviations is transmitted to the Risk Control Department of the Parent Company.

The Parent Company has also implemented liquidity contingency plans, which were not used in the period covered by the financial statements and in the comparative period, due to the fact that the amount of the most liquid assets (own cash and cash equivalents) greatly exceeds the amount of liabilities.

As part of ongoing business and the tasks related to liquidity risk management, the managers of appropriate organisational units of the Parent Company monitor the balance of funds deposited in the account in the context of planned liquidity needs related to the Parent Company's operating activities. In its liquidity analysis, the existing possibility of generation of liquid assets, future needs, alternative scenarios and payment liquidity contingency plans are taken into consideration.

Supervision and control operations concerning the balance of cash accounts are also performed by the Risk Control Department of Parent Company on a daily basis.

The contractual payment periods of financial assets and liabilities are presented in notes 39.3 and 40.3 to the Consolidated and Separate Financial Statements, respectively. The marginal and cumulative contractual liquidity gap, calculated as the difference between total assets and total liabilities for each maturity bucket, is presented for specific payment periods.

3. Operating and financial situation

3.1 Principles of preparation of annual financial statements

Consolidated and separate financial statements were prepared based on International Financial Reporting Standards (IFRS), which were endorsed by the European Union.

The consolidated financial statements of the X–Trade Brokers Dom Maklerski S.A. Group prepared for the period from 1 January 2016 to 31 December 2016 with comparative data for the year ended 31 December 2015 cover the Parent Company's financial data and financial data of the subsidiaries comprising "The Group".

The separate financial statements of the X–Trade Brokers Dom Maklerski S.A. prepared for the period from 1 January 2016 to 31 December 2016 with comparative data for the year ended 31 December 2015 cover the Company's financial data and financial data of the branch offices.

The consolidated and separate financial statements have been prepared on the historical cost basis, with the exception of assets and liabilities held for trading and financial instruments held for sale which are measured at fair value. The Group's and the Company's assets are presented in the statement of financial position according to their liquidity, and its liabilities according to their maturities.

The Group companies maintain their accounting records in accordance with the accounting principles generally accepted in the countries in which these companies are established. The consolidated financial statements include adjustments not recognised in the Group companies' accounting records, made in order to reconcile their financial statements with the IFRS.

Drafting the consolidated and separate financial statements, the Parent Company decided that none of the Standards would be applied retrospectively.

The IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

3.2 Basic economic and financial information

3.2.1 Basic consolidated economic and financial information

The Group's operating and financial results are mainly affected by: (i) the number of active accounts, transaction volumes and deposit amounts; (ii) volatility on financial and commodity markets; (iii) general market, geopolitical and economic conditions; (iv) competition on the FX/CFD market; and (v) regulatory environment.

The key factors affecting the Group's financial and operating results in the 12 months period ended 31.12.2016 are discussed below. The Management Board believes that these factors had and may continue to have an effect on the business activities, operating and financial results, financial condition and development perspectives of the Group.

Discussion of the Group's results in 2016

The table below shows selected items of the consolidated statement of comprehensive income for the periods indicated.

(IN PLN'000)	12 MONTHS PERIOD ENDED		CHANGE
	31.12.2016	31.12.2015	(%)
Result of operations on financial instruments	245 216	274 671	(10,7)
Income from fees and commissions	5 284	5 754	(8,2)
Other income	76	2 117	(96,4)
Total operating income	**250 576**	**282 542**	**(11,3)**
Salaries and employee benefits	(71 864)	(68 127)	5,5
Marketing	(49 338)	(28 181)	75,1
Other external services	(20 620)	(18 660)	10,5
Costs of maintenance and lease of buildings	(8 698)	(7 898)	10,1
Amortisation and depreciation	(5 423)	(5 804)	(6,6)
Taxes and fees	(2 597)	(1 824)	42,4
Commission expense	(4 182)	(3 915)	6,8
Other expenses	(5 739)	(7 063)	(18,7)
Total operating expenses	**(168 461)**	**(141 472)**	**19,1**
Operating profit	**82 115**	**141 070**	**(41,8)**
Finance income	12 122	10 444	16,1
Finance costs	(955)	(3 146)	(69,6)
Profit before tax	**93 282**	**148 368**	**(37,1)**
Income tax	(15 575)	(29 333)	(46,9)
Net profit	**77 707**	**119 035**	**(34,7)**

Operating income

The Group's income is primarily derived from its retail activities and consists of: (i) spreads (the difference between the offer price and the bid price); (ii) net result (profits offset by losses) from the Group's market making activities; (iii) fees and commissions charged by the Group to its clients; and (iv) swap points charged by the Group (being the difference between the notional forward rate and the spot rate of a given financial instrument).

In 2016 the retail business segment generated approx. 90% of the total volume of the Group's turnover and the institutional business segment - approx. 10%.

The table below shows information on the Group's operating income for the periods indicated.

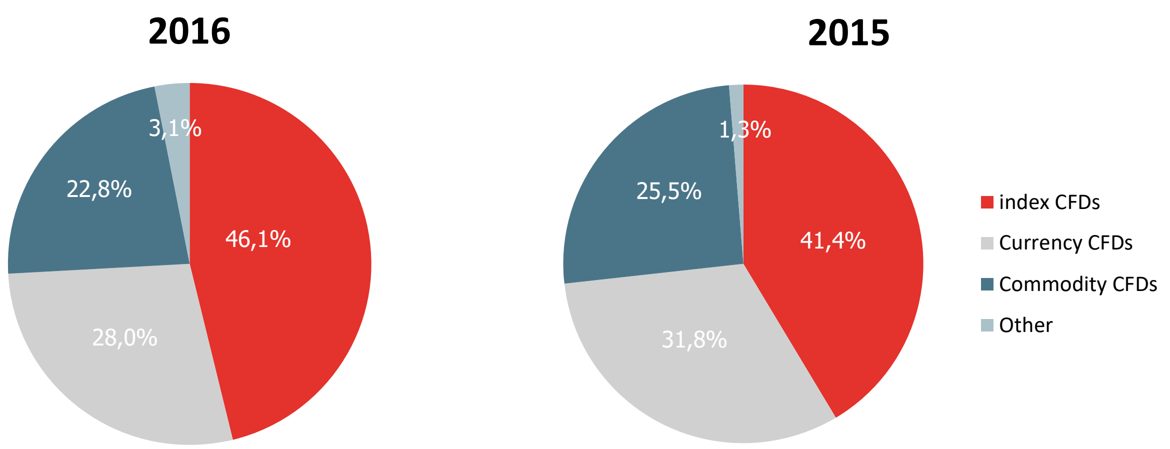
	12 MONTHS PERIOD ENDED			
	31.12.2016		31.12.2015	
	PLN'000	(%)	PLN'000	(%)
Result of operations on financial instruments	245 216	97,9	274 671	97,2
Income from fees and charges	5 284	2,1	5 754	2,0
Other income	76	0,0	2 117	0,8
Total operating income	**250 576**	**100,0**	**282 542**	**100,0**

The greatest source of operating income of the Group is the result of operations on financial instruments, which accounted for 97,9% and 97,2% of total operating income in 2016 and 2015, respectively. The largest share in the gross result of operations on financial instruments have three classes of products: index CFDs, currency CFDs and commodity CFDs, which generated in 2016 respectively 46,1%, 28,0% and 22,8% (2015 respectively: 41,4%, 31,8%, 25,5%). Other products, such as bond CFDs, equity CFDs and option derivatives constituted 3,1% and 1,3%, respectively, of the result of operations on financial instruments in the described periods.

The result of operations on financial instruments

(IN PLN'000))	12 MONTHS PERIOD ENDED 31.12.2016	31.12.2015	CHANGE (%)
CFDs			
Index CFDs	117 756	118 248	(0,4)
Currency CFDs	71 385	90 914	(21,5)
Commodity CFDs	58 069	72 776	(20,2)
Equity CFDs	1 454	114	1 175,4
Bond CFDs	1 116	559	99,6
Total CFDs	249 780	282 611	(11,6)
Option derivatives	5 332	2 970	79,5
Gross gain of transactions on financial instruments	**255 112**	**285 581**	**(10,7)**
Bonuses and discounts paid to customers	(3 531)	(6 136)	(42,5)
Commission paid to cooperating brokers	(6 365)	(4 774)	33,3
Net gain of transactions on financial instruments	**245 216**	**274 671**	**(10,7)**

The share of instruments in the result of operations on financial instruments



In 2016 the Group recorded PLN 77 707 thousand net profit, compared to PLN 119 035 thousand in 2015.

Operating income generated by the Group in 2016 amounted to PLN 250 576 thousand. In the comparable period of 2015 operating income amounted to PLN 282 542 thousand.

The 2016 result was shaped by events and market conditions of each quarter of the year.

High volatility, accompanied by relevant drops on stock market indices, was recorded only in two first months of the year. Starting from March the volatility on the markets was limited, with no clear downward or upward trends. The market fluctuated within the limited price range. As a result, there was a decrease of volume traded in lots in financial instruments, as well income generated by the Group in II and III quarter. The third quarter of 2016, analogously to the second quarter, was a period free from the unexpected and extraordinary market events or strong long-term trends. This situation allows experienced customers to better anticipate the short- and medium-term price movements and thus generate a profit.

The less favorable volatility for the Company, observed in the nine-month period of 2016, in comparison to the same period of the previous year, created fewer investment opportunities to the XTB clients. In making the investments decistions, the Group's clients search for instruments with high volatility, which they believe may generate higher profits.

In the IV quarter of 2016 the situation on the financial markets was more favorable for XTB. We observed favorable volatility on index CFDs (based on German DAX and US DJIA and S&P500), currency pairs with USD and commodity CFDs based on gold and oil. As a result, the Group generated higher income in the IV quarter, which significantly shaped the 2016 results.

An important event in 2016 was Brexit, i.e. voting of Great Britain on possible exit or remaining of the country within the European Union. Thanks to the precautionary actions undertaken by the financial markets, volatility on the markets caused by the referendum did not repeat the scenario from January last year, when excessive market volatility was recorded as a result of an unexpected SNB decision to discontinue the policy of defending the CHF exchange rate. Preparing to the voting, the Group raised minimal deposits on instruments exposed to sharp movements (currency pairs with GBP, European indices). This action was undertaken in order to limit the clients' exposure to the above mentioned instruments and this goal was achieved.

Another important event in 2016 was presidential elections in the USA. From the precautionary perspective, the actions undertaken by the Company were similar as in case of the Brexit. As a result of the elections, high fluctuations on share indices or currency pairs with USD were observed, which lasted till the end of the year and contributed to high income of the Group in the last quarter of the year.

Operating expenses

Total operating expenses in 2016 amounted to PLN 168 461 thousand and increased by PLN 26 989 thousand, i.e. 19,1% in comparison to the previous year.

The increase in operating expenses was primarily due to higher than in the previous year, marketing costs, costs of salaries and employee benefits, as well as other external services.

Marketing costs in 2016 amounted to PLN 49 338 thousand and increased by PLN 21 157 thousand, i.e. 75,1% compared to 2015. This increase was mainly due to the increased marketing spending incurred by the Group in the second quarter of 2016, associated with the start of a global branding campaign. The Group treats such expenses as an investment that should bring tangible benefits in the long term.

Salaries and employee benefits in 2016 amounted to PLN 71 864 thousand and increased by PLN 3 737 thousand, i.e. 5,5% compared to 2015. This was caused primarily by an increase in average employment in the Group by 7,6% y/y. Average employment in 2016 amounted to 413 people, and in 2015 384 people. The average monthly cost of salaries and employee benefits per employee in the Group in 2016 amounted to approx. PLN 15 thousand and remained at the same level as in the previous year.

The costs of other external services amounted in 2016 to PLN 20 620 thousand and increased by PLN 1 960 thousand i.e. 10,5% compared to the previous year. This growth is attributable mainly to the costs incurred by the Group in connection with a public offer of shares in 2016.

3.2.2 Selected financial and operating ratios of the Group

The financial ratios presented in the following table are not a measure of the financial results in accordance with the IFRS nor should they be treated as a measure of the financial results or cash flows from operating activities, or considered an alternative to a profit. These ratios are not defined in a harmonised manner and may not be comparable with the ratios presented by other companies, including companies operating in the same sector as the Group.

	12 MONTHS PERIOD ENDED	
	31.12.2016	31.12.2015
EBITDA (in PLN'000) [1]	87 538	146 874
EBITDA margin (%)[2]	34,9	52,0
Net profit margin (%)[3]	31,0	42,1
Return on equity –ROE (%)[4]	21,3	33,5
Return on assets – ROA (%)[5]	10,2	17,2
Agregate capital adequacy ratio (%)[6]	17,6	14,5

[1]) EBITDA calculated as operating profit, including amortisation and depreciation.
[2]) Calculated as the quotient of operating profit, including amortisation and depreciation, and operating income.
[3]) Calculated as the quotient of net profit and operating income.
[4]) Calculated as the quotient of net profit and average balance of equity (calculated as the arithmetic mean of the total equity as at the end of the prior period and as at the end of the current reporting period).
[5]) Calculated as the quotient of net profit and average balance of total assets (calculated as the arithmetic mean of the total assets as at the end of the prior period and as at the end of the current reporting period).
[6]) Calculated as the quotient of equity and total risk exposure.

The table below presents: (i) the number of new accounts opened by the Group's clients in individual periods; (ii) the number of active accounts; (iii) the aggregate number of accounts; (iv) the amount of net deposits in the individual periods; (v) average operating income per one active account; and (vi) the transaction volume in lots; and (vii) profitability per lot. The information presented in the table below is related to the aggregate operations in the retail and institutional operations segments.

	12 MONTHS PERIOD ENDED	
	31.12.2016	31.12.2015
New accounts[1]	31 300	31 175
Average number of active accounts[2]	17 243	15 082
Accounts in total	156 501	125 727
Net deposits (in PLN'000)[3]	314 045	325 128
Average operating income per active account (in PLN'000)[4]	14,5	18,7
Transaction volume in CFD instruments in lots[5]	2 015 655	2 443 302
Profitability per lot (in PLN) [6]	124	116

[1]) The number of accounts opened by the Group's clients in the individual periods.
[2]) The average quarterly number of accounts via which at least one transaction has been concluded over the last three months.
[3]) Net deposits comprise deposits placed by clients less amounts withdrawn by the clients in a given period.
[4]) The Group's operating income in a given period divided by the average quarterly number of accounts via which at least one transaction has been concluded over the last three months.
[5]) A lot is a unit of trading in financial instruments; in the case of foreign currency transactions, a lot corresponds to 100,000 units of the underlying currency; in the case of instruments other than CFDs based on currencies, the amount is specified in the instruments table and varies for various instruments.
[6]) Total operating income divided by the transaction volume in CFDs in lots.

The table below shows data on the Group's transaction volumes (in lots) by geographical area for the periods indicated.

	12 MONTHS PERIOD ENDED	
	31.12.2016	31.12.2015
Retail operations segment	**1 819 055**	**2 041 605**
Central and Eastern Europe	993 402	1 138 849
Western Europe	613 947	662 664
Latin America and Turkey	211 707	240 092
Institutional operations segment	**196 600**	**401 697**
Total	**2 015 655**	**2 443 302**

The table below shows data on the Group's revenue by geographical area for the periods indicated.

(IN PLN'000)	12 MONTHS PERIOD ENDED	
	31.12.2016	31.12.2015
Gain on transactions in financial instruments	**245 216**	**274 671**
Central and Eastern Europe	125 159	138 735
Western Europe	104 409	113 462
Latin America and Turkey	15 648	22 474
Fee and commission income	**5 284**	**5 753**
Central and Eastern Europe	3 680	2 501
Western Europe	1 577	3 053
Latin America and Turkey	27	199
Other income	**76**	**2 117**
Central and Eastern Europe	76	2 117
Western Europe	-	-
Latin America and Turkey	-	-
Total operating income[1]	**250 576**	**282 542**
Central and Eastern Europe, including:	128 915	143 352
- Poland[2]	80 008	89 025
Western Europe, including:	105 986	116 516
- Spain[2]	45 177	58 157
Latin America and Turkey	15 675	22 674

[1]) *The countries where the Group always generates 15% or more of its revenues include Poland and Spain. The share of any of the other countries in the Group's revenue structure by geographical area does not exceed 15%.*
[2]) *The country which generates the highest revenue in the region.*

Retail operations segment

The table below presents key operational data in the retail operations segment of the Group for the respective periods indicated therein.

	12 MONTHS PERIOD ENDED	
	31.12.2016	31.12.2015
New accounts[1]	31 283	31 145
Average number of active accounts [2]	17 207	15 045
Accounts in total	156 424	125 623
Number of transactions[3]	27 212 807	20 577 493
Transaction volume in CFD instruments in lots [4]	1 819 055	2 041 605
Net deposits (in PLN'000) [5]	309 854	268 111
Average operating income per active account (in PLN'000)[6]	13,4	17,9
Average cost of obtaining an account (in PLN'000) [7]	1,6	0,9
Profitability per lot (in PLN)[8]	127	132

[1]) *The number of accounts opened by the Group's clients in the individual periods.*
[2]) *The average quarterly number of accounts via which at least one transaction has been concluded over the last three months.*
[3]) *Total number of open and closed transactions in a given period.*
[4]) *A lot is a unit of trading in financial instruments; in the case of foreign currency transactions, a lot corresponds to 100,000 units of the underlying currency; in the case of instruments other than CFDs based on currencies, the amount is specified in the instruments table and varies for various instruments.*
[5]) *Net deposits comprise deposits placed by clients less amounts withdrawn by the clients in a given period.*
[6]) *The Group's operating income in a given period divided by the average quarterly number of accounts via which at least one transaction has been concluded over the last three months.*
[7]) *Average cost of obtaining an account comprise total marketing costs of the Group divided by the number of new accounts in given period.*
[8]) *Total operating income divided by the transaction volume in CFDs in lots.*

The table below presents the average quarterly number of retail accounts maintained by the Group on which at least one trade was executed in the last three months, by geographical location. The locations of active accounts have been determined based on the location of the Group's office (that maintains the account) except for accounts maintained by XTB Limited. The accounts maintained by XTB Limited have been classified based on the client's country of residence rather than the location of the Group's office.

				12 MONTHS PERIOD ENDED
		31.12.2016		31.12.2015
Central and Eastern Europe	10 343	60%	9 140	61%
Western Europe	5 451	32%	4 935	33%
Latin America and Turkey	1 413	8%	970	6%
Total	**17 207**	**100%**	**15 045**	**100%**

Institutional operations segment

Since 2013, the Group has provided its services to institutional clients, including brokerage houses and other financial institutions.

The table below presents information regarding the number of accounts in the Group's institutional operations segment in the periods indicated.

