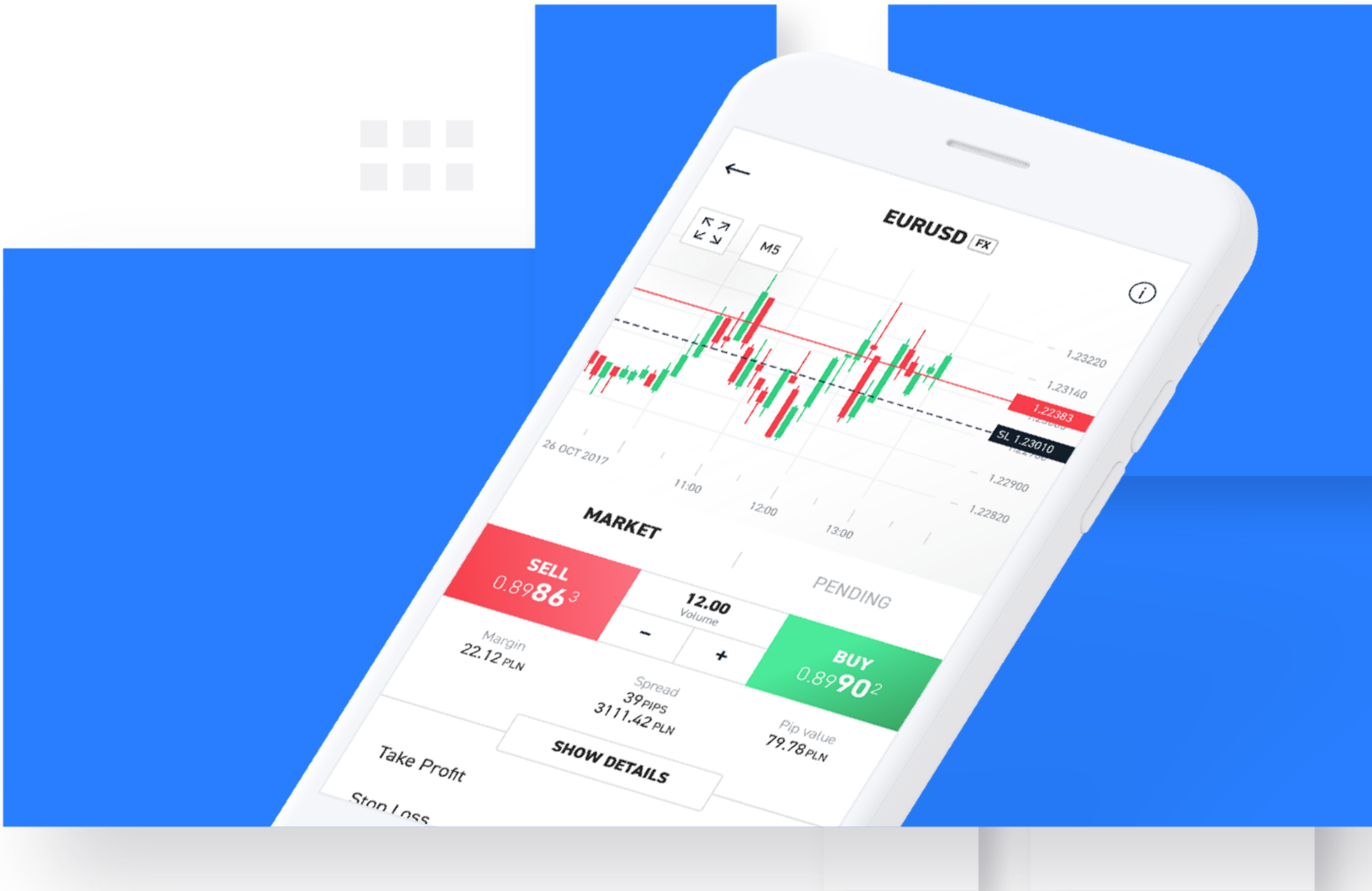


# ANNUAL REPORT FOR 2017

CAPITAL GROUP X-TRADE BROKERS DM S.A.

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# PRESIDENT'S LETTER

## President’s letter

*Dear Sirs and Madams!*

*On behalf of Management Board of X-Trade Brokers DM S.A. I present the 2017 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.*

*An important factor in the success of XTB is the skilful use of changes in the economic and market environment, not only in the category of maximizing profit, but also consistently strengthening the financial strength and competitive position of the company.*

*The financial results of the XTB Group developed in the past year confirm the stable and well-established position of XTB on the international market. Consolidated operating revenues and EBIT amounted to PLN 273.8 million and PLN 128.3 million, respectively. These results are higher than those generated in 2016 by 9.3% and by 56.2% respectively. Net profit increased by 19.6% compared to the result for 2016.*

*XTB has a solid foundation for growth in the form of a constantly growing customer base. In the fourth quarter of 2017, the number of open new accounts was record both in relation to the previous quarters of 2017 and individual quarters of 2016.*

*The Management Board's plans for the forthcoming periods assume the development of the Group, in particular through the expansion of the client base and product offer, further penetration of existing markets and geographical expansion into Latin American markets.*

*On behalf of the Management Board, I would like to thank our shareholders, the Supervisory Board and Employees for their commitment and work to build the value of the XTB Capital Group. I hope that the next years will bring further development of the activity carried out by X-Trade Brokers DM S.A., confirmed not only by the growing number of products and services offered, but also by growing number of customers and further increase of the Company's profitability and its ability to generate value.*

*Yours sincerely,*

*Omar Arnaout*
*President of the Management Board*

# FINANCIAL HIGHLIGHTS

# FINANCIAL CONSOLIDATED HIGHLIGHTS

| | IN PLN'000 12 MONTH PERIOD ENDED | | IN EUR'000 12 MONTH PERIOD ENDED | |
|---|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 |
| **Consolidated comprehensive income statement:** | | | | |
| Total operating income | 273 767 | 250 576 | 64 496 | 57 265 |
| Profit on operating activities | 128 270 | 82 115 | 30 219 | 18 766 |
| Profit before tax | 114 685 | 93 282 | 27 018 | 21 318 |
| Net profit | 92 973 | 77 707 | 21 903 | 17 759 |
| Net profit and diluted net profit per share attributable to shareholders of the Parent Company (in PLN/EUR per share) | 0,79 | 0,66 | 0,19 | 0,15 |
| **Consolidated cash flow statement:** | | | | |
| Net cash from operating activities | 121 869 | 56 284 | 28 711 | 12 863 |
| Net cash from investing activities | (3 987) | (1 773) | (939) | (405) |
| Net cash from financing activities | (37 697) | (91 686) | (8 881) | (20 953) |
| Increase/(Decrease) in net cash and cash equivalents | 80 185 | (37 175) | 18 891 | (8 496) |

| | IN PLN'000 | | IN EUR'000 | |
|---|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 |
| **Consolidated statement of financial position:** | | | | |
| Total assets | 897 704 | 796 753 | 215 230 | 180 098 |
| Total liabilities | 497 362 | 440 860 | 119 246 | 99 652 |
| Share capital | 5 869 | 5 869 | 1 407 | 1 327 |
| Equity | 400 342 | 355 893 | 95 985 | 80 446 |
| 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) | 3,41 | 3,03 | 0,82 | 0,69 |

The above data was translated into EUR as follows:

- items in the consolidated comprehensive income statement and consolidated 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: 4,2447;
  - for the comparative period: 4,3757;
- items of consolidated 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: 4,1709;
  - for the comparative period: 4,4240.

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

| (IN PLN'000) | NOTE | TWELVE-MONTH PERIOD 31.12.2017 | 31.12.2016 |
|---|---|---|---|
| Result of operations on financial instruments | 6.1 | 269 188 | 245 216 |
| Income from fees and charges | 6.2 | 4 457 | 5 284 |
| Other income | | 122 | 76 |
| Total operating income | 6 | 273 767 | 250 576 |
| Salaries and employee benefits | 7 | (73 150) | (71 864) |
| Marketing | 8 | (24 841) | (49 338) |
| Other external services | 10 | (21 943) | (20 620) |
| Costs of maintenance and lease of buildings | 9 | (7 934) | (8 698) |
| Amortisation and depreciation | 19,20 | (6 054) | (5 423) |
| Taxes and fees | | (2 059) | (2 597) |
| Commission expenses | 11 | (5 964) | (4 182) |
| Other costs | 12 | (3 552) | (5 739) |
| Total operating expenses | | (145 497) | (168 461) |
| Profit on operating activities | | 128 270 | 82 115 |
| Impairment of intangible assets | 19 | (5 612) | – |
| Finance income | 13 | 6 318 | 12 122 |
| Finance costs | 13 | (14 291) | (955) |
| Profit before tax | | 114 685 | 93 282 |
| Income tax | 30 | (21 712) | (15 575) |
| Net profit | | 92 973 | 77 707 |
| | | | |
| Other comprehensive income | | (10 961) | (4 304) |
| Items which will be reclassified to profit (loss) after meeting specific conditions | | (10 961) | (4 304) |
| *- foreign exchange differences on translation of foreign operations* | | *(8 862)* | *(5 542)* |
| *- foreign exchange differences on valuation of separated equity* | | *(2 592)* | *1 528* |
| *- deferred income tax* | | *493* | *(290)* |
| Total comprehensive income | | 82 012 | 73 403 |
| | | | |
| Net profit attributable to shareholders of the Parent Company | | 92 973 | 77 707 |
| Total comprehensive income attributable to shareholders of the Parent Company | | 82 012 | 73 403 |
| Earnings per share: | | | |
| - basic profit per year attributable to shareholders of the Parent Company (in PLN) | 29 | 0,79 | 0,66 |
| - basic profit from continued operations per year attributable to shareholders of the Parent Company (in PLN) | 29 | 0,79 | 0,66 |
| - diluted profit of the year attributable to shareholders of the Parent Company (in PLN) | 29 | 0,79 | 0,66 |
| - diluted profit from continued operations of the year attributable to shareholders of the Parent Company (in PLN) | 29 | 0,79 | 0,66 |

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| (IN PLN'000) | NOTE | 31.12.2017 | 31.12.2016 |
|---|---|---|---|
| ASSETS | | | |
| Own cash and cash equivalents | 15 | 367 096 | 290 739 |
| Customers' cash and cash equivalents | 15 | 378 471 | 375 642 |
| Financial assets held for trading | 16 | 127 944 | 94 903 |
| Financial assets available for sale | | 147 | 190 |
| Income tax receivables | | 375 | 1 016 |
| Loans granted and other receivables | 17 | 4 009 | 5 244 |
| Prepayments and deferred costs | 18 | 3 216 | 3 590 |
| Intangible assets | 19 | 2 915 | 10 060 |
| Property, plant and equipment | 20 | 3 034 | 3 746 |
| Deferred income tax assets | 30 | 10 497 | 11 623 |
| Total assets | | 897 704 | 796 753 |
| EQUITY AND LIABILITIES | | | |
| Liabilities | | | |
| Amounts due to customers | 21 | 421 400 | 377 268 |
| Financial liabilities held for trading | 22 | 40 905 | 22 645 |
| Income tax liabilities | | 1 268 | 4 262 |
| Other liabilities | 23 | 21 913 | 22 693 |
| Provisions for liabilities | 26 | 1 666 | 948 |
| Deferred income tax provision | 30 | 10 210 | 13 044 |
| Total liabilities | | 497 362 | 440 860 |
| Equity | | | |
| Share capital | 27 | 5 869 | 5 869 |
| Supplementary capital | 27 | 71 608 | 71 608 |
| Other reserves | 27 | 247 992 | 212 554 |
| Foreign exchange differences on translation | 27 | (15 906) | (4 945) |
| Retained earnings | | 90 779 | 70 807 |
| Equity attributable to the owners of the Parent Company | | 400 342 | 355 893 |
| Total equity | | 400 342 | 355 893 |
| Total equity and liabilities | | 897 704 | 796 753 |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Statement of changes in equity for the period from 1 January 2017 to 31 December 2017

| (IN PLN'000) | SHARE CAPITAL | SUPPLEMENTARY CAPITAL | OTHER RESERVES | FOREIGN EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS | RETAINED EARNINGS | EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|
| As at 1 January 2017 | 5 869 | 71 608 | 212 554 | (4 945) | 70 807 | 355 893 | 355 893 |
| Total comprehensive income for the financial year | | | | | | | |
| Net profit | – | – | – | – | 92 973 | 92 973 | 92 973 |
| Other comprehensive income | – | – | – | (10 961) | – | (10 961) | (10 961) |
| Total comprehensive income for the financial year | – | – | – | (10 961) | 92 973 | 82 012 | 82 012 |
| Transactions with Parent Company's owners recognized directly in equity | | | | | | | |
| Appropriation of profit/offset of loss (note 28) | – | – | 35 438 | – | (73 001) | (37 563) | (37 563) |
| - dividend payment | – | – | – | – | (37 563) | (37 563) | (37 563) |
| - transfer to other reserves | – | – | 35 438 | – | (35 438) | – | – |
| As at 31 December 2017 | 5 869 | 71 608 | 247 992 | (15 906) | 90 779 | 400 342 | 400 342 |

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

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 | EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|
| As at 1 January 2016 | 5 869 | 71 608 | 189 092 | (641) | 108 121 | 374 049 | 374 049 |
| Total comprehensive income for the financial year | | | | | | | |
| Net profit | – | – | – | – | 77 707 | 77 707 | 77 707 |
| Other comprehensive income | – | – | – | (4 304) | – | (4 304) | (4 304) |
| Total comprehensive income for the financial year | – | – | – | (4 304) | 77 707 | 73 403 | 73 403 |
| Transactions with Parent Company's owners recognized directly in equity | | | | | | | |
| Appropriation of profit/offset of loss (note 28) | – | – | 23 462 | – | (115 021) | (91 559) | (91 559) |
| - dividend payment | – | – | – | – | (91 559) | (91 559) | (91 559) |
| - transfer to other reserves | – | – | 23 462 | – | (23 462) | – | – |
| As at 31 December 2016 | 5 869 | 71 608 | 212 554 | (4 945) | 70 807 | 355 893 | 355 893 |

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

## CONSOLIDATED CASH FLOW STATEMENT

| (IN PLN'000) | NOTE | TWELVE-MONTH PERIOD | |
|---|---|---|---|
| | | 31.12.2017 | 31.12.2016 |
| Cash flows from operating activities | | | |
| Profit before tax | | 114 685 | 93 282 |
| Adjustments: | | | |
| (Gain) Loss on sale or disposal of items of property, plant and equipment | | 37 | (4) |
| Amortization and depreciation | | 6 054 | 5 423 |
| Foreign exchange (gains) losses from translation of own cash | | 3 828 | (2 586) |
| Impairment of intangible assets | 19 | 5 612 | – |
| Other adjustments | 34.2 | (10 777) | (4 286) |
| Changes | | | |
| Change in provisions | | 718 | 77 |
| Change in balance of financial assets and liabilities held for trading | | (14 781) | (18 219) |
| Change in balance of restricted cash | | (2 829) | (77 504) |
| Change in balance of loans granted and other receivables | | 1 235 | (699) |
| Change in balance of prepayments and accruals | | 374 | (1 077) |
| Change in balance of amounts due to customers | | 44 132 | 76 192 |
| Change in balance of other liabilities | 34.1 | (650) | (3 898) |
| Cash from operating activities | | 147 638 | 66 701 |
| Income tax paid | | (25 773) | (10 427) |
| Interests | | 4 | 10 |
| Net cash from operating activities | | 121 869 | 56 284 |
| Cash flow from investing activities | | | |
| Proceeds from sale of items of property, plant and equipment | | 205 | 11 |
| Expenses relating to payments for property, plant and equipment | 20 | (1 287) | (1 554) |
| Expenses relating to payments for intangible assets | 19 | (2 905) | (230) |
| Net cash from investing activities | | (3 987) | (1 773) |
| Cash flow from financing activities | | | |
| Payments of liabilities under finance lease agreements | | (130) | (117) |
| Interest paid under lease | | (4) | (10) |
| Dividend paid to owners | | (37 563) | (91 559) |
| Net cash from financing activities | | (37 697) | (91 686) |
| Increase (Decrease) in net cash and cash equivalents | | 80 185 | (37 175) |
| Cash and cash equivalents – opening balance | | 290 739 | 325 328 |
| Effect of FX rates fluctuations on balance of cash in foreign currencies | | (3 828) | 2 586 |
| Cash and cash equivalents – closing balance | 15 | 367 096 | 290 739 |

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

# ADDITIONAL EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Information about the Parent Company and composition of the Group

The Parent Company in the X–Trade Brokers Dom Maklerski S.A. Group (the "Group") is X–Trade Brokers Dom Maklerski S.A. (hereinafter: the "Parent Entity", "Parent Company", "Brokerage") 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 and a tax identification (NIP) number 527–24–43–955.

The Parent Company's operations consist of conducting brokerage activities on the 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.

## 1.1 Information on the reporting entities in the Parent Company's organisational structure

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

- 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: RO27187343.
- 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: DE266307947.
- 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 and was granted the following tax identification number FR61522758689.
- 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 and as tax identification number under No. PT980436613.

## 1.2 Composition of the Group

The X–Trade Brokers Dom Maklerski S.A. Group is composed of X–Trade Brokers Dom Maklerski S.A. as the Parent Company and the following subsidiaries:

| COMPANY NAME | COUNTRY OF REGISTERED OFFICE | PERCENTAGE SHARE IN THE CAPITAL | |
|---|---|---|---|
| | | 31.12.2017 | 31.12.2016 |
| XTB Limited | Great Britain | 100% | 100% |
| X Open Hub Sp. z o.o. | Poland | 100% | 100% |
| DUB Investments Ltd | Cyprus | 100% | 100% |
| X Trade Brokers Menkul Değerler A.Ş. | Turkey | 100% | 100% |
| Lirsar S.A. | Uruguay | – | 100% |
| XTB International Limited | Belize | 100% | – |
| XTB Chile SpA | Chile | 100% | – |
| XTB Services Limited | Cyprus | 100% | – |

XTB Limited was established on 19 April 2010 under the name Tyrolese (691) Limited. The Company started its operating activities in November 2010 under a changed name – XTB UK Ltd. In 2012 it changed its name to X Financial Solutions Ltd, in

2013 to X Open Hub Limited, and on 8 January 2015 to XTB Limited. The Company's results are consolidated under the full method from the date of its establishment.

On 6 March 2013, the Parent Company acquired 100% of the shares in xStore Sp. z o.o. with its registered office in Poland. In 2014, the Company changed its name to X Open Hub Sp. z o.o. The Company's results are consolidated under the full method from the date of its establishment.

On 15 October 2013 the Parent Company acquired 100% shares in DUB Investments Limited, with its registered office in Cyprus. The Company's results are consolidated under the acquisition method as of the date of its acquisition. The fair value of the consideration paid was PLN 1 292 thousand.

As a result of the acquisition of DUB Investments Ltd, the Parent Company identified goodwill of PLN 783 thousand as the difference between the acquisition price and the fair value of the acquired assets. As at the acquisition date, the subsidiary was tested for impairment; as a result of the test the full value of goodwill was charged to costs as at that date.

On 17 April and on 16 May 2014 the Parent Company acquired 100% shares in X Trade Brokers Menkul Değerler A.Ş. with its registered office in Turkey, as a result of which on 30 April 2014 it took control over the Company. The acquisition of 100% of the shares led to taking up control by the Parent Company. 12 999 996 shares were taken up against the loan granted to Jakub Zabłocki for the purchase of the entity; as at the moment of settlement, the loan was PLN 27 591 thousand. The remaining four shares were purchased with cash. The value of shares taken up by way of settlement against the loan amounted to PLN 28 081 thousand, the shares purchased with cash amounted to PLN 8,88. The fair value of the consideration paid was PLN 28 081 thousand and it was determined on the basis of a third–party valuation. The Group accounted for the transaction under the acquisition method, in accordance with the accounting policy adopted for transactions under joint control. As at the acquisition date particular net assets of the acquired company X Trade Brokers Menkul Değerler A.Ş. 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 the Turkish market of PLN 8 017 thousand. The estimated amortization period for this isolated intangible asset was established over a period of 10 years.

On 18 May 2017 the Management Board of Parent Company took a decision on withdrawal from activity in Turkey through taking actions intended to phase out XTB's activity on this market and liquidation of the subsidiary in Turkey. This decision was caused by the restrictions introduced by the Turkish supervisory authority which have resulted with a significant decrease of number of clients and consequently to a substantial reduction of XTB's Group activity in Turkey. Due to the above decision the Group recognized an impairment write-off of licence for brokerage activities on the Turkish market in the amount of PLN 5 612 thousand.

On 30 November 2017 the Management Board of X-Trade Brokers Dom Maklerski S.A. took a decision on withholding the actions designed to terminate the activities on Turkish market and liquidation of subsidiary X Trade Brokers Menkul Degerler A.S. due to identified indications of providing favourable reduced regulations for the investment companies by the Turkish regulator. Due to the above the Company's Management Board does not exclude the recommencement of its activity in Turkey.

In case of closing the activity on the Turkish market which from the accounting point of view means the repayment of the capital / liquidation of the assets (loss of licence) the Group, according to the applicable accounting rules, will be obliged to take action in the scope of reclassification of foreign exchange differences arising from the translation of the subsidiary's equity from the position Foreign exchange differences on translation in equity to income statement. This operation will not influence the level of Group's total equity as at the date it is being carried. However the Group will be required to present the effect of the above mentioned translation as a result of financial activity, whereas in case of negative foreign exchange rate differences the effect of such translation will be recognized as financial expenses. The Group would like to explain that the amount of exchange rate differences concerning the investment in Turkey is derived among other the exchange rate of Turkish lira, which fluctuates therefore as at the date of these financial statements the Group is not able to precisely estimate the amount of financial exchange which will be recognized in the future.

On 21 May 2014 the Parent Company acquired 100% shares in Lirsar S.A. with its registered office in Uruguay, for PLN 16 thousand. The fair value of net assets acquired amounted to PLN 16 thousand. The Company's results are consolidated under the acquisition method as of the date of its acquisition.

On 17 February 2017 the Parent Company established XTB Chile SpA. The Company owns 100% of shares in subsidiary. XTB Chile SpA provides services involving the acquisition of clients from the territory of Chile.

On the 23 February 2017 the Parent Company acquired 100% of shares in CFDs Prime with its seat in Belize. On the 20 March 2017 the company changed its name from CFDs Prime Limited to XTB International Limited. The company provides brokerage services based on the obtained permission issued by the Financial Service Commission. As a result of acquisition of 100% of 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 Group accounted for the transaction under the acquisition method. As at the acquisition date particular net assets of the acquired company XTB International Limited 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 the Belize market of PLN 261 thousand. The estimated amortization period for this isolated intangible asset was established over a period of 10 years.

Fair value of main categories of assets of XTB International Limited on the date of acquisition:

| | FAIR VALUE (IN USD'000) | EXCHANGE RATE | FAIR VALUE (IN PLN'000) |
|---|---|---|---|
| Cash and cash equivalents | 237 | 4,0840 | 968 |
| Receivables – liabilities | (96) | 4,0840 | (392) |
| Separated intangible asset | 64 | 4,0840 | 261 |
| Total fair value | 205 | | 837 |

On 27 July 2017 the Parent Company acquired 100% shares in Jupette Limited with its registered office in Cyprus for EUR 1 000. The fair value of net assets acquired amounted to EUR 1 000. The fair value of purchased net assets, which in full constituted of cash, amounted to EUR 1 000. The Company's results are consolidated under the acquisition method as of the date of its acquisition. On 8 August 2017 the Parent Company took up 29 000 shares in increased capital of the subsidiary keeping up its 100% share in the capital of the subsidiary. On 5 August 2017 the subsidiary changed its name to XTB Services Limited.

In December 2017 Lirsar with its seat in Uruguay was liquidated. Subsidiary's share capital and retained earnings were transferred to Parent Company on 14 December 2017.

## 1.3 Composition of the Management Board

In the period covered by the consolidated financial statements, 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 appointed for the 3-years term of office ending 29 June 2019; dismissed on the 10 January 2017 |
| Jakub Zabłocki | Chairman of the Management Board | 10.01.2017 | delegated for the position for the period of 3 months from the 10 January to 10 April 2017; delegation cancelled on the 23 March 2017 |
| Omar Arnaout | Chairman of the Management Board | 23.03.2017 | from the 23 March appointed for the position of the Chairman of the Management Board |
| Omar Arnaout | Vice-Chairman of the Management Board | 10.01.2017 | from the 10 January appointed for the new term of office; on the 23 March 2017 appointed for the position of the Chairman of the Management Board |
| 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 |
| Filip Kaczmarzyk | Board Member | 10.01.2017 | from the 10 January appointed for the new term of office |

## 1.4 Public support

In 2017 and 2016 the Group did not receive any financial support from public resources.

## 1.5 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 2017 amounted to 10,36% and as of 31 December 2016 amounted to 9,75%.

## 1.6 Activities of the brokerage house outside the territory of the Republic of Poland

Information about the activities of the brokerage house outside the territory of the Republic of Poland, broken down into member states and third countries in which the brokerage house has its subsidiaries, on a consolidated basis within the meaning of Article 4(1)(48) of the Regulation of the European Parliament and of the Council (EU) No 575/2013 on prudential requirements for credit institutions and investment firms are presented below

| AREAS OF ACTIVITIES | REVENUE FOR 2017 | NUMBER OF EMPLOYEES IN TERMS OF FTSs | PROFIT BEFORE TAX FOR 2017 | INCOME TAX FOR 2017 |
|---|---|---|---|---|
| European Union | 252 825 | 362 | 106 686 | (18 447) |
| Outside European Union | 15 325 | 2 | 4 175 | (860) |

| AREAS OF ACTIVITIES | REVENUE FOR 2016 | NUMBER OF EMPLOYEES IN TERMS OF FTSs | PROFIT BEFORE TAX FOR 2016 | INCOME TAX FOR 2016 |
|---|---|---|---|---|
| European Union | 210 044 | 341 | 88 237 | (14 534) |
| Outside European Union | 16 292 | 45 | 5 008 | (997) |

# 2. Basis for drafting the financial statements

## 2.1 Compliance statement

These consolidated 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 2017 to 31 December 2017 with comparative data for the year ended 31 December 2016 cover the Parent Company's financial data and financial data of the subsidiaries comprising the "Group".

These consolidated 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 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.

The consolidated financial statements were approved by the Management Board of the Parent Company on 6 March 2018.

Drafting this consolidated 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").

## 2.2 Functional currency and reporting currency

The functional currency and the presentation currency of these consolidated 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 consolidated financial statements were prepared based on the assumption that the Group would continue as a going concern in the foreseeable future. At the date of preparation of these consolidated financial statements, the Management Board of X–Trade Brokers Dom Maklerski S.A. does not state any circumstances that would threaten the Group companies' continued operations with the exception of subsidiary in Turkey described in note 1.2.

## 2.4 Comparability of data and consistency of the policies applied

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

## 2.5 Changes in the accounting policies

The accounting policies applied in the preparation of the attached consolidated financial statements are consistent with those applied in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2016, except for the below amendments. These changes were applied in the attached consolidated financial statements on their effective date and had no significant impact on the disclosed financial information, or did not apply to the Group's transactions:

- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

  The changes clarify issues related to deductible temporary differences associated with debt instruments measured at fair value, estimation of probable future taxable profits and assessment of whether taxable profits will be available against which the deductible temporary differences can be utilised. The changes are applied retrospectively.

- Amendments to IAS 7 Disclosure Initiative

  The changes require the entity to disclose information that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Entities need not provide comparative information when they first apply the amendments.

- IFRS 12 Disclosure of interests in other entities under annual improvements to IFRS Standards 2014-2016 Cycle

  The changes clarify that the entity shall choose valuation at fair value through profit and loss according to IFRS 9 of interest in an associate or a joint venture held by venture capital organisation or other similar entity separately for each associate or joint venture at the moment of their initial recognition.

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 consolidated 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 consolidated 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 consolidated financial statements – effective for financial years beginning on or after 1 January 2018;
- 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 consolidated 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 consolidated financial statements – effective for financial years beginning on or after 1 January 2018;
- Amendments to IAS 28 Investments in Associates and Joint Ventures which are part of Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016) – effective for financial years beginning on or after 1 January 2018;
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards which are part of Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016) – 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 consolidated 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 consolidated financial statements – effective for financial years beginning on or after 1 January 2018;
- IFRS 17 Insurance Contracts (issued on 18 May 2017) - not yet endorsed by EU at the date of approval of these consolidated financial statements - effective for financial years beginning on or after 1 January 2021;
- IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017) - not yet endorsed by EU at the date of approval of these consolidated financial statements - effective for financial years beginning on or after 1 January 2019,
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017) ) - not yet endorsed by EU at the date of approval of these consolidated financial statements – effective for financial years beginning on or after 1 January 2019;
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017) - not yet endorsed by EU at the date of approval of these consolidated financial statements – effective for financial years beginning on or after 1 January 2019;
- Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017) - not yet endorsed by EU at the date of approval of these consolidated financial statements – effective for financial years beginning on or after 1 January 2019;
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018) - not yet endorsed by EU at the date of approval of these consolidated financial statements – effective for financial years beginning on or after 1 January 2019.

