



# **Independent Auditor's Report**

to the Financial Statements as at December 31, 2016 and to the Annual Report for 2016 and  
the Annual Report of the Company for 2016

## **Cornhill Management, o.c.p., a. s.**

Einsteinova 24, 851 01 Bratislava, Slovak Republic  
ID: 35 771 801

The Art of  
Investment

# ANNUAL REPORT

Cornhill Management, o.c.p., a.s.



**CORNHILL**  
MANAGEMENT

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# A WORD FROM A MEMBER OF THE BOARD OF DIRECTORS

Despite expectations of a number of experts, 2016 was a generally favourable year for investors, mainly thanks to the results of the US presidential elections. In particular, major stock markets reached their historical highs despite such circumstances as the outcome of the UK Brexit referendum or continued increased global security threats – all in an environment of low inflation in advanced economies, which, however, showed a tendency for growth towards the year-end. Low interest rates continued to be a major growth driver.

2016 was successful for Cornhill Management, o.c.p., a. s. A number of new contacts with foreign partners has been established, especially in the field of pension insurance. The use of our open investment platforms by pension companies is increasing – new investments within the platform almost doubled compared to the previous year. We made a significant contribution to launching a new Cornhill Management Group product called Cornhill International Wealth Builder Trust. We extended our cooperation within the Group, especially with entities focusing on administrative and legal support. A planned result in operations was achieved in line with the growth strategy and long-term gradual value development, which is in accordance with the goals of our shareholder.

I would like to express my thanks for cooperation and trust to all clients, employees and business partners of Cornhill Management, o.c.p., a.s.



Jakub Sýkora  
Member of the Board of Directors

A handwritten signature in black ink, appearing to read 'Jakub Sýkora'. The signature is fluid and cursive, with the first name 'Jakub' and the last name 'Sýkora' clearly distinguishable.

# AT A GLANCE

Registered office:	Einsteinova 24, 851 01 Bratislava, Slovak Republic
ID:	35 771 801
Tax ID:	2020275587
Registered at:	Companies Register District Court Bratislava I., section Sa, insertion 4532/B
Legal status:	Joint Stock Company
Main business activity:	<p>Investment services, investment activities and ancillary services under Act No. 566/2001 Coll. on Securities and Investment Services (The Securities Act) as amended and to the following extent:</p> <ol style="list-style-type: none"><li>1. Receiving and execution of clients' orders related to one or more financial instruments in relation to the following financial instruments:<ol style="list-style-type: none"><li>a) transferable securities,</li><li>b) shares or securities issued by foreign collective investment entities,</li></ol></li><li>2. Execution of orders on behalf of clients in relation to the following financial instruments:<ol style="list-style-type: none"><li>a) transferable securities,</li><li>b) shares or securities issued by foreign collective investment entities,</li></ol></li><li>3. Portfolio management relating to the following financial instruments:<ol style="list-style-type: none"><li>a) transferable securities,</li><li>b) shares or securities issued by foreign collective investment entities,</li></ol></li><li>4. Investment advice in relation to the following financial instruments:<ol style="list-style-type: none"><li>a) transferable securities,</li><li>b) shares or securities issued by foreign collective investment entities,</li></ol></li><li>5. Custody and administration of financial instruments on behalf of the client, including custodianship and related services, mainly administration of cash and financial guarantees in relation to the following financial instruments:<ol style="list-style-type: none"><li>a) transferable securities,</li><li>b) shares or securities issued by foreign collective investment entities,</li></ol></li><li>6. Investment research and financial analysis or other forms of general recommendations relating to transactions involving financial instruments</li></ol>
Shareholders as of December 31, 2016:	SFM Group International S.A., Grand Duchy of Luxembourg 100 %
Registered Share Capital:	EUR1,494,000 (4,500 pcs of registered shares with a nominal value of EUR332)
Contact details:	<p>Cornhill Management, o.c.p., a.s. Aupark Tower, Einsteinova 24 851 01 Bratislava</p> <p>0800 11 11 44 www.cornhillmanagement.eu info@1cornhill.eu</p>

This annual report has been prepared in accordance with the Accounting Act No. 431/2002 Coll. as amended.