	12 MONTHS PERIOD ENDED	
	31.12.2016	31.12.2015
Average number of active accounts	36	37
Accounts in total	77	104

The table below presents the Group's turnover (in lots) in the institutional operations segment in the periods indicated.

	12 MONTHS PERIOD ENDED	
	31.12.2016	31.12.2015
Trading in CFD derivatives (in lots)	196 600	401 697

3.2.3 Basic separate economic financial information

Discussion of the Company's results in 2016

The table below shows selected items of the separate statement of comprehensive income for the periods indicated.

(IN PLN'000)	12 MONTHS PERIOD ENDED		CHANGE
	31.12.2016	31.12.2015	(%)
Result of operations on financial instruments	206 007	236 923	(13,0)
Income from fees and commissions	4 729	6 912	(31,6)
Other income	76	2 117	(96,4)
Total operating income	**210 812**	**245 952**	**(14,3)**
Salaries and employee benefits	(55 168)	(53 862)	2,4
Marketing	(38 647)	(20 042)	92,8
Other external services	(17 227)	(14 582)	18,1
Costs of maintenance and lease of buildings	(5 772)	(5 420)	6,5
Amortisation and depreciation	(4 334)	(4 720)	(8,2)
Taxes and fees	(1 501)	(508)	195,5
Commission expense	(3 564)	(3 314)	7,5
Other expenses	(3 694)	(4 730)	(21,9)
Total operating expenses	**(129 907)**	**(107 178)**	**21,2**
Operating profit	**80 905**	**138 774**	**(41,7)**
Finance income	7 154	7 814	(8,4)
Finance costs	(1 090)	(3 469)	(68,6)
Profit before tax	**86 969**	**143 119**	**(39,2)**
Income tax	(13 970)	(28 098)	(50,3)
Net profit	**72 999**	**115 021**	**(36,5)**

Operating income

The Company's income is primarily derived from its retail activities and consists of: (i) spreads (the difference between the offer price and the bid price); (ii) net result (profits offset by losses) from the Company's market making activities; (iii) fees and commissions charged by the Company to its clients; and (iv) swap points charged by the Company (being the difference between the notional forward rate and the spot rate of a given financial instrument).

The table below shows information on the Company's operating income for the periods indicated.

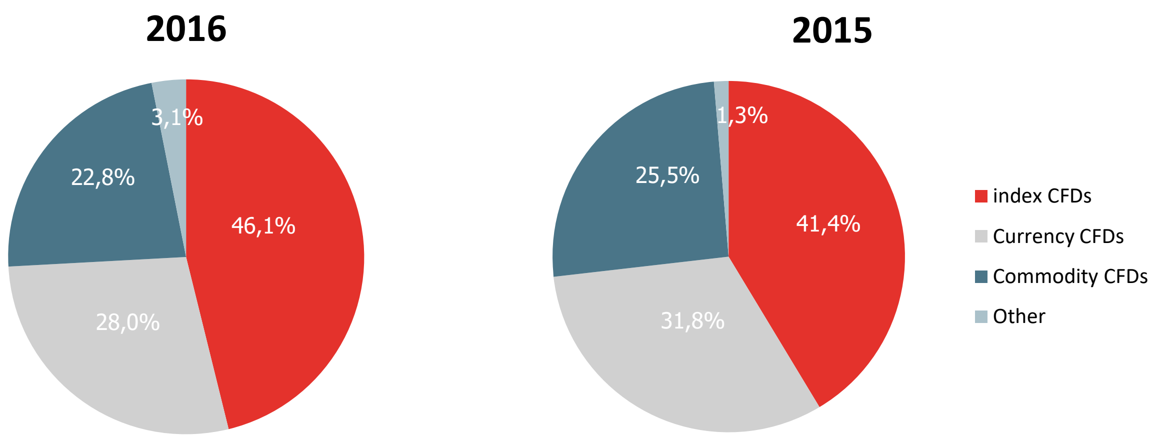
	12 MONTHS PERIOD ENDED			
		31.12.2016		31.12.2015
	(IN PLN'000)	(%)	(IN PLN'000)	(%)
Result of operations on financial instruments	206 007	97,7	236 923	96,3
Income from fees and charges	4 729	2,3	6 912	2,8
Other income	76	0,0	2 117	0,9
Total operating income	**210 812**	100,0	**245 952**	100,0

The greatest source of the Company's operating income is the result of the operations on financial instruments, which accounted for 97,7% and 96,3% of total operating income, in 2016 and 2015, respectively. The largest share in the gross result of operations on financial instruments have three classes of products: index CFDs, currency CFDs and commodity CFDs, which generated in 2016 respectively 46,1%, 28,0% and 22,8% (2015 respectively: 41,4%, 31,8%, 25,5%). Other products, such as bond CFDs, equity CFDs and option derivatives constituted respectively 3,1% and 1,3% of a result of transactions on financial instruments.

The result of operations on financial instruments

(IN PLN'000)	12 MONTHS PERIOD ENDED		CHANGE
	31.12.2016	31.12.2015	(%)
CFDs			
Index CFDs	117 756	118 241	(0,4)
Currency CFDs	71 398	90 848	(21,4)
Commodity CFDs	58 069	72 827	(20,3)
Equity CFDs	1 454	736	97,6
Bond CFDs	1 116	10	11 060,0
Total CFDs	249 793	282 662	(11,6)
Options			
Currency options	3 434	2 057	66,9
Index options	1 212	500	142,4
Commodity options	672	409	64,3
Bond options	14	4	250,0
Total options	**5 332**	**2 970**	**79,5**
Gain on transactions in financial instruments held for trading	**255 125**	**285 632**	**(10,7)**
Gain on transactions in financial instruments available for sale	**17**	**130**	**(86,9)**
Gross gain on transactions in financial instruments	**255 142**	**285 762**	**(10,7)**
Bonuses and discounts paid to customers	(2 825)	(4 793)	(41,1)
Commission paid to cooperating brokers	(46 310)	(44 046)	5,1
Net gain on transactions in financial instruments	**206 007**	**236 923**	**(13,0)**

The share of instruments in the result on operations financial instruments



In 2016 the Company recorded PLN 72 999 thousand net profit, compared to PLN 115 021 thousand in 2015.

Operating income generated by the Company in 2016 amounted to PLN 210 812 thousand. In the comparable period of 2015, operating income amounted to PLN 245 952 thousand.

The Company's results in 2016 were shaped by the same events as in the case of the Group, and which are described in section 3.2.1.

Total operating expenses

Company's operating expenses in 2016 amounted to PLN 129 907 thousand and increased by PLN 22 729 thousand, i.e. 21,2% compared to the previous year.

The increase of operating costs resulted mostly from higher than in 2015 marketing costs and other external services.

Marketing costs in 2016 amounted to PLN 38 647 thousand and increased by PLN 18 605 thousand to i.e. 92,8% compared to 2015. This increase was primarily due to the increased marketing spending incurred by the Company in the second quarter of 2016 associated with the launch of a global branding campaign.

The costs of other external services in 2016 amounted to PLN 17 227 thousand which represents an increase by PLN 2 645 thousand i.e. 18,1% compared to the previous year. This increase relates mainly to costs incurred by the Company in connection with a public offer of shares in 2016.

3.2.4 Selected financial and operating ratios of the Company

The financial ratios presented in the following table are not a measure of the financial results in accordance with the IFRS nor should they be treated as a measure of the financial results or cash flows from operating activities, or considered an alternative to a profit. These ratios are not defined in a harmonised manner and may not be comparable with the ratios presented by other companies, including companies operating in the same sector as the Company.

	12 MONTHS PERIOD ENDED	
	31.12.2016	31.12.2015
EBITDA (in PLN'000)[1]	85 239	143 494
EBITDA margin (%)[2]	40,4	58,3
Net profit margin (%)[3]	34,6	46,8
Return on equity –ROE (%)[4]	19,6	31,7
Return on assets – ROA (%)[5]	9,8	16,7
Agregate capital adequacy ratio (%)[6]	16,9	13,3

[1]) *EBITDA calculated as operating profit, including amortisation and depreciation.*
[2]) *Calculated as the quotient of operating profit, including amortisation and depreciation, and operating income.*
[3]) *Calculated as the quotient of net profit and operating income.*
[4]) *Calculated as the quotient of net profit and average balance of equity (calculated as the arithmetic mean of the total equity as at the end of the prior period and as at the end of the current reporting period).*
[5]) *Calculated as the quotient of net profit and average balance of total assets (calculated as the arithmetic mean of the total assets as at the end of the prior period and as at the end of the current reporting period).*
[6]) *Calculated as the quotient of equity and total risk exposure.*

Due to the fact that operating KPIs data concerning number of accounts, average number of active accounts, deposits, volume turnover in lots and average operating income per active account are analyzed by the Company's Management Board on the Group level, and not in the separate view, this data was presented only in the consolidated view. In the Company's opinion this gives complete view of the Group's situation. Therefore, in the Company's opinion analysis of the above mentioned KPIs on the consolidated level is reliable.

The table below shows data on the Company's revenue by geographical area for the periods indicated.

(IN PLN'000)	12 MONTHS PERIOD ENDED	
	31.12.2016	31.12.2015
Gain on transactions in financial instruments:	**206 007**	**236 923**
Central and Eastern Europe	125 176	138 998
Western Europe	81 011	91 479
Latin America and Turkey	(180)	6 446
Fee and commission income:	**4 729**	**6 912**
Central and Eastern Europe	3 273	6 871
Western Europe	1 456	41
Latin America and Turkey	-	-
Other income:	**76**	**2 117**
Central and Eastern Europe	76	2 117
Western Europe	-	-
Latin America and Turkey	-	-
Total operating income[1]:	**210 812**	**245 952**
Central and Eastern Europe, including:	128 525	147 986
- Poland[2]	79 619	93 660
Western Europe, including:	82 467	91 520
- Spain[2]	45 177	58 157
Latin America and Turkey	(180)	6 446

[1]) *The countries where the Company always generates 15% or more of its revenues include Poland and Spain. The share of any of the other countries in the Company's revenue structure by geographical area does not exceed 15%.*
[2]) *The country which generates the highest revenue in the region.*

3.3 Current and projected financial situation

Current and projected financial situation of X-Trade Brokers Dom Maklerski S.A. and the Capital Group shows no significant risks. The Company is the parent company of the Group. The Company's financial situation should be evaluated by the results of the entire Capital Group. The company maintains and intends to maintain the financial liquidity at an adequate level to the scale of its operations.

3.4 Structure of assets and liabilities

3.4.1 Structure of assets and liabilities in the consolidated statement of financial position

(IN PLN'000)	31.12.2016	% balance sheet total	31.12.2015	% balance sheet total
ASSETS				
Own cash and cash equivalents	290 739	36,5	325 328	44,7
Customers' cash and cash equivalents	375 642	47,1	298 138	41,0
Financial assets held for trading	94 903	11,9	64 254	8,8
Financial assets available for sale	190	0,0	213	0,0
Income tax receivables	1 016	0,1	2 443	0,3
Loans granted and other receivables	5 244	0,7	4 545	0,6
Prepayments and deferred costs	3 590	0,5	2 513	0,3
Intangible assets	10 060	1,3	13 340	1,8
Property, plant and equipment	3 746	0,5	4 107	0,6
Deferred income tax assets	11 623	1,5	12 238	1,7
Total assets	**796 753**	**100,0**	**727 119**	**100,0**
LIABILITIES				
EQUITY AND LIABILITIES				
Liabilities				
Amounts due to customers	377 268	47,4	301 076	41,4
Financial liabilities held for trading	22 645	2,8	10 215	1,4
Income tax liabilities	4 262	0,5	4 562	0,6
Other liabilities	22 693	2,8	26 708	3,7
Provisions for liabilities	948	0,1	871	0,1
Deferred income tax provision	13 044	1,6	9 638	1,3
Total liabilities	**440 860**	**55,3**	**353 070**	**48,6**
Equity				
Share capital	5 869	0,7	5 869	0,8
Supplementary capital	71 608	9,0	71 608	9,8
Other reserves	212 554	26,7	189 092	26,0
Foreign exchange differences on translation	(4 945)	(0,6)	(641)	(0,1)
Retained earnings	70 807	8,9	108 121	14,9
Equity attributable to the owners of the parent Company	**355 893**	**44,7**	**374 049**	**51,4**
Total equity	**355 893**	**44,7**	**374 049**	**51,4**
Total equity and liabilities	**796 753**	**100,0**	**727 119**	**100,0**

As at 31 December 2016 balance sheet total amounted to PLN 796 753 thousand. In comparison to 31 December 2015 there was an increase by PLN 69 634 thousand i.e. 9,6%.

The most significant item of the assets, both at the end of 2016 and 2015 are cash and cash equivalents, which accounted respectively in 2016 and 2015 to 83,6% and 85,7% of total assets. Cash comprises the Group's own cash and customers' cash. Customers' cash is deposited in bank accounts separately from the Group's cash. The Group achieves economic benefits from investing the customers' cash and cash equivalents. As at the end of 2016 the Group's own cash and cash equivalents decreased by 10,6% y / y, while customers' cash and cash equivalents increased by 26,0% y / y.

The second relevant item in the assets' structure are financial assets held for trading, which constituted 11,9% and 8,8% of total assets as at the end of 2016 and 2015, respectively. This item increased by 47,7% y / y.

With regard to the structure of liabilities, the most significant item as at 31 December 2016 were amounts due to customers (respectively 47,4% of total liabilities in 2016 and 41,4% in 2015). Amounts due to customers result from transactions executed by customers (including cash deposited on customers' accounts).

3.4.2 Structure of assets and liabilities in the separate statement of financial position

(IN PLN'000)	31.12.2016	% balance sheet total	31.12.2015	% balance sheet total
ASSETS				
Own cash and cash equivalents	233 942	30,2	275 592	38,2
Customers' cash and cash equivalents	352 830	45,5	282 793	39,2
Financial assets held for trading	90 224	11,6	62 452	8,7
Investments in subsidiaries	66 095	8,5	63 447	8,8
Income tax receivables	1 016	0,1	2 198	0,3
Loans granted and other receivables	12 036	1,6	13 930	1,9
Prepayments and deferred costs	2 891	0,4	2 181	0,3
Intangible assets	4 136	0,5	6 626	0,9
Property, plant and equipment	3 115	0,4	3 457	0,5
Deferred income tax assets	9 086	1,2	8 966	1,2
Total assets	**775 371**	**100,0**	**721 642**	**100,0**
LIABILITIES				
EQUITY AND LIABILITIES				
Liabilities				
Amounts due to customers	350 821	45,2	289 285	40,1
Financial liabilities held for trading	21 647	2,8	9 686	1,3
Income tax liabilities	4 227	0,5	4 561	0,6
Other liabilities	20 438	2,6	26 015	3,6
Provisions for liabilities	883	0,1	831	0,1
Deferred income tax provision	13 080	1,7	9 638	1,3
Total liabilities	**411 096**	**53,0**	**340 016**	**47,1**
Equity				
Share capital	5 869	0,8	5 869	0,8
Supplementary capital	71 608	9,2	71 608	9,9
Other reserves	212 416	27,4	188 954	26,2
Foreign exchange differences on translation	1 873	0,2	664	0,1
Retained earnings	72 509	9,4	114 531	15,9
Total equity	**364 275**	**47,0**	**381 626**	**52,9**
Total equity and liabilities	**775 371**	**100,0**	**721 642**	**100,0**

On 31 December 2016 balance sheet total amounted to PLN 775 371 thousand. In comparison to 31 December 2015 there was an increase by PLN 53 729 thousand, i.e. 7,4%.

The most significant item of the assets, both at the end of 2016 and 2015 are cash and cash equivalents, which accounted, respectively in 2016 and 2015 to 75,7% and 77,4% of total assets. Cash comprises the Company's own cash and customers' cash. Customers' cash is deposited in bank accounts separately from the Company's cash. The Company achieves economic benefits from investing the customers' cash and cash equivalents. As at the end of 2016 the Company's own cash and cash equivalents decreased by 15,1% y / y, while customers' cash and cash equivalents increased by 24,8% y / y.

The second relevant item in the assets' structure are financial assets held for trading, which constituted 11,6% and 8,7% of total assets, respectively, at the end of 2016 and 2015. This item increased by 44,5% y / y.

The Company has investments in subsidiaries. The total nominal value of shares in subsidiaries as at 31 December 2016 amounted to PLN 66 095 thousand which accounted for 8,5% of the Company's assets. As at 31 December 2015 this value was PLN 63 447 thousand, i.e. 8,8% of the Company's assets. An increase of PLN 2 648 thousand y/y is a result of the acquisition by the Company in February 2016 of 1 000 new shares in the capital increase of its subsidiary DUB Investments Limited with a total nominal value of EUR 1 000. Additionally the value of each share was increased by share premium in the amount of EUR 599, the total value of share premium amounted to EUR 599 000. The value of shares in the reporting currency amounted to PLN 2 648 thousand.

With regard to the structure of liabilities, the most significant item as at 31 December 2016 were amounts due to customers (respectively 45,2% of total liabilities in 2016 and 40,1% in 2015). Amounts due to customers result from transactions executed by customers (including cash deposited on customers' accounts).

3.5 Material off-balance sheet items

In 2016 there were no material off-balance sheet items.

3.6 Financial forecasts

X-Trade Brokers Dom Maklerski S.A. did not publish any financial forecasts for 2016 (respectively consolidated and separate).

3.7 Dividend policy

The following table presents information about the separate net profit of the Company and the general value of dividend paid for the financial years indicated.

(IN PLN'000)		FOR THE YEAR ENDED
	31.12.2015	31.12.2014
Net profit of the Company	115 021	77 521
Dividend	91 559	77 521

The dividend on ordinary shares for 2015, paid between 30 March to 8 April 2016, amounted to PLN 91 559 thousand (for 2014 dividend amounted to PLN 77 521 thousand). The amount of dividend per share paid for 2015 was equal to PLN 0,78.

According to the dividend policy, the Management Board intends to recommend to the General Meeting the payment of dividend that would depend on the net profit shown in the separate annual financial statements of the Company and the financial means of the Company. The Management Board's proposal regarding dividend payment will be subject to the need to ensure the relevant adequacy ratio of the Company and the equity necessary to ensure the Group's development. It is the intention of the Management Board to recommend to the General Meeting in the future the adoption of resolutions regarding the payment of dividend, taking into consideration the above-mentioned factors, of between 50% and 100% of the separate net profit of the Company for a given financial year.

However, the Management Board will change the dividend policy on an as required basis, while decisions in that respect will be taken subject to various other factors regarding the Company, including the prospects of future activities, future profits, demand for cash, financial condition, capital adequacy ratios, expansion plans and any legal requirements in that respect.

Each resolution on dividend payment will also be subject to consideration by the General Meeting.