## 2.6.1 Implementation of IFRS 15

International Financial Reporting Standard 15 Revenue from Contracts with Customers (“IFRS 15”) was issued in May 2014, and then amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, 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 Group has the right to choose a full or modified retrospective approach, and the transitional provisions provide for some practical solutions.

The Group plans to adopt the new standard on the required effective date using the full retrospective method.

The Group operates in the area of delivering of products, services and technological solutions in the field of trading in financial instruments, specializing in the OTC market and in particular in OTC derivatives. The operating revenues of the Company arise mainly from:

a) spreads (difference between purchase price and sell price);

b) net result (gains decreased by losses) from the Group’s operations in the scope of market making;

c) commissions and fees charged to clients by the Group;

d) from the swap points.

Taking above into account as well as the nature of contracts concluded by the Group with clients, the Group believes that the application of IFRS 15 will not have material impact on the financial statements.

The recognition and measurement requirements in IFRS 15 are also applicable for recognition and measurement of any gains or losses on disposal of non-financial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Group.

Summarizing the Group concludes that the impact of implementation IFRS 15 will not be material from the financial statements perspective.

### 2.6.2 Implementation of IFRS 9

In July 2014, the IASB issued the final version of International Financial Reporting Standard 9 Financial Instruments ("IFRS 9"). IFRS 9 brings together all three aspects of the accounting for 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.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

During 2017, the Group has performed a detailed impact assessment of implementation of IFRS 9 on the accounting principles (policy) applied by the Group with respect to the Group's operations or its financial results. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9.

The Group expects no significant impact on its statement of financial position and equity.

a) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Quoted equity shares currently held as available-for-sale will be classified as financial assets at fair value through profit or loss.

Trade receivables are held to collect contractual cash flows and the Group does not sell trade receivables as part of factoring - they will continue to be measured at amortized cost. The Group decided to use a practical expedient and for trade receivables due in up to 12 months does not account for significant financing component.

The Group does not have debt securities.

b) Impairment

The Group estimates that due to the nature of trade receivables and the balance of gross receivables from clients amounting as at 31 December 2017 to PLN 2 667 thousand (which is covered with bad-debts write off in the amount of PLN 2 480 thousand) the application of IFRS 9 will not have material impact on the financial statements.

c) Hedge accounting

As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements

Summarizing the Group concludes that the impact of implementation IFRS 9 will not be material from the financial statements perspective.

### 2.6.3 Implementation of IFRS 16

International Financial Reporting Standard 16 Leases ("IFRS 16") was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure.

IFRS 16 introduces a unitary model of the lessee's accounting and requires the lessee to recognize assets and liabilities resulting from each lease with a period exceeding 12 months, unless the underlying asset is of low value. At the commencement date, the lessee recognizes an asset representing the right to use the underlying asset and a liability to make lease payments.

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Group leases properties and cars as disclosed in details in notes 24 and 25.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The Group has not decided to IFRS 16 early adoption.

At the date of the authorization of these consolidated financial statements for publication, the Management Board is in the process of assessing the impact of the application of IFRS 16 on the accounting principles (policy) applied by the Group with respect to the Group's operations or its financial results.

### 2.6.4 Implementation of other standards and interpretations

At the date of the authorization of these consolidated financial statements for publication, the Management Board has not yet completed its assessment of the impact of above standards and interpretations' implementation on the Group'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 Parent Company made the following judgements that have the greatest impact on the reported carrying amounts of assets and liabilities.

Classification of lease agreements

The Group 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.

Amortisation periods of intangible assets

Amortisation period of the isolated intangible asset in the form of the licence for conducting brokerage activities on the Turkish market is assessed based on the expected economic useful life of this asset. The amortisation period was determined according to the expected useful life of the asset on the Turkish market no shorter than 10 years. Should the circumstances leading to a change in the expected useful life change, the amortisation rates also would change, which will have an impact on the value of amortisation charges and the net book value of intangible assets.

Period for settlement of the deferred tax asset

The Group recognises a deferred tax asset based on the assumption that a tax profit will be generated in the future enabling its utilisation. 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 Group 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.

Disposal of subsidiaries or discontinuation of their activity

The Group makes significant assessments in the scope of classification of investment in Turkey as capable to conduct operating business activity or immediate resumption of activity. This assessment is based on operating and IT infrastructure as at 31 December 2017 as well as identified indications of providing favourable reduced regulations for the investment companies by the Turkish regulator described in note 1.2.

# 4. Adopted accounting principles

## 4.1 Rules of consolidation

The consolidated financial statements contain the financial information of the Parent Company and subsidiaries as at 31 December 2017 and 31 December 2016. The financial statements of subsidiaries, after adjustments made to ensure compliance with the IFRS, are prepared for the same reporting period as the financial statements of their parent companies, with the application of consistent accounting principles, based on uniform accounting policies applied to transactions and economic events of a similar nature. Adjustments are made in order to eliminate any discrepancies in the accounting methods.

### 4.1.1 Business combinations

Acquisitions of entities and organised parts of the business are recognised under the acquisition method. Each payment made as a result of a business combination is measured at the aggregate fair value (as at the date of payment) of transferred assets, liabilities incurred or acquired and capital investments issued in exchange for taking over the target. Costs directly related to the business combination are recognised in profit or loss at the time they were incurred.

In some cases, the payment transferred also includes assets or liabilities arising under contingent payment, measured at fair value at the date of acquisition. Changes in the fair value of a contingent payment over subsequent periods are recognised as changes in the cost of the combination only if they can be classified as changes over the measurement period. All other changes are settled in accordance with applicable IFRS regulations. Changes in the fair value of a contingent payment classified as an equity component are not disclosed.

Identifiable assets, liabilities and contingent liabilities of the target that meet the criteria for disclosure under IFRS 3 Business combinations are recognised at fair value as at the acquisition date, taking into account the exceptions set out in IFRS 3.

In settling transactions under joint control, the Group applies the acquisition method.

Where control is acquired as a consequence of several subsequent transactions, interests held as at the date of takeover are measured at fair value and their results are recognised in income or expenses for the period. Amounts accrued under shares in that entity, previously recognised under comprehensive income, are carried over to income or expenses for the period.

### 4.1.2 Investments in subsidiaries

Subsidiaries are understood as entities controlled by the Parent Company (inclusive of special purpose entities). It is assumed that the Group controls another entity in which the investment was made, when due to its involvement in this unit it is exposed to changing financial results, or when it has rights to variable financial results and the ability to affect the amount of these financial results through the exercise of power over the entity.

Financial results of subsidiaries acquired or sold in the course of the year are recognised in the consolidated financial statements from/until the time of their effective acquisition or disposal.

Any transactions, balances, income and expenses between the entities consolidated within the Group are subject to full consolidation elimination.

Non–controlling interests are presented separately from equity attributable to the owners of the Parent Company. Non–controlling interests may initially be measured at fair value or in proportion to the fair value share of acquired net assets. One of the above methods may be selected by any business combination. In subsequent periods, the value of non–controlling interests comprises the value initially recognised, adjusted for changes in the value of the entity's equity in relation to the shares held. Comprehensive income is allocated to non–controlling interests even if it results in a negative value for these interests.

Changes in the share in a subsidiary not resulting in a loss of control are recognised as equity transactions. The book values of the share of the Parent Company's owners and of the non–controlling interests are modified accordingly to reflect any changes in the interest structure. The difference between the value by which the value of non–controlling interests is adjusted and the fair value of the payment received or made is recognised directly in equity.

In the event of a loss of control over a subsidiary, the gain or loss on the disposal is calculated as the difference between: (i) the total fair value of the payment received and the fair value of the entity's shares remaining with the Parent Company, and (ii) the book value of assets (together with goodwill), liabilities and non–controlling interests. Amounts recognised for the entity being sold under other items of comprehensive income are reclassified to the income or expense for the period. The fair value of assets in the entity remaining with the Parent Company following the disposal is treated as the initial fair value for the purpose of their subsequent disclosure under IAS 39, or initial cost of shares in associates or joint ventures.

### 4.1.3 Goodwill

Goodwill occurring at acquisition results from a surplus, as at the date of acquisition, of the sum of the payment made, the value of non–controlling interests and the fair value of previously held shares in the target over the Parent Company's share in the net fair value of identifiable assets, liabilities and contingent liabilities of the entity, recognised as at the date of acquisition.

If a negative value occurs, another review is performed of the fair value calculations for each net asset being acquired. If the value remains negative after the review, it is promptly disclosed under profit or loss.

Goodwill is initially disclosed as an asset at purchase price being the amount of the above–mentioned surplus, and then measured at purchase price less accumulated impairment loss.

For the purpose of testing for impairment, goodwill is allocated to individual cash–generating units that should benefit from synergies resulting from the combination. Cash–generating units to which goodwill is allocated are tested for impairment once a year or more often, if there are reasonable grounds to suspect that impairment has occurred. If the recoverable amount of a cash–generating unit is lower than its carrying amount, impairment loss is first allocated to reduce the carrying amount of goodwill allocated to that unit, and then to other assets of that unit in proportion to the carrying amount of that entity's assets. Impairment loss entered for goodwill cannot be reversed in the next period.

At the time of disposal of a subsidiary or a jointly–controlled entity, the portion of goodwill allocated thereto is taken into account in calculating the profit/loss on disposal.

Goodwill resulting from acquisition of an entity located overseas is treated as an asset of the entity located overseas and is translated at the exchange rate in effect on the balance sheet date.

## 4.2 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 Parent Company's functional currency is the Polish zloty, which is also the functional currency of these consolidated 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 | CONSOLIDATED STATEMENT OF FINANCIAL POSITION | | CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME | |
|---|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 |
| USD | 3,4813 | 4,1793 | 3,7439 | – |
| EUR | 4,1709 | 4,4240 | 4,2447 | 4,3757 |
| CZK | 0,1632 | 0,1637 | 0,1614 | 0,1618 |
| RON | 0,8953 | 0,9749 | 0,9282 | 0,9739 |
| HUF | 0,0134 | 0,0142 | – | – |
| GBP | 4,7001 | 5,1445 | 4,8457 | 5,3355 |
| TRY | 0,9235 | 1,1867 | 1,0295 | 1,3109 |
| UYU | 0,1226 | 0,1492 | 0,1310 | 0,1324 |
| CLP | 0,0057 | – | 0,0058 | – |

## 4.3 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 Group 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 Group 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 Group's own cash and customers' cash. Customers' cash is deposited in bank accounts separately from the Group's cash. Customers' cash and cash equivalents are not analysed in the consolidated cash flow statements. The Group achieves economic benefits from investing the customers' cash and cash equivalents.

## 4.4 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.

### 4.4.1 Financial assets at fair value through profit and 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 Group 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 Group 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 Group'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 Group, 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.

### 4.4.2 Financial assets held to maturity

Investments and other financial assets, other than derivatives, with established or identifiable cash flows and fixed maturities which the Group intends and is able to hold to maturity are classified as investments held to maturity. They are measured at amortised cost, using the effective interest rate method, less impairment.

### 4.4.3 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 Group classifies principally loans granted and amounts due from customers and counterparties.

### 4.4.4 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 Group obtains the right to such dividend.

### 4.4.5 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 Group 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).

### 4.4.6 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 Group'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.

### 4.4.7 Derecognition of financial assets from the balance sheet

The Group 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 Group does not transfer or retain essentially all risks and rewards of ownership of such asset, and continues to control it, the Group recognises the retained share in such asset and related liabilities under payments due, if any. If, in turn, the Group 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.

### 4.4.8 Financial liabilities at fair value through profit or loss

This group 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 Group 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 Group 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 Group, 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.

### 4.4.9 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.

### 4.4.10 Derecognition of financial liabilities from the balance sheet

The Group derecognises financial liabilities from the balance sheet only if the appropriate liabilities of the Group 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.

## 4.5 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 Group. 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 Parent 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 Parent 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 Parent Company's payments to the compensation system are reported as expenses, under "Other costs" in the comprehensive income statement.

The Parent 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 Group's assets which do not exist physically, which are identifiable and can be reliably measured, and which will give the Group 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 Group 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 |
| Other intangible assets | 10 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 Group 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 Group'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 Group'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 Group 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 Group reviews the carrying amounts of its property, plant and equipment and intangible assets for indications of impairment. If such indications are identified, the Group 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 Group's cash-generating assets to which a given asset belongs. Where it is possible to specify a reliable and uniform allocation basis, the Group'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 Group 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 Group 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 Parent Company's Statute. Unregistered payments to the share capital are disclosed under the Parent 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 Group's customers, acquired on the regulated stock exchange market and deposited in the accounts of the Group'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 Group, 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 Group 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 Parent 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 Parent 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 Parent Company's financial standing – 50 per cent. The part of benefits granted in the form of financial instruments whose value is related to the Parent 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 Group. 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 Parent 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 Group 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 Group 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 Group'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 Group, 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 Group makes estimates are presented below.

## 5.1 Impairment of assets

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

At each balance sheet date, the Group 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 Tests for impairment of goodwill

The cash–generating unit to which goodwill has been allocated is subject to annual impairment tests. Impairment tests are conducted using the discounted cash flow method based on financial projections. Forecast financial results of cash–

generating units are based on a number of assumptions, some of which (such as those based on observable market data, e.g., macroeconomic conditions) are beyond the Group's control.

## 5.3 Deferred income tax assets

At each balance sheet date, the Parent 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.

## 5.4 Impairment of property, plant and equipment

At each balance sheet date, the Group assesses whether there are any indications that assets may be impaired. If any such indication exists, the Group 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.

## 5.5 Fair value measurement

Information on estimates relative to fair value measurement is presented in note 39 – Risk management.

## 5.6 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 Group'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 | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| CFDs | | |
| Index CFDs | 168 852 | 117 756 |
| Currency CFDs | 67 659 | 71 385 |
| Commodity CFDs | 33 098 | 58 069 |
| Stock CFDs | 1 899 | 1 454 |
| Bond CFDs | (83) | 1 116 |
| Total CFDs | 271 425 | 249 780 |
| Options | | |
| Currency options | 5 330 | 3 434 |
| Index options | 1 279 | 1 212 |
| Commodity options | 272 | 672 |
| Bond options | 3 | 14 |
| Total options | 6 884 | 5 332 |
| Gross gain on transactions in financial instruments | 278 309 | 255 112 |
| Bonuses and discounts paid to customers | (3 421) | (3 531) |
| Commission paid to cooperating brokers | (5 700) | (6 365) |
| Net gain on transactions in financial instruments | 269 188 | 245 216 |

Bonuses paid to customers are strictly related to trading in financial instruments by the customer with Group. 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 Group 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 Group 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 | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Fees and charges from institutional clients | 3 373 | 3 997 |
| Fees and charges from retail clients | 1 084 | 1 287 |
| Total income from fees and charges | 4 457 | 5 284 |

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 | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Operating income | | |
| Central and Eastern Europe | 131 423 | 128 915 |
| *- including Poland* | *78 332* | *80 008* |
| Western Europe | 128 564 | 105 986 |
| *- including Spain* | *56 550* | *45 177* |
| Latin America and Turkey | 13 780 | 15 675 |
| *- including Turkey* | *4 943* | *15 675* |
| Total operating income | 273 767 | 250 576 |

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

The Group 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 | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Salaries | (58 521) | (59 234) |
| Social insurance and other benefits | (10 628) | (10 259) |
| Employee benefits | (4 001) | (2 371) |
| Total salaries and employee benefits | (73 150) | (71 864) |

## 8. Marketing

| (IN PLN'000) | TWELVE-MONTH PERIOD | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Marketing online | (17 120) | (30 390) |
| Marketing offline | (6 668) | (10 982) |
| Advertising campaigns | (922) | (7 780) |
| Competitions for clients | (131) | (186) |
| Total marketing | (24 841) | (49 338) |

Marketing activities carried out by the Group are mainly focused on Internet marketing, which is also supported by other marketing activities.

Since 1 January 2017 the Group presents the costs of emailing system and sales system in the position of other external services. These costs in 2017 amounted to PLN 1 414 thousand. These costs in 2016 are presented as marketing online and amount to PLN 1 066 thousand.

## 9. Costs of maintenance and lease of buildings

| (IN PLN'000) | TWELVE-MONTH PERIOD | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Lease costs | (5 974) | (6 957) |
| Maintenance costs | (1 549) | (1 189) |
| Other costs | (411) | (552) |
| Total costs of maintenance and lease of buildings | (7 934) | (8 698) |

## 10. Other external services

| (IN PLN'000) | TWELVE-MONTH PERIOD | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Support database systems | (5 881) | (4 269) |
| Market data delivery | (4 468) | (3 669) |
| Legal and advisory services | (3 723) | (5 510) |
| IT support services | (2 288) | (1 536) |
| Internet and telecommunications | (2 087) | (2 566) |
| Accounting and audit services | (1 713) | (1 707) |
| Recruitment | (269) | (560) |
| Postal and courier services | (146) | (232) |
| Other external services | (1 368) | (571) |
| Total other external services | (21 943) | (20 620) |

Since 1 January 2017 the Group presents the costs of emailing system and sales system in the position of support database systems. These costs in 2017 amounted to PLN 1 414 thousand. These costs in 2016 are presented as marketing online and amount to PLN 1 066 thousand.

## 11. Commission expenses

| (IN PLN'000) | TWELVE-MONTH PERIOD | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Bank commissions | (3 588) | (2 378) |
| Stock exchange fees and charges | (2 066) | (1 465) |
| Commissions of foreign brokers | (310) | (339) |
| Total commission expenses | (5 964) | (4 182) |

## 12. Other expenses

| (IN PLN'000) | TWELVE-MONTH PERIOD | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Materials | (899) | (922) |
| Business trips | (907) | (1 262) |
| Compensations | (488) | (358) |
| Receivables impairment write–downs | (407) | (2 066) |
| Membership fees | (391) | (476) |
| Representation | (218) | (335) |
| Insurance | (176) | (183) |
| Loss on liquidation of fixed assets | (37) | – |
| Other | (29) | (137) |
| Total other expenses | (3 552) | (5 739) |

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 | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Interest income | | |
| Interest on own cash | 4 673 | 4 507 |
| Interest on customers' cash | 727 | 1 130 |
| Total interest income | 5 400 | 5 637 |
| Foreign exchange gains | – | 6 402 |
| Other finance income | 918 | 83 |
| Total finance income | 6 318 | 12 122 |

| (IN PLN'000) | TWELVE-MONTH PERIOD | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Interest expense | | |
| Interest paid to customers | (661) | (740) |
| Interest paid under lease agreements | (4) | (10) |
| Other interest | (35) | (200) |
| Total interest expense | (700) | (950) |
| Foreign exchange losses | (13 588) | – |
| Other finance costs | (3) | (5) |
| Total finance costs | (14 291) | (955) |

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 Group'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 Group 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.

The Group does not allocate financial activity and corporate income tax burden on business segments.

| CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR TWELVE-MONTH PERIOD ENDED 31.12.2017 (IN PLN'000) | RETAIL OPERATIONS | INSTITUTIONAL OPERATIONS | TOTAL REPORTING SEGMENTS | CONSOLIDATED COMPREHENSIVE INCOME STATEMENT |
|---|---|---|---|---|
| Net result on transactions in financial instruments | 230 981 | 38 207 | 269 188 | 269 188 |
| CFDs | | | | |
| Index CFDs | 133 847 | 35 005 | 168 852 | 168 852 |
| Currency CFDs | 61 435 | 6 224 | 67 659 | 67 659 |
| Commodity CFDs | 35 361 | (2 263) | 33 098 | 33 098 |
| Stock CFDs | 1 828 | 71 | 1 899 | 1 899 |
| Bond CFDs | (41) | (42) | (83) | (83) |
| Options | | | | |
| Currency options | 5 330 | – | 5 330 | 5 330 |
| Index options | 1 279 | – | 1 279 | 1 279 |
| Commodity options | 272 | – | 272 | 272 |
| Bond options | 3 | – | 3 | 3 |
| Bonuses and discounts paid to customers | (3 421) | – | (3 421) | (3 421) |
| Commissions paid to cooperating brokers | (4 912) | (788) | (5 700) | (5 700) |
| Fee and commission income | 1 084 | 3 373 | 4 457 | 4 457 |
| Other income | 122 | – | 122 | 122 |
| Total operating income | 232 187 | 41 580 | 273 767 | 273 767 |
| Salaries and employee benefits | (70 674) | (2 476) | (73 150) | (73 150) |
| Marketing | (23 260) | (1 581) | (24 841) | (24 841) |
| Other external services | (21 032) | (911) | (21 943) | (21 943) |
| Cost of maintenance and lease of buildings | (7 833) | (101) | (7 934) | (7 934) |
| Amortization and depreciation | (6 038) | (16) | (6 054) | (6 054) |
| Taxes and fees | (2 048) | (11) | (2 059) | (2 059) |
| Commission expense | (5 959) | (5) | (5 964) | (5 964) |
| Other expenses | (3 103) | (449) | (3 552) | (3 552) |
| Total operating expenses | (139 947) | (5 550) | (145 497) | (145 497) |
| Operating profit | 92 240 | 36 030 | 128 270 | 128 270 |
| Impairment of intangible assets | – | – | – | (5 612) |
| Finance income | – | – | – | 6 318 |
| Finance costs | – | – | – | (14 291) |
| Profit before tax | – | – | – | 114 685 |
| Income tax | – | – | – | (21 712) |
| Net profit | – | – | – | 92 973 |

| ASSETS AND LIABILITIES AS AT 31.12.2017 (IN PLN'000) | RETAIL OPERATIONS | INSTITUTIONAL OPERATIONS | TOTAL REPORTING SEGMENTS | CONSOLIDATED STATEMENT OF FINANCIAL POSITION |
|---|---|---|---|---|
| Customers' cash and cash equivalents | 335 799 | 42 672 | 378 471 | 378 471 |
| Financial assets held for trading | 120 433 | 7 511 | 127 944 | 127 944 |
| Other assets | 390 961 | 328 | 391 289 | 391 289 |
| Total assets | 847 193 | 50 511 | 897 704 | 897 704 |
| | | | | |
| Amounts due to customers | 374 747 | 46 653 | 421 400 | 421 400 |
| Financial liabilities held for trading | 37 376 | 3 529 | 40 905 | 40 905 |
| Other liabilities | 35 053 | 4 | 35 057 | 35 057 |
| Total liabilities | 447 176 | 50 186 | 497 362 | 497 362 |

| CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR TWELVE-MONTH PERIOD ENDED 31.12.2016 (IN PLN'000) | RETAIL OPERATIONS | INSTITUTIONAL OPERATIONS | TOTAL REPORTING SEGMENTS | CONSOLIDATED COMPREHENSIVE INCOME STATEMENT |
|---|---|---|---|---|
| Net result on transactions in financial instruments | 229 696 | 15 520 | 245 216 | 245 216 |
| CFDs | | | | |
| Index CFDs | 107 656 | 10 100 | 117 756 | 117 756 |
| Currency CFDs | 66 255 | 5 130 | 71 385 | 71 385 |
| Commodity CFDs | 54 533 | 3 536 | 58 069 | 58 069 |
| Bond CFDs | 1 058 | 58 | 1 116 | 1 116 |
| Stock CFDs | 1 406 | 48 | 1 454 | 1 454 |
| 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 |
| Bonuses and discounts paid to customers | (3 531) | – | (3 531) | (3 531) |
| Commissions paid to cooperating brokers | (2 995) | (3 370) | (6 365) | (6 365) |
| Fee and commission income | 1 287 | 3 997 | 5 284 | 5 284 |
| Other income | 76 | – | 76 | 76 |
| Total operating income | 231 059 | 19 517 | 250 576 | 250 576 |
| Salaries and employee benefits | (70 018) | (1 846) | (71 864) | (71 864) |
| Marketing | (48 976) | (362) | (49 338) | (49 338) |
| Other external services | (19 407) | (1 213) | (20 620) | (20 620) |
| Cost of maintenance and lease of buildings | (8 423) | (275) | (8 698) | (8 698) |
| Amortization and depreciation | (5 384) | (39) | (5 423) | (5 423) |
| Taxes and fees | (2 587) | (10) | (2 597) | (2 597) |
| Commission expense | (4 118) | (64) | (4 182) | (4 182) |
| Other expenses | (5 365) | (374) | (5 739) | (5 739) |
| Total operating expenses | (164 278) | (4 183) | (168 461) | (168 461) |
| Operating profit | 66 781 | 15 334 | 82 115 | 82 115 |
| Finance income | – | – | – | 12 122 |
| Finance costs | – | – | – | (955) |
| Profit before tax | – | – | – | 93 282 |
| Income tax | – | – | – | (15 575) |
| Net profit | – | – | – | 77 707 |

| ASSETS AND LIABILITIES AS AT 31.12.2016 (IN PLN'000) | RETAIL OPERATIONS | INSTITUTIONAL OPERATIONS | TOTAL REPORTING SEGMENTS | CONSOLIDATED STATEMENT OF FINANCIAL POSITION |
|---|---|---|---|---|
| Customers' cash and cash equivalents | 337 538 | 38 104 | 375 642 | 375 642 |
| Financial assets held for trading | 89 325 | 5 578 | 94 903 | 94 903 |
| Other assets | 324 947 | 1 261 | 326 208 | 326 208 |
| Total assets | 751 810 | 44 943 | 796 753 | 796 753 |
| | | | | |
| Amounts due to customers | 339 164 | 38 104 | 377 268 | 377 268 |
| Financial liabilities held for trading | 20 399 | 2 246 | 22 645 | 22 645 |
| Other liabilities | 40 541 | 406 | 40 947 | 40 947 |
| Total liabilities | 404 104 | 40 756 | 440 860 | 440 860 |

## 15. Cash and cash equivalents

Broken down by type

| (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| In hand | 1 | 33 |
| In current bank accounts | 743 142 | 662 070 |
| Short-term bank deposits | 2 424 | 4 278 |
| Cash and cash equivalents in total | 745 567 | 666 381 |

Restricted own and customers' cash

| (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Customers' cash and cash equivalents | 378 471 | 375 642 |
| Own cash and cash equivalents | 367 096 | 290 739 |
| Cash and cash equivalents in total | 745 567 | 666 381 |

Customers' cash and cash equivalents include the value of clients' open transactions.

## 16. Financial assets held for trading

| (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| CFDs | | |
| Index CFDs | 56 760 | 58 200 |
| Currency CFDs | 28 263 | 20 774 |
| Commodity CFDs | 14 415 | 13 168 |
| Stock CFDs | 5 447 | 2 377 |
| Bond CFDs | 92 | 384 |
| Stocks | 22 967 | – |
| Total assets held for trading | 127 944 | 94 903 |

Detailed information on the estimated fair value of the instrument is presented in note 39.1.1.

## 17. Loans and other receivables

| (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Gross amounts due from customers | 2 667 | 3 791 |
| Impairment write-downs of receivables | (2 480) | (2 539) |
| Total amounts due from customers | 187 | 1 252 |
| Deposits | 1 791 | 1 772 |
| Trade receivables | 1 543 | 1 775 |
| Statutory receivables | 1 030 | 1 013 |
| Impairment write-downs of other receivables | (542) | (568) |
| Total other receivables | 4 009 | 5 244 |

Movements in impairment write-downs of receivables

| (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Impairment write-downs of receivables – at the beginning of the reporting period | (3 107) | (1 430) |
| Write-downs recorded | (567) | (2 348) |
| Write-downs reversed | 146 | 282 |
| Write-downs utilized | 506 | 389 |
| Impairment write-downs of receivables – at the end of the reporting period | (3 022) | (3 107) |

Write-downs of receivables in 2017 and 2016 resulted from the debit balances which arose in customers' accounts in those periods.

## 18. Prepayments and deferred costs

| (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Advertising | 1 216 | 746 |
| CRM | 636 | 1 298 |
| Prepaid rent | 462 | 551 |
| Licenses and news services | 364 | 380 |
| Insurance | 219 | 242 |
| Subscriptions | 11 | – |
| Settlement of bonuses | – | 11 |
| Other | 308 | 362 |
| Total prepayments and deferred costs | 3 216 | 3 590 |

## 19. Intangible assets

Intangible assets in the period from 1 January 2017 to 31 December 2017

| (IN PLN'000) | LICENCES FOR COMPUTER SOFTWARE | INTANGIBLE ASSETS MANUFACTURED INTERNALLY | OTHER INTANGIBLE ASSETS | ADVANCES FOR INTANGIBLE ASSETS | TOTAL |
|---|---|---|---|---|---|
| Gross value as at 1 January 2017 | 5 190 | 10 792 | 8 017 | – | 23 999 |
| Additions | 496 | – | 2 409 | – | 2 905 |
| Sale and scrapping | (94) | – | – | – | (94) |
| Impairment of intangible assets | – | – | (5 612) | – | (5 612) |
| Net foreign exchange differences | (51) | – | – | – | (51) |
| Gross value as at 31 December 2017 | 5 541 | 10 792 | 4 814 | – | 21 147 |
| | | | | | |
| Accumulated amortization as at 1 January 2017 | (4 350) | (7 451) | (2 138) | – | (13 939) |
| Amortization for the current period | (479) | (2 044) | (1 904) | – | (4 427) |
| Sale and scrapping | 94 | – | – | – | 94 |
| Net foreign exchange differences | 40 | – | – | – | 40 |
| Accumulated amortization as at 31 December 2017 | (4 695) | (9 495) | (4 042) | – | (18 232) |
| | | | | | |
| Net book value as at 1 January 2017 | 840 | 3 341 | 5 879 | – | 10 060 |
| | | | | | |
| Net book value as at 31 December 2017 | 846 | 1 297 | 772 | – | 2 915 |

Intangible assets manufactured internally relate to a financial instrument trading platform and applications compatible with this platform. Other intangible assets relate to the separated licence value under the acquisition of the subsidiary described in note 1.2 and client base purchased by XTB International. Client base was purchased on 18 April 2017 from company in Chile for the amount of USD 540 thousand.