# SENIOR MANAGEMENT AND ORGANISATIONAL STRUCTURE

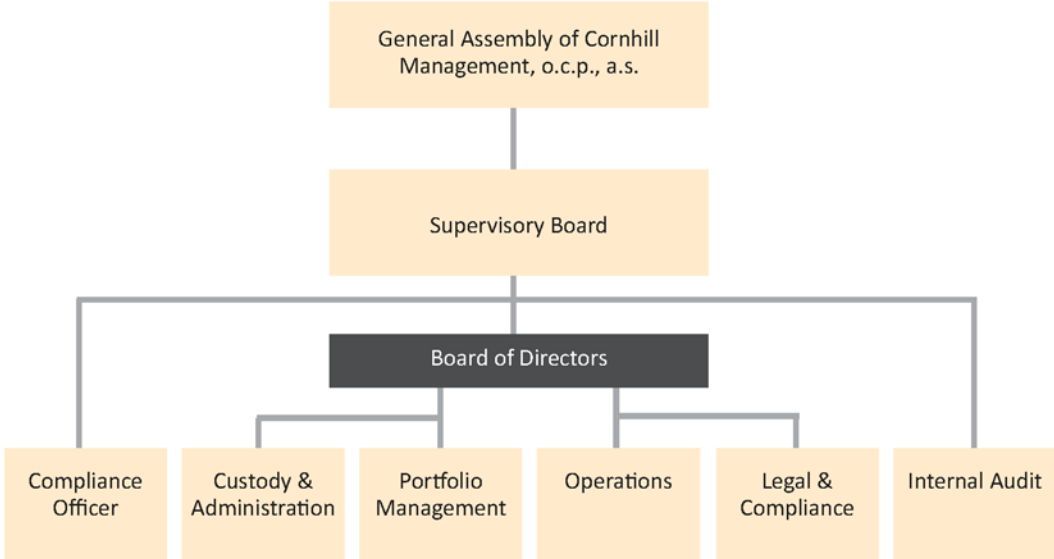
**Board of Directors**

Jakub Sýkora                      Member of the Board of Directors

**Supervisory Board**

Derek Chambers  
Jana Frňková  
Daniel Petrakovič

Our Company’s internal organisational structure is set up in order to comply with all the requirements of our supervisory authorities and relevant legislation, but also to ensure the effective operation of Company.



# OBJECTIVES FOR 2017

In 2017, we expect clients' increased interest in investing to continue. Long-term monetary and fiscal incentives implemented by many governments lead to economic growth and increased volumes of available cash. Major political events will take place this year – presidential elections in France, parliamentary elections in Germany, and continuation of the Brexit. At the same time, there is an increased global risk of terrorism. These factors could be critical for the development of economies and markets.

The strategic objective of the Cornhill Management Group in 2017 is to enhance cooperation with pension companies. The Group also plans to focus on acquisitions of companies or investment projects. Naturally, Cornhill Management, o.c.p., a.s. supports these plans by improving further the services of the open investment platform, as well as by developing new solutions and procedures leading to increased value offered to clients. We do not plan to launch new products in 2017; instead, we would like to focus on the retention of existing clients and ongoing innovations that will continue to build the value of the Company and the entire Cornhill Management Group. We would like to focus on investing in tools aimed to improve the services provided to our clients, such as improving online access to investment accounts.

# PRODUCT RANGE

Cornhill Management, o.c.p. a.s. works with various business partners to deliver the following products:



## **FlexMax Investment Account**

The FlexMax Investment Account is a specialised investment product allowing a number of investments within a single investment plan. The product provides access to a wide choice of funds from a range of asset management companies, allowing clients to build up a wide range of investments using a single product.



## **NEW Lifestyle**

NEW Lifestyle is a flexible investment product which allows regular or lump sum investments throughout the investment period into an investment strategy that automatically-adjusts depending on how long the client has been invested and how long they have to go until the end of the investment period. Once the investment period ends, clients may then choose between receiving a lump sum payment or regular payments during the drawdown phase.



## **FlexMax Konto**

FlexMax Konto is an investment programme providing maximum investment freedom and flexibility to allow clients to meet their financial targets. The wide range of mutual funds on offer as part of the product allows investors to actively adjust their investment strategies over the life of the programme.



## **Lifestyle account (Konto života PLUS)**

Lifestyle account is a regular investment product offering investors a flexible investment strategy to implement a long-term financial plan which can then be used to create an annuity for retirement or, if the client prefers, the attainment of more short-term financial goals.



#### **LifeFlex**

LifeFlex is a regular investment product offering a flexible investment period of between three and ten years. Investors may choose between regular or lump sum investments as well as various investment strategies that correspond to their risk profile.