All of the shares entitle the holders thereof to equal rights as regards the payment of dividend (including interim dividend) and authorise their holders to a share in the Company's profits as of the date of the acquisition thereof, provided that the General Meeting adopts a resolution regarding the distribution of profit (or, in the case of interim dividend, resolutions of the Management Board and the Supervisory Board) and provided that the dividend date is established as a date falling after the date of the purchase of the shares.

However, the payment of dividend and the determination of the value of the dividend to be paid ultimately depend on the decision of the shareholders adopted at the ordinary General Meeting, and in this respect, the shareholders are not bound by any Management Board recommendation.

The Articles of Association do not provide for any restrictions regarding dividend payment.

The payment of dividend by the Company is subject to certain legal restrictions. In particular, the timing and method of dividend payments is prescribed by Polish corporate law.

As at the date of publication of this report, the Management Board of XTB has not taken a decision on the dividend for the year 2016.

4. Corporate governance

4.1 Set of rules of corporate governance applied by X-Trade Brokers Dom Maklerski S.A.

Acting pursuant to § 91 section 5 point 4 in connection with § 92 section 4 of the Regulation on current and periodic information (…), the Board of X-Trade Brokers Dom Maklerski S.A. provides a declaration on the application of corporate governance principles in 2016.

Best Practice of WSE Listed Companies

X-Trade Brokers Dom Maklerski S.A. applies the corporate governance principles expressed in the Code of Best Practice for WSE Listed Companies, adopted by the Warsaw Stock Exchange Council on 13 October 2015 and which came into force on 1 January 2016. The current content is available on the website dedicated to the principles of corporate governance of companies listed on the WSE under: www.gpw.pl/lad_korporacyjny_na_gpw.

A statement on the company's compliance with the corporate governance recommendations and principles contained in Best Practices for WSE Listed Companied 2016 is posted on the website of X-Trade Brokers Dom Maklerski S.A., in the Investor Relations' section.

In 2016 X-Trade Brokers Dom Maklerski S.A. applied the principles expressed in the Best Practices for WSE Listed Companies, with the exception of recommendations IV.R.2 and 2 specific rules: I.Z.1.20, IV.Z.2.

In relation to the recommendation contained in Chapter IV, point 2, as follows:

„If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:
1) real-life broadcast of the general meeting,
2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting,
3) exercise of the right to vote during a general meeting either in person or through a plenipotentiary."

The Company identifies threats to the proper conduct of the GM, especially legal risks, which in the opinion of the Company would exceed the potential benefits. Slight dissemination of practice of conducting the general meetings by means of electronic communication and inadequate preparation of the market may lead to increased risk of organizational and technical problems that might disrupt the proper running of the general meeting, as well as the risk of a possible undermining of the adopted resolutions of the general meeting, in particular due to technical defects. Due to the above, the Company does not apply on a permanent basis of this recommendation.

With regard to the rules contained in Chapter I, point 1.20, as follows:

"A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: an audio or video recording of a general meeting."

The Company has not adopted the use of this principle for the same reasons, which are described above.

With regard to the rules contained in Chapter IV, point 2, as follows:

"If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings."

The Company has not adopted the use of this principle for the same reasons as described in case of recommendation IV.R.2.

Principles of Corporate Governance of the PFSA

On 22 July 2014, the PFSA published the Principles of corporate governance for supervised institutions. The rules and information on their application are available on XTB website under www.xtb.com/pl/oferta/informacje-o-rachunku/informacje-prawne/inne.

Under the Principles of Corporate Governance of the PFSA, a supervised institution should strive to apply, to the greatest extent possible, the Principles of Corporate Governance of the PFSA, incorporating the principle of proportionality resulting from the scale, nature of the activity and specificity of the institution. Any deviation from the application of specific principles in the full scope may be permitted only when the comprehensive introduction thereof would lead to an excessive burden for the supervised institution.

On 18 December 2014 the Management Board adopted a resolution regarding the application of the Principles of Corporate Governance of the PFSA. The application of the Principles of Corporate Governance of the PFSA by the Company was confirmed by a resolution of the Extraordinary General Meeting dated 28 January 2015.

The Company applies the Principles of Corporate Governance of the PFSA to the extent that they determine the principles of the operations of brokerage houses and are not in breach of the prevailing laws.

The Principles of Corporate Governance of the PFSA, in accordance with the expectations of the PFSA, have been implemented by the Company as of 1 January 2015. In the reporting period, the Company applied the Principles of Corporate Governance of the PFSA, subject to the following restrictions:

- The principle provided in §7, section 5 of the Principles of Corporate Governance of the PFSA, to the extent that it imposes on a supervised institution the obligation to facilitate participation in the meeting of an authority of the supervised institution by all of the shareholders, including providing the option of active participation in the meetings of a governing authority by electronic means.

  In accordance with the Articles of Association, the Company will ensure participation in the General Meeting using means of electronic communication if the announcement of the convocation of the General Meeting contains information about the shareholders having the option to participate in the General Meeting using means of electronic communication.

- The principle provided in § 20 section 2 of the Principles of Corporate Governance of the PFSA to the extent that it provides that the election of a chairman of a supervisory authority should be based on experience and skills in managing such authority, subject to independence criterion.

  Pursuant to the Articles of Association, from the First Listing Date, Jakub Zabłocki will have the right to appoint and dismiss one member of the Supervisory Board who will be the Chairman of the Supervisory Board by way of a written representation on the appointment or dismissal of the Chairman of the Supervisory Board delivered to the Company. Consequently, the observance of this principle will depend on Jakub Zabłocki.

4.2 Equity

As at 31 December 2016 and as at the submission date of this annual report, share capital of X-Trade Brokers Dom Maklerski S.A. comprised of 117 383 635 A-series ordinary shares. The nominal value of the shares is PLN 0,05 per share.

4.3 Shares in the free float

On 13 April 2016 the Polish Financial Supervision Authority approved the Prospectus prepared in relation to the initial public offering of the Company's shares sold by the key shareholder.

On 26 April 2016 the final number of shares (16 433 709) and final share's price (PLN 11,50) in the initial public offering was set.

On 26 April 2016 the Central Securities Depository of Poland (KDPW) adopted a resolution on dematerialization of 16 433 709 shares of the Company subject to the public offering and contingent dematerialization of other shares, i.e. 100 949 926 shares of the Company.

On 29 April 2016 the final allotment of 16 433 709 ordinary bearer shares was made under the offering. In connection with the final allotment of the offer shares, 1 644 000 of the offer shares were allotted to individual investors, whereas 14 789 709 of the offer shares were allotted to institutional investors.

On 4 May 2016 the Management Board of the WSE adopted a resolution regarding the admission of the Company's offer shares to exchange trading on the main market of the WSE. The Resolution came into force as of the day of its adoption. On 5 May 2016 the Management Board of the WSE adopted a resolution to introduce the Company's shares, as of 6 May 2016, to regular exchange trading on the main market.

On 6 June 2016 X-Trade Brokers Dom Maklerski S.A. received a letter from Pekao Investment Banking S.A., which was serving as a stabilisation manager, in the meaning ascribed thereto in the Company's prospectus, that in the stabilisation period, i.e. in the period from the date of the first quotation of shares in the Company on the regulated market maintained by Giełda Papierów Wartościowych w Warszawie S.A. (i.e. from 6 May 2016) to the end of the stabilization period (i.e. 5 June 2016) no actions aimed at stabilizing the shares were undertaken, and that the Stabilisation Manager did not acquire any of the shares in the Company for the purpose of stabilizing the price thereof in accordance with the stabilization agreement, in the meaning ascribed thereto in the Prospectus.

The value of the completed public offering of the sale of 16 433 709 Offer Shares was PLN 189,0 million.

Total costs connected with the public offering of the Offer Shares incurred by the Company amounted to PLN 5,1 million, of which:

- the cost of the preparation and conduct of the offer: PLN 1,5 million;
- the cost of preparation of the prospectus, including advisory costs: PLN 3,4 million;
- the cost of promotion of the offer: PLN 0,2 million.

Aforementioned costs in the amount of PLN 5,1 million impact the Company's result and were recognised in the financial statements in operating expenses, out of which PLN 2,5 million was recognized in 2016 result and the remaining part was recognized in the costs in the previous year.

Average cost per Offer Share was PLN 0,31.

4.4 Shareholding structure

4.4.1 Shareholding structure at the end of the reporting period

In the reporting period the initial public offering was conducted, in which the key shareholder sold 16 433 709 shares in the Parent Company. After the allotment of the offer shares was made under the offering made on 29 April 2016, the Company received a notification from one of its shareholders, XXZW Investment Group S.A., with its registered office in Luxembourg, in accordance with Article 69 of the Polish Act on Public Offering, the Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies dated 29 July 2005, informing that following the sale of 16 433 709 A-series ordinary shares in the Company, the shareholder holds 78 446 216 shares/votes representing 66,83% share in the share capital/overall number of votes at the General Meeting of Shareholders. Detailed information above notice has been provided in the current report No. 8/2016 of 6 May 2016.

On 23 December 2016 two employees of X-Trade Brokers Dom Maklerski S.A. acquired 256 835 Parent Company's shares by performance of the incentive scheme. Shares were transferred by the existing shareholders XXZW Investment Group S.A. and Systexan SARL. Details on the transaction have been provided in the current report No. 19/2016 of 23 December 2016.

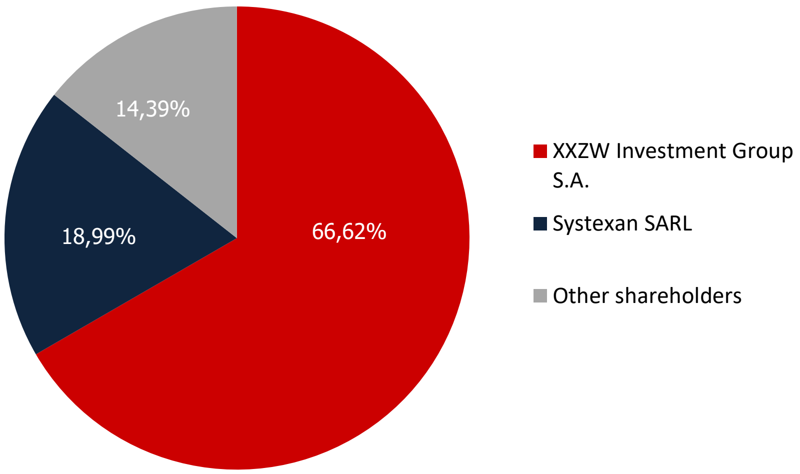
To the best of the Company's Management Board knowledge, as at 31 December 2016 the shareholders holding directly or indirectly via related parties at least 5% of total votes at the Parent's General Shareholders' Meeting were as follows:

	NUMBER OF SHARES/ VOTES	NOMINAL SHARE VALUE (IN PLN'000)	SHARE IN CAPITAL/ IN TOTAL VOTES
XXZW Investment Group S.A.	78 206 465	3 910	66,62%
Systexan SARL	22 285 876	1 114	18,99%
Other shareholders	16 891 294	845	14,39%
Total	**117 383 635**	**5 869**	**100,00%**

[1]) *XXZW Investment Group S.A. with its registered office in Luxembourg is directly controlled by Jakub Zabłocki, who holds shares representing 81,97% of the share capital authorising the exercise of 81,97% of the votes at the general meeting of the shareholders of XXZW.*
[2]) *SYSTEXAN S.à r.l. with its registered office in Luxembourg is directly controlled by the Polish Enterprise Fund VI L.P., with its registered office in the Cayman Islands.*

Percentage share in the share capital of the Parent Company of the above mentioned shareholders is equal to the percentage share in total votes at the General Shareholders' Meeting.

The shareholding structure as at 31 December 2016 is presented on the graph below:



4.4.2 Changes in the shareholding structure after the balance sheet date

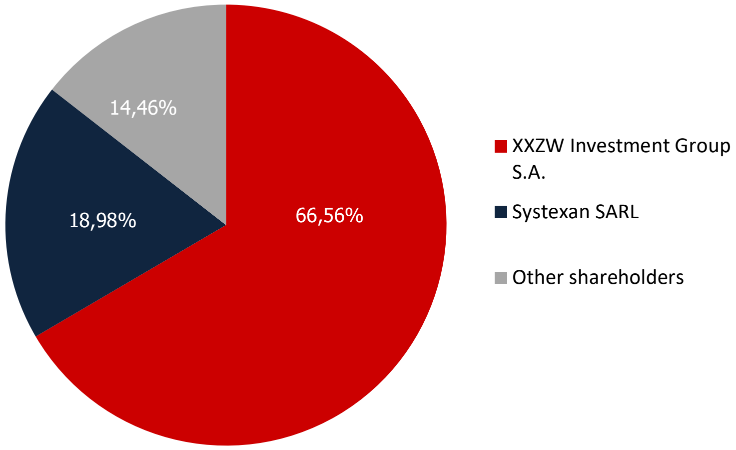
After the end of the reporting period, on 5 January 2017, The Company received notification from XXZW Investment Group, which informed on the sale of 79 552 shares in connection with the performance of the incentive scheme by the participants of the scheme.

Taking the above into account, to the best of the Company's Management Board knowledge, as at the submission date of the foregoing report, the shareholders holding directly or indirectly via related parties at least 5% of total votes at the Parent's General Shareholders' Meeting were as follows:

	NUMBER OF SHARES/ VOTES	NOMINAL SHARE VALUE (IN PLN'000)	SHARE IN CAPITAL/ IN TOTAL VOTES
XXZW Investment Group S.A.	78 126 913	3 906	66,56%
Systexan SARL	22 280 207	1 114	18,98%
Other shareholders	16 976 515	849	14,46%
Total	**117 383 635**	**5 869**	**100,00%**

[1]) *XXZW Investment Group S.A. with its registered office in Luxembourg is directly controlled by Jakub Zabłocki, who holds shares representing 81,97% of the share capital authorising the exercise of 81,97% of the votes at the general meeting of the shareholders of XXZW.*
[2]) *SYSTEXAN S.à r.l. with its registered office in Luxembourg is directly controlled by the Polish Enterprise Fund VI L.P., with its registered office in the Cayman Islands.*

The shareholding structure as at the submission date of this report is presented on the graph below:



4.5 Acquisition of own shares

In 2016, the Company and its subsidiaries did not acquire X-Trade Brokers Dom Maklerski S.A. shares.

4.6 Holders of securities with special control rights

In 2016 and as at the date of publication of this report there were no securities which would give special control rights towards the Company.

4.7 Restrictions on exercising the voting right

In 2016 and as at the date of publication of this report, there were no restrictions concerning the execution of the voting right of the Company's shares.

4.8 Restrictions on the transfer of ownership of shares

According to the rules of the incentive program Jakub Malý, Paweł Frańczak and Alberto Medrán committed to XXZW and SYSTEXAN that due to the fact that conditions for exercising the options were satisfied and the shares weare allotted to them based on the incentive plan, they will not sell them during the lock-up period which the Company is bound (determined in the Underwriting Agreement, i.e. 360 days from the First Listing Date).

4.9 Agreements as a result of which changes may occur in the future in the proportions of shares held by the current shareholders

Apart from the changes in the shareholding structure described in point 4.4.1. and 4.4.2., as at the publication date of this annual report, the Company is not aware of other events, which may result in future changes in the proportions of shares held by existing shareholders.

4.10 Management Board

The governing body of the Company is the Management Board.

4.10.1 Composition, changes, and election of the Management Board

The rules for appointing and dismissing members of the Management Board and their rights are governed by the Articles of Association of the Company. In accordance with its Articles of Association the Management Board may consist of three to six members, including the President and two Vice Presidents of the Management Board.

In accordance with its Articles of Association, at least two members of the Management Board need to have: (i) higher education; (ii) at least three years of experience of working for financial market institutions; and (iii) a good opinion in connection with the positions held thereby. Articles of Association of the Company is available on the Company's website www.xtb.pl in the Investor Relations section.

Until the First Listing Date, the members of the Management Board were appointed and dismissed by the General Meeting. Starting on the First Listing Date and thereafter the members of the Management Board will be appointed and dismissed by the Supervisory Board. The number of members of the Management Board will be determined by the Supervisory Board pursuant to a resolution on the appointment of the members of the Management Board. Management Board Member may also be removed or suspended in his activities based on the general Meeting resolution.

The Management Board is appointed for a joint three-year term.

The mandates of members of the Supervisory Board shall expire on the date of the General Meeting which approves the financial statements of the Company for the last full year of their term of office and in other cases specified in the Code of Commercial Companies.

As at 1 January 2016 and 31 December 2016 the Management Board was composed of the following persons:

NAME AND SURNAME	FUNCTION	DATE OF FIRST APPOINTMENT	TERM OF OFFICE
Jakub Malý	Chairman of the Management Board	25.03.2014	from the 29 June 2016 appointed for the 3-years term of office ending 29 June 2019; dismissed on the 10 January 2017
Paweł Frańczak	Board Member	31.08.2012	from the 29 June 2016 appointed for the 3-years term of office ending 29 June 2019
Paweł Szejko	Board Member	28.01.2015	from the 29 June 2016 appointed for the 3-years term of office ending 29 June 2019

In connection with the expiry of the term of office of the Management Board of the Company on 28 June 2016, acting pursuant to § 11 Section 3 - 5 of the Company's Articles of Association, the Issuer's Supervisory Board appointed on 23 June 2016 the Management Board of the Company for the common three year term of office, i.e. from 29 June 2016 till the end of 29 June 2019.

Until the end of the reporting period, i.e. 31 December 2016, there were no changes in the composition of the Management Board.

After the end of the reporting period, on 10 January 2017, the Supervisory Board dismissed Mr Jakub Maly from the position of the President of the Management Board, effectively from the same day.

Concurrently, on the same day the Supervisory Board of XTB adopted a resolution that the Management Board will consist of five people, including the President, Vice-President and three Members of the Board. Next, the Supervisory Board appointed on 10 January 2017 to the Management Board of XTB Mr Filip Kaczmarzyk and Mr Omar Arnaout for the positions of the Member of the Management Board responsible for Trading and Member of the Management Board responsible for Sales in the rank of the Vice President.

Mr. Jakub Leonkiewicz, Chairman of the Supervisory Board, has resigned from the participation in the Supervisory Board in agreement with Mr Jakub Zabłocki, to enable him to take over as the Chairman of the Supervisory Board. Therefore, using the power of § 15 section 4 of the XTB Articles of Association, on 10 January 2017 Mr Jakub Zabłocki appointed himself, with effect on the same day, for the position of the Member of the Supervisory Board, acting as Chairman of the Supervisory Board. During the same meeting the Supervisory Board, acting pursuant to art. 383 § 1 of the Code of Commercial Companies, has decided to delegate the Chairman of the Supervisory Board Mr Jakub Zabłocki to temporarily perform the duties of the President of the Management Board - for the period from 10 January until 10 April 2017.