In the period ended 31 December 2017 the Group recognized an impairment of licence for the brokerage activity in Turkey in the amount of PLN 5 612 thousand. There was no impairment in the analogical period. The impairment was presented in comprehensive income statement in line Impairment of 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 ASSETS | TOTAL |
|---|---|---|---|---|---|
| Gross value as at 1 January 2016 | 4 949 | 10 792 | 8 017 | – | 23 758 |
| Additions | 230 | – | – | – | 230 |
| Sale and scrapping | (4) | – | – | – | (4) |
| Net foreign exchange differences | 15 | – | – | – | 15 |
| Gross value as at 31 December 2016 | 5 190 | 10 792 | 8 017 | – | 23 999 |
| Accumulated amortization as at 1 January 2016 | (3 790) | (5 292) | (1 336) | – | (10 418) |
| Amortization for the current period | (551) | (2 159) | (802) | – | (3 512) |
| Sale and scrapping | 2 | – | – | | 2 |
| Net foreign exchange differences | (11) | – | – | – | (11) |
| Accumulated amortization as at 31 December 2016 | (4 350) | (7 451) | (2 138) | – | (13 939) |
| Net book value as at 1 January 2016 | 1 159 | 5 500 | 6 681 | – | 13 340 |
| Net book value as at 31 December 2016 | 840 | 3 341 | 5 879 | – | 10 060 |

Intangible assets manufactured internally relate to a financial instrument trading platform and applications compatible with this platform. Other intangible assets relate to the separated licence value under the acquisition of the subsidiary described in note 1.2.

## 20. Property, plant and equipment

Property, plant and equipment in the period from 1 January 2017 to 31 December 2017

| (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 2017 | 9 534 | 7 162 | 143 | – | 16 839 |
| Additions | 873 | 457 | (43) | – | 1 287 |
| Sale and scrapping | (1 073) | (1 141) | – | – | (2 214) |
| Net foreign exchange differences | (203) | (378) | – | – | (581) |
| Gross value as at 31 December 2017 | 9 131 | 6 100 | 100 | – | 15 331 |
| | | | | | |
| Accumulated amortization as at 1 January 2017 | (7 530) | (5 563) | – | – | (13 093) |
| Amortization for the current period | (1 100) | (527) | – | – | (1 627) |
| Sale and scrapping | 1 020 | 952 | – | – | 1 972 |
| Net foreign exchange differences | 133 | 318 | – | – | 451 |
| Accumulated amortization as at 31 December 2017 | (7 477) | (4 820) | – | – | (12 297) |
| | | | | | |
| Net book value as at 1 January 2017 | 2 004 | 1 599 | 143 | – | 3 746 |
| | | | | | |
| Net book value as at 31 December 2017 | 1 654 | 1 280 | 100 | – | 3 034 |

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 | 8 407 | 7 601 | 141 | – | 16 149 |
| Additions | 1 342 | 212 | – | – | 1 554 |
| Sale and scrapping | (190) | (602) | – | – | (792) |
| Net foreign exchange differences | (25) | (49) | 2 | – | (72) |
| Gross value as at 31 December 2016 | 9 534 | 7 162 | 143 | – | 16 839 |
| | | | | | |
| Accumulated amortization as at 1 January 2016 | (6 638) | (5 404) | – | – | (12 042) |
| Amortization for the current period | (1 094) | (817) | – | – | (1 911) |
| Sale and scrapping | 185 | 602 | – | – | 787 |
| Net foreign exchange differences | 17 | 56 | – | – | 73 |
| Accumulated amortization as at 31 December 2016 | (7 530) | (5 563) | – | – | (13 093) |
| | | | | | |
| Net book value as at 1 January 2016 | 1 769 | 2 197 | 141 | – | 4 107 |
| | | | | | |
| Net book value as at 31 December 2016 | 2 004 | 1 599 | 143 | – | 3 746 |

Non-current assets by geographical area

| (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Non-current assets | | |
| Central and Eastern Europe | 4 413 | 6 802 |
| *- including Poland* | *4 072* | *6 289* |
| Western Europe | 530 | 583 |
| *- including Spain* | *138* | *212* |
| Latin America and Turkey | 1 006 | 6 421 |
| Total non-current assets | 5 949 | 13 806 |

## 21. Amounts due to customers

| (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Amounts due to retail customers | 374 747 | 339 164 |
| Amounts due to institutional customers | 46 653 | 38 104 |
| Total amounts due to customers | 421 400 | 377 268 |

Amounts due to customers are connected with transactions concluded by the customers (including cash deposited in the customers' accounts).

## 22. Financial liabilities held for trading

| (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| CFDs | | |
| Currency CFDs | 20 809 | 3 575 |
| Commodity CFDs | 12 523 | 14 081 |
| Index CFDs | 4 677 | 3 574 |
| Stock CFDs | 2 844 | 1 369 |
| Bond CFDs | 52 | 46 |
| Total financial liabilities held for trading | 40 905 | 22 645 |

## 23. Other liabilities

| (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Provisions for other employee benefits | 12 379 | 10 894 |
| Trade liabilities | 5 608 | 6 433 |
| Statutory liabilities | 3 196 | 4 287 |
| Liabilities due to employees | 525 | 768 |
| Liabilities under finance lease | 128 | 258 |
| Amounts due to the Central Securities Depository of Poland | 77 | 53 |
| Total other liabilities | 21 913 | 22 693 |

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 Group, the employees of the Group 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 2017, salaries and employee benefits included the provision for variable remuneration elements in the amount of PLN 419 thousand and as at 31 December 2016 in the amount of PLN 1,17 million.

## 24. Liabilities in respect of finance lease

The Group entered into finance lease contracts regarding passenger cars. After expiry of the lease contract, the Group 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 | |
|---|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 |
| Up to 1 year | 98 | 146 | 92 | 130 |
| 1 – 5 years | 37 | 136 | 37 | 129 |
| Total liabilities in respect of finance lease | 135 | 282 | 129 | 259 |

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

| (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Property, plant and equipment under finance lease | 209 | 427 |

## 25. Operating lease agreements

The Group 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) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Less than 1 year | 4 914 | 5 101 |
| 1 – 5 years | 7 988 | 10 631 |
| Over 5 years | 1 509 | – |
| Total minimum payments under irrevocable operating lease payments | 14 411 | 15 732 |

In 2017 the Group incurred the rent payments in respect of the agreements referred to above of PLN 5 974 thousand. In 2016 rent payments amounted to PLN 6 957 thousand.

## 26. Provisions for liabilities and contingent liabilities

### 26.1 Provisions for liabilities

| (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Provisions for retirement benefits | 846 | 177 |
| Provisions for legal risk | 820 | 771 |
| Total provisions | 1 666 | 948 |

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 Group is a party. As at the date of preparation of these financial statements, the Group is not able to specify when the above liabilities will be repaid.

Movements in provisions in the period from 1 January 2017 to 31 December 2017

| (IN PLN'000) | VALUE AS AT 01.01.2017 | INCREASES | DECREASES | | VALUE AS AT 31.12.2017 |
|---|---|---|---|---|---|
| | | | USE | REVERSAL | |
| Provisions for retirement benefits | 177 | 690 | – | 21 | 846 |
| Provisions for legal risk | 771 | 250 | 201 | – | 820 |
| Total provisions | 948 | 940 | 201 | 21 | 1 666 |

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 | |
| Provisions for retirement benefits | 123 | 54 | – | – | 177 |
| Provisions for legal risk | 748 | 309 | 286 | – | 771 |
| Total provisions | 871 | 363 | 286 | – | 948 |

## 26.2 Contingent liabilities

The Group is party to a number of court proceedings associated with the Group's operations. The proceedings in which the Parent Company and Group companies act as defendant relate mainly to employees' and customers' claims. As at 31 December 2017 the total value of claims brought against the Parent Company and Group companies amounted to approx. PLN 6,23 million (as at 31 December 2016: PLN 5,79 million). Parent Company has not created provisions for the above proceedings. In the assessment of the Parent Company there is low probability of loss in these proceedings.

On 17 November 2017 the Parent Company received decision issued by Polish Financial Supervision Authority dated 14 November 2017 on initiation of administrative proceedings regarding the imposition of a fine on the Parent Company in connection with the suspicion of a significant violation of the law, in particular in the area of brokerage services for the benefit of the Parent Company's clients as well as the organization and operation of transaction systems. According to the above mentioned decision Polish Financial Supervision Authority may impose a fine up to 10% of income presented in the last audited financial statements. In the Parent Company's opinion the violations indicated by the Polish Financial Supervision Authority are unfounded and are not confirmed in the actual situation. Moreover the Parent Company does not identify the risk of clients' claims concerning the issues raised by the Polish Financial Supervision Authority that would any have material effect on these financial statements

On May 9, 2014, the Parent Company issued a guarantee in the amount of PLN 42 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 Parent 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 1 648 thousand.

On the 30 June 2016 the Parent 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.

On 7 July 2017 the Parent Company issued a guarantee in the amount of PLN 5 170 thousand to secure the agreement concluded between subsidiary XTB Limited based in UK and Worldpay (UK) Limited, Worldpay Limited i Worldpay AP LTD based in UK. The guarantee was issued for the period of the agreement which was concluded for three years with the possibility of further extension

# 27. Equity

Share capital structure as at 31 December 2017 and 31 December 2016

| 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 Parent 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. The shares are A-series ordinary registered shares.

### Shareholding structure of the Company

To the best Parent Company's knowledge, the shareholding structure of the Parent Company as at 31 December 2017 was as follows:

| | NUMBER OF SHARES | NOMINAL VALUE OF SHARES (IN PLN'000) | SHARE |
|---|---|---|---|
| XXZW Investment Group S.A. | 78 629 794 | 3 932 | 66,99% |
| Systexan SARL | 22 280 207 | 1 114 | 18,98% |
| Quercus | 6 243 759 | 312 | 5,32% |
| Other shareholders | 10 229 875 | 511 | 8,71% |
| Total | 117 383 635 | 5 869 | 100,00% |

To the best Parent Company's knowledge, the shareholding structure of the Parent Company as at 31 December 2016 was as follows:

| | 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% |

### 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 247 992 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 (15 906) thousand.

| (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| X-Trade Brokers Dom Maklerski Spółka Akcyjna branch in Romania | 296 | 227 |
| X-Trade Brokers Dom Maklerski Spółka Akcyjna branch in Czech Republic | 289 | 649 |
| X-Trade Brokers Dom Maklerski Spółka Akcyjna branch in Germany | 224 | 514 |
| X-Trade Brokers Dom Maklerski Spółka Akcyjna | 17 | (131) |
| Lirsar S.A. | – | 72 |
| XTB Services Limited | (4) | – |
| X-Trade Brokers Dom Maklerski Spółka Akcyjna branch in Portugal | (10) | 39 |
| X-Trade Brokers Dom Maklerski Spółka Akcyjna branch in Slovakia | (17) | 122 |
| XTB Chile SpA | (30) | – |
| X-Trade Brokers Dom Maklerski Spółka Akcyjna branch in Spain | (63) | 382 |
| X-Trade Brokers Dom Maklerski Spółka Akcyjna branch in France | (117) | 101 |
| DUB Investments Ltd | (154) | 69 |
| XTB International | (319) | – |
| XTB Limited | (968) | (101) |
| X Trade Brokers Menkul Değerler A.Ş. | (15 050) | (6 888) |
| Total foreign exchange differences on translation | (15 906) | (4 945) |

## 28. Profit distribution and dividend

Pursuant to the decision of the General Shareholders' Meeting of the Company, the net profit for 2016 in the amount of PLN 72 999 thousand was partially earmarked for the payment of a dividend in the amount of PLN 37 563 thousand, the remaining amount was transferred to reserve capital.

The dividend on ordinary shares for 2016, paid on 23 May 2017, amounted to PLN 37 563 thousand. The amount of dividend per share paid for 2016 was equal to PLN 0,32.

On 28 November 2017 the Company's Management Board recommended to the Supervisory Board to keep at the disposal of the Company the net profit generated by the Company in the first half of 2017 in the amount of PLN 24 486 thousand. As at the date of publication of these financial statements the Company's Management Board has not yet decided on the remaining amount of 2017 net profits.

## 29. Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. When calculating both basic and diluted earnings per share, the Group uses the amount of net profit attributable to shareholders of the Group 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 | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Profit from continuing operations attributable to shareholders of the Company | 92 973 | 77 707 |
| Weighted average number of ordinary shares | 117 383 635 | 117 383 635 |
| Shares causing dilution (share option plan) | – | 84 805 |
| Weighted average number of shares including dilution effect | 117 383 635 | 117 468 440 |
| Basic net profit per share from continuing operations for the year attributable to shareholders of the Company | 0,79 | 0,66 |
| Diluted net profit per share from continuing operations for the year attributable to shareholders of the Company | 0,79 | 0,66 |

## 30. 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

## 30.1 Income tax

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

| (IN PLN'000) | TWELVE-MONTH PERIOD | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Income tax – current portion | | |
| Income tax for the reporting period | (22 927) | (11 845) |
| Income tax – deferred portion | | |
| Occurrence / reversal of temporary differences | 1 215 | (3 730) |
| Income tax disclosed in profit and loss | (21 712) | (15 575) |

Reconciliation of the actual tax burden

| (IN PLN'000) | TWELVE-MONTH PERIOD | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Profit before tax | 114 685 | 93 282 |
| Income tax based in the applicable tax rate of 19% | (21 790) | (17 724) |
| Difference resulting from application of tax rates applicable in other countries | (146) | (282) |
| Non-taxable revenue | 35 | 28 |
| Non-deductible expenses | (509) | (473) |
| Realisation of tax losses for the preceding periods | 59 | 3 402 |
| Other items affecting the tax burden amount | 639 | (526) |
| Income tax disclosed in profit or loss | (21 712) | (15 575) |

## 30.2 Deferred income tax

### 30.2.1 Unrecognized deferred income tax assets

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

| (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Tax loss | 1 052 | 1 124 |

Taking into account the risks connected with further business development in foreign markets, the Parent 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 1 052 thousand as at 31 December 2017 and in the amount of PLN 1 124 thousand as at 31 December 2016.

| UNRECOGNIZED TAX LOSSES AVAILABLE FOR USE (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| until the end of 2017 | – | 40 |
| until the end of 2018 | 278 | 258 |
| until the end of 2019 | 107 | 113 |
| until the end of 2020 | 119 | 129 |
| until the end of 2021 | 25 | 23 |
| no limit | 523 | 561 |
| Total unrecognized tax losses available for use | 1 052 | 1 124 |

### 30.2.2 Recognized deferred tax asset relating to tax losses

Balance of deferred tax asset relating to tax losses

| RECOGNIZED TAX LOSSES TO BE UTILIZED (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Deferred tax on tax losses | 10 145 | 11 293 |

As at 31 December 2017 the Group established deferred tax assets with regard to tax losses to be settled in future periods in the total amount of PLN 10 145 thousand (as at 31 December 2016: PLN 11 293 thousand). The management believes that due to dynamic development of business and growth of sales in foreign markets, the Group 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, France and in Great Britain.

### 30.2.3 Deferred income tax assets and deferred income tax provision

Change in the balance of deferred tax for the period from 1 January to 31 December 2017

| (IN PLN'000) | AS AT 01.01.2017 | PROFIT OR (LOSS) | AS AT 31.12.2017 |
|---|---|---|---|
| Deferred income tax assets: | | | |
| Cash and cash equivalents | – | 1 | 1 |
| Property, plant and equipment | 100 | (9) | 91 |
| Loans granted and other receivables | 45 | – | 45 |
| Financial liabilities held for trading | 4 113 | 2 557 | 6 670 |
| Provisions for liabilities | 50 | 195 | 245 |
| Prepayments and deferred costs | 1 262 | 174 | 1 436 |
| Other liabilities | 22 | (3) | 19 |
| Tax losses of previous periods to be settled in future periods | 11 293 | (1 148) | 10 145 |
| Total deferred income tax assets | 16 885 | 1 767 | 18 652 |

| (IN PLN'000) | AS AT 01.01.2017 | INCLUDED IN EQUITY | AS AT 31.12.2017 |
|---|---|---|---|
| Deferred income tax assets included directly in the equity: | | | |
| Separate equity of branches | – | 14 | 14 |
| Total deferred income tax assets included directly in the equity | – | 14 | 14 |

| (IN PLN'000) | AS AT 01.01.2017 | PROFIT OR (LOSS) | AS AT 31.12.2017 |
|---|---|---|---|
| Deferred income tax provision: | | | |
| Financial assets held for trading | 17 143 | 965 | 18 108 |
| Other liabilities | 1 | 7 | 8 |
| Loans granted and other receivables | 4 | (4) | – |
| Prepayments and deferred costs | 21 | (5) | 16 |
| Property, plant and equipment | 658 | (411) | 247 |
| Total deferred income tax provision | 17 827 | 552 | 18 379 |
| Deferred tax disclosed in profit or (loss) | – | 1 215 | – |

| (IN PLN'000) | AS AT 01.01.2017 | INCLUDED IN EQUITY | AS AT 31.12.2017 |
|---|---|---|---|
| Deferred income tax provision included directly in the equity: | | | |
| Separate equity of branches | 479 | (479) | – |
| Total deferred income tax provision included directly in the equity | 479 | (479) | – |

Change in the balance of deferred tax for the period from 1 January to 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 | 124 | (24) | 100 |
| Loans granted and other receivables | 3 | 42 | 45 |
| Financial liabilities held for trading | 1 840 | 2 273 | 4 113 |
| Provisions for liabilities | 16 | 34 | 50 |
| Prepayments and deferred costs | 1 665 | (403) | 1 262 |
| Other liabilities | 20 | 2 | 22 |
| Tax losses of previous periods to be settled in future periods | 12 112 | (819) | 11 293 |
| Total deferred income tax assets | 15 780 | 1 105 | 16 885 |

| (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 | 34 | (30) | 4 |
| Prepayments and deferred costs | – | 21 | 21 |
| Property, plant and equipment | 1 092 | (434) | 658 |
| Total deferred income tax provision | 12 992 | 4 835 | 17 827 |
| Deferred tax disclosed in profit or (loss) | – | (3 730) | – |

| (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 |

Geographical division of deferred income tax assets

| (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| **Deferred income tax assets** | | |
| Central and Eastern Europe | 100 | 114 |
| *- including Poland* | – | – |
| Western Europe | 10 172 | 11 338 |
| *- including Spain* | – | – |
| Latin America and Turkey | 225 | 171 |
| Total deferred income tax assets | 10 497 | 11 623 |

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 2017:

| (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 | 8 160 | 18 370 | – | 10 210 |
| Czech Republic | 49 | – | 49 | – |
| Slovakia | 60 | 9 | 51 | – |
| Germany | 2 815 | – | 2 815 | – |
| France | 5 387 | – | 5 387 | – |
| Great Britain | 1 970 | – | 1 970 | – |
| Turkey | 26 | – | 26 | – |
| Chile | 199 | – | 199 | – |
| Total | 18 666 | 18 379 | 10 497 | 10 210 |

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 | 5 261 | 18 305 | – | 13 044 |
| Czech Republic | 42 | – | 42 | – |
| Slovakia | 72 | 1 | 71 | – |
| Germany | 3 119 | – | 3 119 | – |
| France | 5 854 | – | 5 854 | – |
| Great Britain | 2 366 | – | 2 366 | – |
| Turkey | 171 | – | 171 | – |
| Total | 16 885 | 18 306 | 11 623 | 13 044 |

# 31. Related party transactions

## 31.1 Parent Company

XXZW Investment Group S.A. with its registered office in Luxembourg is the key shareholder of the Company. As at 31 December 2017 it holds 66,99% 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.

## 31.2 Figures concerning related party transactions

As at 31 December 2017 and 31 December 2016 the Group had no settlements with related parties. In the periods covered by the consolidated financial statements there we no revenues or expenses resulting from transactions with related entities.

## 31.3 Benefits to Management Board and Supervisory Board

| (IN PLN'000) | TWELVE-MONTH PERIOD | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Benefits to the Management Board members | (2 863) | (2 486) |
| Benefits to the Supervisory Board members | (79) | (89) |
| Total benefits to the Management Board and Supervisory Board | (2 942) | (2 575) |

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 Parent Company are included in the scheme of variable remuneration elements specified in note 23 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 419 thousand.

Members of the Management Board of the Parent Company, within the framework of the Options Program described in note 31.4 of the financial statements, acquired 341 640 rights to shares with the total value of PLN 462 thousand as at the balance-sheet date.

## 31.4 Share-based payments

Pursuant to the Shareholders Agreement of the Parent Company of 28 March 2011, the Parent 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 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.

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 Group 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

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Unrealized rights to shares as at the beginning of the period | 84 805 | 341 640 |
| Realized rights to shares | (84 805) | (256 835) |
| Unrealized rights to shares as at the end of the period | – | 84 805 |

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.

## 31.5 Loans granted to the Management Board and Supervisory Board members

As at 31 December 2017 and 31 December 2016 there are no loans granted to the Management and Supervisory Board members.

# 32. 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) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Statutory audit of annual financial statements | 585 | 643 |
| Other assurance services | 152 | 186 |
| Total remuneration of the authorised entity | 737 | 829 |

# 33. Employment

The average number of employees in the Group was 388 persons in 2017 and 413 persons in 2016.

# 34. Supplementary information and explanations to the cash flow statement

## 34.1 Change in the balance of other liabilities

| (IN PLN'000) | TWELVE-MONTH PERIOD | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Change in other liabilities | (780) | (4 015) |
| Payment of finance lease liabilities | 130 | 117 |
| Change in the balance of other liabilities | (650) | (3 898) |

## 34.2 Other adjustments

The "other adjustments" item includes the following adjustments:

| (IN PLN'000) | TWELVE-MONTH PERIOD | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Change in the balance of differences from the conversion of branches and subsidiaries | (10 961) | (4 304) |
| Foreign exchange differences in translation of financial assets available for sale | 43 | 23 |
| Foreign exchange differences on translation of movements in property, plant and equipment, and intangible assets | 141 | (5) |
| Change in other adjustments | (10 777) | (4 286) |

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 Group's foreign entities and the difference between the rate applied to value amortization and depreciation cost of fixed assets and intangible assets in the Group'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.

# 35. Post balance sheet events

On 8 January 2018 the Company established X Trading Technologies Sp. z o.o. in which it owns 100% of shares. X Trading Technologies Sp. z o.o. will be providing services in the scope of other money brokering and activities relating to software.

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

## 36.1 Nominal value of derivatives

| (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| CFDs | | |
| Index CFDs | 2 330 361 | 1 832 652 |
| Currency CFDs | 1 324 424 | 1 753 101 |
| Commodity CFDs | 420 791 | 422 577 |
| Stock CFDs | 127 443 | 63 846 |
| Bond CFDs | 23 761 | 32 921 |
| Stock | 22 967 | - |
| Total financial instruments | 4 249 747 | 4 105 097 |

The nominal value of instruments presented in the chart above includes transactions with customers and brokers. As at 31 December 2017 transactions with brokers represent 2% of the total nominal value of instruments (as at 31 December 2016: 25% of the total nominal value of instruments).

## 36.2 Customers' financial instruments

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

| (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Listed stocks and rights to stocks registered in customers' securities accounts | 83 | 201 |
| Other securities registered in customers' securities accounts | 329 | 341 |
| Total customers' financial instruments | 412 | 542 |

# 37. Items regarding the compensation scheme

| (IN PLN'000) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| 1. Contributions made to the compensation scheme | | |
| a) opening balance | 2 687 | 2 204 |
| *- increases* | *598* | *483* |
| b) closing balance | 3 285 | 2 687 |
| 2. XTB's share in the profits from the compensation scheme | 213 | 180 |

## 38. Capital management

The Group'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 Parent Company's Supervisory Board. The policy defines the basic concepts, objectives and rules which constitute the Parent 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 Group 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 Group to operate in a prudent and efficient manner. This objective is attained by maintaining an appropriate capital base, taking into account the Group'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 Group 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 Group's risk appetite. To establish its capital-related goals, the Group 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 Group's current and future capital requirements (both regulatory and internal), and on comparing them with the current and projected levels of available capital. The Group 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 Group assesses its internal capital in order to define the overall capital requirement to cover all significant risks in the Group's operations and evaluates its quality. The Group estimates internal capital necessary to cover identified significant risks in compliance with procedures adopted by the Group and taking into account stress test results.

The Parent 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 Parent 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 Group belongs to the best category – Tier 1.

Prudential consolidation according to the CRR applies to subsidiaries in excess of the threshold referred to in Article 19 of the CRR. As regards the Group, the Parent Company includes its subsidiary X-Trade Brokers Menkul Değerler A.Ş. in prudential consolidation, from 31 October 2015 includes its subsidiary XTB Limited and from 30 April 2017 includes its subsidiary XTB International.

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 Group 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) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| The Company's own funds | 317 344 | 253 974 |
| Tier I Capital | 317 344 | 253 974 |
| Common Equity Tier I capital | 317 344 | 253 974 |
| Supplementary capital Tier I | – | – |
| Tier II capital | – | – |
| Total risk exposure | 2 630 505 | 1 441 592 |
| Capital conservation buffer | 32 881 | 18 020 |
| Countercyclical capital buffer | 3 100 | 568 |
| Combined buffer requirement | 35 981 | 18 588 |

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 31.12.2017 | AVERAGE MONTHLY VALUE IN THE PERIOD | AS AT 31.12.2016 |
|---|---|---|---|
| 1. Capital/Own funds | 317 344 | 279 834 | 253 974 |
| 1.1. Base capital/Common Equity Tier I without deductions | 324 868 | 301 723 | 289 429 |
| 1.2. Additional items of common equity/Supplementary capital Tier I | – | – | – |
| 1.3. Items decreasing share capitals | (7 524) | (21 889) | (35 455) |
| 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 | 317 344 | 279 834 | 253 974 |
| 1. Market risk | 138 118 | 127 812 | 48 228 |
| 2. Settlement and delivery risk, contractor's credit risk and the CVA requirement | 10 998 | 9 137 | 8 081 |
| 3. Credit risk | 21 151 | 21 650 | 20 773 |
| 4. Operating risk | 40 172 | 38 144 | 38 245 |
| 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 | 210 439 | 196 743 | 115 327 |
| IIb. Total risk exposure | 2 630 505 | 2 459 290 | 1 441 592 |
| Capital conservation buffer | 32 881 | 30 741 | 18 020 |
| Countercyclical capital buffer | 3 100 | 1 272 | 568 |
| Combined buffer requirement | 35 981 | 32 013 | 18 588 |

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.

## 39. 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 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 Group's internal control system.

The Parent Company's Supervisory Board approves risk management system.

## 39.1 Fair value

### 39.1.1 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.

### 39.1.2 Fair value hierarchy

The Group 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) | 31.12.2017 | | | |
|---|---|---|---|---|
| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
| Financial assets | | | | |
| Financial assets held for trading | 22 967 | 104 977 | – | 127 944 |
| Financial assets available for sale | – | 147 | – | 147 |
| Total assets | 22 967 | 105 124 | – | 128 091 |
| Financial liabilities | | | | |
| Financial liabilities held for trading | – | 40 905 | – | 40 905 |
| Total liabilities | – | 40 905 | – | 40 905 |

| (IN PLN'000) | 31.12.2016 | | | |
|---|---|---|---|---|
| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
| Financial assets | | | | |
| Financial assets held for trading | – | 94 903 | – | 94 903 |
| Financial assets available for sale | – | 190 | – | 190 |
| Total assets | – | 95 093 | – | 95 093 |
| Financial liabilities | | | | |
| Financial liabilities held for trading | – | 22 645 | – | 22 645 |
| Total liabilities | – | 22 645 | – | 22 645 |

In the periods covered by the consolidated 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 Group. 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 Group, was insignificant from the point of view of the general estimation of derivative transactions concluded by the Group. Therefore, the Group 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.

## 39.2 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 Company'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.