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#### **World Investment Opportunities Funds SICAV**

Part of our World Funds products, the World Investment Opportunities Funds (WIOF) are currently registered for public offer in a number of countries across Europe. The WIOF family is composed of 10 sub-funds. The sub-funds are unique in that each individual fund is managed by an investment professional selected because of their very specific and often localised knowledge of a geographic region, ensuring the highest levels of performance while also meeting all risk control criteria.

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#### **World Performance Portfolios SICAV**

Cornhill's World Performance Portfolios (WPP) product is a Luxembourg based range of sub-funds that invest in equity and bond markets. The funds aim to achieve a level of historic volatility within a pre-determined range for each sub-fund. WPP is available to both retail and institutional investors.

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#### **World Strategy Portfolios SICAV**

A Cornhill product, World Strategy Portfolios (WSP) is a set of funds of funds aimed at producing long term capital growth. WSP has a set investment return target and aims to meet a specified market volatility range within a pre-determined time period. Investors can select from a range of share classes according to subscription currency and charging structure.

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#### **World Shariah Funds**

Cornhill's World Shariah Funds (WSF) are a series of sub-funds whose investment processes strictly adhere to Shariah regulations. The sub-funds invest in both selected regional and global markets and investors can choose from six share classes with a range of charging structures and minimum investment levels.

# OTHER FACTS

## Human Resources

In 2016

- the Company had on average 24 employees,
- the Company had 1 newly recruited employees,
- 3 employees left the Company,
- the Company had 21 full-time employees as of the date of the completion of the financial statements .

In 2017, the average number of employees in the Company is expected to be 24.

## Employee facts for 2016

- the Company employed 45% women and 55% men,
- the average age of Company employees was 38 years,
- 76% of employees have a university education.

## Cornhill's environmental footprint

The activity of the Company had no negative impact on the environment.

## Research and development costs

The Company did not invest in research and development in the 2016 financial year.

## High level financial results

The economic result of the Company for 2016 is a profit of EUR129,763.

Overview of financial results since 2013:

- 2015: net profit of EUR114,271,
- 2014: net profit of EUR46,292,
- 2013: net profit of EUR32,807.

In 2016 the Company had the following significant revenues:

- revenues from provision of investment services (portfolio management, custodianship services) EUR 2,102,821,
- revenues from services provided within the WIOF fund EUR250,139,
- revenues from services provided within the WSP fund EUR141,791,
- revenues from services provided within the WPP fund EUR131,011.

In 2016 the Company incurred the following significant costs:

- personnel costs EUR643,398,
- product training and workshops EUR427,688,
- product administrative support EUR393,600,
- product support and development EUR263,150,
- marketing activities EUR151,173.

The equity share of total resources as of December 31, 2016 was 77%.

The Company did not purchase any of its own securities in 2016.

The Company did not open any branches abroad.

# FINANCIAL INDICATORS OF THE COMPANY

## 1. Liquidity

- Immediate liquidity (recommended value 20 - 90%)

Immediate liquidity denotes the share of short-term liabilities a Company is able to cover with liquid funds (liquid funds: cash, stamps and vouchers, deposits in financial institutions).

2016	2015	2014
112%	97%	183%

Effective liquidity increased by 14 percentage points in 2016 compared to the previous year.

- Common liquidity (recommended value more than 100%)

Common liquidity refers to the extent short-term liabilities are covered by liquid funds and receivables. It also allows the Company's payment readiness to be assessed.

2016	2015	2014
482%	388%	536%

Current liquidity rose 94 percentage points in 2016 compared to the previous year. The Company is able to cover short-term liabilities with liquid funds and short-term receivables.

- Overall liquidity (recommended value 150 - 250%)

Overall liquidity is the ratio of circulating assets to short-term liabilities. It should be above 150%.

2016	2015	2014
482%	388%	536%

The Company's overall liquidity increased by 94 percentage points compared to 2015, significantly exceeds the minimum recommended value. The Company is able to cover short-term liabilities with circulating assets.

## 2. Level (ratio) of self-financing (own equity to total capital ratio) in %

This is a reflection of the Company's financial independence – its ability to cover its needs with its own equity. It should be at least 30%.

2016	2015	2014
77%	64%	76%

The degree of self-financing grew 13 percentage points in 2016 compared to the previous year.

### 3. Foreign to own equity ratio

	2016	2015	2014
foreign equity ratio (EUR)	574 197	1 007 127	507 063
own equity ratio (EUR)	1 893 038	1 763 275	1 649 004
share of foreign and own equity ratio in %	30%	57%	31%

In 2016 the Company's foreign to own equity ratio decreased by 27 percentage points compared to the previous year.