4.10.2 Powers of the Management Board

The Management Board is authorised to conduct the affairs of the Company, represent the Company and any metters not reserved by law or the Articles of Association of the Company to the General Meeting or the Supervisory Board. The Board conducting the Company's affairs, makes decisions in the interest of the Company, shall draft the Company's development strategy and identifies the main goals of the Company.

All members of the Board are obliged and authorized to jointly conduct the Company's affairs.

President of the Board shall convene meetings of the Board and chair. Chairman of the Board may authorize other members of the Board to convene and preside over meetings of the Board. In the absence of the President, the meeting of the Board shall be convened by the oldest member of the Board.

In particular, the Management Board shall have the power and shall be required to:

- act on behalf of the Company and represent the Company in dealings with third parties,
- prepare periodic reports and statements of the Company within timeframes allowing for their publication in accordance with relevant laws,
- submit financial statements to a statutory auditor for the purpose of their audit or review,
- submit reports of the management board on the activities of the Company and the financial statements, including an opinion and report of the statutory auditor (if required by law), to the Supervisory Board for the purpose of evaluation,
- convene General Meetings, submit proposals to be considered by the General Meeting and prepare draft resolutions of the General Meeting in a timely manner,
- submit reports of the management board on the activities of the Company and the financial statements, including an opinion and report of the statutory auditor, for the last financial year, to the General Meeting for the purpose of consideration and approval,
- develop and adopt regulations related to the operations of the Company, unless such authority has been reserved for any other body of the Company,
- prepare draft annual budgets, including the budget of the Company, budgets of Subsidiaries and the consolidated budget of the capital group of the Company, to be presented for approval to the Supervisory Board,
- fulfil reporting obligations imposed on brokerage houses,
- any other matters not reserved for other bodies of the Company.

The Management Board does not have a special competence in the issue and redemption of XTB shares.

4.10.3 The operation of the Management Board

The Management Board operates on the basis of the Regulations of the Management Board.

Meetings of the Board shall be held not less than once a month at the headquarters of the Company or if all members agree, elsewhere on Polish territory. The Board may hold a meeting without being formally convened if all members are present at the meeting and no one objects to holding the meeting or any of the proposed items on the agenda. Management Board resolutions are passed by an absolute majority of votes cast, and in the case of an equal number of votes "for" and "against" the vote of the Chairman of the Board decides.

Board members may participate in adopting resolutions of the Board by casting their votes in writing through another member of the Management Board. Casting a vote in writing may not concern matters introduced to the agenda during the meeting of the Board. Resolutions may be passed in writing or using means of direct remote communication. The resolution is valid if all the members of the Board have been notified of the draft resolution.

In accordance with the Articles of Association, the President of the Management Board supervises the activities of the Management Board and determines the internal division of tasks and powers among particular members of the Management Board, specifically, the President of the Management Board may entrust the management of specific departments to particular members of the Management Board. Furthermore, the President of the Management Board calls and chairs meetings of the Management Board. The President of the Management Board may authorise other members of the Management Board to convene and chair meetings of the Management Board. In the absence of the President of the Management Board or if the position of the President of the Management Board is vacant, the meetings of the Management

Board are convened by the oldest member of the Management Board. Additionally, special rights of the President of the Management Board in terms of managing the work of the Management Board may be determined in the Regulations of the Management Board.

Two members of the Management Board acting jointly are authorised to make representations on behalf of the Company.

4.10.4 Shares of the Company and related entities held by the Members of the Management Board

In the reporting period as part of the Incentive Scheme two managing persons acquired shares through the execution of the rights granted.

On 23 December 2016 the Company received from Mr. Jakub Maly notice which announced the acquisition of 219 507 shares of the Company, with a nominal value of PLN 0,05 each. According to the notification the acquisition of the above shares were in connection with the exercise of powers of the options granted under the Incentive Scheme.

On 23 December 2016 the Company received from Mr. Paweł Frańczak notice which announced the acquisition of 37 328 shares of the Company, with a nominal value of PLN 0.05 each. According to the notification the acquisition of the above the shares were in connection with the exercise of powers of the options granted under the Incentive Scheme.

At the same time on 23 December 2016, the Company received a notification from XXZW Investment Group being an entity closely related to Jakub Zabłocki who performs management functions, which informed about the sale of a total of 239 751 shares of the Company. According to the notification the sale of the above shares was in connection with the performance by the participants of the Incentive Scheme entitlements from options granted under the scheme.

About the above-mentioned events, the Company informed in the current report No. 19/2016 on 23 December 2016.

In addition, after the end of the reporting period on 5 January 2017 the Company received a notification from XXZW Investment Group, which informed on the sale of 79 552 shares in connection with the performance by the participants of the Incentive Scheme entitlements from options granted under the Programme.

Mr. Paweł Szejko does not have rights to shares of the Company.

Name and Surname	Function	Number of shares held as at 31.12.2016	Number of shares held as at the date of this report
Jakub Malý*	Chairman of the Management Board	219 507	-
Paweł Frańczak	Board Member	37 328	37 328
Jakub Zabłocki**	Chairman of the Management Board	-	64 040 631

** Supervisory Board dismissed on 10 January 2017 Jakub Malý from the Management Board , effective on the same day.*
*** Chairman of the Supervisory Board of X-Trade Brokers Dom Maklerski S.A. (from 10 January 2017) delegated to temporarily perform the duties of Chairman of the Management Board - for the period from 10 January 2017 until 10 April 2017. The table above shows the number of shares held indirectly by Jakub Zablocki as at the date of this report. Jakub Zabłocki holds shares representing 81.97% of the share capital and entitling to exercise 81.97% of votes at the general meeting of shareholders XXZW.*

Other Management Board Members did not hold the Company's shares at the end of the reporting period and as at date of this report. Managing persons did not hold shares in subsidiaries.

4.10.5 Positions held by the Management Board members of the Issuer in the Group companies

The following table provides information on the functions carried out by members of the Management Board of the parent company in the authorities of subsidiaries:

Name and Surname	Company	Function
Jakub Malý*	X Trade Brokers Menkul Değerler	Board Member
Paweł Szejko	X Trade Brokers Menkul Değerler	Board Member
Paweł Frańczak	DUB Investments Ltd	Managing Director
Omar Arnaout**	X Trade Brokers Menkul Değerler	Chairman of the Management Board

** Jakub Malý was a member of the Management Board of X-Trade Brokers Menkul Değerler until 30 January 2017.*
*** Omar Arnaout has been Chairman of the Management Board of the X-Trade Brokers Menkul Değerler from 17 February 2017.*

Members of the Management Board of the parent company did not receive in 2016 and 2015 remuneration for performing functions in the bodies of subsidiaries.

4.11 Supervisory Board

The Supervisory Board shall supervise the operations of the Company in all areas of its operations.

4.11.1 Composition, changes and election of the members of the Supervisory Board

Pursuant to § 15 of the Articles of Association of the Company, from the First Listing Date, the Supervisory Board consists of five to nine members. The Supervisory Board members are appointed for a joint three year term of office.

Composition and election of the Supervisory Board before the First Listing Date

Till the First Listing Date, the Supervisory Board consisted of three to five members who were appointed and dismissed as follows:

- XXZW is authorised to appoint, dismiss or suspend from their duties three members of the Supervisory Board by way of a written representation delivered to the Company; and
- SYSTEXAN is authorised to appoint, dismiss or suspend from their duties two members of the Supervisory Board, including the Chairman of the Supervisory Board, by way of a written representation delivered to the Company.

Composition and election of the Supervisory Board after the First Listing Date

As of the First Listing Date, the Supervisory Board shall consist of five to nine members.

As of the First Listing Date, the Supervisory Board members are appointed and dismissed as follows:

- Jakub Zabłocki has the right to appoint and dismiss one member of the Supervisory Board, who is the Chairman of the Supervisory Board, by way of a written representation on the appointment or dismissal of the chairman of the Supervisory Board submitted to the Company; the above right which, within the meaning of Article 385 §2 of the Commercial Companies Code is classified as an "other method of appointment" of a member of the Supervisory Board, will be enjoyed by Jakub Zabłocki until such time that, through entities personally controlled thereby, within the meaning of the Accounting Act, or jointly with such entities or personally, he holds shares in the Company representing at least 33% of the overall number of votes at the General Meeting;
- SYSTEXAN, as long as it holds shares in the Company representing at least 10% of the overall number of votes at the General Meeting, will enjoy the personal right to appoint and dismiss one member of the Supervisory Board by way of a written representation on the appointment or dismissal of the given member of the Supervisory Board delivered to the Company; and
- the other members of the Supervisory Board will be appointed and dismissed by the General Meeting.

The number of members of the Supervisory Board in a given term is determined by the General Meeting, and if the General Meeting does not reach other decision, the number of members of the Supervisory Board will be five. In the case of the election of the Supervisory Board by way of separate group voting in compliance with Article 385 of the Commercial Companies Code, the number of Supervisory Board members will be five.

From the First Listing Date, the members of the Supervisory Board may elect from among themselves a Deputy Chairman of the Supervisory Board and a secretary of the Supervisory Board. Once Jakub Zabłocki loses his personal right referred to above, the members of the Supervisory Board will elect a Chairman of the Supervisory Board from amongst themselves.

The mandates of the Supervisory Board members shall expire on the date of the General Meeting approving financial statements for the last full year as a member of the Supervisory Board and in other cases specified in the Code of Commercial Companies.

In the reporting period the composition of the Supervisory Board as follows:

NAME AND SURNAME	FUNCTION	STARTING DATE OF THE CURRENT TERM OF OFFICE	EXPIRATION DATE OF THE CURRENT TERM OF OFFICE
Jakub Leonkiewicz	Chairman of the Supervisory Board	9.11.2015	9.11.2018
Łukasz Baszczyński	Member of the Supervisory Board	9.11.2015	9.11.2018
Jarosław Jasik	Member of the Supervisory Board	9.11.2015	9.11.2018
Michał Kędzia	Member of the Supervisory Board	9.11.2015	9.11.2018
Bartosz Zabłocki	Member of the Supervisory Board	9.11.2015	9.11.2018

After the end of the reporting period the composition of the Supervisory Board changed as follows:

On 10 January 2017 Mr Jakub Leonkiewicz resigned from participation in the Supervisory Board of the Company and acting as the Chairman with immediate effect. Therefore, using the right under § 15 section 4 of the XTB Articles of Association, on 10 January 2017 Mr Jakub Zabłocki appointed, with effect on the same day, himself to the Supervisory Board of the Company acting as its Chairman.

4.11.2 Powers of the Supervisory Board

The Supervisory Board shall exercise permanent supervision over the operations of the Company in all areas of such operations.

Apart from the matters reserved for the competence of the Supervisory Board by the Code of Commercial Companies, the Supervisory Board shall be responsible, in particular, for:

- evaluation and review of the financial statements for the last financial year and evaluation of the report of the Management Board on the activities of the Company for the last financial year, in terms of their compliance with accounting books and documents, as well as the actual state of affairs, and review of the distribution of profits or covering the losses proposed by the Management Board;
- submitting to the General Meeting of the annual written report on the results of the review and evaluation referred to in point above;
- suspending members of the Management Board in their activities, for material reasons;
- determining conditions of remuneration and employment of members of the Management Board;
- appointing committees referred to in §18 of the Regulations of the supervisory Board;
- granting consent to the payment of interim dividends;
- approving annual budgets, including the budget of the Company, the budgets of the Subsidiaries, and the consolidated budget of the capital group of the Company;
- appointing an independent external auditor for the Company and the Subsidiaries;
- granting consent to the provision of sureties, guarantees or other forms of collateral for third-party liabilities, excluding any events which are directly and closely related to the operations of the Company, which shall be understood as any activities directly related to the current brokerage activities performed by the Company and the Subsidiaries, and in particular those related to trading in foreign exchange contracts, contracts for difference and any other instruments in the OTC market, including any marketing activities (the "Operations of the Company");
- granting consent to establishment of pledges, mortgages, assignments by way of security, and any other encumbrances on the assets of the Company or the Subsidiaries, not provided for in the budget;
- granting consent to the acquisition, subscription or disposal by the Company or any of the Subsidiaries any shares or stocks in other companies, or any assets or organised part of the enterprise of another company or other companies, or to mergers with (or demergers from) other companies or enterprises by the Company or any of the Subsidiaries, excluding any agreements concluded within the framework of Operations of the Company, if such acquisition, subscription or disposal does not exceed 5% of the share capital of such other company;
- granting consent to the sale, encumbrance, leasing or any other disposal of the real estate of the Company or any of its Subsidiaries, not provided for in the budget approved by the Supervisory Board;
- granting consent to the conclusion of agreements between the Company or any of its subsidiaries and the members of the Managements Board, the Supervisory Board or shareholders of the Company, or any related party,

with any member of the Management Board, the Supervisory Board or any shareholder of the Company, excluding any agreements concluded within the framework of Operations of the Company;

- expressing an opinion on changes to the investment policy of the Company, if any such change would result in the increase, by more than 50%, of the maximum exposure of the Company to market risk, unless the revenues of the Company, as planned in the budget approved by the Supervisory Board, were to increase by more than 50%, and in this case, such an opinion of the Supervisory Board shall be required if the percentage of the increase in the exposure exceeds the percentage of the increase in the revenues, as planned in the budget;
- granting members of the Management Board consent for competitive interests, within the meaning of article 380 of the Code of Commercial Companies;
- granting consent to the disposal by the Company of any right or incurring a liability with a value exceeding EUR 1 000 000 (one million), if any such disposal or liability has not been provided for in the budget approved by the Supervisory Board, including any disposal or liability related to repeated or continuous benefits/services, if the value of benefits arising therefrom exceeds EUR 1 000 000 (one million) per annum. In the event that the total value of all such disposals and liabilities made or incurred by the Company, and not provided for, or exceeding the value provided for, in the budget of the Company, exceeds in the calendar year the amount of EUR 3 000 000 (three million), the Management Board shall be required to request the Supervisory Board for its approval of any disposal of right or liability to be incurred which has not been provided for in the budget of the Company, regardless of the value thereof,
- granting consent to members of the Management Board to take office in the management or supervisory boards of companies from outside the capital group of the Company;
- granting consent to the appointment and dismissal of persons in charge of the internal audit and compliance departments of the Company,
- review and expressing opinion on matters to be discussed and put to a vote at the General Meeting.

4.11.3 The operation of the Supervisory Board

The chairman of the Supervisory Board manages the work of the Supervisory Board and represents the Supervisory Board before other authorities of the Company. In the case of the absence of the chairman of the Supervisory Board or a vacancy in such position, the above-mentioned rights of the chairman of the Supervisory Board should be exercised by a member of the Supervisory Board authorised thereby to exercise such rights, and if no such authorisation has been granted, by the eldest member of the Supervisory Board.

The chairman of the Supervisory Board or a member of the Supervisory Board authorised thereby convenes the meetings of the Supervisory Board and chairs such meetings, and if the chairman of the Supervisory Board has not granted the relevant authorisation, the right to convene and chair the meetings is enjoyed by the eldest member of the Supervisory Board. A meeting of the Supervisory Board may also be convened by two members of the Supervisory Board acting jointly.

The Management Board or a member of the Supervisory Board may demand that a meeting of the Supervisory Board be convened by presenting the proposed agenda. Such meeting of the Supervisory Board should be convened for a date falling no later than the 14th day from the date of submitting the request, provided that, if reasonable circumstances exist preventing the presence of at least half of the members of the Supervisory Board at the meeting within the above mentioned deadline, the meeting of the Supervisory Board may be convened not later than within 30 days from the date of filing the application.

Resolutions of the Supervisory Board may also be adopted in writing by circulating the resolution or by using means of direct remote communication.

Members of the Supervisory Board may participate in the adoption of resolutions of the Supervisory Board by casting their vote in writing and delivering it through another member of the Supervisory Board. Such method of voting may only be used when voting on matters already on the agenda of a meeting of the Supervisory Board.

The detailed procedure for the operation of the Supervisory Board and the organisation thereof is set out in the Regulations of the Supervisory Board.

As of the First Listing Date, resolutions of the Supervisory Board will be valid if all of the members of the Supervisory Board have been invited to and at least half are present at a Supervisory Board meeting, including the chairman or a deputy chairman of the Supervisory Board.

As of the First Listing Date, the Supervisory Board resolutions are passed by a simple majority. In case of equal number of votes, the vote of the Chairman of the Supervisory Board decides.

4.11.4 Shares of the Company and related entities held by the Supervisory Board Members

Supervising persons, subject to the information contained in section 4.10.4. of the foregoing report, did not hold any shares of the Company.

Supervising persons did not hold shares in subsidiaries.

4.11.5 Positions held by the Supervisory Board Members of the Issuer in the Group companies

Members of the Supervisory Board of the parent company did not hold in the reporting period at the same time functions in the bodies of subsidiaries.

4.11.6 Committees of the Supervisory Board

There are two committees of the Supervisory Board, i.e. the Remuneration Committee and the Audit Committee. The duties of the Remuneration Committee are performed by all of the members of the Supervisory Board collectively pursuant to a resolution adopted thereby. The duties of the Audit Committee are performed by all of the members of the Supervisory Board collectively pursuant to a resolution adopted by the General Meeting.

The Supervisory Board may also appoint other committees. The detailed duties and procedures for the appointment and operation of the committees are provided for in the Regulations of the Supervisory Board.

Audit Committee

Pursuant to the Articles of Association, as of the First Listing Date, the Supervisory Board should appoint an Audit Committee comprising at least three members of the Supervisory Board, including at least one member who satisfies the independence criteria within the meaning of the Auditors Act and who has qualifications in accounting or auditing. In the reporting period 2016 and as at the date of this report, the tasks of the Audit Committee are performed by the entire Supervisory Board. Pursuant to §18 section 3 of the Regulations of the Supervisory Board, if the Supervisory Board consists of not more than 5 members, it may perform the duties of the audit committee.

The tasks of the Audit Committee include, in particular:

- supervising the organisational unit dealing with internal audit;
- monitoring the financial reporting process;
- monitoring the efficiency of internal control, internal audit and risk management systems;
- monitoring the audit procedures;
- monitoring the independence of the auditor and the entity authorised to audit the financial statements, in particular in the case of services other than financial audit services being rendered for the Company; and
- recommending a registered audit company to perform a financial audit of the Company.

Remuneration Committee

The function of the Remuneration Committee is performed in the Company by entire Supervisory Board.

The tasks of the Remuneration Committee include:

- opining on the policy of the variable remuneration components, including in respect of remuneration value and the components thereof;
- opining on the observed policy of variable remuneration components;
- opining on and monitoring the payment of variable remuneration components of any individuals who hold management positions related to risk management, internal audit and the compliance of the brokerage house's operations with the law;

- the determination of the lists of individuals holding management positions in the Company; and
- the approval of the proposed value and components of remuneration of the individuals holding management positions.