### 39.2.1 Currency risk

The Group enters into transactions principally in instruments bearing currency risk. Aside from transactions where the FX rate is an underlying instrument, the Group also offers instruments which price is denominated in foreign currencies. Also, the Group 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 Group'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 2017

| (IN PLN'000) | VALUE IN FOREIGN CURRENCIES CONVERTED TO PLN | | | | | | | | CARRYING AMOUNT |
|---|---|---|---|---|---|---|---|---|---|
| | USD | EUR | GBP | CZK | HUF | RON | OTHER CURRENCIES | TOTAL | |
| Assets | | | | | | | | | |
| Own cash and cash equivalents | 36 906 | 55 776 | 4 778 | 17 765 | 1 709 | 1 272 | 31 241 | 149 447 | 367 096 |
| Customers' cash and cash equivalents | 29 179 | 203 627 | 6 584 | 37 059 | 2 803 | 3 454 | 6 898 | 289 604 | 378 471 |
| Financial assets held for trading | 15 392 | 63 456 | 1 814 | 10 675 | 1 056 | 1 557 | 2 369 | 96 319 | 127 994 |
| Financial assets available for sale | – | – | – | – | – | – | 147 | 147 | 147 |
| Income tax receivables | – | 61 | – | 54 | – | – | 260 | 375 | 375 |
| Loans granted and other receivables | 328 | 2 558 | 183 | 17 | – | 148 | 229 | 3 463 | 4 009 |
| Prepayments and deferred costs | 107 | 75 | 392 | 176 | – | 10 | 24 | 784 | 3 216 |
| Intangible assets | – | 14 | – | 15 | – | – | 30 | 59 | 2 915 |
| Property, plant and equipment | – | 500 | 56 | 251 | – | 34 | 202 | 1 043 | 3 034 |
| Deferred income tax assets | – | 8 253 | 1 970 | 49 | – | – | 225 | 10 497 | 10 497 |
| Total assets | 81 912 | 334 320 | 15 777 | 66 061 | 5 568 | 6 475 | 41 625 | 551 738 | 897 704 |
| Liabilities | | | | | | | | | |
| Amounts due to customers | 41 280 | 222 477 | 5 438 | 42 061 | 3 596 | 4 822 | 164 | 319 838 | 421 400 |
| Financial liabilities held for trading | 4 130 | 15 372 | 2 642 | 3 904 | 168 | 147 | 1 037 | 27 400 | 40 905 |
| Income tax liabilities | – | 320 | – | – | – | – | 135 | 455 | 1 268 |
| Other liabilities | 526 | 6 364 | 2 178 | 1 572 | – | 391 | 1 244 | 12 275 | 21 913 |
| Provisions for liabilities | – | – | – | – | – | 425 | 754 | 1 179 | 1 666 |
| Deferred income tax provision | – | – | – | – | – | – | – | – | 10 210 |
| Total liabilities | 45 936 | 244 533 | 10 258 | 47 537 | 3 764 | 5 785 | 3 334 | 361 133 | 497 362 |

Assets and liabilities denominated in foreign currencies as at 31 December

| (IN PLN'000) | VALUE IN FOREIGN CURRENCIES CONVERTED TO PLN | | | | | | | | CARRYING AMOUNT |
|---|---|---|---|---|---|---|---|---|---|
| | USD | EUR | GBP | CZK | HUF | RON | OTHER CURRENCIES | TOTAL | |
| Assets | | | | | | | | | |
| Own cash and cash equivalents | 55 036 | 129 471 | 5 935 | 26 264 | 5 972 | 3 838 | 41 530 | 268 046 | 290 739 |
| Customers' cash and cash equivalents | 24 459 | 181 706 | 2 555 | 36 311 | 4 400 | 5 072 | 5 600 | 260 103 | 375 642 |
| Financial assets held for trading | 6 401 | 39 237 | 424 | 8 125 | 2 452 | 2 243 | 1 980 | 60 862 | 94 903 |
| Financial assets available for sale | – | – | – | – | – | – | 190 | 190 | 190 |
| Income tax receivables | – | 14 | – | 1 001 | – | – | – | 1 015 | 1 016 |
| Loans granted and other receivables | 804 | 2 039 | 417 | 165 | 2 | 70 | 1 046 | 4 543 | 5 244 |
| Prepayments and deferred costs | – | 146 | 482 | 140 | – | 7 | 212 | 987 | 3 590 |
| Intangible assets | – | 32 | – | 39 | – | – | 44 | 115 | 10 060 |
| Property, plant and equipment | – | 506 | 131 | 364 | – | 24 | 498 | 1 523 | 3 746 |
| Deferred income tax assets | – | 9 044 | 2 365 | 42 | – | – | 171 | 11 625 | 11 623 |
| Total assets | 86 700 | 362 195 | 12 309 | 72 451 | 12 826 | 11 254 | 51 271 | 609 006 | 796 753 |
| Liabilities | | | | | | | | | |
| Amounts due to customers | 22 744 | 185 106 | 2 886 | 36 092 | 5 028 | 4 941 | 5 682 | 262 479 | 377 268 |
| Financial liabilities held for trading | 1 761 | 10 490 | 49 | 1 025 | 288 | 1 008 | 377 | 14 998 | 22 645 |
| Income tax liabilities | – | 296 | – | – | – | – | 34 | 330 | 4 262 |
| Other liabilities | 422 | 7 195 | 2 719 | 1 429 | – | 344 | 2 751 | 14 860 | 22 693 |
| Provisions for liabilities | – | 155 | – | – | – | 462 | 65 | 682 | 948 |
| Deferred income tax provision | – | – | – | – | – | – | – | – | 13 044 |
| Total liabilities | 24 927 | 203 242 | 5 654 | 38 546 | 5 316 | 6 755 | 8 909 | 293 349 | 440 860 |

A change in exchange rates, in particular, the PLN exchange rate, affects the balance sheet valuation of the Group'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 Group's equity and profit before tax to a 5% increase or decrease of the PLN exchange rate is presented below:

| (IN PLN'000) | TWELVE-MONTH PERIOD 31.12.2017 INCREASE IN EXCHANGE RATES BY 5% | 31.12.2017 DECREASE IN EXCHANGE RATES BY 5% | 31.12.2016 INCREASE IN EXCHANGE RATES BY 5% | 31.12.2016 DECREASE IN EXCHANGE RATES BY 5% |
|---|---|---|---|---|
| Income (expenses) of the period | 1 448 | (1 448) | 1 311 | (1 311) |
| Equity, of which: | 3 236 | (3 236) | 4 027 | (4 027) |
| Foreign exchange differences on translation | 3 236 | (3 236) | 4 027 | (4 027) |

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

### 39.2.2 Interest rate risk

Interest rate risk is the risk of exposure of the current and future financial result and equity of the Group to the adverse impact of exchange rate fluctuations. Such risk may result from the contracts entered into by the Group, 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 Group is the mismatch of interest rates paid to customers in connection with funds deposited in cash accounts in the Group, and of the bank account and bank deposits where the Group's customers' funds are invested.

In addition, the source of the Group'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 Group's financial position, since the Group 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 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 WIBID/WIBOR/LIBOR/EURIBOR rates. Therefore, the risk of interest rate mismatch adverse to the brokerage house 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 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 Group'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) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Financial assets | | |
| Cash and cash equivalents | 745 567 | 666 381 |
| Total financial assets | 745 567 | 666 381 |
| Financial liabilities | | |
| Amounts due to customers | 64 824 | 95 994 |
| Other liabilities | 128 | 258 |
| Total financial liabilities | 64 952 | 96 252 |

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 2017 and 2016, using the average 1M interest rate in a given market.

| (IN PLN'000) | TWELVE-MONTH PERIOD 31.12.2017 INCREASE BY 50 PB | DECREASE BY 50 PB | 31.12.2016 INCREASE BY 50 PB | DECREASE BY 50 PB |
|---|---|---|---|---|
| Profit/(loss) before tax | 3 182 | (3 182) | 2 823 | (2 823) |

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

In the period covered by these consolidated financial statements and in the comparative period, the Group did not hold any financial assets or liabilities whose fair value would be exposed to the risk of changes in interest rates.

### 39.2.3 Other price risk

Other price risk is exposure of the Group'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) | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Financial assets held for trading | | |
| Commodity CFDs | | |
| Precious metals | 2 142 | 5 227 |
| Base metals | 776 | 198 |
| Other | 11 018 | 7 676 |
| Total commodity CFDs | 13 936 | 13 101 |
| Equity CFDs | | |
| Stocks | 28 153 | 2 353 |
| Indicies | 56 062 | 58 078 |
| Total equity CFDs | 84 215 | 60 431 |
| Debt CFDs | 92 | 380 |
| Total financial assets held for trading | 98 243 | 73 912 |
| Financial liabilities held for trading | | |
| Commodity CFDs | | |
| Precious metals | 1 080 | 979 |
| Base metals | 43 | 56 |
| Other | 3 075 | 2 473 |
| Total commodity CFDs | 4 198 | 3 508 |
| Equity CFDs | | |
| Stocks | 2 588 | 1 345 |
| Indicies | 11 826 | 13 950 |
| Total equity CFDs | 14 414 | 15 295 |
| Debt CFDs | 52 | 42 |
| Total financial liabilities held for trading | 18 664 | 18 845 |

The Group'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) | TWELVE-MONTH PERIOD 31.12.2017 INCREASE BY 5% | DECREASE BY 5% | 31.12.2016 INCREASE BY 5% | DECREASE BY 5% |
|---|---|---|---|---|
| Income/(expenses) for the period | | | | |
| Commodity CFDs | | | | |
| Precious metals | (1 980) | 1 980 | (2 945) | 2 945 |
| Base metals | 220 | (220) | (54) | 54 |
| Other | (2 329) | 2 329 | (2 219) | 2 219 |
| Total commodity CFDs | (4 089) | 4 089 | (5 218) | 5 218 |

| (IN PLN'000) | TWELVE-MONTH PERIOD 31.12.2017 INCREASE BY 5% | 31.12.2017 DECREASE BY 5% | 31.12.2016 INCREASE BY 5% | 31.12.2016 DECREASE BY 5% |
|---|---|---|---|---|
| Equity CFDs | | | | |
| Stocks | (312) | 312 | 18 | (18) |
| Indicies | (17 924) | 17 924 | 4 306 | (4 306) |
| Total equity CFDs | (18 236) | 18 236 | 4 324 | (4 324) |
| Debt CFDs | 469 | (469) | 1 015 | (1 015) |
| Total income/(expenses) for the period | (21 856) | 21 856 | 121 | (121) |

## 39.3 Liquidity risk

For the Group, 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.

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 Group 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 Group 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 Group 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. Risk Control 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. 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.

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 2017

| (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 | 745 567 | 745 567 | 745 567 | – | – | – | – |
| Financial assets held for trading | | | | | | | |
| CFDs | 127 944 | 127 944 | 127 944 | – | – | – | – |
| Total financial assets held for trading | 127 944 | 127 944 | 127 944 | – | – | – | – |
| Financial assets available for sale | 147 | 147 | – | – | – | – | 147 |
| Loans granted and other receivables | 4 009 | 4 009 | 2 218 | – | 1 791 | – | – |
| Total financial assets | 877 667 | 877 667 | 875 729 | – | 1 791 | – | 147 |
| | | | | | | | |
| Financial liabilities | | | | | | | |
| Amounts due to customers | 421 400 | 421 400 | 421 400 | – | – | – | – |
| Financial liabilities held for trading | | | | | | | |
| CFDs | 40 905 | 40 905 | 40 905 | – | – | – | – |
| Total financial liabilities held for trading | 40 905 | 40 905 | 40 905 | – | – | – | – |
| Other liabilities | 21 913 | 21 913 | 9 357 | 10 781 | 37 | – | 1 738 |
| Total financial liabilities | 484 218 | 484 218 | 471 662 | 10 781 | 37 | – | 1 738 |
| | | | | | | | |
| Contractual liquidity gap in maturities (payment dates) | | | 404 067 | (10 781) | 1 754 | – | (1 591) |
| Contractual cumulative liquidity gap | | | 404 067 | 393 286 | 395 040 | 395 040 | 393 449 |

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 | 666 381 | 666 381 | 666 381 | – | – | – | – |
| Financial assets held for trading | | | | | | | |
| CFDs | 94 903 | 94 903 | 94 903 | – | – | – | – |
| Total financial assets held for trading | 94 903 | 94 903 | 94 903 | – | – | – | – |
| Financial assets available for sale | 190 | 190 | – | – | – | – | 190 |
| Loans granted and other receivables | 5 244 | 5 244 | 3 422 | 50 | 1 608 | 164 | – |
| Total financial assets | 766 718 | 766 718 | 764 706 | 50 | 1 608 | 164 | 190 |
| Financial liabilities | | | | | | | |
| Amounts due to customers | 377 268 | 377 268 | 377 268 | – | – | – | – |
| Financial liabilities held for trading | | | | | | | |
| CFDs | 22 645 | 22 645 | 22 645 | – | – | – | – |
| Total financial liabilities held for trading | 22 645 | 22 645 | 22 645 | – | – | – | – |
| Other liabilities | 22 693 | 22 693 | 15 415 | 7 129 | 149 | – | – |
| Total financial liabilities | 422 606 | 422 606 | 415 328 | 7 129 | 149 | – | – |
| Contractual liquidity gap in maturities (payment dates) | | | 349 378 | (7 079) | 1 459 | 164 | 190 |
| Contractual cumulative liquidity gap | | | 349 378 | 342 299 | 343 758 | 343 922 | 344 112 |

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

## 39.4 Credit risk

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

| (IN PLN'000) | CARRYING AMOUNT | 31.12.2017 MAXIMUM EXPOSURE TO CREDIT RISK | CARRYING AMOUNT | 31.12.2016 MAXIMUM EXPOSURE TO CREDIT RISK |
|---|---|---|---|---|
| Financial assets | | | | |
| Cash and cash equivalents | 745 567 | 745 567 | 666 381 | 666 381 |
| Financial assets held for trading * | 127 944 | 13 063 | 94 903 | 9 649 |
| Investments in subsidiaries | 147 | 147 | 190 | 190 |
| Loans granted and other receivables | 4 009 | 4 009 | 5 244 | 5 244 |
| Total financial assets | 877 667 | 762 786 | 766 718 | 681 464 |

** As at 31 December 2017 the maximum exposure to credit risk for financial assets held for trading, not including the collateral received, was PLN 101 566 thousand (2016: PLN 94 903 thousand). This exposure was collateralised with customers' cash, which, as at 31 December 2017, covered the amount of PLN 88 412 thousand (2016: PLN 84 866 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 Group'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 Group's assets fall within the following credit rating brackets:

- Fitch Ratings – from F1+ to B
- Standard & Poor's Ratings Services – from A-1+ to B
- Moody's – from P-1 to N/A

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 2017, the Group had deposit accounts in 40 banks and institutions (2016: in 38 banks and institutions). The ten largest exposures are presented in the table below (numbering of banks and institutions determined individually for each period:

| ENTITY | 31.12.2017 (IN PLN'000) | ENTITY | 31.12.2016 (IN PLN'000) |
|---|---|---|---|
| Bank 1 | 229 229 | Bank 1 | 120 491 |
| Bank 2 | 108 812 | Bank 2 | 98 762 |
| Bank 3 | 86 083 | Bank 3 | 91 342 |
| Bank 4 | 77 019 | Bank 4 | 76 076 |
| Bank 5 | 41 163 | Bank 5 | 32 713 |
| Bank 6 | 28 635 | Bank 6 | 29 421 |
| Bank 7 | 25 291 | Bank 7 | 29 222 |
| Bank 8 | 23 946 | Bank 8 | 28 474 |
| Bank 9 | 22 026 | Bank 9 | 20 745 |
| Bank 10 | 13 976 | Bank 10 | 14 631 |
| Other | 89 387 | Other | 124 504 |
| Total | 745 567 | Total | 666 381 |

The table below presents a short-term assessment of the credit quality of the Group'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) | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Cash and cash equivalent | | |
| Step 1 | 657 250 | 568 719 |
| Step 2 | 1 626 | 1 782 |
| Step 3 | 77 364 | 74 049 |
| Step 4 | 9 327 | 21 831 |
| Total | 745 567 | 666 381 |

Financial assets held for trading

Financial assets held for trading result from transactions in financial instruments entered into with the Group'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 Group'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 Group 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 Group'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):

| | 31.12.2017 | | 31.12.2016 |
|---|---|---|---|
| ENTITY | NET EXPOSURE (IN PLN'000) | ENTITY | NET EXPOSURE (IN PLN'000) |
| Entity 1 | 2 076 | Entity 1 | 892 |
| Entity 2 | 1 340 | Entity 2 | 840 |
| Entity 3 | 713 | Entity 3 | 838 |
| Entity 4 | 703 | Entity 4 | 669 |
| Entity 5 | 675 | Entity 5 | 429 |
| Entity 6 | 433 | Entity 6 | 390 |
| Entity 7 | 416 | Entity 7 | 385 |
| Entity 8 | 383 | Entity 8 | 299 |
| Entity 9 | 238 | Entity 9 | 159 |
| Entity 10 | 234 | Entity 10 | 155 |
| Total | 7 211 | Total | 5 056 |

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 Group'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 Group.

Warsaw, 6 March 2018

| | |
|---|---|
| Omar Arnaout<br>President of the Management Board | Paweł Frańczak<br>Member of the Management Board |
| Filip Kaczmarzyk<br>Member of the Management Board | Paweł Szejko<br>Member of the Management Board |

Ewa Stefaniak

The person responsible for bookkeeping

# MANAGEMENT BOARD REPORT ON THE OPERATIONS OF THE GROUP AND COMPANY

# 1. Basic information

## 1.1 General information

The Parent Company in the Capital Group X-Trade Brokers Dom Maklerski S.A. (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 number 527–24–43–955.

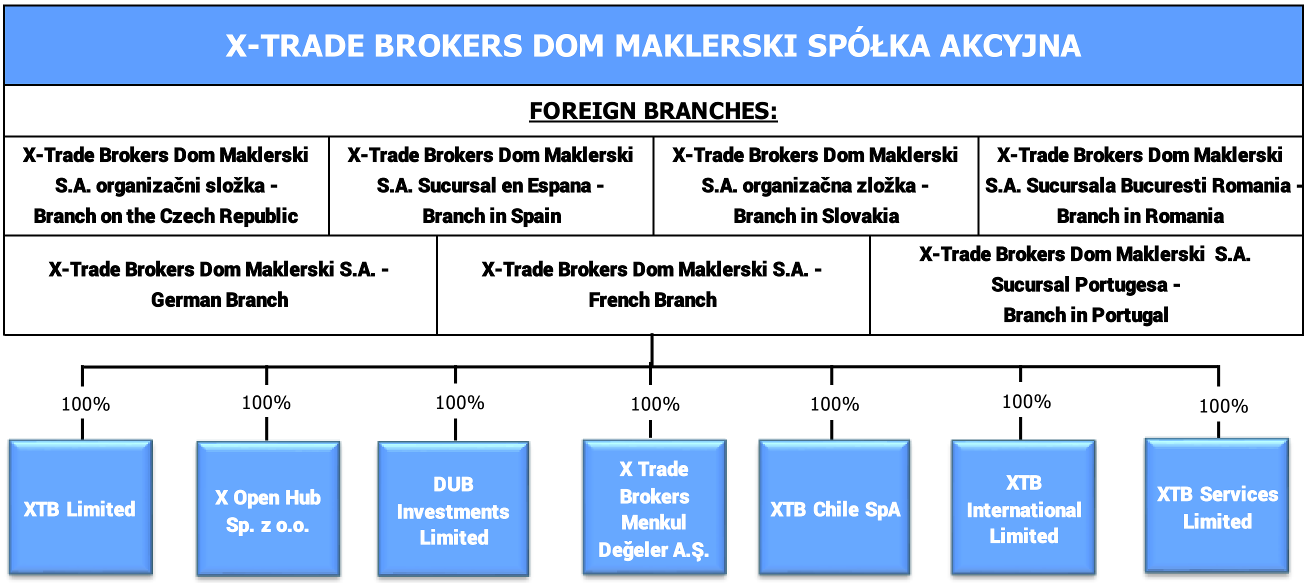
The Parent Company's operations consist of conducting brokerage activities on the stock exchange and OTC markets (currency derivatives, commodities, indices, stocks and bonds). The Parent Company is supervised by the Polish Financial Supervision Authority and conducts regulated activities pursuant to 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 2017 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 2017 the Group comprised Parent Company and 7 subsidiaries. The Company has 7 foreign branches.

The chart below presents the corporate structure of the Group as at 31 December 2017, 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 to which the shareholders is entitled.



All subsidiaries results are fully consolidated since the date of foundation/ acquisition. In the reporting periods 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, Great Britain

XTB Limited business comprises, among other things, the following types of operations.:

- making arrangements regarding investments for clients,
- dealing in investments as an agent,
- dealing in investments as the principal.

X Open Hub sp. z o.o., Poland

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

DUB Investments Limited, Cyprus

DUB Investments Limited business comprises:

- accepting and forwarding orders relating to one or more financial instruments,
- managing share packages.

On 12 July 2016 Cypriot Securities and Exchange Commission, „CySEC" approved to expand the brokerage license of the company by the following investment services:

- execution of orders on behalf of clients,
- dealing on own account and following ancillary services:
  - safekeeping and administration of financial instruments on behalf of clients, including custodianship and related services such as cash/additional insurance,
  - granting investors credits or loans to one or more financial instruments, where the firm granting the credit or loan in involved in the transaction,
  - foreign exchange services where these are connected to the provision of investment services.

Expanding of brokerage license includes all financial instruments listed in Section C of Annex 1 of MiFiD Directive.

X Trade Brokers Menkul Değerler A.Ş., Turkey

X Trade Brokers Menkul Değerler A.Ş. business encompasses among other.:

- investement consulting,
- trading derivatives,
- leverage trading on the forex market,
- trading intermediation.

On 10 February of 2017, the Turkish regulator, the Capital Market Board of Turkey (CMB), amended the regulations governing the activities of investment services, investment activities and additional services. On 30 November of 2017 the Management Board of XTB took decision on withholding the actions designed to terminate the activities on Turkish market and liquidation of subsidiary X Trade Brokers Menkul Değerler A.Ş by the end of the first half of 2018. The decision on withholding the actions designed to terminate the activities on Turkish market results, among others from completion of the analysis made by the Issuer on the basis of legal opinion prepared by a law firm operating on the Turkish market according to which there are indications of the possibility of mitigation by Turkish regulator i.e. Capital Markets of Turkey (CMB) changes in regulations regarding the operation of investment services, investment activities and additional services which formed the basis for the managements Board's decision to withdraw its operations from the Turkish market. Therefore, in the case CMB provides favorable reduced regulations, the Management Board of the Company does not exclude the recommencement of its activity in Turkey.

XTB Chile SpA, Chile

On 17 February of 2017 the Parent Company established XTB Chile SpA. The Company owns 100% of shares in subsidiary. XTB Chile SpA will provide services involving the acquisition of clients from the territory of Chile.

XTB International Limited, Belize

On the 23 February 2017 the Parent Company acquire 100% of shares in CFDs Prime with its seat in Belize. On the 20 March 2017 the company changed its name from CFDs prime Limited to XTB International Limited. The company provides brokerage services based on the obtained permission issued by the International Financial Service Commission.

XTB Services Limited, Cyprus

On 27 July 2017 the Parent Company acquired 100% shares in Jupette Limited with its registered office in Cyprus. On 5 August 2017 the subsidiary changed its name to XTB Services Limited. The company provides marketing and marketing-sales services.

Lirsar S.A., Uruguay

On 28 June 2017 an application was filed for the deletion of Lirsar S.A. from the company register in Uruguay. The capital from the subsidiary with accumulated profits was returned to the Parent Company on 14 December 2017.

## 1.3 Changes in the Group's structure

In the reporting period, i.e. from 1 January to 31 December of 2017 there were no changes in the X-Trade Brokers Dom Maklerski S.A. Group's structure, than described in point 1.2 Composition of the Group.

After the end of the reporting period and before the date of publication of this report, took place changes in the structure of the Capital Group. On 8 January 2018 X Trading Technologies Sp. z o.o. was established, XTB holds 100% shares in a subsidiary. X Trading Technologies Sp. z o.o. will provide services related to other monetary services and activities related to the software.

## 1.4 Branches of the Parent Company

The Company has 7 foreign branches, listed below:

- 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, organizačná 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 2017, 66,99% 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 operates in two segments: retail and institutional segment. The Group's retail operations mainly include online trading of derivatives based on assets and underlying instruments that are traded on the financial and commodity markets. Institutional customers of the Group offers technologies thanks to which they can offer their clients the possibility of trading in financial instruments under their own brand. The Group also acts as a liquidity provider for institutional clients.

The Group offers two trading platforms to both retail clients and institutional clients:

- xStation
- MetaTrader 4 (MT4),

which are supported by the Group's advanced, 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 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 2017, 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 2017, 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.

In 2017, the Group expanded its offer by CFD based on cryptocurrencies and on cash indexes. In addition, a new range of equity instruments with a lever based on Scandinavian shares was also made available. In order to better protect retail clients, the Group decided to introduce a protection service against the negative balance of the client's account. In 2017, the method of collecting a security deposit was changed completely by introducing a mechanism based on the nominal exposure of the customer's account. The Group is actively introducing new improvements to the transaction platform that make it more intuitive and easy to use.

The scope of business of individual Group companies was described in Section *1.2 Composition of the Group.*

## 2.2 Main operating markets and their segments

The Group conducts its operations through two business segments:

- retail segment
- institutional segment.

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, Cyprus, Turkey and Belize. 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, Portugal, France and Germany and has prioritised Latin America as a region for future development.

On 10 February of 2017, the Turkish regulator, the Capital Market Board of Turkey (CMB), amended the regulations governing the activities of investment services, investment activities and additional services. On 18 May 2017, the Management Board of the Parent Undertaking decided to withdraw the Group from its activities in Turkey by undertaking activities aimed at extinguishing its activities on this market and liquidating its subsidiary X Trade Brokers Menkul Değerler A.Ş. This decision is due in particular to restrictions imposed by the Turkish regulator, which has led to a significant decline in the number of customers and consequently to a significant reduction in the Group's activity in Turkey. As a result of the decision, the Group recognized impairment allowance for brokerage fees in the Turkish market of PLN 5,612 thousand.

On 30 November of 2017the Management Board of XTB took decision on withholding the actions designed to terminate the activities on Turkish market and liquidation of subsidiary X Trade Brokers Menkul Değerler A.Ş. by the end of the first half of 2018. The decision on withholding the actions designed to terminate the activities on Turkish market results, among others from completion of the analysis made by the Issuer on the basis of legal opinion prepared by a law firm operating on the Turkish market according to which there are indications of the possibility of mitigation by Turkish regulator i.e. Capital Markets of Turkey (CMB) changes in regulations regarding the operation of investment services, investment activities and additional services which formed the basis for the managements Board's decision to withdraw its operations from the Turkish market. Therefore, in the case CMB provides favorable reduced regulations, the Management Board of the Company does not exclude the recommencement of its activity in Turkey.

## 2.3 Events significantly influencing activities in 2017

Information about events and circumstances that had impact on the Company's and Group's operations in 2017 are presented in other parts of this report, in particular in note *3.2 Basic economic and financial information*. Apart from the events described in this report there were no other events which had significant impact on the Company's and the Group's activities in 2017.

## 2.4 Material contranct

In 2017, 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 2017 and 31 December 2016 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 2017 the Company and Group companies did not grant any loans.

## 2.7 Sureties and gurantees

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 1,65 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 0,2 million.

On 7 July 2017, the Parent Company granted a surety of PLN 5.17 million to secure the agreement concluded by the subsidiary XTB Limited with its registered office in the United Kingdom and Worldpay (UK) Limited, Worldpay Limited and Worldpay AP LTD based in the United Kingdom. The guarantee was granted for the duration of the main contract, which was concluded for a period of 3 years with the possibility of further extension.

Apart from described above, in 2017 XTB did not grant and did not receive other sureties and guarantees.

## 2.8 Post balance sheet events

After the end of the reporting period and before the date of publication of this report, took place changes in the structure of the Capital Group. On 8 January 2018 X Trading Technologies Sp. z o.o. was established, XTB holds 100% shares in a subsidiary. X Trading Technologies Sp. z o.o. will provide services related to other monetary services and activities related to the software.

## 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 and profitability per lot which in turn is correlated with the general level of transaction activity on the FX/CFD market.

As a rule, the Group's revenues are positively affected by higher activity of financial markets due to the fact that in such periods a higher level of turnover is realized by the Group's customers and higher profitability on lot. The periods of clear and long market trends are favorable for the Company and it is at such times that it achieves the highest revenues. Therefore, high activity of financial and commodity markets leads, as a rule, to an increased volume of trading on the Group's trading platforms. However, the decline in this activity and related with this decrease in transaction activity of the Group's clients, it leads in principle to a decrease in the Group's operating income. Due to the above, the Group's operating income and profitability may decline in periods of low activity of financial and commodity markets. In addition, there may be a more predictable trend in which the market moves in a limited price range. This leads to market trends that can be predicted with a higher probability than in the case of larger directional market movements, which creates favorable conditions for transactions concluded in a narrow range of the market (range trading). In this case, a greater number of transactions that bring profits to customers is observed, which leads to a decrease in the Group's result on market making.

The volatility and activity of markets results from a number of external factors, some of which are characteristic for the market, and some may be related to 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.

