

Report concerning the activity of the X-Trade Brokers DM S.A.'s ("Company", "XTB") Supervisory Board in 2016

I. Composition of the Supervisory Board and its Committees

1. In 2016 the Supervisory Board proceeds in the following composition:
 - a) Mr. Jakub Leonkiewicz – Chairman of the Supervisory Board;
 - b) Mr. Michał Kędzia – Member of the Supervisory Board;
 - c) Mr. Łukasz Baszczyński - Member of the Supervisory Board;
 - d) Mr. Bartosz Zabocki - Member of the Supervisory Board;
 - e) Mr. Jarosław Jasik - Member of the Supervisory Board.

2. Supervisory Board Committees

The Company did not appoint separate committees. Pursuant to the Articles of Association the Supervisory Board, composed of not more than 5 members, may perform the duties of the audit committee.

The tasks of the Compensation Committee are performed by the Supervisory Board by virtue of its resolution adopted collectively, and the tasks of the Audit Committee are performed in a collective manner by the Supervisory Board pursuant to resolution of the General Meeting.

3. Members of the supervisory Board fulfilling the criteria of independence

Pursuant to the Articles of Association, from the Date of First Listing, at least one member of the Supervisory Board should the criteria of independence specified in § 20 section 2 of the Articles of Association (the "**Independent Member**"). If in any term of office, there are at least 7 (seven) members of the Supervisory Board, at least two of them should be Independent Members, and in the case of the Supervisory Board composed of 9 (nine) members, at least three of them should be Independent Members.

Pursuant to the Articles of Association, as long as the company is an entity of public interest, within the meaning of the Act on Auditors, at least one member of the Supervisory Board should meet the criteria of independence as defined in article 86 item 5 of the Act on Auditors and should be qualified in the field of accountancy or financial auditing.

The Supervisory Board performed the assessment of relationships and circumstances that may affect the fulfillment of the criteria of independence by the above-mentioned Members of the Supervisory Board. In 2016 Łukasz Baszczyński, Jarosław Jasik and Bartosz Zabłocki fulfilled the criteria of independence pursuant to article 86 item 5 in connection with article 56 item 3 point 1,3 and 5 of the Act on Auditors.

Pursuant to submitted declarations, Jarosław Jasik, Michał Kędzia and Jakub Leonkiewicz possess experience in the field of accountancy or financial auditing.

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4. Primary Responsibilities of the Supervisory Board

The Supervisory Board exercised in 2016, pursuant to generally applicable law, including the Act of 15 September 2000 The Commercial Companies Code and Regulations of the Supervisory Board, supervisory and audit duties, in particular:

- a) 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 actual state of affairs and review of the distribution of profits or covering the losses proposed by the Management Board;
- b) submitting to the General Meeting the annual written report on the results of the review and evaluation referred to in point a);
- c) determining conditions of remuneration and employment of members of the Management Board;
- d) 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;
- e) appointing an independent auditor for the Company and the Subsidiaries;
- f) performing tasks of the Audit Committee, including:
 - supervision over the organizational unit involved in the internal audit;
 - monitoring the process of financial reporting;
 - monitoring the efficiency of the systems of internal control, internal audit, compliance and risk management;
 - monitoring the performance of financial audit activities;
 - monitoring the independence of the statutory auditor and the entity authorized to audit the financial statements, including services other than financial audits, if applicable;
- g) performing tasks of the Compensation Committee, including:
 - expressing opinion on the variable remuneration components policy, including the amount of remuneration and the components of remuneration;
 - expressing opinion on performing the variable remuneration components policy;
 - expressing opinion on and monitoring of payment of the remuneration variable components to the persons holding managerial positions responsible for risk management, internal audit and compliance of the brokerage house's activity with law;
 - determining list of the persons holding managerial positions in the Company, and;
 - approving the amount of remuneration and the components of remunerations of the persons holding managerial positions.

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- h) granting consent to the appointment and dismissal of persons in charge of the internal audit and compliance departments of the Company;
- i) review and expressing opinion on matters to be discussed and put to a vote at the General Meeting;
- j) other legal and formal issues related to activity of the Supervisory Board.