4.11.7 The control system for employee share schemes

With the exception of the Incentive Scheme introduced on the basis of the shareholders' agreement of 28 March 2011 adopting the option plan of the Company concluded between XXZW and SYSTEXAN in the execution of the investment agreement (of which the Company informed in detail in the Prospectus), XTB does not operate employee share program. On 23 December 2016, members of the Management Board entitled under the Incentive scheme exercised their entitlement to acquisition of XTB shares.

4.12 The General Meeting of Shareholders

The operation of the General Meeting of the Company and its powers are contained in the Articles of Association and the Regulations of the General Meeting of X-Trade Brokers Dom Maklerski SA with its registered office in Warsaw, which is available on the Company's website under www.xtb.pl. in Investors Relations section.

4.12.1 Operation of the General Meeting

General Meetings is convened by the Supervisory Board as ordinary or extraordinary.

Ordinary General Meetings are held annually, not later than within six months after the end of the financial year.

Extraordinary General Meetings are convened in the circumstances specified in the Commercial Companies Code or in the Articles of Association and also if the authorities or persons authorised to convene General Meetings believe such to be necessary.

Ordinary General Meeting may be convened by the Supervisory Board, if the Management Board fails to convene it on time. The Supervisory Board may also convene the extraordinary General Meeting if it deems it necessary. The right to convene an extraordinary General Meeting is also vested with the Company's shareholders representing at least one-half of the Company's share capital or at least one-half of the total number of votes in the Company. In such case, the Company's shareholders will appoint the chairman of such General Meeting.

Furthermore, a shareholder or shareholders of the Company representing at least one-twentieth of the Company's share capital may request that an extraordinary General Meeting be convened and that certain matters be placed on the agenda of such General Meeting. The request to convene the extraordinary General Meeting must be submitted to the Management Board in writing or in electronic form. If within two weeks from the submission of such request to the Management Board the extraordinary General Meeting is not convened, the registry court may authorise the Company's shareholders submitting such request to convene an extraordinary General Meeting. In such case, the chairman of the General Meeting is appointed by the court.

4.12.2 Powers of General Meetings

According to the Commercial Code of Companies, tasks of the General Meeting include in particular:

- the consideration and approval of the Management Board's report on the Company's Operations and the financial statements for the previous financial year,
- the granting of a vote of approval to the members of the Management Board and the Supervisory Board with respect to the performance of their duties,
- decisions regarding claims for the redress of damage caused while establishing the Company or exercising management or supervision over the Company,
- the sale or lease of the Company's enterprise or an organised part thereof and the establishment of a limited property right thereon,
- making a distribution of profit or covering of losses,

- issue of convertible bonds or bonds with priority rights and subscription warrants, referred to in art. 453 § 2 of the CCC,
- liquidation of the Company,
- the acquisition of own shares for redemption, redemption and reduction of share capital of the Company,
- the merger, transformation or split of the Company,
- amending the Articles of Association of the Company.

According to the Articles of Association, the competences of the General Meetings include also:

- the approval of the Regulations of the Management Board,
- the adoption of the Regulations of the Supervisory Board,
- the determination of the rules and amount of the remuneration of the members of the Supervisory Board,
- the creation, drawing upon and liquidation of reserve capitals and other special-purpose funds and the drawing upon the supplementary capital.

As of the First Listing Date, the resolutions of the General Meeting passed by an absolute majority of votes, unless the law or the Articles of Association provide for stricter requirements for the adoption of the resolution.

As of the Dematerialisation Date, the General Meeting will be deemed to have been validly convened regardless of the number of shares represented thereat, provided that the General Meeting will be able to adopt a resolution regarding the amendment to §15, sections 3 and 4 of the Articles of Association only in the presence of shareholders representing at least 2/3 (two-thirds) of the overall number of votes a the General Meeting.

4.12.3 Rights and Obligations Related to the Shares

Certain rights and obligations related to the Shares are presented below. The issues regarding the rights and obligations related to the shares are specifically regulated under the Polish Commercial Companies Code, the Act on Public Offering, the Act on Trading in Financial Instruments and the Articles of Association.

The Articles Of Association do not contain any clauses regarding the threshold value of the shares held which, if exceeded, necessitates the notification of the number of shares held by a shareholder of the Company, and they do not contain any provisions imposing more rigorous conditions to which changes to the share capital are subject other than those required by prevailing law.

Right to dispose of the Shares

The Company's shareholders have the right to dispose of the Shares. The disposal of the Shares includes a sale (transfer of ownership) and other forms of disposal, including the establishment of a pledge, a right of use or a lease over the Shares.

Dividend

The Company's shareholders have a right to a share in the profit which will be reflected in the annual, standalone financial statements audited by an independent auditor and approved under a resolution of the General Meeting to be paid out to the Company's shareholders (the right to dividend).

The governing body that decides on profit distribution and dividend payments is the annual General Meeting. Resolutions of the annual General Meeting are adopted with respect to whether and what part of the profit reflected in the financial statements audited by an independent auditor will be allocated for distribution. The annual General Meeting should be held within six months after the end of each financial year (which, in the case of the Company, corresponds to the calendar year), i.e. by the end of June.

The annual General Meeting also determines the dividend date and the dividend payment date. The dividend date may be determined as the date of the adoption of a resolution on the distribution of profit or within three months from such date.

The amount allocated for distribution among the Company's shareholders may not exceed the profit for the last financial year, increased by undistributed profits from previous years and by such amounts transferred from the supplementary capital and reserve capitals created out of profit which may be allocated for the payment of dividend. However, such amount should be reduced by unaccounted losses from previous years, own shares held, and such portions of profit from the preceding financial year which, according to the Commercial Companies Code or the Articles of Association, should be allocated to the supplementary capital and reserve capitals.

The Management Board may make an advanced interim payment of the anticipated dividend at the end of the financial year to the shareholders, provided that the Company has sufficient funds for such payment. The payment of an advanced interim dividend requires the consent of the Supervisory Board. The Company may pay interim dividend if its approved financial statements for the previous financial year show profits. The advanced interim dividend may not exceed half of the profits generated from the end of the previous financial year shown in the financial statements audited by an auditor, increased by the reserve capitals created out of the profit which can be disposed of by the Management Board, and reduced by unaccounted losses from previous years and own shares held.

Persons who hold (bearer) Shares registered on their securities accounts as at the dividend date and persons authorised to the dematerialised Shares registered in an omnibus account have the right to dividend.

A shareholder's claim against the Company for payment of dividend may be enforced within ten years from the date of the adoption by the annual General Meeting of a resolution on designating all or some of the Company's profits for payment to the shareholders. After such time, the Company is not required to make any payment of dividend based on the statute of limitations.

Terms of payment of dividend

The terms of payment of dividend to the Company's shareholders are equivalent to those applicable to public companies. A resolution on the payment of dividend needs to indicate the date of determining the right to dividend (the record date) and the date of the dividend payment. Subject to the applicable provisions of the NDS Rules, the dividend date may be fixed as the date on which the resolution was adopted or any date falling within three months after the adoption of the resolution, calculated from the date on which the resolution was adopted. The dividend will be paid on the date specified in the resolution of the General Meeting, and if the resolution of the General Meeting fails to specify such date, the dividend payment is made on the date determined by the Supervisory Board.

Pre-emption right

The shareholders have the right to subscribe for newly issued shares in the Company pro rata to the number of Shares already held (pre-emption right) by them. The Company's shareholders have a priority right to subscribe for new shares in the Company also in the case of an issue of securities convertible into shares in the Company or incorporating the right to subscribe for shares in the Company.

A resolution adopted on the increase of the Company's share capital needs to indicate the date of determining the pre-emption right of the Company's shareholders to the new shares (the pre-emption right record date). The pre-emption right record date must be set before the lapse of a six-month period, calculated from the date on which the resolution was adopted.

The agenda of the General Meeting at which such resolution is adopted needs to specify the proposed pre-emption right record date. The pre-emption right may be excluded only in the interest of the Company, and provided that such item has been included on the agenda of the General Meeting. The Management Board should present to the General Meeting a written opinion justifying the reasons for the exclusion of the pre-emption right and the proposed share issue price or the method of determining such price. A four-fifths majority is required to adopt a resolution on the exclusion of the pre-emption right of the existing shareholders.

The above-mentioned requirements concerning the adoption of resolutions on the exclusion of the pre-emption right of the Company's existing shareholders are not applicable if:

- the resolution to increase the share capital provides that the new shares are to be subscribed for solely by a financial institution (underwriter) with the obligation to offer the shares to the Company's shareholders to enable them to exercise their pre-emption right on the conditions determined in the resolution; and
- the resolution provides that the new shares are to be subscribed for by the underwriter in case the Company's shareholders who have pre-emption rights fail to subscribe for a part or all of the shares offered to them.

Right to a share in the assets in the case of the liquidation of the Company

If the Company is liquidated, the assets remaining after the satisfaction or securing of the creditors of the Company are divided between the shareholders of the Company on a pro rata basis to their contributions to the share capital.

The right to participate in the General Meeting and voting rights

A shareholder may exercise its right to vote at a General Meeting. Pursuant to the Commercial Companies Code, General Meetings may be annual (ordinary) (annual General Meetings) or extraordinary (extraordinary General Meetings).

Each Share authorises its holder to one vote at the General Meeting.

The Company's shareholders may participate in the General Meeting and exercise their voting rights in person or by proxy. A shareholder of the Company intending to participate in the General Meeting by proxy must grant a power of attorney to his proxy in writing or in electronic form. The Company will be required to take the relevant actions aimed at establishing the identity of the Company's shareholder and its proxy in order to verify the validity of a power of attorney granted in electronic form.

A detailed description of the manner in which the validity of a power of attorney granted in electronic form is verified will be included in the announcement on the convocation of the General Meeting.

Pursuant to the Articles of Association, it is permitted to participate in the General Meeting using electronic means of communication, subject to the following. If the notice on the convocation of the General Meeting contains information regarding the shareholder's right to participate in the General Meeting using electronic means of communication, the Company is required to provide the shareholders with the option of participating in the General Meeting using electronic means of communication.

The detailed rules of holding General Meetings using electronic means of communication are determined by the Management Board subject to the by-laws of the General Meeting. The Management Board publishes such rules on the Company's website together with the announcement of the convocation of the General Meeting.

A shareholder of the Company holding the Shares registered in more than one securities account may appoint several proxies to exercise the rights attached to the Shares registered in each of such securities accounts.

If a proxy appointed by the Company's shareholder is a member of the Management Board, a member of the Supervisory Board, a receiver, an employee of the Company, a member of the governing bodies or an employee of a cooperative controlled by the Company, the power of attorney must authorise the proxy to represent the principal only at one General Meeting.

The proxy is required to disclose to the Company's shareholder the existence of or possibility that a conflict of interest may arise. In such case, the granting of further powers of attorney is not permitted. A proxy must vote in line with the instructions provided by the Company's shareholder.

Each Share authorises its holder to one vote at the General Meeting. The Articles of Association do not provide for any preference of the Shares as to voting rights. A shareholder may vote in a different manner using the rights attached to each of its shares. One proxy may represent more than one shareholder of the Company and vote in a different manner using the rights attached to the Shares held by each shareholder of the Company whom he represents.

A shareholder of the Company may not vote personally nor through a proxy on resolutions regarding the shareholder's liability against the Company on any account, including the granting of approval to the performance of duties, a release from liability towards the Company and regarding a dispute between the shareholder and the Company. The aforementioned restriction does not apply to a shareholder of the Company who votes as the proxy of another shareholder regarding the above-mentioned resolutions concerning the shareholder voting as a proxy.

The right to participate in the General Meeting is vested only with persons who were the Company's shareholders sixteen days before the date of the General Meeting (the date of registration of the General Meeting's participants). In order to participate in the General Meeting, the eligible holders of dematerialised bearer Shares in the Company should request the entity maintaining their securities account to issue a document bearing their name and confirming their right to participate in the General Meeting. Such request should be presented no earlier than on the day after the date of the announcement on the convocation of the General Meeting and no later than on the first business day after the date of registration of the General Meeting's participants.

Persons entitled to vote under registered shares or interim certificates, and pledgees and users entitled to vote, also have the right to participate in the General Meeting if they are entered into the share register on the date of registration of the General Meeting's participants.

The list of shareholders authorised to participate in the General Meeting should be prepared by the Company based on the list provided by the entity maintaining the depositary of securities pursuant to the Act on Trading in Financial Instruments and based on the information disclosed in the Company's share register on the date of registration of the General Meeting's participants. The aforementioned list is displayed at the Company's registered office for three days preceding the date of the General Meeting. A shareholder of the company may request that copies of the list of shareholders entitled to participate in the General Meeting be sent by electronic mail to his indicated email address free of charge.

With respect to shares registered in an omnibus account, the certificate confirming the right to participate in the General Meeting will be a document with the appropriate wording issued by the holder of such account. If the omnibus account is maintained by the NDS (or an entity that the NDS has retained for the purposes of the duties related to the operation of a securities depository), the holder of such account should be indicated to the NDS (or the entity that the NDS has retained for the purposes of the duties related to the operation of a securities depository) by the entity which maintains the omnibus account therefor prior to the first issuance of such document.

Based on the documents referred to above, the holder of the omnibus account is required to prepare a list of persons authorised to participate in the General Meeting. If the holder of an omnibus account is not a participant of the NDS (or a bank which the NDS has retained for the purposes of the duties related to the operation of a securities depository), the list of persons authorised to participate in the General Meeting is delivered through a participant of the NDS (or a bank which the NDS has retained for the purposes of the duties related to the operation of a securities depository).

A shareholder of the Company may transfer the Shares in the period between the date of the registration of the General Meeting's participants and the date of closing the General Meeting.

Right to place particular matters on the agenda

A shareholder or shareholders of the Company representing at least one-twentieth of the Company's share capital may request that particular matters be placed on the agenda of the nearest General Meeting. This request should be presented by the Management Board at least twenty-one days before the date for which the General Meeting is scheduled. Such request may be made in electronic form. The Management Board is required to immediately announce all the amendments to the agenda introduced at the request of the Company's shareholders, but no later than eighteen days before the date of the General Meeting. The amendments must be announced in the same manner as the announcement on the convocation of the General Meeting.

Manner in which the General Meeting is convened

The General Meeting is convened by way of an announcement published on the Company's website and in the manner required for the publication of current reports pursuant to the Act on Public Offering. The announcement must be made at least 26 days before the date of the General Meeting. The announcement of the General Meeting must include, specifically: (i) the date, time and venue of the General Meeting, as well as its detailed agenda; (ii) a precise description of the procedures for participation in the General Meeting and for voting; (iii) the date of registration of the General Meeting's participants; (iv) information that only the persons being the Company's shareholders on the date of registration of the General Meeting's participants have the right to participate in the General Meeting; (v) information on where and how a person authorised to participate in the General Meeting may obtain the full documentation to be presented to the General Meeting as well as the draft resolutions or, if no resolutions are to be adopted, comments of the Management Board or the Supervisory Board concerning the matters placed on the agenda of the General Meeting or matters to be placed on the agenda before the date of the General Meeting; and (vi) the website address where information concerning the General Meeting can be found.

According to the Reports Regulation, the Company must publish, by way of a current report, inter alia, the date, time and venue of the General Meeting, including its detailed agenda.

Moreover, if an amendment to the Articles of Association is planned, the current report must include the provisions of the Articles of Association to be amended, the text of the proposed amendments and, if required, taking into account the scope of the proposed amendments, the Company may decide to include the full consolidated text of the Articles of Association, including a description of the newly amended provisions. In addition, the text of the draft resolutions and the material appendices to the draft resolutions to be discussed at the General Meeting must be included in the current report.

Venue of the General Meeting

General Meetings are held in the Company's registered office.

Right to propose draft resolutions to the Company

A shareholder or shareholders of the Company representing at least one-twentieth of the share capital may, before the date of the General Meeting, propose to the Company draft resolutions regarding matters placed on the agenda of the General Meeting or matters to be placed on the agenda, in writing or in electronic form. The Company must immediately publish such draft resolutions on its website.

Right to demand the issuance of duplicates of motions

Each shareholder of the Company has the right to demand the issuance of duplicates of the motions concerning the matters included on the agenda of the next General Meeting. The demand should be addressed to the Management Board no later than one week before the General Meeting.

Right to demand that the list of participants of the General Meeting be verified

Immediately after the selection of the chairman of the General Meeting, a list of the participants of the General Meeting needs to be prepared containing the number of the Company's shares represented by each of the participants and the corresponding voting rights. The list of participants must be signed by the chairman of the General Meeting and be available for the duration of the meeting. At the request of shareholders holding one-tenth of the share capital represented at the General Meeting, the list of participants should be verified by a committee selected for this purpose and consisting of at least three members. The requesting shareholders have the right to appoint one member of such committee.

Right to information

The Management Board is required, at the request of a shareholder of the company, to provide such shareholder with information regarding the Company if such information is required for the assessment of a matter included on the agenda of the General Meeting. If the request is properly justified, the Management Board may provide such information in writing outside the General Meeting. In such case, the Management Board is required to provide such information no later than within two weeks from the date on which the Company's shareholder made such request for information.

The Management Board may refuse to provide the information if the provision of such information would be detrimental to the Company, a company affiliated with the Company or a company or a cooperative controlled by the Company, particularly if such information would result in the disclosure of technical, trade or organisational secrets of the enterprise. A member of the Management Board may refuse to disclose the requested information if the provision of such information would make a member of the Management Board subject to criminal, civil or administrative liability.

The information provided to the Company's shareholders must be announced publicly in the form of a current report.

A shareholder who was denied the disclosure of information demanded by him during the General Meeting and who had his objection recorded in the minutes may submit a motion to the registry court requesting that the Management Board be required to provide such information. The motion should be submitted within a week of the closing of the General Meeting at which the disclosure of such information was denied. The shareholder may also submit a motion to the registry court requesting that the Company be required to publish information provided to another shareholder outside the General Meeting. In accordance with the Reports Regulation, the Company will be required to provide, in the form of a current report, the information provided to a shareholder after the registry court imposes an obligation on the Management Board in the circumstances referred to above.

Right to demand the issuance of duplicates of the annual financial statements

Each shareholder of the Company has the right to demand the issuance of duplicates of the Management Board's reports on the Company's operations and financial statements, including a duplicate of the Supervisory Board's report and the audit opinion, no later than 15 days before the General Meeting.