Moreover, 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.:

- sales practices, including gaining of clients and marketing activities;
- maintaining capital at a specified level;
- anti-money laundering and preventing the financing of terrorism practices and "know your client" procedures (KYC);
- reporting obligations towards regulators;
- personal data protection and professional confidentiality obligations;
- obligations concerning investor protection and providing them with the relevant data on risks related to the brokerage services provided;
- 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 II 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 cross-border 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, Italy, Hungary and the United Kingdom. Moreover, the cross-border 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:

- XTB Limited – a brokerage house registered in the United Kingdom subject to supervision by the FCA,
- DUB Investments Limited – an investment firm conducting brokerage activities registered in Cyprus and subject to supervision by the CySEC,
- X Trade Brokers Menkul Değerler A.Ş – a company conducting brokerage activities, registered in Turkey and subject to supervision by Capital Markets Board of Turkey. At the same time, on 18 May 2017, the Company decided to withdraw from the activity on the Turkish market, however, on 30 November of 2017 the Management Board of XTB took decision on withholding the actions designed to terminate the activities on Turkish market and liquidation of subsidiary X Trade Brokers Menkul Değerler A.Ş by the end of the first half of 2018 due to the possibility for the Turkish regulatory authority CMB to mitigate changes in regulations regarding the operation of investment services, investment activities and additional services,
- XTB International Limited – the company provides brokerage services based on the obtained permission issued by the International Financial Service Commission,
- Lirsar S.A. – the company provided investment advisory services, registered in Uruguay and subject to the supervision of the Central Bank of Uruguay. In addition, in middle of 2017, liquidation activities were also undertaken in relation to Lirsar S.A. - in December 2017, the company was liquidated. The capital from the subsidiary with accumulated profits was returned to the parent company on 14 December 2017.

The Group has created a compliance (compliance in law) function for each Group Company to ensure compliance with the regulatory and regulatory requirements to which the Group is subject.

The regulatory environment in which the Group operates is constantly evolving. In recent years, the financial services industry has been subject to increasingly comprehensive regulatory oversight. The supervisory and public administration authorities regulating and supervising the Group's activities introduced a number of changes in the regulatory requirements to which the Group is subject and may undertake additional initiatives in this area in the future.

## 2.10 The Group's activities in 2017 and development outlook

The Group's strategy is to actively strengthen its position as an international supplier of technologically advanced products, services and solutions in the field of trading in financial instruments mainly in the EU and Latin America by increasing brand recognition, acquiring new clients for its transaction platforms and building a long-term investment profile and customer loyalty. The Group's strategic plan includes supporting growth through expansion into new markets, further penetration of existing markets, expansion of the Group's product and service offer as well as the development of the institutional segment of operations (X Open Hub).

The Management Board is of the opinion that the Group has built solid foundations that ensure its good position to generate stable growth in the future.

The Management Board's plans for the forthcoming periods assume the development of the Group, in particular through the expansion of the client base and product offer, further penetration of existing markets and geographical expansion into Latin American markets. He intends to strive to build shareholder value with determination. Due to the current underestimation of the Company, the Management Board withheld the work on consolidation of the market through mergers and acquisitions, focusing more on organic growth.

In 2017, the Group, consistently pursuing its strategic assumptions, expanded its offer by CFD based on cryptocurrencies and on cash indexes. In addition, a new range of equity instruments with a lever based on Scandinavian shares was also made available. In order to better protect retail clients, the Company decided to introduce a protection service against the negative balance of the client's account. In 2017, the method of collecting a security deposit was changed completely by introducing a mechanism based on the nominal exposure of the customer's account.

The Group consistently implemented in its branches modern tools for comprehensive management of customer relations from the moment of obtaining contact through the stages of further service, to signing the contract and maintaining the after-sales relationship. The tools allow for reporting and analysis, giving a better understanding of users and clients, which allows to optimize the cost of customer acquisition and retention, which translates into a better-matched offer and faster implementation of customer instructions.

The Group continued the process of investor education by organizing free workshops and conferences as well as providing access to educational materials for both beginners and more experienced investors. In the first half of 2017, the Group cooperated with the legendary investor Lex Van Dam. He conducted a series of online trainings for XTB clients in the scope of opportunities offered by the capital market, as well as investment strategies, which are guided by the world's most famous investors.

The year 2017 was also a period in which instruments such as Bitcoin and other cryptocurrencies started to enjoy popularity on the market. For this reason, the company's marketing activities in the second half of the year focused on the promotion of these instruments, communication of its offer and education of investors in terms of what are cryptocurrencies and contracts for differences.

In 2018, the Group will undertake further actions aimed at implementing the Strategy presented above.

# 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 2017 to 31 December 2017 with comparative data for the year ended 31 December 2016 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 2017 to 31 December 2017 with comparative data for the year ended 31 December 2016 cover the Company's financial data and financial data of the foreign 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.

When preparing these consolidated and separate financial statements, the Parent Company decided that none of the Standards will be applied earlier.

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:

- the number of active accounts, transaction volumes and deposit amounts,
- volatility on financial and commodity markets,
- general market, geopolitical and economic conditions,
- competition on the FX/CFD market,
- regulatory environment.

The key factors affecting the Group's financial and operating results in the 12 months period ended 31.12.2017 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 2017

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 % |
|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | |
| Result of operations on financial instruments | 269 188 | 245 216 | 9,8 |
| Income from fees and charges | 4 457 | 5 284 | (15,7) |
| Other income | 122 | 76 | 60,5 |
| **Total operating income** | **273 767** | **250 576** | **9,3** |
| Salaries and employee benefits | (73 150) | (71 864) | 1,8 |
| Marketing | (24 841) | (49 338) | (49,7) |
| Other external services | (21 943) | (20 620) | 6,4 |
| Costs of maintenance and lease of buildings | (7 934) | (8 698) | (8,8) |
| Amortisation and depreciation | (6 054) | (5 423) | 11,6 |
| Taxes and fees | (2 059) | (2 597) | (20,7) |
| Commission expenses | (5 964) | (4 182) | 42,6 |
| Other expenses | (3 552) | (5 739) | (38,1) |
| **Total operating expenses** | **(145 497)** | **(168 461)** | **(13,6)** |
| **Operating profit** | **128 270** | **82 115** | **56,2** |
| **Impairment of intangible assets** | **(5 612)** | **-** | **-** |
| Finance income | 6 318 | 12 122 | (47,9) |
| Finance costs | (14 291) | (955) | 1 396,4 |
| **Profit before tax** | **114 685** | **93 282** | **22,9** |
| Income tax | (21 712) | (15 575) | 39,4 |
| **Net profit** | **92 973** | **77 707** | **19,6** |

In 2017, XTB reported PLN 92 973 thousand of consolidated net profit compared to PLN 77 707 thousand profit a year earlier. This is an increase of PLN 15 266 thousand ie. 19.6%. Operating profit (EBIT) increased y/y by PLN 46 155 thousand 56.2% to PLN 128 270 thousand. Consolidated revenues amounted to PLN 273 767 thousand to PLN 250 576 thousand a year earlier.

The net result for 2017 was shaped mainly by:

- 56,2% increase in operating profit (EBIT) due to:
  - 9,3% increase in operating income resulting from the higher volume of turnover generated by XTB customers with comparable profitability per lot;
  - significant improvement in cost effectiveness as reflected by a decrease in operating costs by PLN 22 964 thousand;
- factors not related to the main operating activity, i.e.:
  - creation of a revaluation write-down of a separate intangible asset in the form of a brokerage license for the Turkish market amounting to PLN 5 612 thousand (one-off event);
  - occurrence of negative exchange rate differences (financial costs) on own funds held by XTB in the amount of PLN 13 588 thousand (2016: positive exchange rate differences amounting to PLN 6 402 thousand) being a consequence of the strengthening of the zloty against other currencies.

## Operating income

The Group's income is primarily derived from its retail activities and consists of:

- spreads (the difference between the offer price and the bid price),
- net result (profits offset by losses) from the Group's market making activities,
- fees and commissions charged by the Group to its clients,
- swap points charged by the Group (being the difference between the notional forward rate and the spot rate of a given financial instrument).

In 2017 the retail business segment generated approximately 88% of the total volume of the Group's turnover and the institutional business segment – approximately 12%.

Increase of revenues in 2017 by 9.3% y/y, ie. PLN 23 191 thousand from PLN 250 576 thousand to PLN 273 767 thousand, results mainly from the increase in the volume of trading calculated in lots with comparable profitability per lot. Turnover was higher by 180,9 thousand lots and unit profitability by PLN 0.3.

| | | | | | **12 MONTHS PERIOD ENDED** |
|---|---|---|---|---|---|
| | **31.12.2017** | **31.12.2016** | **31.12.2015** | **31.12.2014** | **31.12.2013** |
| Total operating income | 273 767 | 250 576 | 282 542 | 204 434 | 215 559 |
| Transaction volume in CFD instruments in lots[1] | 2 196 558 | 2 015 655 | 2 443 302 | 1 986 639 | 1 947 679 |
| Profitability per lot (in PLN)[2] | 125 | 124 | 116 | 103 | 111 |

[1]) 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.
[2]) Total operating income divided by the transaction volume in CFDs in lots.

| | | | | | | | | **THREE-MONTH PERIOD ENDED** |
|---|---|---|---|---|---|---|---|---|
| | **31.12.2017** | **30.09.2017** | **30.06.2017** | **31.03.2017** | **31.12.2016** | **30.09.2016** | **30.06.2016** | **31.03.2016** |
| Total operating income (IN PLN'000) | 75 460 | 73 063 | 66 526 | 58 718 | 93 959 | 42 802 | 31 050 | 82 765 |
| Transaction volume in CFD instruments in lots[1] | 618 893 | 523 769 | 513 814 | 540 082 | 488 660 | 468 686 | 525 108 | 533 201 |
| Profitability per lot (in PLN)[2] | 122 | 139 | 129 | 109 | 192 | 91 | 59 | 155 |

[1]) 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.
[2]) Total operating income divided by the transaction volume in CFDs in lots.

Although in quarterly terms, the revenues of the XTB Group are subject to significant fluctuations, which is a phenomenon typical of the XTB business model, then in a longer time horizon, which is a year, they take on more stable and comparable values to those from historical years.

XTB has a solid foundation for growth in the form of a constantly growing customer base. In the fourth quarter of 2017, the number of open new accounts was record-breaking both in relation to the previous quarters of 2017 and individual quarters of 2016. The total number of open new accounts in 2017 increased by 62.1% compared to the comparable period . On the other hand, the average number of active accounts in the above period was 21 088, an increase of 22.3% y / y.

| | PERIOD ENDED | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2017 | 30.09.2017 | 30.06.2017 | 31.03.2017 | 31.12.2016 | 30.09.2016 | 30.06.2016 | 31.03.2016 |
| New accounts[1] | 16 530 | 11 278 | 9 635 | 13 280 | 9 624 | 8 060 | 7 178 | 6 438 |
| Average number of active accounts[2] | 21 088 | 20 194 | 20 016 | 20 408 | 17 243 | 16 531 | 16 305 | 16 087 |

[1]) The number of accounts opened by the Group's clients in the particular quarters
[2]) Average number of active accounts respectively for 12, 9, 6 and 3 months of 2017 and 12, 9, 6 and 3 months of 2016.

Similarly to the previous quarters of 2017, the increase in accounts in the fourth quarter of 2017 was related to the implementation of an optimized sales and marketing strategy and new products. An additional factor supporting the achievement of such an increase was the favorable situation on the financial markets.

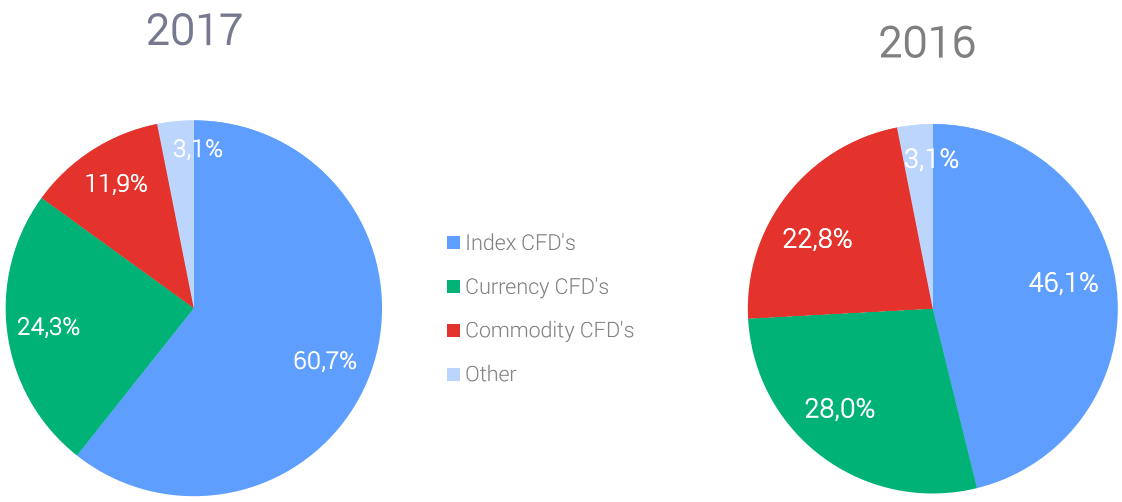
In the opinion of the Management Board, in the following quarters of 2018, the increase in accounts should be continued due to the increased marketing activity and the introduction of new products to the XTB offer. In addition, the Management Board maintains that the largest business growth potential is in the German, French and Latin America markets.

Looking at revenues in terms of the classes of instruments responsible for their creation, it can be seen that, similarly as in 2016, CFDs based on stock indices were the leader. Their share in the structure of revenues on financial instruments in 2017 reached 60.7% against 46.2% a year earlier. This is a consequence of the high interest of XTB clients in CFD instruments based on the German DAX stock index (DE30) and the US indices US30, US500, US100. The second most-traded class of assets traded by XTB clients were CFD currency instruments. Their share in the revenue structure in 2017 was 24.3% (2016: 28.0%) and the most popular currency pair was EURUSD. Other products, such as CFD derivatives based on bonds, shares and option derivatives in the analyzed periods accounted for a total of 3.1% of the result on operations in gross financial instruments, both in 2017 and in 2016.

## The result of operations on financial instruments

| (IN PLN'000) | 12 MONTHS PERIOD ENDED | | CHANGE % |
|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | |
| Index CFDs | 168 852 | 117 756 | 43,4 |
| Currency CFDs | 67 659 | 71 385 | (5,2) |
| Commodity CFDs | 33 098 | 58 069 | (43,0) |
| Equity CFDs | 1 899 | 1 454 | 30,6 |
| Bond CFDs | (83) | 1 116 | (107,4) |
| Total CFDs | 271 425 | 249 780 | 8,7 |
| Option derivatives | 6 884 | 5 332 | 29,1 |
| Gross gain of transactions on financial instruments | 278 309 | 255 112 | 9,1 |
| Bonuses and discounts paid to customers | (3 421) | (3 531) | (3,1) |
| Commission paid to cooperating brokers | (5 700) | (6 365) | (10,4) |
| Net gain of transactions on financial instruments | 269 188 | 245 216 | 9,8 |

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




Geographically, XTB revenues were well diversified. Their growth occurred both in Central and Eastern Europe and in Western Europe. The countries from which the Group draws each time more than 15% of revenues are: Poland with a share equal 28.6% (2016: 31.9%) and Spain with a share equal 20.7% (2016: 18.0%). ). The share of other countries in the geographical structure of revenues does not exceed 15% in any case. Latin America is gradually gaining in importance in the global contribution, which is gradually replacing the gap in Turkey.

| **(IN PLN'000)** | **12 MONTHS PERIOD ENDED** | |
|---|---|---|
| | **31.12.2017** | **31.12.2016** |
| Central and Eastern Europe | 131 423 | 128 915 |
| *- including Poland* | *78 332* | *80 008* |
| Western Europe | 128 564 | 105 986 |
| *- including Spain* | *56 550* | *45 177* |
| Latin America and Turkey | 13 780 | 15 675 |
| *- including Turkey* | *4 943* | *15 675* |
| Total operating income | 273 767 | 250 576 |

The segmental diversification of revenues is becoming more and more visible in XTB. This is due to the dynamic development of the segment of institutional operations (X Open Hub). Since 2013, the Group provides services to institutional clients. As part of it, XTB provides liquidity and technology to other financial institutions, including brokerage houses.

| **(IN PLN'000)** | **12 MONTHS PERIOD ENDED** | |
|---|---|---|
| | **31.12.2017** | **31.12.2016** |
| Retail segment | 232 187 | 231 059 |
| Institutional segment (X Open Hub) | 41 580 | 19 517 |
| Total operating income | 273 767 | 250 576 |

## Operating expenses

In 2017, XTB significantly improved cost efficiency in relation to the same period of the previous year, while maintaining increases in new accounts opened and the number of active accounts. During this period operating expenses amounted to PLN 145 497 thousand (2016: PLN 168 461 thousand), which means a decrease by 13.6% y/y. This decline was contributed by PLN 24 497 thousand lower marketing costs resulting mainly from lower expenditures on advertising campaigns.

The costs of employee remuneration and benefits in 2017 amounted to PLN 73 150 thousand, which means an increase of PLN 1 286 thousand ie. 1.8% compared to 2016. This increase is mainly due to the creation of provisions for variable components of remuneration.

The average employment in 2017 was 388 people, and 413 people in 2016. The average monthly cost of payroll and employee benefits per one employee in the Group in 2017 amounted to approximately PLN 16 thousand and slightly increased compared to the level from last year.

The costs of other external services in 2017 amounted to PLN 21 943 thousand and increased by PLN 1 324 thousand, ie. 6.4% compared to the previous year.

### 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 indicators are not uniformly defined and may not be comparable to ratios presented by other companies, including companies operating in the same sector as the Group.

| | **12 MONTHS PERIOD ENDED** | |
|---|---|---|
| | **31.12.2017** | **31.12.2016** |
| EBITDA (in PLN'000)[1] | 134 324 | 87 538 |
| EBITDA margin (%)[2] | 49,1 | 34,9 |
| Net profit margin (%)[3] | 34,0 | 31,0 |
| Return on equity –ROE (%)[4] | 24,6 | 21,3 |
| Return on assets – ROA (%)[5] | 11,0 | 10,2 |
| Agregate capital adequacy ratio (%)[6] | 12,1 | 17,6 |

[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:

- the number of new accounts opened by the Group's clients in individual periods;
- the number of active accounts;
- the aggregate number of accounts;
- the amount of net deposits in the individual periods;
- average operating income per one active account;
- the transaction volume in lots;
- 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 | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| New accounts[1] | 50 723 | 31 300 |
| Average number of active accounts[2] | 21 088 | 17 243 |
| Accounts in total | 204 064 | 156 501 |
| Net deposits (in PLN'000)[3] | 357 677 | 314 045 |
| Average operating income per active account (in PLN'000)[4] | 13,0 | 14,5 |
| Transaction volume in CFD instruments in lots[5] | 2 196 558 | 2 015 655 |
| Profitability per lot (in PLN)[6] | 125 | 124 |

[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 | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Retail operations segment | 1 940 276 | 1 819 055 |
| Central and Eastern Europe | 1 060 433 | 993 402 |
| Western Europe | 689 126 | 613 947 |
| Latin America and Turkey | 190 717 | 211 707 |
| Institutional operations segment | 256 282 | 196 600 |
| Total | 2 196 558 | 2 015 655 |

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

| (IN PLN'000) | 12 MONTHS PERIOD ENDED | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Result from operations on financial instrument: | 269 188 | 245 216 |
| Central and Eastern Europe | 128 017 | 125 159 |
| Western Europe | 127 391 | 104 409 |
| Latin America and Turkey | 13 780 | 15 648 |
| Income from fees and charges: | 4 457 | 5 284 |
| Central and Eastern Europe | 3 284 | 3 680 |
| Western Europe | 1 173 | 1 577 |
| Latin America and Turkey | - | 27 |
| Other income: | 122 | 76 |
| Central and Eastern Europe | 122 | 76 |
| Western Europe | - | - |
| Latin America and Turkey | - | - |
| Total operating income[1] | 273 767 | 250 576 |
| **Central and Eastern Europe** | **131 423** | **128 915** |
| *- including Poland [2]* | *78 332* | *80 008* |
| **Western Europe** | **128 564** | **105 986** |
| *- including Spain[2]* | *56 550* | *45 177* |
| **Latin America and Turkey** | **13 780** | **15 675** |
| *- including Turkey* | *4 943* | *15 675* |

[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 | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| New accounts[1] | 50 708 | 31 283 |
| Average number of active accounts [2] | 21 056 | 17 207 |
| Accounts in total | 203 990 | 156 424 |
| Number of transactions[3] | 26 181 580 | 27 212 807 |
| Transaction volume in CFD instruments in lots [4] | 1 940 276 | 1 819 055 |
| Net deposits (in PLN'000)[5] | 308 290 | 309 854 |
| Average operating income per active account (in PLN'000)[6] | 11,0 | 13,4 |
| Average cost of obtaining an account (in PLN'000)[7] | 0,5 | 1,6 |
| Profitability per lot (in PLN)[8] | 120 | 127 |

[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 | |
|---|---|---|---|---|
| | | 31.12.2017 | | 31.12.2016 |
| Central and Eastern Europe | 12 413 | 59% | 10 343 | 60% |
| Western Europe | 7 085 | 34% | 5 451 | 32% |
| Latin America and Turkey | 1 558 | 7% | 1 413 | 8% |
| Total | 21 056 | 100% | 17 207 | 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 | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Average number of active accounts | 32 | 36 |
| Accounts in total | 74 | 77 |

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

| | 12 MONTHS PERIOD ENDED | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Transaction volume in CFD instruments in lots | 256 282 | 196 600 |

## 3.2.3 Basic separate economic financial information

### Discussion of the Company's results in 2017

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

| (IN PLN'000) | 12 MONTHS PERIOD ENDED 31.12.2017 | 31.12.2016 | CHANGE % |
|---|---|---|---|
| Result of operations on financial instruments | 247 524 | 206 007 | 20,2 |
| Income from fees and charges | 4 047 | 4 729 | (14,4) |
| Other income | 122 | 76 | 60,5 |
| **Total operating income** | **251 693** | **210 812** | **19,4** |
| Salaries and employee benefits | (59 246) | (55 168) | 7,4 |
| Marketing | (22 613) | (38 647) | (41,5) |
| Other external services | (20 836) | (17 227) | 20,9 |
| Costs of maintenance and lease of buildings | (5 843) | (5 772) | 1,2 |
| Amortisation and depreciation | (3 924) | (4 334) | (9,5) |
| Taxes and fees | (1 745) | (1 501) | 16,3 |
| Commission expenses | (5 069) | (3 564) | 42,2 |
| Other expenses | (2 106) | (3 694) | (43,0) |
| **Total operating expenses** | **(121 382)** | **(129 907)** | **(6,6)** |
| **Operating profit** | **130 311** | **80 905** | **61,1** |
| **Impairment of investments in subsidiaries** | **(11 877)** | - | - |
| Finance income | 2 311 | 7 154 | (67,7) |
| Finance costs | (15 097) | (1 090) | 1 285,0 |
| **Profit before tax** | **105 648** | **89 969** | **17,4** |
| Income tax | (18 250) | (13 970) | 30,6 |
| **Net profit** | **87 398** | **72 999** | **19,7** |

### Operating income

The Company's income is primarily derived from its retail activities and consists of:

- spreads (the difference between the offer price and the bid price);
- net result (profits offset by losses) from the Company's market making activities;
- fees and commissions charged by the Company to its clients;
- 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 31.12.2017 | | 31.12.2016 | |
|---|---|---|---|---|
| | (in PLN'000) | (%) | (in PLN'000) | (%) |
| Result of operations on financial instruments | 247 524 | 98,3 | 206 007 | 97,7 |
| Income from fees and charges | 4 047 | 1,6 | 4 729 | 2,3 |
| Other income | 122 | 0,1 | 76 | 0,0 |
| **Total operating income** | **251 693** | **100,0** | **210 812** | **100,0** |

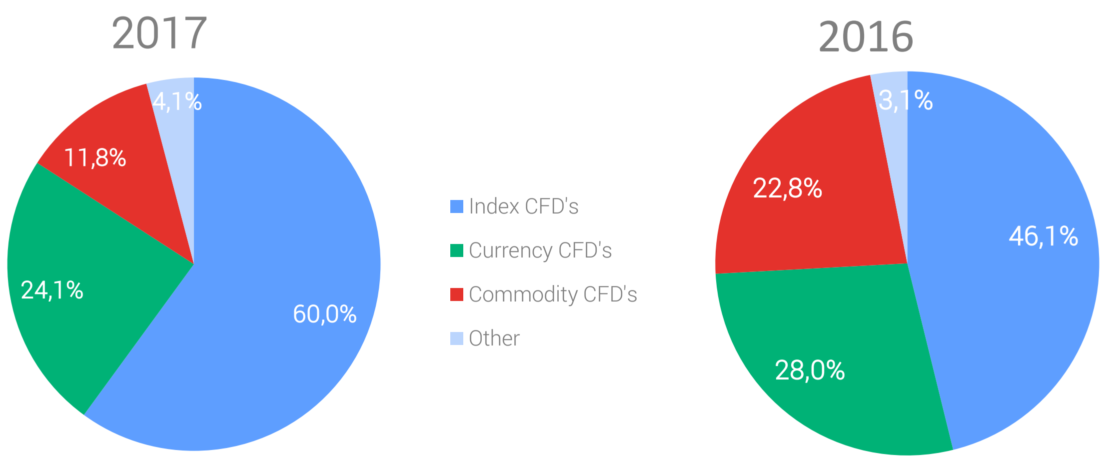
The largest source of the Company's operating income is the result from operations on financial instruments, which accounted for 98.3% and 97.7% of total operating revenues, in 2017 and 2016, respectively. The largest share in the result on transactions in gross financial instruments has three product classes: CFD derivatives on indices, currencies and commodities that generated in 2017, respectively 60.0%, 24.1% and 11.8% (in 2016, respectively: 46.1%, 28.0%, 22.8%). Other products, such as

CFD derivatives based on bonds, shares and option derivatives in the analyzed periods accounted for a total of 3.1% of the result on operations in gross financial instruments, both in 2017 and in 2016.

The result of operations on financial instruments

| (IN PLN'000) | 12 MONTHS PERIOD ENDED | | CHANGE % |
|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | |
| Index CFDs | 168 852 | 117 756 | 43,4 |
| Currency CFDs | 67 752 | 71 398 | (5,1) |
| Commodity CFDs | 33 098 | 58 069 | (43,0) |
| Equity CFDs | 1 899 | 1 454 | 30,6 |
| Bond CFDs | (83) | 1 116 | (107,4) |
| Total CFDs | 271 518 | 249 793 | 8,7 |
| Option derivatives | 6 884 | 5 332 | 29,1 |
| Gain on transactions in financial instruments available for sale | 2 835 | 17 | 16 576,5 |
| Gross gain on transactions in financial instruments | 281 237 | 255 142 | 10,2 |
| Bonuses and discounts paid to customers | (1 852) | (2 825) | (34,4) |
| Commission paid to cooperating brokers | (31 861) | (46 310) | (31,2) |
| Net gain of transactions on financial instruments | 247 524 | 206 007 | 20,2 |

The share of instruments in the result on operations financial instruments




## Total operating expenses

In 2017, XTB significantly improved cost efficiency in relation to the same period of the previous year. During this period operating expenses amounted to PLN 121 382 thousand (PLN 129 907 thousand), which means a decrease by 6.6% y/y. This decline was contributed by PLN 16 034 thousand lower marketing costs resulting mainly from lower expenditures on advertising campaigns.

The costs of employee remuneration and benefits in 2017 amounted to PLN 59 246 thousand, which means an increase of PLN 4 078 thousand, ie. 7.4% compared to 2016. This increase is mainly due to the creation of provisions for variable components of remuneration.

The costs of other external services in 2017 amounted to PLN 20 836 thousand and increased by PLN 3 609 thousand, ie. 20.9%, compared to the previous year.