II. Actions taken by the Supervisory Board

The activities undertaken by the Supervisory Board were aimed at improvement of the Company's prudent and stable management, both in the financial area and its activity in compliance with applicable laws and decisions, recommendations and guidelines issued by the relevant supervisory authorities. The Supervisory Board's actions and analysis were designed to maximize its financial performance, increase its value, provide long-term growth and stability in the marketplace, and provide an effective internal risk monitoring system and possible prevention of these risks.

In 2016 the Supervisory Board held six meetings on:

1. 26 January 2016 r.;
2. 14 March 2016 r.;
3. 9 May 2016 r.;
4. 23 June 2016 r.;
5. 14 October 2016 r.;
6. 16 December 2016 r.

According to the Regulations of the Supervisory Board during the calendar year at least four meetings of the Supervisory Board should be held, thus the Supervisory Board in 2016 held the meeting in accordance with the Company's internal regulations in force.

In 2016, 51 resolutions were adopted at the Supervisory Board meetings and by way of the circulation procedure. Most important of the adopted resolutions concerned:

1. Approval of the Company's budget for 2016;
2. Meeting with Ernst & Young Audyt Polska Sp. z o. o. Sp. K. - the statutory auditor of the Company and confirmation of its independence;
3. Adoption of report concerning the activity of the Supervisory Board in 2015;
4. Evaluation and adoption of the Company's separate financial statements and the consolidated financial statements of the XTB Capital Group for 2015 and report concerning the activity of the Management Board for the year 2015;
5. Assessment of the Company's Management Board and its members in 2015 and recommendation to the General Meeting of Shareholders of the Company to grant the vote of approval to the Management Board;

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6. Opinion concerning the Management Board recommendation on the payment of dividends from the profit achieved in 2015;
7. Approval of the appointment of the Internal Auditor, as well as approval of the Program and the Audit Plan;
8. Appointment of the Management Board for the next three-year term of office, in the current composition, i.e.:
 - a. President of the Management Board - Jakub Maly;
 - b. Member of the Management Board for Legal Affairs and Risk - Paweł Frańczak;
 - c. Member of the Management Board for Finance - Paweł Szejko;
9. Determining the variable remuneration components of people discharging managerial responsibilities.
10. Getting acquainted with the semi-annual Reports on the functioning of the compliance system for the second half of 2015 and the first half of 2016 and hearing the information from the Compliance Officer;
11. Getting acquainted with the semi-annual Reports on the functioning of the risk management system for the second half of 2015 and the first half of 2016 and the hearing of the Head of Risk Management;
12. Update of the list of persons discharging managerial responsibilities in accordance with the Ordinance of the Minister of Finance of 2 December 2011;
13. Approval of procedures and internal policies related to the Company's Risk Management System;
14. Getting acquainted with the way the Company implements the Guidelines regarding the provision of brokerage services on the OTC market;
15. Appointment of an Independent External Auditor for Subsidiaries - XTB Limited and X Trade Brokers Menkul Değerler A.Ş .;

At the same time, the following issues were discussed at the selected Supervisory Board meetings:

- financial results achieved by the Company, in particular as regard to the Company's liquidity, level of supervised capitals, internal capital and capital adequacy ratio;
- information about the Company's financial results (per each country) in relation to the adopted budget;
- information on the Functioning of Information Technology and ICT Environment in the Company.

III. Assessment of the Management Board's report concerning the activity of the Group and the Company in 2016, financial statements for 2016 and the Management Board's proposal concerning the distribution of profit for 2016 and payment of the dividend to the shareholders

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The Supervisory Board presents the report on the results of evaluation of the following reports and conclusions of the Company for the financial year 2016:

1. Separate and consolidated financial statements of the Company as at 31 December 2016

After reviewing the opinion and the auditor's report on the course and results of the audit of the Company's financial statements for 2016, the Supervisory Board agrees with the opinion of the auditor and states that the Company's financial statements for the financial year 2016 were prepared on the basis of the properly conducted accounting books, are in compliance (in form and content) with the applicable provisions of law and provide all the information relevant for the assessment of profitability and financial result in the audited period as well as the financial standing of the Company and the Group as at 31 December 2016. In view of the above the Supervisory Board requests the General Meeting to approve the separate and consolidated financial statements of the Company for the financial year 2016.