Right to request the election of the Supervisory Board by separate groups

At the request of the Company's shareholders representing at least one-fifth of the share capital, the Supervisory Board must be appointed at the next General Meeting by voting in separate groups. In such case, the procedure provided for in the Articles of Association will not be applied and the shareholders will follow the procedure provided for in the Commercial Companies Code. The mechanism of such appointment is as follows: the total number of shares in the Company is divided by the total number of members of the Supervisory Board of the Company. The shareholders who represent such number of shares may form a separate group to elect one Supervisory Board member and cannot vote in electing the other members. If following the voting by separate groups procedure there are any vacancies on the Supervisory Board, the shareholders who did not participate in the formation of any group will be entitled to elect the remaining Supervisory Board members. If the appointment of the Supervisory Board members is made pursuant to the voting by separate groups procedure, the limitations or privileges on voting rights do not apply and each share gives the holder thereof the right to one vote, except in respect of the restrictions regarding nonvoting shares.

Right to appeal against the resolutions of the General Meeting

The Company's shareholders have the right to appeal against the resolutions adopted by the General Meeting. Such appeal can take the form of an action for the revocation of a resolution or an action for declaring a resolution invalid.

Action for the revocation of a resolution

A resolution of the General Meeting that is in breach of the Articles of Association or good customs and is harmful to the interests of the Company or is aimed at harming a shareholder may be appealed by way of an action for the revocation of the resolution. Such action is brought against the Company.

An action for the revocation a resolution of the General Meeting should be filed within one month after the resolution is announced, but in any case not later than within three months after the date of the adoption of the resolution.

Action to have a resolution declared invalid

A resolution of the General Meeting in breach of applicable law may be appealed against by virtue of an action filed against the Company seeking to have the resolution declared invalid.

An action seeking to have a resolution of the General Meeting declared invalid should be filed within 30 days after the resolution is announced, but in any case no later than within a year after the date of the adoption of the resolution.

Entities authorised to challenge resolutions of the General Meeting

The following persons have the right to file an action seeking to have a resolution of the General Meeting declared invalid or an action for the revocation of a resolution of the General Meeting:

- the Management Board, the Supervisory Board and the individual members thereof;
- a shareholder of the Company who voted against the resolution and who upon the adoption thereof requested that his objection be recorded in the minutes of the General Meeting;
- a shareholder of the Company who was refused participation in the General Meeting without providing a good reason; and
- the shareholders of the Company who were not present at the General Meeting – only if the General Meeting was improperly convened or in the case of a resolution on a matter which was not included on the agenda.

Change to the Rights Entrusted with the Company's Shareholders

Any change to the rights of the shareholders by way of a change to the provisions of the Articles of Association requires a resolution of the General Meeting adopted with a majority of three-fourths of the votes and the registration thereof in the Register of Business Entities of the National Court Register. Furthermore, a resolution adopting an amendment to the Articles of Association that increases the performances of the Company's shareholders, or diminishes the rights granted individually to the Company's shareholders, requires the consent of all of the Company's shareholders involved.

Redemption of Shares

The Shares may be redeemed by way of decreasing the Company's share capital where such redemption requires the consent of the Company's shareholders. The Articles of Association do not provide for the compulsory redemption of the Shares.

The conditions, legal grounds and manner in which Shares are redeemed, together with the amount of the fee for the redeemed Shares or the justification for there being no redemption fee, are each time determined under a resolution of the General Meeting.

Right to Request the Appointment of a Special-Purpose Auditor

Pursuant to Article 84 of the Act on Public Offering, at the request of a shareholder or shareholders of the Company who hold at least 5% of the total number of votes, the General Meeting may adopt a resolution on the appointment of an auditor, at the expense of the Company, to audit a specific matter related to the establishment of the Company or the management of its affairs. The shareholders may request that an Extraordinary General Meeting be convened for that purpose, or request that the adoption of such resolution be included on the agenda of the next General Meeting. If the shareholders decide to use the first option and the Extraordinary General Meeting is not convened within two weeks after submitting the request for the convocation of such General Meeting to the Management Board, the registry court may authorise the Company's shareholders filing such request to convene the Extraordinary General Meeting. The court will appoint the chair of such General Meeting. If the shareholders decide to use the second option and request that the adoption of such resolution be included on the agenda of the next General Meeting, such request must be filed with the Management Board, in writing, no later than 21 days before the proposed date of the General Meeting.

A resolution of the General Meeting on the appointment of a special-purpose auditor should include, in particular:

- the data of the special-purpose auditor, which auditor should be approved in writing by the requesting shareholder;
- the subject and the scope of the audit, which should comply with the contents of the request, unless the requesting party consented in writing to change the subject and scope of the audit;
- the types of documents that should be made available to the auditor by the Company; and
- the start date of the audit, which should not be later than three months from the date of the adoption of the resolution.

If the General Meeting fails to adopt the resolution in accordance with the request or adopts such resolution in breach of Article 84 clause 4 of the Act on Public Offering, the requesting parties may, within 14 days of the date of the adoption of the resolution, request that the registry court appoint the identified entity as a special purpose auditor.

The special-purpose auditor may only be an entity with the professional knowledge and qualifications necessary for auditing the matter specified in the resolution of the General Meeting so as to ensure the preparation of a reliable and objective audit report. The special-purpose auditor may not be an entity providing services to the Company or its dominant or dependent company, or its dominant entity or a major investor within the meaning of the Accounting Act, in the period subject to the audit. Also, the special-purpose auditor may not be an entity within the same capital group as the entity that provided the service mentioned above.

The Management Board and the Supervisory Board are required to make available to the special-purpose auditor such documents as have been specified in the resolution of the General Meeting upon the appointment of the special-purpose auditor, or upon the decision of the court on the appointment of the special-purpose auditor, and to provide the auditor with the explanations necessary for carrying out the audit.

The special-purpose auditor is required to present to the Management Board and the Supervisory Board of the company a written report on the audit results. The Management Board is required to announce the report in the form of a current report. The report of the special-purpose auditor may not disclose information that constitutes a technical, trade or organisational secret of the Company, unless it is necessary for justifying the position presented in the report.

The Management Board is required to submit a report on the consideration of the audit findings at the next General Meeting.

4.13 Change of the Articles of Association of the Company

Change of the Articles of Association of the Company in accordance with the provisions of the Commercial Companies Code, is within the competence of the General Meeting. The resolution concerning amendments to the Statute is adopted by a majority of three-quarters of votes.

Resolution on amendments to the statute, increasing the benefits of shareholders or limiting the rights granted personally to individual shareholders in accordance with art. 354 Commercial Companies Code, requires the consent of all shareholders concerned.

4.14 The main features of internal control and risk management in relation to the process of preparing separate and consolidated financial statements

The system of internal control and risk management in relation to the process of preparing separate financial statements and consolidated financial is directly under the Management Board of the parent company. Supervision over the process of preparation of financial statements lies with the Financial Director. Financial statements are prepared by the Finance and Accounting Department of the parent company under the supervision of the Chief Accountant. The Parent Company also controls and analyses costs in terms of financial targets.

In order to eliminate the risks associated with the preparation of financial statements, financial statements, also of the Group subsidiaries are annually audited by the independent auditor. The Group constantly monitors the performance of individual areas and compares to financial targets. The annual financial statements of the parent company and the annual consolidated financial statements of the Group are audited by an independent auditor. While the half-year financial statements of the parent company and consolidated half-year financial statements of the Group are reviewed by the auditor. The quarterly and half-yearly condensed consolidated financial statements of the Group as well as the annual financial statements of the Parent Company and the Group are approved prior to publication by the Management Board of the parent company.

4.15 Remuneration Policy

According to the internal system of remuneration, employees receive salary for the work corresponding to the type of work performed and the qualifications required for its performance, taking into account the quality and quantity of work performed.

4.15.1 Remuneration of the Management Board members

The remuneration of Board members is determined adequate to their function and to the scale of operations of the company.

The employment contracts with the members of the Management Board shall determine the amount and the components of remuneration, also provide the opportunity to receive additional commissions or annual bonus granted in the amount and under the conditions specified separately. According to the adopted policy of variable remuneration components, employees holding key management positions may receive variable remuneration paid in cash and in the form of a financial instrument.

Key parameters determining the variable remuneration components have been described in the Policy of variable remuneration components in X-Trade Brokers DM S.A. of 31 March 2012.

Assumptions of implementation of the variable remuneration components policy are determined by the Supervisory Board, acting as the Remuneration Committee, with the approval of the budget of the brokerage house for the year.

The Supervisory Board, after verification of the fulfillment of the criteria and justification for obtaining the variable component of remuneration may approve granting of a premium in derivatives based on the value of XTB shares, for the realization of plans for the year.

The bonus is determined by the Supervisory Board in the form of a resolution on the terms specified in the Policy of variable remuneration components. The bonus must meet the following conditions:

- take into account the company's results for the period in which the person holds a position, but not longer than for the last 3 financial years;
- should consider the way of performance of the tasks assigned to a person holding a managerial position based on internal organizational rules of the company and on the basis of regulations of organizational units directed by that person for the period in which the person holds a managerial position, but not longer than for the previous 3 years.

The employment contracts of the members of the management board do not provide for severance pay in case of termination.

Due to the fact that the members of the management board were concluded non-competition agreements, in respect of compliance with this prohibition on competition after termination of employment of board members, they shall be entitled to compensation, the amount of which was determined as follows:

- Member of the Management Board, Mr Paweł Szejko is entitled to compensation amounting to 50% of gross salary received by the employee before the termination of employment for a period corresponding to the non-competition, payable in 12 monthly installments.

- Member of the Management Board, Mr Paweł Frańczak is entitled to compensation amounting to 100% of the last basic salary for each month of competition prohibition, paid in 12 monthly installments or one time.

- President of the Board Mr Jakub Maly as at 31.12.2016 was entitled to compensation in the amount specified in the relevant provisions of the Czech labor law, payable in 12 monthly installments or once.

The tables below presents the remuneration received by each member of the Management Board in 2016 and 2015. These benefits include base salaries, bonuses, contributions to social security paid for by the employer and supplementary benefits (money bills, healthcare, holiday allowances).

Fixed remuneration

Name and surname	Fixed remuneration received from the Company in the year: (in PLN'000)	
	2016	2015
Jakub Malý	769	642
Paweł Frańczak	389	396
Paweł Szejko*	323	301
Piotr Baszak**	-	46
Ewa Stefaniak***	-	26

** Paweł Szejko has been a member of the Management Board since 28 January 2015.*
*** Piotr Baszak was a member of the Management Board until 29 January 2015.*
**** Ewa Stefaniak was a member of the Management Board until 28 January 2015.*

Variable remuneration

Name and surname	Variable remuneration received from the Company in the year: (in PLN'000)	
	2016	2015
Jakub Malý	660	-
Paweł Frańczak	206	-
Paweł Szejko*	139	-
Piotr Baszak**	-	-
Ewa Stefaniak***	-	-

** Paweł Szejko has been a member of the Management Board since 28 January 2015.*
*** Piotr Baszak was a member of the Management Board until 29 January 2015.*
**** Ewa Stefaniak was a member of the Management Board until 28 January 2015.*

Non-wage benefits enjoyed by individual members of the management board and key managers include health benefits, vacation benefits, provision of recreation and sports, and Christmas vouchers. In addition, in the reporting period board members - Paweł Frańczak and Jakub Malý were provided with a company car.

4.15.2 Agreements concluded with the management, including compensation in case of their resignation or dismissal from the position without a material grounds or their removal or dismissal is due to the Company's merger by acquisition

As at 31 December 2016, and as at the date of publication of this report in the Parent Company and the Group companies there were no agreements with management providing for compensation in case of their resignation or dismissal from the position without a material reason or if their removal or dismissal is due to merger of the parent company by acquisition.

4.15.3 Remuneration of the Supervisory Board members

The table below presents the remuneration received by the members of the Supervisory Board of the Company.

Name and surname	Remuneration received from the Company in the year: (in PLN'000)	
	2016	2015
Sebastian Król*	-	-
Jakub Leonkiewicz**	32	-
Łukasz Baszczyński***	19	-
Jarosław Jasik****	19	-
Bartosz Zabłocki*****	14	-
Michał Kędzia	-	-
Piotr Zeszuta******	5	-

** Sebastian Król resigned from his position as a member of the Supervisory Board as of 31 October 2015.*
*** Jakub Leonkiewicz was appointed on 9 November 2015 to the position of a member of the Supervisory Board. The remuneration for 2015 was entered in the accounting books and paid in 2016.*
**** The remuneration for 2015 was entered in the accounting books and paid in 2016.*
***** The remuneration for 2015 was entered in the accounting books and paid in 2016.*
****** Bartosz Zabłocki was appointed on 9 November 2015 to the position of a member of the Supervisory Board. The remuneration for 2015 was entered in the accounting books and paid in 2016.*
******* Piotr Zeszuta resigned from his function as a Supervisory Board member as of 31 October 2015. The remuneration for 2015 was entered in the accounting books and paid in 2016.*

4.15.4 Information on liabilities arising from pensions and similar benefits for former members of management, supervisory or administrative bodies

As at 31 December 2016 there were no liabilities arising from pensions and similar benefits for former members of management, supervisory or administrative bodies, as well as no liabilities incurred in relation with these pensions.

4.15.5 Changes in the remuneration policy

In 2016, there were no changes in the remuneration policy.

4.15.6 Assessment of the remuneration policy

The general principles of the remuneration policy are aimed to ensure the coherence of the system of remuneration and additional benefits for employees with the strategy of long-term development of the company and taking into account the costs adopted in the financial plan, while maintaining compliance of risk management and stability of the company.

Additionally, assumptions of the variable components of the remuneration for persons in key positions, which should strengthen the relationship between the amount of the variable part of the remuneration and the implementation of long-term company growth, contributes significantly to the stabilization of the company's operations and its shareholder value growth.

Evaluation of the remuneration policy is under the Supervisory Board, which exercises ongoing supervision over the adopted remuneration policy, subjects them to review and makes recommendations to the Management Board as to possible changes in order to ensure a competitive level and effectiveness of remunerations, and ensuring their transparency, compliance with legal regulations and internal justice.

4.15.7 Sponsorship, charity and similar activities

The Group did not conduct material sponsorship, charity and other similar activities in the reporting period.

4.15.8 Description of diversity policy

X-Trade Brokers Dom Maklerski S.A. follows a policy of diversity and a policy of equal treatment for all the Company's employees, its authorities and key managers, because of its firm belief that diversity, as a fundamental value of contemporary society, has a significant impact on the development, competitiveness and innovation of our organization.

The pursuit of a policy of diversity can be seen, among other things, in hiring employees of different gender, age, educational background, qualifications, professional experience, nationality, ethnic background, religion, denomination, nondenominational character, political views, state of health, psychosexual orientation, family status, lifestyle, place of residence, form, scope and basis of employment, ensuring respect, tolerance and equal treatment in the workplace for all employees, as well as creating a work environment conducive to making the most of the above differences for the good of the organization.

The policy of diversity pursued at X-Trade Brokers Dom Maklerski S.A. is aimed at exploiting the potential of our employees, their skills, talents, passions, knowledge and qualifications to the full.

XTB creates an organizational culture focused on achieving the Company's objectives by building in-house teams which vary in terms of gender, age and qualifications, which makes it possible to resolve problems in a more effective manner, leads to a better working environment, boosts the creativity of project teams, and enables effective knowledge sharing.

In the implementation of one of the important aspects of the policy of diversity, the Company offers internships and traineeships to university students and graduates with various job profiles and gives them the opportunity to pursue a career within our organization.

As part of the policy of diversity, X-Trade Brokers Dom Maklerski S.A. also promotes and supports charitable initiatives initiated by its employees.

Managing diversity also consists of including provisions for preventing discrimination and mobbing as well as other regulations which specify the standards for equal treatment, protection against violence, harassment or unfair dismissal in the policies and procedures in place at XTB. The principles of equal treatment in employment are described in the Company's internal documents, among others, in the Labour Regulations, and are freely available to all employees.

As far as the diversity in selecting the Company's authorities is concerned, X-Trade Brokers Dom Maklerski S.A. ensures, in accordance with the principles of corporate governance for supervised institutions, issued by the Polish Financial Supervision Authority (KNF), a variety of qualifications and competencies in terms of the educational background, professional experience and skills of the persons being selected, including management executives, in order to ensure that they carry out their tasks in a comprehensive and fair manner.

As part of the policy of diversity during recruitment to the Company's authorities, XTrade Brokers Dom Maklerski S.A. takes into account the technical knowledge and qualifications of candidates as well as their professional experience and predispositions to the performance of duties in a given position or function. The members of the Company's authorities are specialists in various areas of knowledge and are equipped with varied industry-specific experience which corresponds to the functions they currently perform. The individual competencies of the members of the Company's authorities complement each other in such a manner as to ensure an appropriate level of collegial management at X-Trade Brokers DM S.A.

5. Other information

5.1 The entity authorised to audit the financial statements

The entity authirised to audit the annual financial statements of X-Trade Brokers Dom Maklerski S.A. for the year 2016 is Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k., seated in Warsaw. The audit agreement was concluded on 3 November 2014. The subject of the agreement is the conduct of an audit of the financial statements for the years ended, respectively 31 December 2014, 31 December 2015 and 31 December 2016. The remuneration of the entity authorized to audit the financial statements was disclosed in notes 33 and 32, respectively to the Separate and Consolidated financial statements.

5.2 The information on the significant court proceedings, arbitration authority or public administration authority

As at 31 December 2016 and as at the submission date of this report the Parent company and its subsidiaries were not a party to the proceedings pending before court, arbitration authority or public administration authority, the value of which could constitute at least 10% of the Issuer's equity.

Court proceedings

The Company and the Group Companies are party to several court proceedings related to the Group's business. The proceedings in which the Company and the Group Companies act as plaintiffs relate mostly to employee and client claims. As at the submission date of this raport, the total value of the claims brought against the Company and/or the Group Companies amounted to approximately PLN 6,4 million, of which suits brought by the employees pending before court five proceedings where the total value of claims was PLN 5,66 million and eight suits brought by clients with the total value of claims of PLN 0,74 million. Below the most significant, in the Company's view, were presented.

As at the submission date of this report, the Company is party to proceedings initiated by a former employee of the Company's branch in France. The matter was brought to court on 21 December 2012. Under the Court judgement of 4 November 2014 the sum adjudicated in favour of the former employee is the equivalent of PLN 100 000. On 14 December 2014, the plaintiff submitted an appeal. Although the judgement issued in the first instance was favourable to the Company, there is still a risk that the Company will lose the dispute. In view of the complex nature of the dispute and the claim, as at the submission date of this report it is difficult to reliably assess the risks involved in the case. The original value of the claim was set at PLN 2,2 million. However, based on the representation of the law firm that is conducting the case, it should be theoretically assumed that the value of the claim may increase until it is finally settled by approximately EUR 20 000 per month. In view of the above, as at the submission date of this raport, the claim was accounted for at the total value of the claims demanded against the Company of approximately PLN 5,18 million.