### 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 | |
|---|---|---|
| | **31.12.2017** | **31.12.2016** |
| EBITDA (in PLN'000)[1] | 134 235 | 85 239 |
| EBITDA margin (%)[2] | 53,3 | 40,4 |
| Net profit margin (%)[3] | 34,7 | 34,6 |
| Return on equity –ROE (%)[4] | 22,5 | 19,6 |
| Return on assets – ROA (%)[5] | 10,7 | 9,8 |
| Agregate capital adequacy ratio (%)[6] | 12,2 | 16,9 |

[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** | |
|---|---|---|
| | 31.12.2017 | 31.12.2016 |
| Result of the operations on financial instrument: | 247 524 | 206 007 |
| Central and Eastern Europe | 128 102 | 125 176 |
| Western Europe | 118 014 | 81 011 |
| Latin America and Turkey | 1 408 | (180) |
| Income from fees and charges: | 4 047 | 4 729 |
| Central and Eastern Europe | 2 966 | 3 273 |
| Western Europe | 1 081 | 1 456 |
| Latin America and Turkey | - | - |
| Other income: | 122 | 76 |
| Central and Eastern Europe | 122 | 76 |
| Western Europe | - | - |
| Latin America and Turkey | - | - |
| Total operating income[1] | 251 693 | 210 812 |
| **Central and Eastern Europe** | **131 190** | **128 525** |
| *- including Poland [2]* | *78 098* | *79 619* |
| **Western Europe** | **119 095** | **82 467** |
| *- including Spain[2]* | *56 550* | *45 177* |
| **Latin America and Turkey** | **1 408** | **(180)** |
| *- including Turkey* | *2 606* | *(180)* |

[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 Capital 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) | 31.12.2017 | % balance sheet total | 31.12.2016 | % balance sheet total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Own cash and cash equivalents | 367 096 | 40,9 | 290 739 | 36,5 |
| Customers' cash and cash equivalents | 378 471 | 42,2 | 375 642 | 47,1 |
| Financial assets held for trading | 127 944 | 14,3 | 94 903 | 11,9 |
| Financial assets available for sale | 147 | 0,0 | 190 | 0,0 |
| Income tax receivables | 375 | 0,0 | 1 016 | 0,1 |
| Loans granted and other receivables | 4 009 | 0,4 | 5 244 | 0,7 |
| Prepayments and deferred costs | 3 216 | 0,4 | 3 590 | 0,5 |
| Intangible assets | 2 915 | 0,3 | 10 060 | 1,3 |
| Property, plant and equipment | 3 034 | 0,3 | 3 746 | 0,5 |
| Deferred income tax assets | 10 497 | 1,2 | 11 623 | 1,5 |
| Total assets | 897 704 | 100,0 | 796 753 | 100,0 |
| **EQUITY AND LIABILITIES** | | | | |
| Liabilities | | | | |
| Amounts due to customers | 421 400 | 46,9 | 377 268 | 47,4 |
| Financial liabilities held for trading | 40 905 | 4,6 | 22 645 | 2,8 |
| Income tax liabilities | 1 268 | 0,1 | 4 262 | 0,5 |
| Other liabilities | 21 913 | 2,4 | 22 693 | 2,8 |
| Provisions for liabilities | 1 666 | 0,2 | 948 | 0,1 |
| Deferred income tax provision | 10 210 | 1,1 | 13 044 | 1,6 |
| Total liabilities | 497 362 | 55,4 | 440 860 | 55,3 |
| Equity | | | | |
| Share capital | 5 869 | 0,7 | 5 869 | 0,7 |
| Supplementary capital | 71 608 | 8,0 | 71 608 | 9,0 |
| Other reserves | 247 992 | 27,6 | 212 554 | 26,7 |
| Foreign exchange differences on translation | (15 906) | (1,8) | (4 945) | (0,6) |
| Retained earnings | 90 779 | 10,1 | 70 807 | 8,9 |
| Equity attributable to the owners of the Parent Company | 400 342 | 44,6 | 355 893 | 44,7 |
| Total equity | 400 342 | 44,6 | 355 893 | 44,7 |
| Total equity and liabilities | 897 704 | 100,0 | 796 753 | 100,0 |

As at 31 December 2017 balance sheet total amounted to PLN 897 704 thousand. In comparison to 31 December 2016 there was an increase by PLN 100 951 thousand i.e. 12,7%.

The most important asset item, both at the end of 2017 and 2016, are cash, which accounted for respectively in 2017 and 2016, 83,1% and 83,6% of assets. Cash comprises the Group's own funds and cash customers. Clients' cash is deposited in bank accounts separately from the Group's cash. The Group derives economic benefits from investing clients' funds. At the end of 2017, both own cash and cash funds of customers increased by 26.3% y/y and 0.8% y/y, respectively.

The second largest asset item in terms of financial assets are financial assets held for trading, representing at the end of 2017 and 2016, 14.3% and 11.9% of assets, respectively. This item increased by 34.8% y/y.

As regards the structure of liabilities, the most significant item as at 31 December 2017 were amounts due to customers (46.9% of liabilities in 2017 and 47.4% in 2016, respectively). Amounts due to customers result from transactions made by customers (including cash deposited on customer accounts).

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

| (IN PLN'000) | 31.12.2017 | % balance sheet total | 31.12.2016 | % balance sheet total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Own cash and cash equivalents | 322 954 | 37,8 | 233 942 | 30,2 |
| Customers' cash and cash equivalents | 334 100 | 39,1 | 352 830 | 45,5 |
| Financial assets held for trading | 118 164 | 13,8 | 90 224 | 11,6 |
| Financial assets available for sale | 57 160 | 6,7 | 66 095 | 8,5 |
| Income tax receivables | 115 | 0,0 | 1 016 | 0,1 |
| Loans granted and other receivables | 5 060 | 0,6 | 12 036 | 1,6 |
| Prepayments and deferred costs | 2 661 | 0,3 | 2 891 | 0,4 |
| Intangible assets | 2 111 | 0,2 | 4 136 | 0,5 |
| Property, plant and equipment | 2 764 | 0,3 | 3 115 | 0,4 |
| Deferred income tax assets | 8 302 | 1,0 | 9 086 | 1,2 |
| Total assets | 853 391 | 100,0 | 775 371 | 100,0 |
| **EQUITY AND LIABILITIES** | | | | |
| Liabilities | | | | |
| Amounts due to customers | 374 930 | 43,9 | 350 821 | 45,2 |
| Financial liabilities held for trading | 34 834 | 4,1 | 21 647 | 2,8 |
| Income tax liabilities | 1 121 | 0,1 | 4 227 | 0,5 |
| Other liabilities | 20 724 | 2,4 | 20 438 | 2,6 |
| Provisions for liabilities | 911 | 0,1 | 883 | 0,1 |
| Deferred income tax provision | 8 022 | 0,9 | 13 080 | 1,7 |
| Total liabilities | 440 542 | 51,6 | 411 096 | 53,0 |
| Equity | | | | |
| Share capital | 5 689 | 0,7 | 5 869 | 0,8 |
| Supplementary capital | 71 608 | 8,4 | 71 608 | 9,2 |
| Other reserves | 247 854 | 29,0 | 212 416 | 27,4 |
| Foreign exchange differences on translation | 612 | 0,1 | 1 873 | 0,2 |
| Retained earnings | 86 906 | 10,2 | 72 509 | 9,4 |
| Total equity | 412 849 | 48,4 | 364 275 | 47,0 |
| Total equity and liabilities | 853 391 | 100,0 | 775 371 | 100,0 |

As at 31 December 2017 balance sheet total amounted to PLN 853 391 thousand. In comparison to 31 December 2016 there was an increase by PLN 78 020 thousand i.e. 10,1%.

The most important asset item, both at the end of 2017 and 2016, are cash, which accounted for 76.9% and 75.7% of assets respectively in 2017 and 2016. Cash includes own funds of the Company and cash of clients. Clients' cash is deposited in bank accounts separately from the Company's cash. The company derives economic benefits from investing clients' cash. At the end of 2017, own funds increased by 38.0% y/y, while cash customers' cash decreased by 5.3% y/y.

The second largest asset item in terms of financial assets are financial assets held for trading, constituting at the end of 2017 and 2016, respectively, 13.8% and 11.6% of assets. This item increased by 31.0% y/y.

The company has investments in subsidiaries. The total nominal value of shares in subsidiaries as at 31 December 2017 amounted to PLN 57 160 thousand, which accounted for 6.7% of the Company's assets. As at 31 December 2016, this value amounted to PLN 66 095 thousand, ie 8.5% of the Company's assets. Decrease by PLN 8 935 thousand y/y is mainly due to the impairment write-down for investments in a subsidiary in Turkey in the amount of PLN 11 877 thousand. In 2017, the Company established a subsidiary XTB Chile SpA. The nominal value of shares as at the end of 2017 amounted to PLN 403 thousand. Additionally, in 2017, two new units were acquired, i.e. 100% shares in CFDs Prime with its registered office in Belize (present name XTB International Limited) and 100% shares in Jupette Limited with its registered office in Cyprus (current name XTB Services Limited). The nominal values of shares in these entities as at the balance sheet date totaled PLN 2 556 thousand.

As regards the structure of liabilities, the most significant item as at 31 December 2017 were amounts due to customers (43.9% of liabilities in 2017 and 45,2% in 2016, respectively). Amounts due to customers result from transactions made by customers (including cash deposited on customer accounts).

## 3.5 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 2018 and in some cases also longer:

- The Group's revenue depends directly on the volume of transactions concluded by the Group's clients and profitability per lot which in turn is correlated with the general level of transaction activity on the FX/CFD market.

  As a rule, the Group's revenues are positively affected by higher activity of financial markets due to the fact that in such periods, a higher level of turnover is realized by the Group's customers and higher profitability per lot. The periods of clear and long market trends are favorable for the Company and it is at such times that it achieves the highest revenues. Therefore, high activity of financial markets and commodities generally leads to an increased volume of trading on the Group's trading platforms. On the other hand, the decrease in this activity and the related decrease in the transaction activity of the Group's clients leads, as a rule, to a decrease in the Group's operating income. Due to the above, operating income and the Group's profitability may decrease in periods of low activity of financial and commodity markets. In addition, there may be a more predictable trend in which the market moves within a limited price range. This leads to market trends that can be predicted with a higher probability than in the case of larger directional movements on the markets, which creates favorable conditions for transactions concluded in a narrow range of the market (range trading). In this case, a greater number of transactions that bring profits to customers is observed, which leads to a decrease in the Group's result on market making.

  The volatility and activity of markets results from a number of external factors, some of which are characteristic for the market, and some may be related to general macroeconomic conditions. It can significantly affect the revenues generated by the Group in the subsequent quarters. This is characteristic of the Group's business model. To illustrate this impact, the table below presents the historical financial results of the Group on a quarterly basis.

| | | | | | | | | **THREE-MONTH PERIOD ENDED** |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2017 | 30.09.2017 | 30.06.2017 | 31.03.2017 | 31.12.2016 | 30.09.2016 | 30.06.2016 | 31.03.2016 |
| Total operating income (in PLN'000) | 75 460 | 73 063 | 66 526 | 58 718 | 93 959 | 42 802 | 31 050 | 82 765 |
| Transaction volume in CFD instruments in lots[1] | 618 893 | 523 769 | 513 814 | 540 082 | 488 660 | 468 686 | 525 108 | 533 201 |
| Profitability per lot (in PLN)[2] | 122 | 139 | 129 | 109 | 192 | 91 | 59 | 155 |

[1]) 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.
[2]) Total operating income divided by the transaction volume in CFDs in lots.

Although the quarterly revenues of the XTB Group are subject to significant fluctuations, which is a phenomenon typical of the XTB business model, in the longer time horizon, which is the year, they assume in principle more stable and comparable values to those from historical years.

| | | | | | **12 MONTHS PERIOD ENDED** |
|---|---|---|---|---|---|
| | **31.12.2017** | **31.12.2016** | **31.12.2015** | **31.12.2014** | **31.12.2013** |
| Total operating income (in PLN'000) | 273 767 | 250 576 | 282 542 | 204 434 | 215 559 |
| Transaction volume in CFD instruments in lots[1] | 2 196 558 | 2 015 655 | 2 443 302 | 1 986 639 | 1 947 679 |
| Profitability per lot (in PLN)[2] | 125 | 124 | 116 | 103 | 111 |

[1]) 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.
[2]) Total operating income divided by the transaction volume in CFDs in lots.

- Since 2013, the Group provides services for institutional clients, including brokerage houses, start-ups and other financial institutions within the institutional activity segment (X Open Hub). As at the date of this report, the Group is in the process of developing the business of this segment, which is still at an early stage of development. The products and services offered by the Group as part of the X Open Hub differ from those offered as part of the retail segment, which entails different risks and challenges. As a result, the Group's revenues from this segment are exposed to large fluctuations from period to period. The table below illustrates the percentage share of the institutional business segment in total operating income.

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| % share of operating income from institutional operations in total operating income | 15,2% | 7,8% | 4,7% | 14,1% | 4,6% |

The Management Board anticipates that possible low activity in financial and commodity markets in 2018, regulatory changes as well as other factors (if they occur) may adversely affect the condition of XTB's institutional partners and thus lead to a drop in the volume of trading in lots in the coming period, as well as and XTB revenues from these customers. On the other hand, the Management Board of XTB can't exclude a higher turnover of clients in the institutional segment in the coming quarters.

- The Management Board expects that in 2018 operating expenses should be at a comparable (slightly higher) level to that observed in 2017. Their final level will depend on the amount of variable components of remuneration paid to employees and on the level of marketing expenses. The Group's results will affect the amount of variable remuneration components. The level of marketing expenditures will depend in turn on the assessment of their impact on the Group's results and profitability and the degree of customer responsiveness to the actions taken.
- On 18 May 2017, the Management Board of the Parent Company decided to withdraw the Group from its activities in Turkey by undertaking activities aimed at extinguishing its activities on this market and liquidating its subsidiary X Trade Brokers Menkul Değerler A.Ş. This decision is due in particular to restrictions imposed by the Turkish regulator, which has led to a significant decline in the number of customers and consequently to a significant reduction in the Group's activity in Turkey. As a result of the decision, the Group recognized impairment allowance for brokerage fees in the Turkish market of PLN 5 612 thousand.

  On 30 November of 2017 the Management Board of XTB took decision on withholding the actions designed to terminate the activities on Turkish market and liquidation of subsidiary X Trade Brokers Menkul Değerler A.Ş by the end of the first half of 2018. The decision on withholding the actions designed to terminate the activities on Turkish market results, among others from completion of the analysis made by the Issuer on the basis of legal opinion prepared by a law firm operating on the Turkish market according to which there are indications of the possibility of mitigation by Turkish regulator i.e. Capital Markets of Turkey (CMB) changes in regulations regarding the operation of investment services, investment activities and additional services which formed the basis for the Managements Board's decision to withdraw its operations from the Turkish market. Therefore, in the case CMB provides favorable reduced regulations, the Management Board of the Company does not exclude the recommencement of its activity in Turkey.

  In case of termination of activity on the Turkish market, which from the point of view of accounting in accounting books should be understood by repaying share capital / liquidation of assets held (loss of license) The Group, in accordance with the applicable accounting principles, will be required to take actions in reclassification of exchange differences resulting from the conversion of the Turkish company's capital from the position Exchange differences from translation in equity to the income statement. This operation will not affect the total amount of the Group's equity as at the date of its execution. Nevertheless, the Company will be required to demonstrate the effects of the abovementioned conversion as part of the result on financial activities, however, in the case of negative exchange differences, the effects of these conversions will be the financial cost. The company explains that the amount of exchange differences related to investments in Turkey is derived from the rate of Turkish lira, which is subject to fluctuations, hence the Group is not able to precisely estimate the value of the financial cost incurred in this respect as it will be recognized in the future as at the date of this report.
- Current regulatory changes in the industry at the national and international level may change its face in the long term.

  On 12 July 2017, a bill was published dated 10 July 2017 amending the Act on supervision of the financial market and certain other acts. On 13 December 2017, another bill was presented. The most important assumptions include a reduction in financial leverage to 1:50 for retail customers, while for retail customers who have met certain conditions and expressed such a desire, it will be possible to use leverage up to 1: 100. As at the date of this report, the bill is at the stage of giving opinions, so it is not known what the final shape of the law will look like.

On 18 January 2018, ESMA published a document - Call for evidence - regarding potential measures under product intervention in accordance with article 40 MiFIR with regard to CFDs and binary options contract offered to retail clients. The XTB Management Board is not able to predict the final shape of the planned changes.

It can't be ruled out that regulatory changes at the national and international levels can have a significant impact on the way the Group offers and promotes financial products, and what's next goes on the Group's financial results.

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

## 3.6 Risk factors

### 3.6.1 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 and for regularly setting appropriate limits to limit the scale of exposure to these risks.

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 Risk Management Committee, composed of members of the Supervisory Board, was appointed in the Parent Company. The Committee's tasks include: preparation of a draft document regarding risk appetite of the brokerage house, issuing opinions on management strategy developed by the Management Board, supporting the Supervisory Board in supervising the strategy of the brokerage house in risk management by the Management Board, verification of remuneration policy and principles of its implementation in terms of adjusting the remuneration system to the risk the brokerage house is exposed to, its capital, liquidity and probabilities and dates of obtaining income.

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.

### 3.6.2 Risk factors

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

As at 31 December 2017 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:

- 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 negative impact on its operating activities.

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, as well as fees related to the costs of the Financial Ombudsman and his office;

- 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;
- the risk related to the implementation of EU law in the Polish legal system on the implementation of remedial actions and the resolution of financial institutions;
- the Group be required to adjust its business 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.

### 3.6.3 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 financial 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.

### 3.6.4 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 house 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 house 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.

### 3.6.5 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.

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 Group's policy is to mitigate the counterparty credit risk through the so-called "stop out" mechanism. Customer funds deposited in the brokerage house serve as a security. If a customer's current balance is equal or less than 30% 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 Group includes special clauses in agreements with selected customers, in particular, requirements regarding minimum balances in cash accounts.

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.

### 3.6.6 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.

### 3.6.7 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 house 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.

### 3.6.8 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 house 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.

### 3.6.9 Hedge accounting

XTB does not apply hedge accounting.

## 3.7 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.

When 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.

In 2017, the Issuer did not issue any securities.

## 3.8 Material off-balance sheet items

In 2017 there were no material off-balance sheet items.

## 3.9 Financial forecasts

X-Trade Brokers Dom Maklerski S.A. did not publish any financial forecasts for 2017 (respectively consolidated and separate).

## 3.10 Dividend policy

The dividend policy adopted by the Company implies recommending to the General Meeting a dividend payment at the level of 50 - 100% of the Company's separate net profit for a given financial year, taking into account factors such as financial results and financial capabilities of the Company, as well as ensuring an adequate level of capital adequacy ratios of the Company, as well as the capital necessary for the development of the Group.

The dividend payment by the Company is subject to various types of legal restrictions. In particular, the date and method of payment of the dividend have been specified in the Polish commercial law. In addition, every year the PFSA issues positions regarding the dividend policy of financial institutions.

In the last position of 5 December 2017, the PFSA recommended that the dividend from the profit for 2017 should pay no more than 75% of the net profit, only brokerage houses that jointly meet the following criteria (for brokerage houses subject to capital requirements):

- as at 31 December 2017: the Common Equity Tier 1 ratio was at least 6%, the Tier 1 capital ratio was at least 9%, and the total capital ratio was at least 14%;
- the supervisory rating assigned in the BION process conducted in 2017 is 1 or 2
- the entity did not violate the capital adequacy norms in 2017, including the regulations regarding large exposure limits.

On 14 July 2017, the Company received from the Department of Investment Companies and Capital Market Infrastructure of the Polish Financial Supervision Authority ("PFSA") a supervisory assessment of the regulations, strategies, processes and mechanisms implemented by XTB in the field of risk management. According to the received letter, the Company was granted a supervisory rating 3 [2.97]. The supervisory rating was assigned to 31 December 2016.

In line with the position of the PFSA of 5 December 2017, XTB does not meet the criteria enabling the Commission to assess dividend payment for 2017.

On 28 November 2017, the Management Board of XTB recommended to the Supervisory Board to retain at the disposal of the Company the net profit achieved in the first half of 2017 in the amount of PLN 24 486 thousand. As at the date of publication of these financial statements, the Management Board of the Parent Entity did not make any decisions regarding the remaining profit for 2017.

The table below presents information about the separate net profit of the Company and the total amount of the dividend paid for the financial years indicated therein.

| | **FOR THE YEAR ENDED (IN PLN'000)** | |
|---|---|---|
| | **31.12.2016** | **31.12.2015** |
| Net profit of the Company | 72 999 | 115 021 |
| Dividend | 37 563 | 91 559 |

On 20 March 2017, the Management Board of the Company adopted a resolution regarding the recommendation to the Ordinary General Meeting of Shareholders of X-Trade Brokers Dom Maklerski S.A. payment of a dividend for 2016 in the amount of PLN 37 562 763,20 and retention of the remaining part of the profit to the Company's disposal. At the meeting on 23 March 2017, the Supervisory Board of the Company issued a positive opinion on the above recommendation.

The dividend from ordinary shares for 2016, paid on 23 May 2017, amounted to PLN 37 563 thousand (for 2015, the dividend amounted to PLN 91 559 thousand). The value of the dividend per one share paid for 2016 was PLN 0,32.

# 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 Management Board of X-Trade Brokers Dom Maklerski S.A. provides a declaration on the application of corporate governance principles in 2017.

### 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/dobre-praktyki.

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 2017, X-Trade Brokers Dom Maklerski S.A. he complied with the principles expressed in the Code of Best Practice for WSE Listed Companies, excluding recommendation IV.R.2 and 2 detailed 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 General Meeting, 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.

In accordance with the PFSA Corporate Governance Principles, a supervised institution should strive to apply the principles set out in the Corporate Governance Rules of the Polish Financial Supervision Authority to the widest extent, taking into account the principle of proportionality resulting from the scale, nature of the business and the specifics of the institution. However, the withdrawal from the application of specific rules to the full extent can only occur if their comprehensive introduction would be unduly burdensome for the supervised institution.

On 18 December 2014, the Management Board adopted a resolution regarding the application of the Corporate Governance Rules of the Polish Financial Supervision Authority. The application of the Corporate Governance Rules of the Polish Financial Supervision Authority was confirmed by a resolution of the Extraordinary General Meeting of Shareholders of 28 January 2015.

The Company applies the Corporate Governance Rules of the Polish Financial Supervision Authority to the extent to which they define the rules of functioning of brokerage houses and are consistent with the generally applicable provisions.

The KNF Corporate Governance Principles, as expected by the PFSA, were implemented by the Company as of 1 January 2015. In the reporting period, the Company applied the KNF Corporate Governance Rules, with the following reservations:

- The principle set out in § 8 section 4 of the Corporate Governance Code of PFSA to the extent that it imposes on the supervised institution the obligation to facilitate the participation of all shareholders in the assembly of the supervisory body, inter alia by ensuring the possibility of electronically active participation in the meetings of the decision-making body.

  Pursuant to the Articles of Association, participation in the General Meeting using electronic means of communication will be provided by the Company, if the announcement on convening the General Meeting will contain information about the possibility of shareholders participating in the General Meeting using electronic means of communication.

- The principle set out in § 21 section 2 of the Corporate Governance Code of PFSA to the extent it stipulates that the election of the chairman of the supervisory body should be made on the basis of experience and the ability to manage such body, taking into account the independence criterion.

  Pursuant to the Articles of Association, Jakub Zabłocki has the right to appoint and dismiss one member of the Supervisory Board acting as the Chairman of the Supervisory Board by way of a written statement on the appointment or dismissal of the Chairman of the Supervisory Board delivered to the Company. Therefore, compliance with the above rule will depend on Jakub Zabłocki.

## 4.2 Equity

As at 31 December 2017 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 4 May 2016, the WSE Management Board adopted a resolution to admit the Company's shares to trading on the regulated market with the same day. Subsequently, on 5 May 2016, the WSE Management Board adopted a resolution to introduce, as of 6 May 2016, all Company shares for stock exchange trading.

## 4.4 Shareholding structure

### 4.4.1 Shareholding structure at the end of the reposrting period

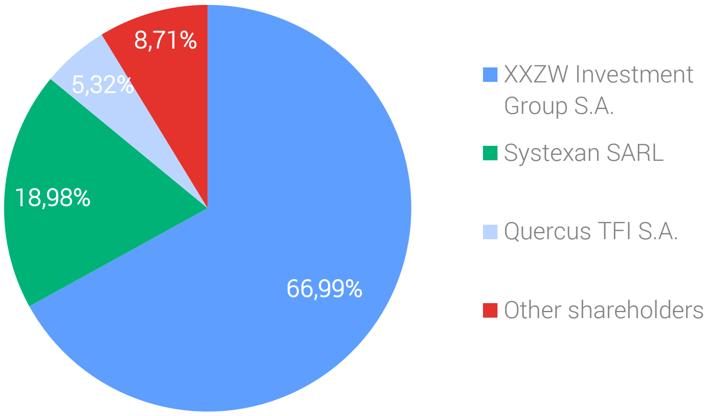
To the best knowledge of the Management Board of the Company as at 31 December 2017, the status of shareholders holding directly or through subsidiaries, at least 5% of the total number of votes at the General Meeting of the Parent Entity, was as follows:

| | NUMBER OF SHARES/ VOTES | NOMINAL SHARE VALUE (IN PLN'000) | SHARE IN CAPITAL/ IN TOTAL VOTES |
|---|---|---|---|
| XXZW Investment Group S.A.[1] | 78 629 794 | 3 932 | 66,99% |
| Systexan SARL[2] | 22 280 207 | 1 114 | 18,98% |
| Quercus TFI S.A. | 6 243 759 | 312 | 5,32% |
| Other shareholders | 10 229 875 | 511 | 8,71% |
| 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]) *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 percentage share in the share capital of the Parent Company of the abovementioned shareholders is in line with the percentage shares in the number of votes at the General Meeting.

The shareholding structure as at 31 December 2017 is presented in the following chart:




### 4.4.2 Changes in the shareholding structure after the balance sheet date

To the best knowledge of the Management Board of the Company as at the date of publishing this periodic report, the status of shareholders holding directly or through subsidiaries at least 5% of the total number of votes at the General Meeting of the Parent Entity did not change compared to the status as at 31 December 2017.

## 4.5 Acquisition of own shares

In the financial year 2017, the Company and its subsidiaries did not acquire the shares of X-Trade Brokers Dom Maklerski S.A.

## 4.6 Holders of securities with special control rights

In the 2017 financial year and as at the date of publication of this report, there were no securities that would give special control rights to the Company.

## 4.7 Restrictions on exercising the voting right

In the 2017 financial year and as at the date of publication of this report, there were no limitations to the exercise of voting rights attached to the Company's securities.

## 4.8 Restrictions on the transafer of ownership of shares

In accordance with the principles of the Incentive Scheme, Jakub Malý, Paweł Frańczak and Alberto Medrán pledged to XXZW and SYSTEXAN that due to the fact that the options were exercised and shares were granted on the basis of the Incentive Scheme, they will not sell them on the date on which The Company is subject to a contractual limitation of the transferability of the Shares (specified in the Bid Guarantee Agreement, i.e. within 360 days from the date of the first listing of the Company's shares on the WSE (ie until 01 May 2017).

At the same time, as at the balance sheet date and as at the date of publication of this report, there were no restrictions on the transfer of ownership of securities.

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

As at the date of publication of this annual report, the Company is not aware of any events that 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 Management Board members and their rights are specified in the Company's Articles of Association. Pursuant to the Articles of Association of the XTB, the composition of the Management Board may include from three to six members, including the President of the Management Board 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:

- higher education,
- at least three years of experience of working for financial market institutions
- 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.

Members of the Management Board are appointed and dismissed by the Supervisory Board. The number of members of the Management Board is determined by the Supervisory Board in the resolution on appointing members of the Management Board. A member of the Management Board may also be dismissed or suspended from office by resolution of the General Meeting.

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 31 December 2017 and as at the date of publication of this interim report, the composition of the Management Board was as follows:

| NAME AND SURNAME | FUNCTION | DATE OF FIRST APPOINTMENT | EXPIRATION DATE OF THE CURRENT TERM |
|---|---|---|---|
| Omar Arnaout* | Chairman of the Management Board | 10.01.2017* | 29.06.2019 |
| Paweł Frańczak | Board Member | 31.08.2012 | 29.06.2019 |
| Paweł Szejko | Board Member | 28.01.2015 | 29.06.2019 |
| Filip Kaczmarzyk | Board Member | 10.01.2017 | 29.06.2019 |

** Omar Arnaout on 10.01.2017 was appointed as a member of the Management Board for Sales in the rank of Vice Chairman of the Board. On 23.03.2017 he was appointed the Chairman of the Management Board*

During the reporting period the following changes occurred in the composition of the Management Board:

- on 10 January of 2017 Mr Jakub Malý was dismissed from the position of the President of the Management Board,
- on 10 January 2017 a resolution was adopted that the Management Board of the Company will consist of five persons, including the President of the Management Board, the Vice-President of the Management Board and three members of the Company's Management Board. At the same time, on the same day, the Management Board of the Company was appointed:
  - Mr. Omar Arnaout, taking up the position of the Member of the Management Board responsible for Sales in the position of the Vice President of the Management Board,
  - Mr. Filip Kaczmarzyk, who assumed the position of the Member of the Management Board responsible for Trading,

- on 10 January 2017, Mr. Jakub Zabłocki (Member of the Supervisory Board from 10 January 2017) has been delegated to temporarily perform the activities of the President of the Management Board - for the period from 10 January 2017 to 10 April 2017,
- on 23 March 2017, Mr. Jakub Zabłocki was recalled from the function of the President of the Management Board. At the same time, Mr. Omar Arnaout was appointed the Chairman of the Management Board on the same day.

In the reporting period and until the date of submission of this report, there were no changes in the composition of the Management Board other than those described above.

### 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 Management 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 Management Board are obliged and authorized to jointly conduct the Company’s affairs.

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

The table below presents shares held by managing and supervising persons as at the balance sheet date and as at the date of publication of this report:

| NAME AND SURNAME | FUNCTION | NUMBER OF SHARES HELD AS AT 31.12.2017 | NUMBER OF SHARES HELD AS AT THE DATE OF THIS REPORT |
|---|---|---|---|
| Paweł Frańczak | Board Member | 37 328 | 37 328 |

Other Management Board Members did not have any shares of the Company at the end of the reporting period and as at the date of this report.

As at the end of the reporting period and as at the date of this report, Management Board Members did not have any rights to the Company's shares.

The Management Board Members did not own shares in related entities.