2. Management Board's report concerning the activity of the Group and the Company in 2016

After the analysis and evaluation of the Management Board's report concerning the activity of the Group and the Company in 2016, the Supervisory Board states that it is in compliance with the books and documents of the Company. As a result, the Supervisory Board adopts the report and requests the General Meeting to approve it.

At the same time, after getting acquainted with the Management Board's report concerning the activity in the year 2016, the Supervisory Board requests the General Meeting to grant the vote of approval to the President of the Management Board - Mr. Jakub Maly and the following members of the Management Board - Mr. Paweł Frańczak and Mr. Paweł Szejko for performance of their duties in the financial year 2016.

3. Assessment of the Management Board's proposal concerning the distribution of the Company's profit for 2016 and the total amount of dividend paid to the shareholders

After reviewing the separate and consolidated financial statements of X-Trade Brokers Dom Maklerski S.A. and the Management Board's proposal concerning the dividend payment from the net profit for 2016, as well as based on the discussion about the impact of the profit distribution proposed by the Management Board on the Company's operations, the Supervisory Board approved the recommendation of the Management Board of 20 March 2016 and adopted a resolution on the

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payment of the dividend from the net profit for 2016, in the amount of PLN 72 999 thousand, i.e. payment of PLN 37 562 763.20, i.e. the amount of PLN 0.32 per share, retaining the rest of the profit at the Company's disposal as well as fixing the dividend day on 5 May 2017 and the day of payment of the dividend on 23 May 2017.

IV. Assessment of the Company's situation, including assessment of the effectiveness of the operation of the following systems: risk management, compliance, internal control and internal audit

The Supervisory Board has been exercising constant supervision over the Company's operating activities and has been analysing the Company's financial results. In particular, the Supervisory Board acquainted with information on the Company's performance, including the results of particular branches, information on the liquidity situation of the brokerage house, the level of supervised capital, internal capital and capital adequacy ratio, and information on the feasibility of the annual budget in 2016.

The Group's operating and financial results are primarily influenced by:

- number of active accounts, transaction volume and amount of deposits;
- volatility in the financial and commodity markets;
- general market, geopolitical and economic conditions;
- FX / CFD market competition; and
- regulatory environment.

In the first three quarters, the market volatility, negative for the Company, as compared to the analogical period of the previous year, created less investment opportunities for XTb customers. In the fourth quarter of 2016, the situation on financial markets was more favourable for XTb. First of all, favourable volatility on index-based CFDs, USD currency pairs or commodities such as gold or oil have translated into higher Group profits in the fourth quarter, which significantly shaped the 2016 result.

In 2016, the retail segment generates about 90% of the total volume of the Group's turnover and the institutional segment - about 10%. The biggest source of the Group's operating revenues was the result of operations in financial instruments, which represented 97.9% of total operating revenue in 2016.

Operating expenses in 2016 amounted to PLN 168 461 thousand, which means an increase of 26 989 thousand PLN i.e. 19.1% in relation to the previous year. The increase in operating expenses consisted primarily of higher than in the previous year: marketing costs, salaries and wages as well as other outsourced services costs.

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In 2016 the Group recorded PLN 77 707 thousand net profit, in comparison to PLN 119 035 thousand in 2015. The operating revenue generated by the Group in 2016 amounted to PLN 250 576 thousand. In the comparable period of the previous year, operating revenue amounted to PLN 282 542 thousand.

Despite the above negative factors, the Supervisory Board correctly assesses the Group's situation and emphasise that the activity is conducted in an adequate and effective manner and that the achieved financial results place the Group at a satisfactory level.

According to the requirement specified in § 10 pt. a) of the Regulations of the Supervisory Board of X-Trade Brokers Dom Maklerski S.A. of 26 April 2016 and the Warsaw Stock Exchange (GPW) Best Practices, we present below an assessment of the effectiveness of the operation of the following systems and functions: risk management, compliance, internal control and internal audit.