The Company is also a party of a proceeding against XFR Financial Ltd. The Company filed suit against XFR Financial Ltd., with its registered office in Cyprus ("XFR"), requesting the discontinuation of a breach of a trademark registered by the Company. The Company has also launched inter alia a German court proceedings aimed at cessation of infringement of the Company trademark by XFR. The Company takes also other actions aimed at cessation of infringements by XTRADE.

Administrative and control proceedings

The Company and the Group Companies are party to several administrative and control proceedings related to the Group's business. The Company believes that below are presented the most significant among them.

The PFSA, within the scope of its supervisory powers with respect to the Company, has completed the process of reviewing the Company's compliance with the law and internal regulations in terms of, inter alia: (i) the rendering of specific brokerage services, (ii) the terms and conditions of rendering client services, (iii) the organization and operation of internal control system, compliance system and internal audit system, and (iv) the technical and organizational conditions of conducting brokerage activities. Control proceedings have been completed on 16 September 2016. On 14 October 2016 the Company received the control protocol indicating infringements and/or deficiencies in implementation of binding laws and regulations by the Company, in response to which the Company submitted substantiated objections in accordance with the provisions in force. The PFSA did not accept the Company's objections and has issued recommendations, which require from the Company to implement appropriate measures to put an end to irregularities which had been identified.

The Company has adjusted its activity to the PFSA's recommendations with due diligence. Nevertheless, no assurance may be given that the Company's way of activity adjustment to the particular PFSA's recommendation will not be considered as unlawfull or non-compliant with PFSA's attitude to the issue. In the case of the PSFA consider that the Company adopted the recommendations inappropriately, or due to identified breach or irregularities in the implementation of binding laws and regulations by the Company, the PFSA will, inter alia: (i) restrict or withdraw the Company's permit to conduct brokerage activities, (ii) impose a cash penalty of up to 10% of the revenue shown in the Company's last audited financial statements.

As at the submission date of this raport the Company is in the process of obtaining the PFSA's authorization to use a delta ratio calculated based on the Company's own valuation model. This proceedings were initiated by the Company in March 2014, then suspended and resumed by the Company on 5 March 2015. The Company introduced to its offer the Up&Down options in 2012 relying on certain exemptions and provisions under the Polish Regulation on Capital Requirements, on the basis of which offering the Up&Down options did not require an authorization granted by PFSA. With the CRR Regulation entering into force from 1 January 2014, repealing Polish Regulation of the Capital Requirements there is a risk that the Up&Down options without required authorization from PFSA, therefore PFSA may impose the penalty in this virtue.

Regulatory environment

The Group operates in a highly regulated environment imposing on it certain obligations regarding the respect of complying with many international and local regulatory and law provisions. The Group is subject to regulations concerning m.in .: (i) sales practices, including customer acquisition and marketing activities, (ii) maintaining the capital at a certain level, (iii) practices applied in the scope of preventing money laundering and terrorist financing and procedures for customer identification (KYC), (iv) reporting duties to the regulatory authorities and reporting to the trade repository, (v) the obligations regarding the protection of personal data and professional secrecy, (vi) protection obligations in the scope of investors protection and communicating of relevant information on the risks associated with the brokerage services, (vii) supervision over the Group's activity, (viii) inside information and insider dealing, preventing the unlawful disclosure of inside information, preventing market manipulation, and (ix) providing information to the public as the issuer.

The sections below describe the most relevant, from the Company's point of view, changes of regulatory obligations occurring during the period covered by this report and the changes that will enter into force in the forthcoming period.

Changes to the requirements on the subject of providing the brokerage services by the investment firms – the MiFID II/MIFIR system

The deadline for the entry into force of the MiFID II Directive and MIFIR Regulation (the "MiFID/MiFIR package") was postponed to 3 January 2018. The deadline for transposing the MiFID II Directive into the national law by the particular Member States was postponed to 3 July 2017. The principal assumptions of the MiFID II/MiFIR Package include, inter alia: (i) increasing the powers of supervision authorities; (ii) extending the information requirements of investment firms; (iii) the introduction of additional requirements in terms of managing conflicts of interest and stricter requirements in terms of incentives applied; (iv) the introduction of additional requirements within the scope of trading in derivative instruments in connection with the EMIR Regulations; (v) stricter risk management and internal audit requirements, including the greater role of the compliance department (compliance officer); (vi) the introduction of periodic verification of the appropriateness of a given product for a given client; (vii) the introduction of the obligation to register all client communications in terms of client transactions and providing access to the recordings of conversations and email correspondence (or confirmations) with clients in specific circumstances; and (viii) the introduction of a new category of OTF (organized trading facility) market. As a result of the implementation of the MiFID II/MiFIR Package, investment firms will need to adjust their operations to the requirements specified in the MiFID II/MiFIR Package, which may involve costs and result in a significant restriction of the existing operations of investment firms.

At the submission date of this report, the Company is not able to accurately estimate the impact of the above-mentioned regulations on the activity of the Group. It cannot be excluded, that the process of adaptation to the changes may result in the necessity of incurance of significant financial outlays by the Group, implementation of significant organizational changes, or even cause the need to reduce its business activity.

Changes in the scope of protection of personal data - the so-called the GDPR

On 4 May 2016 in the Official Journal of the European Union a legislative package on a new EU legal framework for data protection has been published. The package consists of the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation – the GDPR) and the Directive (EU) 2016/680 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data by competent authorities for the purposes of the prevention, investigation, detection or prosecution of criminal offences or the execution of criminal penalties, and on the free movement of such data, and repealing Council Framework Decision 2008/977/JHA. Implementation of the Directive by the Member States, with some exceptions, shall take place by 6 May 2018. The GDPR does not require implementation and will be used directly by all of the countries of the Community as of 25 May 2018. It is important to note, that the obligations arising from the GDPR will also affect those entities which are established outside the EU but offer their services to EU citizens.

The purpose of the aforementioned regulations is to ensure a high and uniform level of data protection throughout the European Union, as well as rise a sense of legal certainty in this area. The following main legal changes will be introduced by the GDPR: (i) an increase of administrative penalties, which depending on the violations, may amount to EUR 20 million, or 4% of the worldwide turnover for the previous year, depending on which amount will be higher, (ii) an obligation to notify a personal data protection authority (in Poland: GIODO) not later than 72 hours after having become aware of any breach of data security, (iii) the introduction of the requirement to ensure the security of personal data processing by entrepreneurs by keeping detailed documentation, including documents confirming the compliance of data processing with applicable laws and regulations, (iv) the introduction of the requirement to design the services or products in a way which enables the use of the minimum possible amount of personal data processed for their support, (v) regulation of the data subjects' rights and strengthening of existing rights by limiting the data processing, (vi) granting the GIODO broad powers e.g. the power to impose an obligation to temporarily or permanently reduce data processing by the entrepreneur, including the prohibition on personal data processing, (vii) regulation of the right to data portability, enabling the person to request for transfer its data between entrepreneurs, (viii) the new obligation to establish the Data Security Administrator in each enterprise if: a state authority is a personal data administrator, data processing is the core business of the enterprise or large amounts of sensitive data are processed, (ix) facilitation of processing of personal data within the capital group, which carry on the same activity, (x) the introduction of the "one stop shop" mechanism enabling to choose the supervisory authority for the whole capital group, e.g. the Polish GIODO.

At the submission date of this report, the Company is not able to accurately estimate the impact of the above-mentioned regulations on the activity of the Group. It cannot be excluded, that the process of adaptation to the changes may result in the necessity of incurance of significant financial outlays by the Group, or implementation of significant organizational changes.

The exchange of tax information with other countries - implementation of Common Reporting Standard (CRS) and the so-called Euro-FATCA

On 10 February 2017 the polish Parliament adopted the draft law on the exchange of tax information with other countries. After the Senat's amendments, the bill has been sent to the Committee on Public Finance. The purpose of the Act is the implementation into the Polish legal system the Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation as well as regulations enabling the automatic exchange of tax information with other than EU countries on the basis on a Common Reporting Standard (CRS). The Republic of Poland declared in the multilateral agreement of the competent authorities concerning the automatic exchange of financial information for tax purposes, signed on 29 October 2014, that will implement above-mentioned acts. Poland did not implement the aforementioned directive at the given time. These regulations are aimed to create a system of exchange of tax information between countries, in order to effectively combat tax evasion made by tax residents from each jurisdiction, regarding to their taxable income earned abroad.

According to this Act, financial institutions are required to: (i) the application of due diligence procedures and reporting procedures involving identification and reporting of accounts belonging to tax residents form other countries (ii) registration of undertaken actions with due diligence (iii) collecting the documentation required in application of due diligence procedures, in particular statements about the tax residence of account holders or persons controlling this accounts and documentary evidences. In addition, institutions are obliged to store the reports, records of activities and documentation indicated above for a period of 5 years from the end of the year in which the obligation to provide information about the account arose. If a financial institution fails to meet these obligations dissuasive sanctions may be imposed.

At the submission date of this report, the legistalive process is coming to an end. It cannot be excluded that the obligations arising from the final version of the Act will have a significant impact on the Group.

Guidelines for the brokerage services on the OTC derivatives market

On 24 May 2016 Polish Financial Supervision Authority (the "PFSA") adopted and issued guidelines concerning the rendering of brokerage services on the OTC derivatives market" (the "PFSA Guidelines"). Contents of the PFSA Guidelines are available on the Company's website. The PFSA Guidelines apply to many aspects of offering services on the OTC market, including, inter alia, the role of supervisory boards and management boards in the process of offering services, the promotion of such services, soliciting clients, outsourcing client solicitation, providing clients with information on the characteristics of and the risks involved in investing on the OTC market, the method of testing if the services provided are adequate to individual client knowledge and experience, the nature of margin collateral, financial leverage and the stop-out mechanism, as well as their practical application, the time required to execute client instructions, information for clients about OTC market profitability statistics, the terminology applied in contracts with clients, transaction costs and the process of the annulment and correction of transactions.

The Company used the best efforts to implement the PFSA Guidelines. However, it cannot be excluded that a given rule or requirement will be interpreted by the Group in a manner inconsistent with the PFSA approach which may be connected with risk of administrative sanctions and other administrative measures specified in binding laws and may require incurring by the Group significant financial outlays and implementation of the significant organizational changes.

The PFSA Guidelines on the management of information technology and ICT environment security for investment firms

The purpose of these guidelines is to present investment firms with supervisory expectations concerning prudent and stable management of the IT and ICT environment, including specifically the risk associated therewith. According to the position of the PFSA's the guidelines should be applied on a 'comply or explain' basis in terms of the manner of implementation of the specific guidelines, subject to prudential approach, acceptable risk levels and the need to comply with applicable law.

The Company has exercised due diligence in order to comply with the PFSA Guidelines. However, it cannot be excluded that a given rule or requirement will be interpreted by the Company in a manner inconsistent with the PFSA approach which may be connected with risk of supervisory activities and sanctions specified in binding laws and may require incurring by the Company significant financial outlays and implementation of the significant organizational changes.

Document including key information on Financial product („KID" – Key Information Document)

Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (**PRIIP**s) was suppose to enter in force on 31 December 2016. On 9 November 2016 European Commission proposed delaying Regulation's entry into force to 1 January 2018. PRIIP Regulation imposes an obligation on specified financial institutions of preparing document which contains key information of given financial product and defines the manner of its presentation to individual investors**. KID** document needs to be prepared for each packaged retail and insurance-based investment product. These products also include derivatives, such as options and CFDs. PRIIP Regulation precisely defines the elements and the sequence in which they shall be included in KID, that is: (i) product name, (ii) data identifying product manufacturers, (iii) information concerning supervision authority of manufacturer, (iv) appropriate warning if product is difficult to understand, (v) main characteristics of product, (vi) description of risk and return, (vii) costs related with investment, (viii) determine the duration of the possession of the product, (ix) information on methods of claim submission, (x) and other relevant information. In cases of infringement of the obligations arising from PRIIP Regulation the supervisory authority may impose following administrative sanctions and measures: (i) prohibition of the product's being placed on the market, (ii) order to suspend placing the product's on the market, (iii) placing the person responsible for the infringement on the list of the public notices, indicating the nature of the breach, (iv) the prohibition of dissemination KID not satisfying the requirements available and publication of the new version, (v) in case of legal persons administrative sanctions up to EUR 5 000 000, or in member states, whose currency is not the euro the equivalent in national currency at 30th December 2014, or up to 3% the total annual turnover of this legal person in accordance with the most recent available financial statement or up to twice the amount of the profits gained or losses avoided because of the breach, in case where fair value can be determined, (vi) in case of natural persons administrative sanctions up to EUR 700 000, or in member states, whose currency is not the euro the equivalent in national currency at 30th December 2014, or up to twice the amount of the profits gained, or losses avoided because of the breach, in case where fair value can be determined . The Regulation becomes directly applicable in all member states.

Due to the lack of detailed rules and technical standards supplementing the Regulation it is not possible to assess the full impact of the obligations arising from the PRIIP Regulations on the Group's activities and there is no certainty if adjusting to the obligations and requirements provided at present in the Regulations will not have significant negative impact on the operations, financial position and results of the Group as well as the price of shares.

Preventing use of the financial system for money laundering or terrorist financing - the so-called IV AML Directive

The European Union is working on the adaptation of national legal systems to the Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC (the Directive). The main changes resulting from the new legislation are among others: (i) highlight of the importance of a comprehensive approach to the analysis of the risk of money laundering and terrorist financing, at transnational, national and institutional levels, (ii) clarification of the methods of the real beneficiaries identification, (iii) extension of the definition of politically exposed persons (PEP) by adding domestic persons to that group, (iv) extencion of the scope of the new regulations on entities receiving cash payments above EUR 10 000, instead present EUR 15 000. Deadline for implementation of the Directive expires on 25 June 2017.

At the date of this report, there are works in order to adapt different national legal orders to the new regulations. The Company cannot exclude the possibility that the changes resulting from the Directive will have a significant adverse impact on the operations, financial position and results of the Group, as well as the price of Shares.

The ESMA Guidelines on the offering retail clients CFDs and other instruments of a speculative nature under the MiFID Directive

On 8 April 2016 the ESMA Guidelines were published „Questions and Answers Relating to the provision of CFDs and other speculative products to retail investors under MiFID" for the application of the MiFID Directive, which lays down the requirements on provision of services by the investment firms, including the Group, as well as the MiFID II/MiFIR Package after its entering into force with regard to advertising and offering to retail clients the derivatives. The ESMA Guidelines pertain the two issues: (i) issuing by competent national authorities the authorizations to the entities offering derivatives online; and (ii) a conflict of interest arising as a result of the nature of a business model, on the basis of which given entity, offering derivatives operates. The first issue provides description for specific rules and requirements with which given entity should comply with in the respect of their operations, in order to the authorization could be issued in accordance with the MiFID Directive. With regard to conflicts of interest where however the examples of the elements of a business model which exceed the risk of potential conflict of interest of the entity offering certain instruments and the interests of clients and the ways of managing them by the investment firm. On 1 June 2016, 25 July 2016 and 11 October 2016 ESMA published further guidelines under the form of questions and answers indicating specific answers for the example questions. concerning further issues such as: (iii) information presented to the clients and potential clients about functioning of the derivative instruments; (iv) the adequacy evaluation of the service to individual client's knowledge and experience; and (v) the factors that supervision authorities should take into account when evaluating the arrangements between authorized entities when offering derivative instruments.

The Group has taken its best effort to implement the amended ESMA Guidelines. Despite the fact that on the date of this report, in the opinion of the Company, the Group complied with the requirements specified in the ESMA Guidelines, the Group may be required to verify or change already introduced solutions and procedures. In addition, because the interpretation of the part of the ESMA Guidelines is not clear, it cannot be excluded that a given rule or requirement will be interpreted by the Group in a manner inconsistent with the ESMA approach which may be connected with risk of administrative sanctions and other administrative measures specified in binding laws and may require incurring by the Group significant further financial outlays and implementation of the further significant organizational changes.

France

In France the works on the introduction of restrictions on promoting the services in the scope of i.a. derivatives on the OTC market were completed. The act, passed by the French parliament on 8 November 2016 entered into force on 11 December 2016. As a consequence of the implementation of the act French supervisory authority - AMF adapted its own regulations applicable to investment firms providing services on French territory. The restrictions are one of the other underlying assumptions included in the French Monetary and Financial Code. The Act introduces, i.a. ban on, indirect and direct transfer through electronic means of transmission promotional materials relating to financial services for non-professional clients and to prospective clients. The ban refers to the services for which a client is unable to estimate maximum exposure to risk at the time of the transaction, in respect of which the risk of financial losses may exceed the value of the initial margin or which the potential risk is not readily apparent due to the ability of the potential benefits.

At the date of this report, the Company is unable to accurately estimate the impact of the above-mentioned regulations on the Group's activities in France. It cannot be excluded that the adjustment of the Company to the changes imposed may result in incurring additional expenditure by the Group, implementation of significant organizational changes in the company and significantly reduce the possibilies of promoting the services of the Group in France, which could adversely affect the results of the Group and thus the price of the Company's shares.

Turkey

On 10 February 2017 the Communiqué on the changes in the III-37.1 Communiqué on principles regarding investment services, activities and ancillary services have been published in the Official Journal. Key assumptions include the reduction of used leverage to 1:10 and the introduction of minimum deposit of TRY 50 thousand (or the equivalent in foreign currency – approx. 12 thousand USD). The changes referred to above entered into force with immediate effect for all customers and open positions from 10 February 2017, and in relation to the position opened before that date was a deadline 45 days to adjust the current state to the new regulations.

Group Company - X-Trade Brokers Menkul Değerler has taken the best effort in order to implement the new regulations. However, it cannot be excluded that a given rule or requirement will be interpreted by the Group in a manner inconsistent with regulations and the approach of the regulators which may expose the Group to the risk of administrative sanctions and other administrative measures specified in binding laws and may require incurring by the Group significant further financial outlays and implementation of the further significant organizational changes. As at the date of this report, the Company is not able to accurately estimate the impact which the regulatory change will have on clients activities on the Turkish market and their transactions. It can not be excluded that such significant restrictions imposed by the CMB may contribute to a significant decrease in the number of customers, and consequently to a significant reduction of activity of the XTB Group in Turkey.

Germany

On 8 December 2016 German supervisory authority - BaFin announced its intention to introduce Guideline of the German Act on Trading in Securities, limiting the promotion, distribution and sale of financial instruments, in a type of CFD. The project of the guideline prohibits the promotion, distribution and sale of financial instruments in a type of CFDs to retail clients, which may give rise to the so-called duty of supplementary payment to the transaction. According to the German supervisory authority argument, such an obligation arises where the loss exceeds the value of collateral taken during the opening of the position (the so called Margin). Additionally, in the BaFin opinion the "stop-loss" mechanism does not limit the losses incurred by the customer, because, despite its use, the value of losses may exceed the amount of the initial deposit.