### 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 Frańczak | DUB Investments Ltd | Managing Director |
| Paweł Szejko | X Trade Brokers Menkul Değerler | Board Member |
| Omar Arnaout** | X Trade Brokers Menkul Değerler | Board Member |
| Omar Arnaout*** | X Trading Technologies Sp. z o.o. | 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 X-Trade Brokers Menkul Değerler from 17 February 2017.*
**** Omar Arnaout is a Chairman of the Management Board of X Trading Technologies Sp. z o.o. from 15 February 2018.*

Members of the Management Board of the parent company did not receive in 2017 and 2016 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, 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

The Supervisory Board shall consist of five to nine members.

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;
- 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.

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.

As at 31 December 2017 and as at the date of submission of this report, the composition of the Supervisory Board was 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 | 30.05.2017 | 09.11.2018 |
| Łukasz Baszczyński | Member of the Supervisory Board | 09.11.2015 | 09.11.2018 |
| Jarosław Jasik | Member of the Supervisory Board | 09.11.2015 | 09.11.2018 |
| Michał Kędzia | Member of the Supervisory Board | 09.11.2015 | 09.11.2018 |
| Bartosz Zabłocki | Member of the Supervisory Board | 09.11.2015 | 09.11.2018 |

In the reporting period, the following changes took place in the composition of the Supervisory Board:

- on 10 January 2017, Mr. Jakub Leonkiewicz resigned from participation in the Supervisory Board of the Company and held the position of Chairman in it, with immediate effect. In connection with the above, exercising the right under § 15 para. 4 of the Articles of Association of XTB, on 10 January 2017. Jakub Zabłocki appointed, with effect on the same day, his person as a Member of the Supervisory Board of the Company acting as its Chairman.
- on 30 May 2017, Mr. Jakub Zabłocki dismissed himself from the position of the Chairman of the Supervisory Board of the Company, at the same time appointing Mr. Jakub Leonkiewicz for this position.

In the reporting period and until the date of submission of this report, there were no changes in the composition of the Supervisory Board other than those described above.

## 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.

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.

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 did not hold shares in subsidiaries.

The supervising persons did not own shares in related entities.

### 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

In accordance with the Articles of Association, the Supervisory Board appoints the Audit Committee. Until 13 October 2017, the tasks of the Audit Committee are performed by the entire Supervisory Board.

On 13 October 2017, the Audit Committee was appointed as follows:

- Jakub Leonkiewicz – Chairman of the Audit Committee;
- Jarosław Jasik – Member of the Audit Committee;
- Łukasz Baszczyński – Member of the Audit Committee;

- Michał Kędzia – Member of the Audit Committee;
- Bartosz Zabłocki – Member of the Audit Committee.

The tasks of the audit committee include in particular:

- supervision over the organizational unit dealing with internal audit;
- monitoring the financial reporting process;
- monitoring the effectiveness of internal control systems, internal audit, compliance and risk management, including in the field of financial reporting;
- monitoring the performance of auditing activities;
- monitoring the independence of the certified auditor and the entity authorized to audit financial statements, including in the case of rendering services other than financial audit services to the Company;
- controlling and monitoring the independence of the certified auditor and the audit firm;
- informing the Supervisory Board about the results of the audit and explaining how this research contributed to the reliability of financial reporting in the public interest unit, and what was the role of the audit committee in the audit process;
- assessing the independence of the certified auditor and consenting to the provision of permitted non-audit services;
- developing a policy of selecting an audit firm to conduct the audit;
- development of a policy by the audit firm conducting the audit, by entities related to this auditing company and by a member of the auditing company's network of permitted non-audit services;
- determining the procedure for selecting an audit firm;
- presenting to the Supervisory Board recommendations regarding the appointment of statutory auditors or audit firms;
- submitting recommendations aimed at ensuring the reliability of the financial reporting process.

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 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 Management 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.

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 obliga-tions 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 provisions regarding the threshold amount of shares owned, beyond which it is necessary to state the shareholding of the Company shareholder or contain provisions imposing stricter conditions governing changes in capital than specified by the applicable law.

### Right to dispose of the Shares

The shareholders of the Company have the right to dispose of shares. Disposal of shares consists of their disposal (transfer of ownership) and other forms of the ordinance, including pledging, establishing rights of use and their lease.

### Dividend

The shareholders of the Company have the right to participate in the profit, which will be shown in the annual financial statement audited by the statutory auditor, designated by the resolution of the General Meeting for payment to the shareholders of the Company (right to dividend).

The Ordinary General Meeting is the body authorized to make decisions on the distribution of the Company's profit and dividend payment. The Ordinary General Meeting of Shareholders adopts a resolution on whether and what part of the Company's profit shown in the financial statements, audited by the statutory auditor, should be used to pay dividends. The Ordinary General Meeting should take place within six months after the end of each financial year (the financial year corresponds to the calendar year), ie by the end of June.

The Ordinary General Meeting also sets the date of the dividend and the date of dividend payment. The dividend day may be designated as at the date of adoption of the resolution on the distribution of profit or within the next three months, counting from that day.

The amount to be distributed among the shareholders of the Company may not exceed the profit for the last financial year, increased by undistributed profits from previous years, and amounts transferred from the supplementary and reserve capital created from profit, which may be allocated for the payment of dividends. However, this amount should be reduced by uncovered losses, own shares and amounts that, according to the Commercial Companies Code or the Articles of Association, should be allocated from the profit for the last financial year to supplementary or reserve capital.

The Management Board may pay shareholders an advance on the anticipated dividend at the end of the financial year if the Company has sufficient funds to pay. The advance payment requires the consent of the Supervisory Board. The company may pay an advance if its approved financial statements for the previous financial year show profit. The advance may amount to at most half of the profit earned from the end of the previous financial year, shown in the financial statements audited by the statutory auditor, increased by reserve capital created from profit, which the Management Board may use to distribute advances and reduced by uncovered losses and own shares.

The right to dividend is payable to persons on accounts of which dematerialized shares (bearer shares) are kept on the dividend day and to entities authorized to sell dematerialized Shares on a collective account.

A shareholder's claim against the Company for payment of a dividend may be made within 10 years, starting from the date of adoption by the ordinary General Meeting of a resolution to allocate all or part of the Company's profit to be paid to shareholders. After this date, the Company may evade payment of the dividend, raising the plea of limitation.

### Terms of payment of dividend

The conditions for the receipt of dividends by the shareholders of the Company correspond to the rules adopted for public companies. The resolution on dividend payment should indicate the date of determining the right to dividend (dividend day) and the dividend payment date. Subject to the provisions of the Rules and Regulations of the NDS, the dividend day may be designated as at the date of adoption of the resolution or within the next three months, counting from that day. The dividend is paid on the day specified in the resolution of the General Meeting, and if the resolution of the General Meeting does not specify such a day, the dividend is paid on the day determined by the Supervisory Board.

### Pre-emption right

The shareholders of the Company have the right to subscribe for the new shares of the Company in relation to the number of Shares held (pre-emptive right). The Company's shareholders have the right of priority to acquire new shares of the Company in relation to the number of Shares held, with the pre-emptive right also for issuing securities convertible into shares of the Company or incorporating the right to subscribe for shares of the Company.

The resolution on increasing the share capital of the Company should indicate the day according to which the shareholders of the Company are designated who have the right to collect new shares (day of subscription right). The subscription right can't be determined later than within six months from the day the resolution was passed.

The agenda of the General Meeting at which a resolution to increase the share capital of the Company is to be adopted should specify the proposed day of subscription right. Depriving the Company's shareholders of the right to acquire the shares of the new issue of the Company may take place only in the interest of the Company and in the event that it was announced in the agenda of the General Meeting. The Management Board presents the General Meeting with a written opinion justifying the reasons for the deprivation of the pre-emptive right and the proposed issue price of new shares of the Company or the method of its determination. A majority of at least four fifths of votes is required to pass a resolution regarding the deprivation of the Company's shareholders rights.

The above-mentioned requirements regarding the adoption of a resolution regarding the deprivation of the current shareholders of the Company's pre-emptive rights are not applicable if:

- the resolution on capital increase states that the new shares of the Company are to be fully covered by the financial institution (underwriter), with the obligation to offer them to the shareholders of the Company in order to enable them to exercise the pre-emptive right on the terms specified in the resolution;
- the resolution states that the new shares of the Company are to be taken up by the underwriter in the event that the shareholders of the Company, with whom the pre-emptive right is used, will not take 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

The shareholder exercises the right to vote at General Meetings. Pursuant to the Code of Commercial Companies, General Meetings may be ordinary (ordinary General Meetings) or extraordinary (Extraordinary General Meetings).

Each Action gives the right to one vote at the General Meeting.

A shareholder of the Company may participate in the General Meeting and exercise the right to vote in person or through a proxy. A shareholder of the Company intending to participate in the General Meeting through a proxy must give the proxy proxies in writing or in electronic form. The Company takes appropriate actions to identify the Company's shareholder and proxy in order to verify the validity of the power of attorney granted in electronic form.

A detailed description of the manner of verifying the validity of the power of attorney granted in electronic form includes an announcement on convening the General Meeting.

Pursuant to the Articles of Association, participation in the General Meeting by means of electronic communication is allowed, subject to the following. In the event that the announcement on convening the General Meeting contains information about the possibility of shareholders participating in the General Meeting using electronic means of communication, the Company is obliged to provide shareholders with the opportunity to participate in the General Meeting using electronic means of communication.

The detailed rules for conducting the General Meeting using electronic means of communication are determined by the Management Board, taking into account the provisions of the Regulations of the General Meeting. The Management Board announces the rules on the Company's website along with the announcement on convening the General Meeting.

A shareholder of the Company holding shares registered on more than one securities account may appoint separate proxies to exercise the rights attached to shares registered on each account.

If a representative of a shareholder of the Company at the General Meeting is a member of the Management Board, a member of the Supervisory Board, liquidator, employee of the Company or a member of the bodies or employee of a subsidiary or a subsidiary of the Company, the power of attorney may authorize to represent only one General Meeting.

The proxy is obliged to disclose to the shareholder of the Company circumstances indicating the existence or the possibility of a conflict of interests. In this case, granting a further power of attorney is unacceptable. The proxy referred to above votes in accordance with the instructions provided by the shareholder of the Company.

Each share gives the right to one vote at the General Meeting. The Articles of Association do not provide for voting preference. A shareholder may vote differently from each of the shares held. A proxy may represent more than one shareholder of the Company and vote differently from the shares of each shareholder of the Company.

A shareholder of the Company may not, either personally or by proxy, vote on adopting resolutions regarding his liability towards the Company for any reason, including granting a vote of acceptance, exemption from obligations towards the Company and a dispute between him and the Company. The above limitation does not apply to voting by a shareholder of the Company as a proxy of another shareholder when adopting resolutions regarding the person referred to above.

Only persons who are shareholders of the Company sixteen days before the date of the General Meeting (day of registration of participation in the General Meeting) have the right to participate in the General Meeting. In order to participate in the General Meeting, those entitled from the dematerialized Bearer Stocks of the Company should request the entity maintaining their securities account to issue a personal certificate on the right to participate in the General Meeting. The demand should be presented not earlier than after the announcement of convening the General Meeting and no later than the first weekday after the date of registration of participation in the General Meeting.

Holders of registered shares and temporary certificates, as well as pledgees and users who have the right to vote, have the right to participate in the General Meeting, if they are entered into the book of shares on the day of registration of participation in the General Meeting.

The list of persons entitled to participate in the General Meeting is determined on the basis of the list prepared by the entity keeping the securities deposit in accordance with the Act on Trading in Financial Instruments and on the basis disclosed in the Company's share register on the day of registration of participation in the General Meeting. The above list is displayed at the Company's office for three days preceding the day of the General Meeting. The Company's shareholder may request that the list of shareholders entitled to participate in the General Meeting be sent to him free of charge via e-mail, providing his own e-mail address to which the list should be sent.

In relation to shares registered on a collective account, a certificate confirming the right to participate in the General Meeting shall be a document with appropriate content issued by the holder of the said account. If the omnibus account is maintained by NDS (or an entity employed by NDS to perform duties related to the maintenance of securities), information on the holder of such an account should be disclosed to NDS (or an entity employed by NDS to perform duties related to the operation of the securities depository) ) by the entity conducting a collective account for it before the first issue of such a document.

On the basis of the above-mentioned documents, the omnibus account holder will prepare a list of persons authorized to participate in the General Meeting. If the omnibus account holder is not a NDS participant (or a bank employed by NDS in order to perform duties related to the securities depository), the list of persons authorized to participate in the General Meeting is delivered through a NDS participant (or a bank that NDS has employed to perform its duties associated with keeping a securities depository).

The Company's shareholder may transfer the Shares in the period between the date of registration of participation in the General Meeting 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 specific matters be placed on the agenda of the next General Meeting. The request should be submitted to the Management Board no later than twenty one days before the set date of the General Meeting. The request may be submitted in electronic form. The Management Board is obliged to announce immediately, but no later than eighteen days before the set date of the General Meeting, changes to the agenda introduced at the request of the Company's shareholders. The announcement is made in a manner appropriate for convening the General Meeting.

Manner in which the General Meeting is convened

The General Meeting is convened through an announcement made on the Company's website and in a manner specified for the provision of current information in accordance with the Act on Public Offering. The announcement should be made at least twenty-six days before the date of the General Meeting. The announcement about the General Meeting should include in particular:

- the date, time and place of the General Meeting and the detailed agenda,
- a precise description of the procedures for participation in the General Meeting and the exercise of voting rights,
- day of registering participation in the General Meeting,
- information that only persons who are shareholders of the Company on the registration date of participation in the General Meeting have the right to participate in the General Meeting,
- an indication of where and how a person entitled to participate in the General Meeting may obtain the full text of documentation to be presented to the General Meeting and draft resolutions or, if no resolutions are envisaged, comments of the Management Board or Supervisory Board regarding matters introduced into the agenda the General Meeting or issues that are to be included in the agenda before the date of the General Meeting,
- indication of the address of the website on which information on the General Meeting will be made available.

Pursuant to the Regulation on Reports, the Company will be required to submit in the form of a current report, among others the date, time and place of the General Meeting together with its detailed agenda.

In addition, in the event of a planned amendment to the Statute, the current provisions, the content of the proposed amendments and if, due to a large scope of intended changes, the Company makes a decision to prepare a new uniform text, the new uniform text of the Articles of Association together with the calculation of its new provisions. The content of draft resolutions and attachments to the projects to be discussed at the General Meeting that are relevant to the resolutions adopted shall also be announced in the form of a 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 submit to the Company in writing or using electronic communication means draft resolutions regarding matters included in the agenda of the General Meeting or issues to be included in the agenda prior to the date of the General Meeting. The company immediately publishes draft resolutions on its website.

Right to demand the issuance of duplicates of motions

Each shareholder of the Company has the right to demand copies of motions regarding issues included in the agenda of the next General Meeting. Such a request should be submitted 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 election of the chairman of the General Meeting, an attendance list containing a list of participants of the General Meeting should be drawn up, specifying the number of shares of the Company that each of them presents and their votes. The attendance list should be signed by the chairman of the General Meeting and presented during the meeting. At the request of shareholders holding one-tenth of the share capital represented at the General Meeting, the attendance list should be checked by a committee elected for this purpose, composed of at least three persons. Applicants have the right to choose one member of the commission.

Right to information

The Management Board is obliged to provide the Company's shareholder, during the General Meeting, upon request with information regarding the Company, if it is justified for the assessment of a matter covered by the agenda of the General Meeting. If there are important reasons to do so, the Management Board may provide information in writing outside the General Meeting. In such a case, the Management Board is obliged to provide information not later than within two weeks from the day the shareholder filed a request at the General Meeting.

The Management Board refuses to provide information if it could cause damage to the Company, a company associated with the Company or a company or a cooperative subsidiary of the Company, in particular by disclosing technical, commercial or organizational secrets of the company. A member of the Management Board may refuse to provide information if the provision of information could be the basis of his criminal, civil or administrative liability.

The information provided to the Company shareholder should be made available to the public in the form of a current report.

A shareholder who was refused to disclose the information requested during the General Meeting and who filed an objection to the Minutes may submit an application to the registry court to oblige the Management Board to provide information. Such a request should be submitted within one week from the end of the General Meeting at which information was refused. A shareholder may also submit an application to the registry court for obliging the Company to publish information provided to another shareholder outside the General Meeting. Pursuant to the Regulation on Reports, the Company will be obliged to provide in the form of a current report information provided to a shareholder following the Management Board's obligation by the registry court in the cases referred to above.

Right to demand the issuance of duplicates of the annual financial statements

Each shareholder of the Company has the right to request copies of the Management Board's report on the Company's operations and financial statements along with a copy of the Supervisory Board's report and the auditor's opinion no later than fifteen 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 Company's share capital, the Supervisory Board should be elected by the next General Meeting by voting in separate groups. In this case, the mode provided for in the Statute will not be applicable and the shareholders will apply the procedure provided for in the Code of Commercial Companies. The mechanism of such selection is as follows: the total number of Company shares is divided by the total number of members of the Company's Supervisory Board. Shareholders who represent such a number of shares may form a separate group to elect one member of the Supervisory Board and may not vote in the selection of other members. If, after a vote in the voting mode, separate groups in the Supervisory Board remain vacancies, shareholders who have not participated in the creation of any group will be entitled to elect other members of the Supervisory Board. If the election of the Supervisory Board is made by way of voting in separate groups, the limitation of the preference for voting rights does not apply, and each Action gives the right to one vote, excluding restrictions on shares that do not entitle to exercise voting rights.

## Right to appeal against the resolutions of the General Meeting

The Company's shareholders are entitled to appeal against resolutions adopted by the General Meeting by way of an action to repeal a resolution or an action for annulment of a resolution.

### Action for the revocation of a resolution

A resolution of the General Meeting that is contrary to the Statute or decency and which harms the interest of the Company or intended to harm a shareholder of the Company may be appealed against by way of action against the Company for repealing the resolution.

An action to cancel a resolution of the General Meeting should be brought within one month from the date of receipt of information about the resolution, however not later than within three months from the date of adopting the resolution.

### Action to have a resolution declared invalid

A resolution of the General Meeting contrary to the Act may be challenged by an action brought against the Company for the annulment of a resolution.

An action for annulment of a resolution of the General Meeting should be brought within thirty days from the date of its announcement, but no later than one year from the date of 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;
- 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

A change in the rights of shareholders in the form of amending the provisions of the Statute requires a resolution of the General Meeting adopted by a three-fourths majority of votes and an entry in the Register of Entrepreneurs of the National Court Register. In addition, a resolution to amend the Articles of Association, increasing the benefits of the Company's shareholders or reducing the rights granted personally to the Company's shareholders, requires the consent of all shareholders of the Company to whom it applies.

### Redemption of Shares

Shares may be redeemed by way of a decrease in the share capital of the Company, however, the redemption requires the consent of the shareholder of the Company. The Statute does not contain a provision regarding the compulsory retirement of the Shares.

The conditions, legal basis and procedure for redemption of shares and the amount of remuneration for redeemed shares or justification for redemption without remuneration shall be determined each time by the General Meeting in the form of a resolution.

### Right to Request the Appointment of a Special-Purpose Auditor

According to art. 84 of the Act on Public Offer, at the request of a shareholder or shareholders of the Company, holding at least 5% of the total number of votes, the General Meeting may adopt a resolution regarding the examination by a court expert of a specific issue related to the creation of the Company or conducting its affairs. These shareholders may, for this purpose, request that an extraordinary General Meeting be convened or that the matter of adopting this resolution be placed on the agenda of the next General Meeting. If the shareholders decide to take advantage of the first option and within two weeks from the date of requesting convening such a General Meeting, the Extraordinary General Meeting will not be convened, the registry court may authorize the shareholders of the Company to submit the request to convene an extraordinary General Meeting. The court appoints the chairman of this General Meeting. If shareholders decide to use the second option and request that the resolution be placed on the agenda of the next General Meeting, such request must be delivered to the Management Board in writing no later than twenty one days before the planned date of the General Meeting.

The resolution of the General Meeting on the selection of the auditor for special matters should specify 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 auditor for special matters may only be an entity having the expertise and qualifications necessary to examine the matter specified in the resolution of the General Meeting, which will ensure the preparation of a reliable and objective audit report. The auditor for special matters may not be an entity providing services to the Company, its parent or subsidiary in the audited period, as well as its parent entity or a significant investor within the meaning of the Accounting Act. The auditor for special matters may also not be an entity that belongs to the same capital group as the entity that provided the services referred to 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 relations to the proces 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, 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 certified 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 12 December 2016.

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 Management Board – Mr Pawłowi 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 Management Board – Mr Pawłowi 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.

The tables below presents the remuneration received by each member of the Management Board in 2017 and 2016. 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) | |
|---|---|---|
| | 2017 | 2016 |
| Omar Arnaout[1] | 445 | - |
| Paweł Frańczak | 400 | 389 |
| Paweł Szejko | 340 | 323 |
| Filip Kaczmarzyk[2] | 395 | - |
| Jakub Malý[3] | 101 | 769 |
| Jakub Zabłocki[4] | - | - |

*[1]) Omar Arnaout on 10.01.2017 he was appointed a member of the Management Board for Sales in the rank of Vice President of the Board. On 23.03.2017 he was appointed the President of the Management Board;*
*[2]) Filip Kaczmarzyk on 10 January 2017, he was appointed a member of the Management Board for Trading;*
*[3]) Jakub Malý held the position of the President of the Management Board to a member of the Management Board until 10.01.2017,*
*[4]) Jakub Zabłocki held the position President of the Management Board in period from 10.01.2017 to 23.03.2017.*

Variable remuneration

| NAME AND SURNAME | VARIABLE REMUNERATION RECEIVED FROM THE COMPANY IN THE YEAR: (IN PLN'000) | |
|---|---|---|
| | 2017 | 2016 |
| Omar Arnaout[1] | 92 | - |
| Paweł Frańczak | 76 | 206 |
| Paweł Szejko | 37 | 139 |
| Filip Kaczmarzyk[2] | 34 | - |
| Jakub Malý[3] | 943 | 660 |
| Jakub Zabłocki | - | - |

*[1]) Omar Arnaout on 10.01.2017 he was appointed a member of the Management Board for Sales in the rank of Vice President of the Board. On 23.03.2017 he was appointed the President of the Management Board;*
*[2]) Filip Kaczmarzyk on 10 January 2017, he was appointed a member of the Management Board for Trading;*
*[3]) Jakub Malý held the position of the President of the Management Board to a member of the Management Board until 10 January 2017,*
*[4]) Jakub Zabłocki held the position President of the Management Board in period from 10.01.2017 to 23.03.2017.*

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, Jakub Malý and Filip Kaczmarzyk were provided with a company car.

### 4.15.2 Agreements concluded with the management, including compensation in case of resignation or dismissal from the position without a material ground or their removal or dismissal is due to the Company's merger by acquisition

As at 31 December 2017, 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 | VARIABLE REMUNERATION RECEIVED FROM THE COMPANY IN THE YEAR: (IN PLN'000) | |
|---|---|---|
| | 2017 | 2016 |
| Jakub Leonkiewicz[1] | 21 | 32 |
| Łukasz Baszczyński | 17 | 19 |
| Jarosław Jasik | 20 | 19 |
| Bartosz Zabłocki | 20 | 14 |
| Michał Kędzia | - | - |
| Piotr Zeszuta[2] | - | 5 |
| Jakub Zabłocki[1] | - | - |

1) *Jakub Leonkiewicz.on 10.01.2017, he resigned from participation in the Supervisory Board of the Company and performed the function of the Chairman in order to enable Mr Jakub Zabłocki to assume the function of the Chairman of the Supervisory Board, who on the same day acted on the basis of the rights resulting from the Company Statute Supervisory Board of the Company acting as its Chairman. On 30 May 2017, Mr. Jakub Zabłocki dismissed himself from the position of the Chairman of the Supervisory Board of the Company, at the same time appointing Mr. Jakub Leonkiewicz for this position*
2) *Piotr Zeszuta resigned from 31 October 2015 as a member of the Supervisory Board. the remuneration for 2015 has been included in the accounting books and paid out in 2016.*

### 4.15.4 Information on liabilities arising from pensions and similar benefits for former members of management, supervisory and administrative bodies

As at 31 December 2017 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 2017, 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 2017 is Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k., seated in Warsaw. The audit agreement was concluded on 21 June 2017. The subject of the agreement is the conduct of an audit of the financial statements for the years ended, respectively 31 December 2017 and 31 December 2018. 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 2017 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 Group companies are parties to several court proceedings related to the Group's operations. The proceedings in which the Company and Group companies appear as defendants are above all related to employees' claims and clients' claims. As at the submission date of this report, the total value of the claims brought against the Company and/or the Group Companies amounted to approximately PLN 6,435 million, of which suits brought by the employees pending before court four proceedings where the total value of claims was PLN 5,773 million and nine suits brought by clients with the total value of claims of PLN 0,662 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 report, the claim was accounted for at the total value of the claims demanded against the Company of approximately PLN 5,631 million.

One of the Company's clients threatened in 2014 to file a suit regarding its alleged illegal actions. The client accuses the Company of improper execution of the agreement concluded with Company for provision of services consisting in the execution of orders to buy or sell property rights, keeping property rights accounts and cash accounts, by allegedly delaying and interrupting execution of the transactions via the trading platforms provided. The client stated that they intended to claim initially an amount of up to PLN 7 million and, recently, up to PLN 14 million. The Board considers this claim to be groundless. Recently, the client has been regularly repeating the claims, including threatening the Company. The Company has undertaken firm steps to protect its rights and interests.

Proceedings against XFR Financial Ltd. (the company currently operating under the name XTRADE Europe 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 requested the Regional Court in Warsaw to secure its claim against XFR by: (i) prohibiting XFR from using the verbal and figurative mark "XTRADE"; and (ii) prohibiting XFR from using the verbal mark "XTRADE" in internet domain names. XFR conducts competitive business with respect to the Company and abuses, in the opinion of the Company, the significant recognition of the Company's brand in European countries, thus misleading the Group's existing and potential clients. The Company was notified that the request for protection of his claim against the XFR was dismissed therefore the Company filed an appellation against this decision. The Warsaw Court of Appeal upheld the appeal and changed the challenged judgment by securing XTB's claim against XFR and has banned XFR from using (i) word marks and word-figurative marks "XTB", "X-Trade", "XTrade" , "X" and (ii) the word mark xtrade.eu, as an indications of its company or services. Proceedings before the Regional Court in Warsaw are currently pending based on the suit filed by the Company to prohibit XTRADE Europe Ltd. from violating the principles of fair competition, which involves unlawful use by the defendant of the verbal as well as verbal and graphical names "XTB", "X-Trade", "XTrade" and "X" to identify the enterprise or the financial, financial intermediation and advisory, brokerage and stockbroker activity. The following documents have been filed in the case: by XTRADE Europe Ltd. – reply to the suit, and by the Company – answer to the reply to the suit. As the legal representatives of XTRADE Europe Ltd. failed to prove being properly authorised to act in the case, the Court summoned them to furnish documents confirming that the persons granting the power of attorney to them were, on the date of granting thereof, authorised to act for and on behalf of XTRADE Europe Ltd. The reply of XTRADE Europe Ltd. has been filed. The Court obligated the Company to express its standpoint regarding the reply of XTRADE Europe Ltd. by 1 March 2018. The date of the first hearing ought to be scheduled thereafter.

Moreover, proceedings before the District Court for Warsaw-Śródmieście in Warsaw are pending based on the suit filed by the Company, with the participation of XTRADE Europe Ltd. In this case, a petition for commencement of enforcement proceedings has been filed as XTRADE Europe Ltd. has not ceased to use identifications being the Company's property to identify its business or services provided, despite a respective ruling of the Court of Appeal in Warsaw dated 15 March 2017. The petition for commencement of enforcement proceedings was filed on 19 June 2017. On 12 January 2018, the District Court for Warsaw-Śródmieście in Warsaw issued a ruling ordering XTRADE Europe Ltd. to pay the amount of PLN 5,000 to the Company. The defendant was also threatened to be ordered to make a payment to the Company in case of determination of any subsequent violation by the debtor of the obligation to exercise the ruling of the Court of Appeal in Warsaw dated 15 March 2017.

The Company has also launched a German court proceedings aimed at cessation of infringement of the Company trademark by XFR. According to the court judgment received by the Company, the court has prohibited XFR from using in Germany marks „XTRADE" and „XTRADE EUROPE Ltd" confirming that these marks are confusingly similar to the trademarks registered by the Company. In addition, XFR is also obliged to provide information indicating scope and number of use of those marks in the past and to pay damages, amount of which has not yet been specified. In its judgment the court pointed out that the company has the right to challenge XFR marks and to submit appropriate motion for cancellation of registration XFR marks. The judgment is not final, as XFR filed an appeal. The next hearing is planned for 19 April 2018.

### 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.

As part of exercising supervisory powers over the Company, the Polish Financial Supervision Authority (PFSA) has performed, basically for the period from 1 January 2014 to 11 June 2016, checks on compliance with legal regulations and internal regulations, (i) the provision of certain brokerage services, (ii) the mode and conditions of dealing with clients, (iii) the organization and operation of the internal control system, the system of compliance with law and the internal audit system, and (iv) technical and organizational conditions for conducting brokerage activities. The audit ended on 16 September 2016.