1. Risk management system

The Supervisory Board is constantly monitoring the various types of risk, approving internal procedures related to the operation of the risk management system, and regularly gets acquainted with periodic reports of the Risk Management System submitted by the Head of Risk Management. So far, the reports that have been obtained allow us to claim that the risk management system works effectively. Also the current cooperation with the Head of Risk Management makes it possible to accurately assess the functioning of the Risk Control Department and, consequently, the Risk Management System model adopted in the Company. Therefore, the Supervisory Board assess the functioning of the risk management system in the Company as adequate and effective.

2. Compliance system

The compliance system in the Company is the responsibility of the Legal Compliance Supervision Team, which is established under the Legal and Compliance Department and directly subordinated to the President of the Management Board, headed by the Compliance Officer. The Supervisory Board regularly receives reports on the Compliance System and approves changes to the internal procedures governing the operation of the compliance department in the Company. Therefore, the Supervisory Board assess the functioning of the compliance system in the Company as adequate and effective.

3. Internal control system

The Internal Control Team, which is a separate entity within the Legal and Compliance Department, is responsible for proper functioning of the Company's internal control system.

Based on the received reports, the Supervisory Board assess the functioning of the internal control system in the Company as adequate and effective.

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4. Internal audit system

The internal audit is performed by the Internal Audit Department, which is organisationally subordinated to the Member of the Management Board for Legal Affairs and Risk and is subordinated functionally to the Supervisory Board. The Internal Auditor is responsible for the functioning of the Department. The Supervisory Board constantly supervises the internal audit issues, approves the Audit Plan and the Audit Program, and regularly receives the Internal Audit System reports. Therefore, the Supervisory Board assess the functioning of the internal audit system in the Company as adequate and effective.

V. Assessment of the Company's compliance with information obligations concerning the application of the corporate governance rules specified in The Warsaw Stock Exchange Rules and regulations concerning current and periodic information provided by issuers of securities

Considering the Company's obligation to comply with the information duties regarding the application of corporate governance rules under The Warsaw Stock Exchange Rules and the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Journal of Laws of 2009, No. 33, item 259, as amended), the Supervisory Board submits to the General Meeting the Company's assessment of compliance with the obligation described herein.

According to point I.Z.1.13. of the "Best Practice for GPW Listed Companies 2016" as of 23 November 2016 on the Company presents on its website a statement on the Company's compliance with the corporate governance recommendations and principles contained therein. The information identifies the reasons why the Company does not apply individual recommendations and addresses those that do not apply.

The recommendation contained in point IV.R.2. does not apply. According to this recommendation 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.

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The Company does not apply in a permanent manner of this recommendation because it 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. For the same reasons, the Company does not apply the rule I.Z.1.20 - an audio or video recording of a general meeting and IV.Z.2. according to which, if justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

Apart from the above exceptions, the Supervisory Board does not find violations of the " Best Practice for GPW Listed Companies 2016". Consequently, it correctly assesses the manner how the Company fulfills its information duties regarding the application of corporate governance rules.

VI. Assessment of the rationality of the Company's sponsorship policy

In 2016, the Company did not carry out any significant sponsorship and charity activities.

VII. Self-assessment of the Supervisory Board's operation

In 2016, the Company's Supervisory Board held six meetings where the current activities of the Management Board and the Company's financial activity were assessed.

All convened meetings of the Supervisory Board were held in the composition enabling adoption of valid resolutions. During the meetings the Supervisory Board considered issues arising from the provisions of the Commercial Companies Code, other provisions of the applicable law as well as from the needs of the Company's current operation.

During the discussed period, the Supervisory Board remained in regular contact with the Management Board, analysing and consulting important aspects of the Company's activity, as well as evaluating the Company's situation on an ongoing basis.

The Supervisory Board confirms that the cooperation with the Company's Management Board was correct. In addition, the Management Board has provided technical and organizational resources to enable the Supervisory Board to perform its duties correctly, has performed its reporting obligations, and information were submitted in a fair and complete manner.

In view of the above, the Supervisory Board believes that in 2016 it performed its duties in an efficient manner.

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