At the date of this report, the draft of the guideline is in the course of work. There is also no information as to any possible deadline for implementation of the guideline. The Company cannot exclude however, that the restrictions resulting from the guideline will have a significant, adverse impact on the Company's activity in the German market.

Great Britain

On 6 December 2016. British supervisory authority - FCA submitted for consultation the document called Enhancing conduct of business rules for firms providing contract for difference products to retail clients. The main assumptions of legal changes include among others reduction of leverage offered depending on the client’s investment in derivatives experience. Under the proposed assumptions for experienced retail clients i.e. those who have done at least 40 transactions in a continuous period of 12 months over the last 3 years, or at least 10 transactions per quarter in the four quarters over the last three years the maximum leverage level will be 1:50. For other clients leverage was set at the maximum level 1:25. Further proposals indicated in the document assume preventing offering of bonuses or rebates, which depend on the opening of an account or payment of deposit by the client. The document also envisages the introduction of obligation to publish standardized information on the risks of investing in derivative instruments and information on the percentage of accounts, on which gain or loss was reported in the preceding quarter and the preceding 12 months. The deadline to submit comments and opinions by financial institutions to the above limitations expires on 7 March 2017.

At the date of this report, the Company can not exclude the possibility that the provided restrictions will have a material adverse impact on the operations, financial position and results of the Group on the United Kingdom market, as well as the price of Shares.

Financial transaction tax

As at the submission date of this raport the only jurisdictions where the Group conducts its business and where financial transactions tax was payable were Italy (the tax applies from 1 September 2013) and France (the tax applies from 1 August 2012).

Notwithstanding the above, the work on the pan-European legislation imposing a financial transaction tax a portion of the proceeds of which would be contributed directly to the EU budget is in progress. The original proposal regarding the introduction of such tax provided that the minimum tax rates will be 0.1% on any trading in shares and bonds and 0.01% on any trading in derivative instruments. On 8 December 2015, a working draft of a summary of the meeting of the Economic and Financial Affairs Council, which was held on the same day, was published. It presented the principal assumptions for the future tax on financial trades regarding: (i) shares; and (ii) derivatives. According to that document, the tax should apply to all transactions involving shares, although a more precise definition of its territorial scope was left to the legislative initiative of the European Commission. The document states that the tax will also apply to transactions in derivative instruments executed within the scope of market making activities. As at the submission date of this raport there is no official information about the possible date of the imposition of such a tax.

5.3 Employment

As of 31 December 2016, the Group employed 398 persons, including 223 persons employed in the Company. The Group’s employment structure is dominated by employees involved in sales. The Group does not employ any significant number of temporary employees.

The table below presents information regarding the number of employees in the Parent company, its foreign branches and Group Companies as of the dates stated.

	AS AT	
	31.12.2016	**31.12.2015**
Parent Company	223	216
Foreign branches	99	102
Group companies	76	74
Total	**398**	**392**

5.4 Major research and development achievements

In the reporting period, the Company did not conduct any research and development works.

6. Statements of the Management Board

Statement of the Management Board of X-Trade Brokers Dom Maklerski S.A. on the reliability of preparation of the consolidated and separate financial statements

The Management Board of X-Trade Brokers Dom Maklerski S.A. hereby declares that, to the best of its knowledge, the consolidated and separate financial statements for the year 2016 and comparable data contained therein have been prepared in compliance with the applicable accounting standards, and that the presented data give a true, reliable and fair view of the assets, financial position and financial performance, respectively of the Group and of the Company. The report on operations provides a fair description of the development, achievements and economic position of the Group and the Company, inclusive of major risks and threats to its operations.

Statement of the Management Board of X-Trade Brokers Dom Maklerski S.A. on the entity authorized to conduct audit of the consolidated and separate financial statements

The Management Board of X-Trade Brokers Dom Maklerski S.A. hereby declares that the entity authorized to audit the consolidated and separate financial statements for the year 2016, namely Ernst & Young Audyt Polska Sp. z o.o. Sp.k., seated in Warsaw, has been chosen in accordance with the provisions of the law in force. This entity as well as certified auditors, who audited these financial statements, satisfied the conditions for issuing an impartial and independent report on such audit, in line with the applicable regulations and professional standards.

Warsaw, 17 March 2017

Jakub Zabłocki
President of the Management Board

Omar Arnaout
Vice-president of the Management Board

Paweł Frańczak
Member of the Management Board

Paweł Szejko
Member of the Management Board

Filip Kaczmarzyk
Member of the Management Board

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INDEPENDENT AUDITORS' OPINION

To the General Shareholders Meeting of X-Trade Brokers Dom Maklerski S.A.

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements for the year ended 31 December 2016 of X-Trade Brokers Dom Maklerski S.A. ('the Company') located in Warsaw at Ogrodowa 58 Street, which comprise the statement of comprehensive income for the reporting period from 1 January 2016 to 31 December 2016, the statement of financial position as at 31 December 2016, the statement of changes in equity and the statement of cash flows for the reporting period from 1 January 2016 to 31 December 2016 and the additional notes and explanations ('the accompanying financial statements').

Responsibilities of the Management Board and members of the supervisory board for the financial statements

The Management Board is responsible in accordance with the Accounting Act dated 29 September 1994 ('the Accounting Act'), regulations issued on the basis of the Accounting Act, for the preparation based on properly maintained accounting records of the financial statements and fair presentation in accordance with International Accounting Standards, International Financial Reporting Standards and related Interpretations announced in the form of European Commission regulations ('International Financial Reporting Standards as adopted by European Union') and other applicable laws. The Management Board is also responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act the Management Board and members of the supervisory board are required to ensure that the financial statements meet the requirements of the Accounting Act.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to express an opinion on accompanying financial statements based on our audit.

We conducted our audit in accordance with chapter 7 of the Accounting Act and National Auditing Standards in the version of International Standards on Auditing as adopted by Resolution no 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015 with subsequent amendments ('National Auditing Standards'). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In accordance with National Auditing Standard 320 point 5 the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgement.

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

Opinion

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2016 and its financial performance and its cash flows for the period from 1 January 2016 to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the European Union and accounting policies;
- have been prepared based on properly maintained accounting records;
- are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.

Report on Other Legal and Regulatory Requirements

Report on the Directors' Report

Our opinion on the financial statements does not include the Directors' Report.

The Company's Management Board is responsible for preparation of the Directors' Report in accordance with the Accounting Act and other applicable laws. In addition the Company's Management Board and members of the supervisory board are obliged to state that the Directors' Report meet the requirements of the Accounting Act.

In connection with the audit of the financial statements, our responsibility was to read the content of the Directors' Report and consider whether the information contained in it take into account the provisions of art. 49 of the Accounting Act, the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states ('the Decree on current and periodic information'), art. 22 of the Decree of Ministry of Finance dated 28 December 2009 on specific accounting rules for brokerage houses and art. 110w of the Act on Trading in Financial Instruments of 29 July 2005 and whether they are consistent with the information contained in the accompanying financial statements. Our responsibility was also to report, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, whether the Directors' Report does not include material misstatements.

We have concluded that the information included in the Directors' Report corresponds with the relevant regulations of art. 49 of the Accounting Act, the Decree on current and periodic information, art. 22 of the Decree of Ministry of Finance dated 28 December 2009 on specific accounting rules for brokerage houses and art. 110w of the Act on Trading in Financial Instruments of 29 July 2005 and that the information derived from the accompanying financial statements reconciles with the Directors' Report. Based on our knowledge of the Company and its environment obtained during the audit of the financial statements, we have not identified material misstatements in the Directors' Report.

In connection with the conducted audit of the financial statements, our responsibility was also to read the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies. This information is, in all material respects, in accordance with applicable regulations and with the information included in the accompanying financial statements.

Warsaw, 17 March 2017

Key Certified Auditor

(-)

Arkadiusz Krasowski
Certified Auditor
No. 10018

on behalf of
Ernst & Young Audyt Polska
spółka z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

X-TRADE BROKERS DOM MAKLERSKI SPÓŁKA AKCYJNA

LONG-FORM AUDITORS' REPORT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousand zlotys)

I. GENERAL NOTES

1. Background

X-Trade Brokers Dom Maklerski S.A. (hereinafter 'the Company') was incorporated on the basis of a Notarial Deed dated 2 September 2004. The Company's registered office is located in Warsaw at Ogrodowa 58 Street.

The Company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000217580 on 22 September 2004.

The Company was issued with tax identification number (NIP) 527-24-43-955 on 4 September 2009 and statistical number (REGON) 015803782 on 9 December 2008.

The Company is the holding company of the X-Trade Brokers capital group and belongs to XX ZW Investment Group S.A. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Note 34 of the summary of significant accounting policies and other explanatory notes ("the additional notes and explanations") to the audited financial statements for the year ended 31 December 2016.

The principal activities of the Company are as follows:

- brokerage activities connected with stock exchange securities and commodities;
- accounting services and tax advisory.

As at 31 December 2016, the Company's issued share capital amounted to 5,869 thousand zlotys. Equity as at that date amounted to 364,275 thousand zlotys.

In accordance with the note 28 of the notes and explanations to the financial statement, the Company's issued share capital as at 31 December 2016 was as follows:

	Number of shares	Number of votes	Shares' nominal value (in PLN)	Share capital %
XX ZW Investment Group S.A.	78,206,465	78,206,465	3,910,323.25	60.62%
Systexan S.à.r.l.	22,285,875	22,285,875	1,114,293.80	18.99%
Other shareholders	16,891,294	16,891,294	844,564.70	14.39%
Total	117,383,635	117,383,635	5,869,181.75	100.00%

(in thousand zlotys)

As at 17 March 2017, the Company's Management Board was composed of:

Jakub Zabłocki	- President
Omar Arnaout	- Vice President
Filip Kaczmarzyk	- Member
Paweł Dariusz Szejko	- Member
Paweł Ryszard Frańczak	- Member

In the reporting period and from the balance sheet date to the date of the opinion, following changes in the Management Board took place:

- Jakub Maly was dismissed as the President of the Board on 10 January 2017.
- Omar Arnaout was appointed as the Vice President of the Board on 10 January 2017.
- Filip Kaczmarzyk was appointed as the Member of the Board on 10 January 2017.

2. Financial Statements

On 16 December 2010 the Shareholders' Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was appointed by the General Shareholders' Meeting on 31 October 2014 to audit the Company's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649 with subsequent amendments).

Under the contract executed on 3 November 2014 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2016.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an auditors' unqualified opinion dated 17 march 2017, stating the following:

'To the General Shareholders Meeting of X-Trade Brokers Dom Maklerski S.A.

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements for the year ended 31 December 2016 of X-Trade Brokers Dom Maklerski S.A. ('the Company') located in Warsaw at Ogrodowa 58 Street, which comprise the statement of comprehensive income for the reporting period from 1 January 2016 to 31 December 2016, the statement of financial position as at 31 December 2016, the statement of changes in equity and the statement of cash flows for the reporting period from 1 January 2016 to 31 December 2016 and the additional notes and explanations ('the accompanying financial statements').

Responsibilities of the Management Board and members of the supervisory board for the financial statements

The Management Board is responsible in accordance with the Accounting Act dated 29 September 1994 ('the Accounting Act'), regulations issued on the basis of the Accounting Act, for the preparation based on properly maintained accounting records of the financial statements and fair presentation in accordance with International Accounting Standards, International Financial Reporting Standards and related Interpretations announced in the form of European Commission regulations ('International Financial Reporting Standards as adopted by European Union') and other applicable laws. The Management Board is also responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act the Management Board and members of the supervisory board are required to ensure that the financial statements meet the requirements of the Accounting Act.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to express an opinion on accompanying financial statements based on our audit.

We conducted our audit in accordance with chapter 7 of the Accounting Act and National Auditing Standards in the version of International Standards on Auditing as adopted by Resolution no 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015 with subsequent amendments ('National Auditing Standards'). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In accordance with National Auditing Standard 320 point 5 the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgement.

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

Opinion

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2016 and its financial performance and its cash flows for the period from 1 January 2016 to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the European Union and accounting policies;
- have been prepared based on properly maintained accounting records;
- are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.

Report on Other Legal and Regulatory Requirements

Report on the Directors' Report

Our opinion on the financial statements does not include the Directors' Report.

The Company's Management Board is responsible for preparation of the Directors' Report in accordance with the Accounting Act and other applicable laws. In addition the Company's Management Board and members of the supervisory board are obliged to state that the Directors' Report meet the requirements of the Accounting Act.

In connection with the audit of the financial statements, our responsibility was to read the content of the Directors' Report and consider whether the information contained in it take into account the provisions of art. 49 of the Accounting Act, the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states ('the Decree on current and periodic information'), art. 22 of the Decree of Ministry of Finance dated 28 December 2009 on specific accounting rules for brokerage houses and art. 110w of the Act on Trading in Financial Instruments of 29 July 2005 and whether they are consistent with the information contained in the accompanying financial statements. Our responsibility was also to report, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, whether the Directors' Report does not include material misstatements.

We have concluded that the information included in the Directors' Report corresponds with the relevant regulations of art. 49 of the Accounting Act, the Decree on current and periodic information, art. 22 of the Decree of Ministry of Finance dated 28 December 2009 on specific accounting rules for brokerage houses and art. 110w of the Act on Trading in Financial Instruments of 29 July 2005 and that the information derived from the accompanying financial statements reconciles with the Directors' Report. Based on our knowledge of the Company and its environment obtained during the audit of the financial statements, we have not identified material misstatements in the Directors' Report.

In connection with the conducted audit of the financial statements, our responsibility was also to read the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies. This information is, in all material respects, in accordance with applicable regulations and with the information included in the accompanying financial statements.'

We conducted the audit of the Company's financial statements during the period from 3 October 2016 to 21 October 2016 and from 23 January 2017 to 17 March 2017. We were present at the Company's head office from 10 October 2016 to 21 October 2016 and from 23 January 2017 to 28 February 2017.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness[1] of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 17 march 2017 confirming that:

- the information included in the books of account was complete;
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements;

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

At the same time declare that during the audit of the financial statements, there were no limitations of scope.

2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2015 were audited by Arkadiusz Krasowski, key certified auditor no. 10018**,** acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k., located in Warsaw at Rondo ONZ 1, 00-124 Warsaw, the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 130. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2015.

The Company's financial statements for the year ended 31 December 2015 were approved by the General Shareholders' Meeting on 30 March 2016, and the shareholders resolved to appropriate the 2015 net profit in the amount of 115,021 thousand zlotys for the intentions of:

dividends (in thousand zlotys)	91.559
reserve capital (in thousand zlotys)	23.462

	115.021
	==========

[1] Translation of the following expression in Polish: "*rzetelność i jasność*"

(in thousand zlotys)

The financial statements for the financial year ended 31 December 2015, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 14 April 2016 with the National Court Register.

The closing balances as at 31 December 2015 were correctly brought forward in the accounts as the opening balances at 1 January 2016.

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2014 - 2016. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2015 and 31 December 2016.

	2016	2015	2014
Total assets	775,371	721,642	652,289
Shareholders' equity	364,275	381,626	344,068
Net profit/ loss	72,999	115,021	77,494
Return on assets (%)	9.4%	15.9%	11.9%
Net profit x 100% / Total assets			
Return on equity (%)	19.1%	33.4%	29.1%
Net profit x 100% / Shareholders' equity at the beginning of the period			
Profit margin (%)	34.6%	46.8%	40.9%
Net profit x 100% / Sales of finished goods, goods for resale and raw materials			
Liquidity I	1.74	1.94	1.95
Current assets / Short-term creditors			
Liquidity III	1.48	1.70	1.70
Cash and cash equivalents / Short-term creditors			

	2016	2015	2014
Stability of financing (%)	49.5%	54.9%	55.0%
(Equity + long-term provisions and liabilities) x 100% / Total liabilities, provisions and equity			
Debt ratio (%)	53.0%	47.1%	47.3%
(Total liabilities and provisions) x 100% / Total assets			
Rate of inflation:			
Yearly average	-0.6%	-0.9%	0.0%
December to December	0.88%	-0.5%	-1.0%

3.2 Comments

The following trends may be observed based on the above financial ratios:

- Return on assets ratio increased from 11.9% in 2014 to 15.9% in 2015 and then decreased to 9.4% in 2016
- Return on equity ratio increased from 29.1% in 2014 to 33.4% in 2015 and then decreased to 19.1% in 2016
- Profit margin ratio increased from 40.9% in 2014 to 46.8% in 2015 and then decreased to 34.6% in 2016
- Liquidity I ratio decreased from 1.95 as at 31 December 2014 to 1.94 as at 31 December 2015 and to 1.74 as at 31 December 2016
- Liquidity III ratio decreased from 1.70 as at 31 December 2014 and as at 31 December 2015 to 1.48 as at 31 December 2016
- Stability of financing ratio decreased from 55.0% as at 31 December 2014 to 54.9% as at 31 December 2015 and to 49.5% as at 31 December 2016
- Debt ratio decreased from 47.3% as at 31 December 2014 to 47.1% as at 31 December 2015 and then increased to 53.0% as at 31 December 2016

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2016 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 2.3 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2016, the Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2016 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the Exact Globe computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'), including a chart of accounts approved by the Company's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2016.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2016.

3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the financial statements for the year ended 31 December 2016 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the European Union, requirements of Accounting Act, and Article 21 of the Decree of Ministry of Finance of 28 December 2009 on specific accounting rules of brokerage houses (Journal of Laws 2013, No. 483) ("the Regulation").

4. Issues regarding the audit of brokerage houses

In Note 39 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2016, the Company presented the capital adequacy ratio calculation from brokerage activities.

5. Directors' Report

We have read the Directors' Report for the period from 1 January 2016 to 31 December 2016 ('the Directors' Report') and concluded that the information derived from the audited financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with art. 49 para 2 of the Accounting Act, the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states ('the Decree on current and periodic information'), art. 22 of the Decree of Ministry of Finance dated 28 December 2009 on particular accounting rules for brokerage houses (Journal of Laws 2013, No. 483) and art. 110w of the Act on Trading in Financial Instruments of 29 July 2005 (Journal of Laws 2014, No.94, as amended).

6. Materiality levels

In determining the materiality levels professional judgment was used having considered the characteristic of the Company. This determination covered the consideration of qualitative and quantitative aspects.

7. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Company's Articles of Association were breached during the financial year, having material impact on the Company's financial statements.

Warsaw, 17 March 2017

Key Certified Auditor

(-)

Arkadiusz Krasowski
Certified Auditor
No. 10018

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130