On 14 October 2016, the Company received a control report indicating that the inspectors found irregularities and deficiencies in the implementation and enforcement of the applicable laws and regulations by the Company, in response to which the Company has lodged substantiated objections in accordance with the applicable regulations. The PFSA did not take into account the Company's objections and therefore issued post-control recommendations, which required the Company to implement appropriate measures to remove the detected irregularities.

The Company applied due care in order to implement all the recommendations of the KNF. As to the post-inspection objections, the Management Board submitted to the KNF extensive substantive and legal objections as well as detailed analyses, pointing that remarks included in the control protocol are groundless.

On 13 November 2017 an article was published, from which follows that there are pending prosecutorial proceedings by way of the KNF's notice after the control in the Company. The Management Board has also received information from the prosecutor's office regarding ongoing proceedings from the KNF's and one of the clients' notice. The Management Board finds no grounds for the objections regarding Company's business misconduct. The Company finds groundless the information presented in the article referring to deliberate actions performed by the Company aiming at unreliable execution of orders.

On 17 November 2017, the Company was served with the decision of the Polish Financial Supervision Authority dated 14 November 2017 on initiation ex officio of administrative proceedings regarding imposition of a monetary penalty upon the Company in connection with suspicion regarding significant violation of the law, in particular in the area of provision of brokerage services in favour of the Company's clients and organisation and operation of trading systems. The violations identified by the Polish Financial Supervision Authority are identical with the abnormalities and defaults identified in the inspection protocol dated 14 October 2016. In the Company's opinion, the allegations presented by the PFSA are unfounded and are not confirmed in the facts.

Acting in the best interest of the Company, its employees and shareholders, as well as having clients best interest in mind, the Management Board is planning to take determined actions to defend against these objections.

If the Commission finds that the Company has incorrectly implemented recommendations or due to identified ones as part of the control of the violation or irregularities in the implementation and application of the applicable regulations and regulations by the Company, the PFSA - in accordance with the content of the abovementioned provisions of November 14, 2017 - may impose on the Company a fine of up to 10% of the income shown in the last audited financial statements.

As part of exercising supervisory powers over the Company, the PFSA has exercised its control over the Company's compliance with its obligations under the provisions of the Anti-Money Laundering Act and the Financing of Terrorism Act of 16 November 2000, among others, obligations relating to (i) keeping a register of transactions, (ii) monitoring of transactions, (iii) having appropriate procedural solutions and (iv) identifying clients. The audit took place from 20 March 2017 to 20 April 2017. Due to the identified weaknesses in the implementation and application of the applicable provisions of law and regulations, on 19 June 2017 the PFSA submitted post-inspection recommendations which required the Company to implement Appropriate measures to remove detected irregularities.

The Company has adjusted its activity to the PFSA's post-inspection 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 unlawful or non-compliant with PFSA's attitude to the issue, therefore detected infringements in Company's brokerage activity may constitute basis to, inter alia, initiation of administration proceeding against Company as to impose penalty or other administrative sanctions within supervisory powers of PFSA or other authorities.

Romanian Financial Supervisory Authority („ASF"), within the scope of its supervisory powers, carried out on 8 June – 30 June 2017 the inspections of the Company's branch in Romania. The scope of the inspection included reviewing the compliance of the branch's activity with the local law and internal regulations, inter alia, the review of among others (i) the operational activity as well as documents and information forwarded to clients and potential clients, (ii) the organization and functioning of internal control system, (iii) transactions registers and the manner of their archiving and (iv) policy and internal mechanisms for money laundering prevention.

On 19 September 2017 the Company received a control report indicating that inspectors found irregularities and deficiencies in the implementation and enforcement of the applicable laws and regulations by the Company and branches, in response to which the Company has lodged substantiated objection in accordance with the applicable regulations. On 13 December 2017, the ASF issued guidelines to be implemented by 11 April 2018. The Company is in the process of adapting the operation of the branch and the Company to the ASF's post-inspection recommendations. However, one cannot exclude the possibility that the manner of adaptation followed by the branch and the Company to any given recommendation may be considered non-compliant with the law or the ASF's approach; abnormalities in the operation of the branch and the Company may give ground, inter alia, to initiation against the branch and the Company of administrative proceedings concerning imposition onto the branch and the Company of penalties or other sanctions pursuant to the supervisory rights of the ASF or other authorities.

On 20 November 2017 the inspection by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) has been opened in the German branch of the Company. This inspection concerns the affiliation programme. Until the date of delivery of this report, the Company has not obtained any feedback from the supervisory authority regarding the results of this inspection.

Moreover, on 26 January 2018 the Company was served with the letter from the National Bank of the Czech Republic, notifying commencement of inspection at the Company's Czech branch. The inspection covers evaluation with regard to compliance of the branch and the Company's operations with the Czech act on the capital market in the area of (i) provision of investment services with due professional diligence, (ii) operating principles of the investment company in its contacts with clients, as well as (iii) daily reporting of clients' transactions to the supervisory authority.

As of the date of delivery of this report the Company is in the process of obtaining the PFSA's permission to use the delta coefficient calculated on the basis of own option pricing model. At the Company's request on 27 September 2017 the PFSA issued a decision on the suspension of the proceedings for obtaining a permission to use the delta coefficient calculated on the basis of option pricing model. The Company received an expert opinion in which it was stated that the CRR Regulation is not applicable to the specificity of the binary options in respect of use of delta. At the beginning of January 2018 the Company asked the European Banking Authority for an interpretation of the CRR Regulation regarding the application of the option pricing model to financial instruments, such as binary options.

At first the proceeding was initiated by the Company in March 2014, then suspended and resumed by the Company on 5 March 2015. The Company introduced Up & Down options in 2012 on the basis of exceptions stemming from the provisions of the Polish Capital Requirements Regulation Offering Up & Down was not required by the PFSA. Due to the entry into force on 1 January 2014, the CRR Regulation abrogating the Polish Capital Requirement Regulation risks to say that the Group offers Up & Down options without the PFSA's consent, and that the Company may be subject to penalties or other sanctions by the PFSA.

### Other supervisory communications

On 5 December 2017, the Polish Financial Supervision Authority published its standpoint regarding the dividend policy of brokerage homes in 2018. In its recommendations, the Authority pointed to a number of criteria to be met by a brokerage home to be able to pay out the dividend for 2017, including the criterion of supervisory grade assigned in the BION process carried out in 2017 on the level of 1 or 2. The Company was assigned with the supervisory grade of 3 [2.97] and, consequently, the conditions enabling – in the evaluation of the Polish Financial Supervision Authority – to pay out the dividend for 2017 are not met.

### 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 inter alia (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 last 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 MiFID II Directive and MIFIR Regulation (the "MiFID/MiFIR package") entered into force on 3 January 2018. 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 additional reporting duties in the scope of executed orders.

Transposition of the MiFID II Directive into the national law by the particular Member States was about to proceed till 3 July 2017. Poland is currently working on the implementation of the MiFID II / MiFIR Package into the Polish legal order.Consultations are being drafted on the amendment of the Act on Trading in Financial Instruments and some other acts On 20 December 2017, another draft of the act amending the act on trading in financial instruments was presented and was subsequently adopted by the Council of Ministers on 4 January 2018. At present, the draft is at the Parliament. The first reading took place at the session of the Parliament held on 26 January 2018 and the draft act was directed to the Public Finance Commission. Despite the lack of full implementation of the MiFID II / MiFIR Package to the domestic legal system, some of the provisions of the Package are directly applicable.

The Company has made reasonable efforts to comply with the obligations arising from the MIFID II / MIFIR Package to the extent to which these provisions are directly applicable. However, it cannot be ruled out that a given rule or requirement resulting from the MIFID II / MIFIR Package, to the extent that these provisions are directly applicable, will be interpreted by the Group in a manner inconsistent with the Directive, the Regulation or their interpretation or supervisory approach, which may involve applying to the Company supervisory actions and sanctions provided for by applicable provisions, and may cause the Group to incur further significant financial effort and implement significant organizational changes.

### Plans for further limitation of CFD's leverage in Poland - draft bill amending act on supervision over financial market and other acts

On 12 July 2017, the draft act of 10 July 2017 on amendment of the act on supervision over the financial market and certain other acts was published. On 13 December 2017, another draft act on amendment of the act on supervision over the financial market and certain other acts was presented. At present, opinions for the draft are being prepared. The main assumptions introduced by the draft include, among others: (i) increased requirements regarding security deposits for Polish residents with regard to transactions on the market of financial derivative instruments from 1% to 2% and, consequently, reduction of financial leverage to 1:50 for retail clients. As far a retail clients who, during 24 months preceding submission of the order, concluded at least 40 transactions and expressed this intention, the draft will allow application of financial leverage of up to 1:100, (ii) authorising the Polish Financial Supervision Authority to maintain a register of internet domains and block internet domains of investment companies, used for provision of financial services in a manner non-compliant with regulatory requirements, and (iii) introduction of stricter penal liability for unauthorised operation with regard to trading in financial instruments if the unlawful act results in unfavourable disposition of property by the harmed party.

As of the date of this report, the bill is at the stage of giving an opinion. It is not known yet how the final shape of the bill will look. The entry into force of the leverage restriction in the projected shape will most likely increase the transaction costs for the Company's clients from Poland, which may adversely affect their ability and interest in trading instruments offered by the Company, particularly when clients have access to foreign investment firms' Polish regulations, which in turn may have a negative impact on the volume of trading in instruments offered by the Company in Poland, and thus on the Company's business, financial situation and results.

### 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.

Poland is currently working on the implementation of the above-mentioned regulations into the Polish legal order.

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 to incur a 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

Act on the exchange of tax information with other countries of 9 March 2017, entered into force on 3 April 2017. 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.

The Company has exercised due diligence in order to comply with its obligations under the Act. However, it cannot be excluded that a given rule or requirement will be interpreted by the Group in a manner inconsistent with the Act 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.

### 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 (PRIIPs) was supposed to enter in force on 31 December 2016, however it finally entered into force on 1 January 2018. The 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 30 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 30 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.

At the submission date of this report 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) extension of the scope of the new regulations on entities receiving cash payments above EUR 10 000, instead present EUR 15 000.

The Polish legislator failed to complete transposition of provisions of the Directive within the required deadline which expired on 26 June 2017. The draft act on the prevention of money laundering and terrorism financing implementing provisions of the Directive into the Polish legal order was approved by the Council of Ministers on 22 January 2018. On 1 February 2018, the draft was filed at the Parliament. The first reading of the draft took place on 8 February 2018 at the session of the Parliament. The draft was directed to the Public Finance Commission which was assigned with the deadline to present its report by 27 April 2018. Amendments in the new act include (i) introduction of a new category of institutions which are obliged to apply the act on the prevention of money laundering and terrorism financing, including entities conducting business activity involving provision of services related to exchange among virtual currencies and means of payment and exchange among virtual currencies, (ii) amendment of the definition of beneficial owner and politically exposed person, (iii) necessity to introduce a procedure for identification and assessment of the risk related to money laundering and terrorism financing in connection with the business activity conducted, (iv) obligation to have a single procedure on the prevention of money laundering for the whole capital group, (v) shortening of the deadline for reporting of transactions to the General Inspector for Financial Information to 7 days after execution thereof, (vi) reduction of the limit for transactions executed in cash to EUR 10 000, (vii) increase of penalties for violation of provisions of the act up to the equivalent of EUR 5 000 000 or up to 10% of the turnover declared in the most recent consolidated financial statements for the business year.At the submission date of this report the Company is not able to accurately estimate the full impact of the referred regulations on the activity of the Group. It cannot be excluded that the process of adaptation to the changes may result in the necessity to incur a significant financial outlays by the Group or implementation of significant organizational changes, which may affect financial position and results of the Group as well as the price of shares.

### Activity of the European Securities and Markets Authority ("ESMA")

The group is witnessing continuous regulatory changes in the industry at an international level that may change over time. The European Securities and Markets Authority (ESMA) published on 29 June 2017 a statement regarding possible product interventions for CFDs, binary options and other highly speculative financial products that would take place under MIFIR.

On 18 January 2018, the ESMA published the "Call for evidence" document concerning potential measures within the product intervention pursuant to art. 40 MiFIR with respect to CFD contracts and binary options offered to retail clients. At present, the document is at the stage of consultations which are to end on 5 February 2018. By the date of publication of this report, the ESMA has not issued any announcement stating the consultations outcome. As far as CFD contracts are concerned, the following actions are being considered: (i) introduction of a financial leverage limit upon opening of a position by a retail client, (ii) introduction of the margin close-out principle with regard to positions, (iii) introduction of the negative balance protection principle with regard to the account, (iv) limitation of application by investment firms, whether indirectly or directly, of monetary or non-monetary incentives to encourage retail clients to use CFD products, (v) determination of standardised risk warnings on all stages of communication with the client retail. The ESMA has not yet decided whether or not the planned measures will also include CFD instruments on cryptocurrencies. As far as binary options are concerned, the ESMA is considering introduction of a prohibition in the area of marketing, distribution and sales of those instruments to retail clients.

Moreover, on 5 February 2018 the ESMA published its Guidelines on MiFID II product governance requirements. The document discusses obligations regarding compliance with the law and reporting, and it presents: (i) guidelines for manufacturers, including the manufacturer's obligation to identify the potential target market and the relationship between the manufacturer's distribution strategy and their target market definition; (ii) guidelines for distributors, which define – inter alia – the relationship between the product governance requirements and assessment of suitability or adequacy, as well as the distribution strategy, and (iii) guidelines regarding issues applicable to manufacturers and distributors, including principles of identification of the negative target market and sales outside the positive target market, as well as application of the requirements of the target market to firms operating on wholesale markets.

The Company is not in a position to predict the final shape of planned changes related to the abovementioned restrictions. It cannot be ruled out that the restriction introduced by ESMA will have a significant impact on the way the Group offers and promotes financial products, and further on the financial results of the Group and will require the Group to incur further significant financial outlays and implement significant organizational changes.

### France

In France the works on the introduction of restrictions on promoting the services in the scope of, inter alia, 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, inter alia, 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.

The Company has exercised due diligence in order to comply with the amended regulations. However, it cannot be excluded that measures undertaken by the Company in order to implement above requirements will be interpreted by the Company in a manner inconsistent with the Act which may be connected with risk of administrative sanctions and other administrative measures specified in binding laws and may require incurring by the Company significant financial outlays and implementation of the significant organizational changes.

### 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 positions opened before that date was a deadline 45 days to adjust the current state to the new regulations. Consequently, on 18 May 2017 the Company decided to withdraw from operations on the Turkish market. Yet, the decision was suspended on 30 November 2017 by the Board of the Company until the end of the first half of 2018, because of the possibility that the Turkish regulatory authority CMB may mitigate changes in the regulations governing operations in the area of investment services, investment activity and auxiliary services.

### Germany

On 8 May 2017 German supervisory authority - BaFin published General Administrative Act limiting the promotion, distribution and sale of CFD financial instruments, of which transactions may result that on client’s account will occur debt. Such debt is the result of transactions where the loss exceeds the value of client’s deposits.

The Company has made every effort to comply with the above regulations. However, it cannot be ruled out that a given rule or requirement will be interpreted by the Company in a manner incompatible with the BaFin approach, which may involve application to the Company of the supervisory activities and sanctions provided for in the applicable legislation and may require the Company to incur further significant financial expenses and Implementation of significant organizational changes.

### 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.

According to the FCA information, the publication of final version of the document has been delayed, pending the outcome of discussions being conducted within the European Securities and Markets Authority (“ESMA”) about the possible use of its product intervention powers under article 40 of MiFIR. At the date of this report, the Company cannot 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.

### Spain

On 17 March 2017 Spanish supervisory authority (Comisión Nacional del Mercado de Valores – CNMV) has required financial institutions offering CFD financial instruments and binary options which use leverage higher than 1:10, to include relevant information and warnings and to apply mechanisms which enforce client to acquaint with them and to accept the risks related with these products, inter alia, during the process of brokerage services agreement conclusion, before usage of such services and, as well, during usage of such services by client. Required by the CNMV warnings enforce clients of financial institutions to become acquainted with the risks related with products, and in case of willingness to use these products, to express unequivocal acceptation of this risk. Regulations are designed to protect individual investors.

The Company has exercised due diligence in order to comply with the above regulations. However, it cannot be excluded that measures undertaken by Company in order to implement above requirements will be interpreted by the Company in a manner inconsistent with the regulations which may be connected with risk of administrative sanctions and other administrative measures specified in binding laws and may require incurring by the Company significant financial outlays and implementation of the significant organizational changes.

Romania

Romania is working on amending the Capital Markets Act No. 24/2017. The Romanian Regulatory Authority - Autoritatea de Supraveghere Financiară ("ASF") has submitted to the Ministry of Finance a draft amendment, which maintains a prohibition on the distribution of CFD derivatives and binary options to retail clients in Romania. Currently, work is underway to determine the exact scope of the constraints and the final shape of the project. It is envisaged that the amending law may be adopted at the beginning of 2018, while the entry into force could take place in mid-2018. The draft amendment is in the process of consultation and it is not yet known what the final shape of the bill will look like.

Financial transaction tax

As at the submission date of this report 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 report there is no official information about the possible date of the imposition of such a tax.

## 5.3 Employment information

As at 31 December 2017, the Group employed 388 people, including 252 persons employed by the Company. The Group's employment structure is dominated by employees involved in sales. The Group does not employ a significant number of temporary employees.

The table below presents information on the number of employees of the Parent Company, its foreign branches and Group Companies on dates indicated therein.

| | | **AS AT** |
|---|---|---|
| | **31.12.2017** | **31.12.2016** |
| Parent Company | 252 | 223 |
| Foreign branches | 98 | 99 |
| Group companies | 38 | 76 |
| Total | 388 | 398 |

## 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. declares that, to the best of its knowledge, the consolidated and separate financial statements for 2017 and comparative data have been prepared in accordance with the applicable accounting principles and reflect in a true, reliable and clear financial and financial situation and the financial result of the Group and the Company, respectively. The activity report contains a true picture of the development and achievements of the Group and the Company, respectively, including a description of the basic risks and threats.

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. declares that the entity authorized to audit the consolidated and separate financial statements for 2017, i.e. Ernst & Young Audyt Polska Sp. z o.o. Sp.k., based in Warsaw, was selected in accordance with the law. This entity and statutory auditors who audited those financial statements met the conditions for expressing an unbiased and independent opinion on the audited financial statements, in accordance with the applicable regulations and professional standards.

Warsaw, 6 March 2018

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| Omar Arnaout<br>President of the Management Board | Paweł Frańczak<br>Member of the Management Board |
| Paweł Szejko<br>Member of the Management Board | Filip Kaczmarzyk<br>Member of the Management Board |

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**INDEPENDENT AUDITOR’S REPORT ON THE AUDIT OF THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS**

**To the General Shareholders Meeting and Supervisory Board of X-Trade Brokers Dom Maklerski S.A.**

**The audit report on the annual consolidated financial statements**

We have audited the accompanying consolidated annual financial statements for the year ended 31 December 2017 of Capital Group X-Trade Brokers Dom Maklerski S.A. (‘the Group‘), with parent’s company X-Trade Brokers Dom Maklerski S.A. (‘the Company‘) located in Warsaw at Ogrodowa 58, containing the introduction to the consolidated financial statements, the consolidated statement of comprehensive income for the year from 1 January 2017 to 31 December 2017, the consolidated statement of financial position as at 31 December 2017, the consolidated statement of changes in equity for the year from 1 January 2017 to 31 December 2017, the consolidated cash flow statement for the year from 1 January 2017 to 31 December 2017 and the additional notes and explanations (‘the accompanying consolidated financial statements’).

*Responsibilities of the Company’s Management and members of the Supervisory Board for the consolidated financial statements*

The Company’s Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission decrees and other applicable laws, as well as the Company’s Statute. The Company’s Management is also responsible for such internal control as determined is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In accordance with the Accounting Act of 29 September 1994 (the ‘Accounting Act’), the Company’s Management and the members of the Company’s Supervisory Board are required to ensure that the accompanying consolidated financial statements meet the requirements of the Accounting Act.

*Auditor’s responsibility*

Our objective was to express an opinion on whether the accompanying consolidated financial statements give a true and fair view[1] of the financial position and results of the operations of the Group in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission regulations and adopted accounting policies.

We conducted our audit of the accompanying consolidated financial statements in accordance with:

[1] Translation of the following expression in Polish is ‘rzetelny i jasny obraz’.

◦ Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight ('Act on Statutory Auditors'),
◦ National Auditing Standards in the wording of the International Auditing Standards adopted by the resolution no. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 with subsequent amendments,
◦ Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC ("Regulation 537/2014").

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the accompanying consolidated financial statements are free from material misstatement.

The purpose of the audit is to obtain reasonable assurance as to whether the consolidated financial statements as a whole were prepared based on properly maintained accounting records and are free from material misstatement due to fraud or error, and to issue an independent auditor's report containing our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with the above mentioned standards will always detect material misstatements. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in aggregate, they could influence economic decisions of the users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement due to fraud is higher than the risk of not recognizing a material misstatement due to an error, as fraud may involve collusion, falsification, deliberate omissions, misleading or circumventing internal control and may affect every area of law and regulation, not just this directly affecting the consolidated financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the consolidated 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 presentation of the consolidated financial statements.

The scope of the audit does not include assurance on the future profitability of the audited Group nor effectiveness of conducting business matters of the Group now and in the future by the Company's Management Board.

In accordance with International Auditing Standard 320 section 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 consolidated 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. The opinion is consistent with the additional report to the audit committee issued on the date of this report.

*Independence*

While conducting our audit, the key certified auditor and the audit firm remained independent of the entities comprising the Group in accordance with the regulations of Act on Statutory Auditors, Regulation 537/2014 and principles of professional ethics adopted by resolutions of the National Council of Statutory Auditors.

Based on our best knowledge and belief, we declare that we have not provided non-audit services, that are prohibited based on article 136 of the Act on Statutory Auditors and article 5, point 1 of Regulation 537/2014, to the Company.

*Appointment of the audit firm*

We were appointed to audit the accompanying consolidated financial statements based on the Company's Supervisory Board's resolution dated 25 May 2017. We have been auditing the consolidated financial statements of the Group consecutively since the beginning of the financial year ended 31 December 2014; this is for 4 consecutive years.

*Most significant assessed risks*

In the course of our audit we have identified the below described most significant assessed risks of material misstatement (key audit matters), including due to fraud and we designed appropriate audit procedures in response to those risks. Where we considered to be relevant in order to understand the nature of the identified risk and audit procedures performed we have also included key observations arising with respect to those risks.

These matters were addressed in the context of our audit of the accompanying consolidated financial statements as a whole, and in forming our opinion thereon. Therefore we do not provide a separate opinion on these matters.

| Description of the nature of the risk of material misstatement<br>(key audit matters) | Audit procedures in response to the identified risk |
|---|---|
| **Valuation and recognition of the result from operations on financial instruments**<br><br>The result of operations on financial instruments for the year ended on 31 December 2017 amounted to PLN 269,188k and was the most significant position in Group's consolidated statement of comprehensive income. The value of financial assets held for trading and liabilities | As part of the audit procedures, we documented our understanding of the Group's policies and procedures in regards to entering the transactions and measuring financial instruments' valuation and the related revenue recognition.<br><br>We analyzed the framework and functioning of control mechanisms implemented by the Group in aforementioned area throughout the reporting |

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| held for trading as at 31 December 2017 was equal to PLN 127,944k and PLN 40,905k, respectively.<br><br>The result of Group's operations on financial instruments consists of realized and unrealized gains and losses, resulting from trading in financial instruments, in particular, in contracts for difference. The result of operations on financial instruments is calculated as the difference between the sale price and purchase price of such instrument, reduced by the cost of discounts and brokerage commissions, which depend upon clients' turnover.<br><br>The processes of both, concluding transactions with clients and derivatives valuation, to a large extent is automated and based on IT solutions.<br><br>Therefore, the aforementioned processes require significant workload and expert knowledge in the field of financial instruments and IT systems and as such, is the key audit matter.<br><br>Supplementary information in regards to accounting policies, as well as quantitative disclosures concerning: the result from operations on financial instruments, financial assets and liabilities held for trading are further explained in notes 4.13, 4.3, 6.1, 16 and 22 of the accompanying consolidated financial statements, respectively. | period. The tests of control mechanisms carried out as part of the audit included, in particular, the process of concluding transactions with clients, the valuation procedures as well as the risk management process, including the limits related to the open position.<br>With regard to the IT systems by means of which transactions are concluded and valuation of financial instruments is conducted, with the engagement of IT specialists we updated our knowledge on the design of internal control mechanisms covering the area of change management and change control.<br><br>On the selected sample, we performed an independent valuation of financial instruments as well as an analysis of the correctness of valuation recognition in the accounting books. We also conducted test of details, including analytical procedures aimed at analyzing the rationality of the results on selected types of financial instruments recognized by the Group in comparison to our expectations based on the knowledge about the Group and the observable market data.<br><br>In addition, we assessed the adequacy of disclosures regarding the result of operations on financial instruments, on financial assets held for trading and liabilities held for trading in the accompanying consolidated financial statements, as well as their compliance with IFRS. |
| **Regulatory risk**<br><br>The Group operates in a market characterized by a high degree of complexity and the risk of legal amendments to areas affecting many key areas of its operations.<br><br>The Group's violation of the statutory, implementing and administrative provisions, regulating its operations may have a significant impact on its consolidated financial statements. Areas of concern that may significantly affect | During the audit, we carried out the procedures aimed at identifying possible violations of the law regulating the Group's operations that could have an impact on the accompanying consolidated financial statements.<br><br>Our procedures included, among others, interviews with the Company's Management Board, Compliance Inspector and the legal department. We have also become familiar with, prepared on behalf of the Company, expert opinions and analyzes concerning legal and |

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| the consolidated financial statements include, in particular: going concern assumption and the valuation of provisions towards future liabilities resulting from potential sanctions.<br>Therefore, the risk of non-compliance with existing legal regulations is a key audit matter.<br><br>Areas concerning capital requirements and compliance with legal regulations have been further described by the Group in notes 38 and 26.2 of the accompanying consolidated financial statements, respectively. | regulatory matters. Additionally, we have documented the competences and objectivity of aforementioned experts.<br><br>In addition, we conducted an analysis of: correspondence between public administrative bodies, publicly available information, analysis of reports on internal audits conducted by the Company, analysis of inspection reports of supervisory authorities, analysis of capital requirements, as well as analysis of disclosures contained in the accompanying consolidated financial statements. |

*Opinion*

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 December 2017 and its financial performance for the year from 1 January 2017 to 31 December 2017 in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission and other applicable laws and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Company and the Company's Statute.

**Report on other legal and regulatory requirements**

*Opinion on the Directors' Report*

Our opinion on the consolidated financial statements does not include the Directors' Report for the Group.

The Company's Management is responsible for preparation of the Directors' Report for the Group in accordance with the Accounting Act and other applicable laws. In addition, the Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report for the Group meets the requirements of the Accounting Act.

Our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the Director's Report for the Group was prepared in accordance with relevant laws and that it is consistent with the information contained in the accompanying consolidated financial statements.

Our responsibility was also to make a statement, on whether based on our knowledge about the Group and its environment obtained during the audit of the accompanying consolidated financial statements we have identified in the Director's Report for the Group any material misstatements and to indicate the nature of each of material misstatement.

In our opinion, the Directors' Report for the Group was prepared in accordance with the relevant regulations and reconciles with the information derived from the accompanying consolidated financial statements. Moreover, based on our knowledge of the Group and its environment obtained during the audit of the financial statements, we have not identified material misstatements in the Directors' Report for the Group.

*Opinion on the corporate governance application representation*

The Company's Management and members of the Company's Supervisory Board are responsible for preparation of the representation on application of corporate governance in accordance with the applicable laws.

In connection with the conducted audit of the accompanying consolidated financial statements, our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the issuer, obliged to present a representation on application of corporate governance, constituting a separate part of the Director's Report for the Group, included in the representation information required by applicable laws and whether the related information is in accordance with applicable regulations and with the information included in the accompanying consolidated financial statements.

In our opinion, in the representation on application of corporate governance, the Company has included information stipulated in paragraph 91, section 5, point 4, letter a, b, g, j, k and l of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of deeming information required by the regulations of a non-member country ('Regulation'). Information stipulated in paragraph 91, section 5, point 4 letter c-f, h and i of the Regulation included in the representation on application of corporate governance is in accordance with applicable laws and information included in the accompanying consolidated financial statements.

*Other information, including compliance with obligations arising from the law*

Brokerage houses are required to comply with the provisions of prudential regulations specified in the resolutions of the Polish Financial Supervision Authority (PFSA), recommendations of the PFSA and Regulation of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending Regulation (EU) No. 648/2012 (CRR) and Regulations of the EU Commission issued thereon and relating to prudential rules on capital adequacy.

The compliance with binding prudential regulations, including correct determination of equity capital ratios by the Group, is the responsibility of the Company's Management Board.

As part of the audit of the accompanying consolidated financial statements, we performed procedures with respect to the capital ratios and did not identify any irregularities in ratios calculation which could have significant impact on the consolidated financial statements as a whole. Given the above, we hereby confirm that the Management Board of the Company correctly determined capital ratios in accordance with the regulations referred to above.

Warsaw, 6 March 2018

Key Certified Auditor

( - )

Arkadiusz Krasowski
Certified Auditor
no in the register: 10018

on behalf of
Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
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