### 4. Level of financial independence (own equity to foreign equity rate) in %

2016	2015	2014
330%	175%	325%

In 2016 the level of financial independence rose 155 percentage points compared to the previous year.

### 5. Gross debt in %

Gross debt of more than 50% indicates a very high level of debt.

2016	2015	2014
23%	36%	24%

In 2016 the Company's gross debt fell 13 percentage points compared to 2015.

### 6. Cost intensity of revenues

2016	2015	2014
0.95	0.96	0.99

A slight improvement of the indicator of cost intensity of revenues was recorded in 2016 compared to the previous year.

### 7. Return on assets (Profitability of assets)

2016	2015	2014
5%	4%	2%

The return on assets increased by 1 percentage point compared to the previous year.



## Report on the Audit of the Financial Statements

to the Shareholders of Cornhill Management, o.c.p., a.s.:

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Cornhill Management, o.c.p., a.s., with its registered office at Einsteinova 24, 851 01 Bratislava (the "Company"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended 31 December 2016, and notes to the financial statements, including a summary of significant accounting policies and accounting methods, and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union (EU).

#### Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the provisions of Act No. 423/2015 on Statutory Audit and on Amendment to Act No. 431/2002 on Accounting, as amended (hereinafter the "Statutory Audit Act") as regards ethical requirements, including the Code of Ethics for Auditors, that are relevant to our audit of the financial statements, and we comply also with other ethical responsibilities under these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Responsibility of the Statutory Body for Financial Statements

The statutory body is responsible for the preparation of financial statements that give a true and fair view in accordance with the Act on Accounting, and for such internal control as the statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing financial statements, the statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies and methods used and the reasonableness of accounting estimates and related disclosures made by the statutory body.

- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## **Report on Other Legal and Regulatory Requirements**

### Report on Information Disclosed in the Annual Report

The statutory body is responsible for information disclosed in the annual report prepared under the requirements of the Act on Accounting. Our opinion on the financial statements stated above does not apply to other information in the annual report.

In connection with the audit of financial statements, our responsibility is to gain an understanding of the information disclosed in the annual report and consider whether such information is materially inconsistent with the audited financial statements or our knowledge obtained in the audit of the financial statements, or otherwise appears to be materially misstated.

We evaluated whether the Company's annual report includes information whose disclosure is required by the Act on Accounting.

Based on procedures performed during the audit of the financial statements, in our opinion:

- Information disclosed in the annual report prepared for 2016 is consistent with the financial statements for the relevant year; and
- The annual report includes information pursuant to the Act on Accounting.

Furthermore, based on our understanding of the Company and its position, obtained in the audit of the financial statements, we are required to disclose whether material misstatements were identified in the annual report, which we received prior to the date of issuance of this auditor's report. There are no findings that should be reported in this regard.

Bratislava, April 28, 2017

E.R. Audit, spol. s.r.o.  
Gagarinova 7/b, 821 03 Bratislava  
Commercial Register of District Court  
Bratislava I, section: Sro, file No.: 11217/B  
Licence SKAU No. 114

Ing. Beata Rusová  
Responsible auditor  
Licence SKAU No. 499




# STATEMENT OF FINANCIAL POSITION

TO DECEMBER 31, 2016

(In whole Euros)	Note	31.12.2016	31.12.2015
<b>Assets</b>			
Cash and cash equivalents	3	542,054	656,138
Claims on clients	4	338,174	192,893
Financial assets at fair value are revalued through the income statement	5	386,837	395,229
Intangible assets	6	3,907	5,308
Tangible fixed assets	7	2,404	3,743
Deferred tax assets	8	84,943	110,340
Income tax		57,178	55,343
Other assets	9	1,051,738	1,351,408
<b>Assets total</b>		<b>2,467,235</b>	<b>2,770,402</b>
<b>Liabilities</b>			
Provisions	10	71,325	74,496
Income tax		-	-
Other liabilities	11	502,872	932,631
<b>Liabilities total</b>		<b>574,197</b>	<b>1,007,127</b>
<b>Equity</b>			
Share capital		1,494,000	1,494,000
Reserve funds		110,602	99,175
Retained earnings		158,673	55,829
Accumulated loss			
Profit/ (loss) for the reporting period		129,763	114,271
<b>Equity total</b>		<b>1,893,038</b>	<b>1,763,275</b>
<b>Total liabilities and equity together</b>		<b>2,467,235</b>	<b>2,770,402</b>

Financial statements which include the notes on pages 19 to 49 were signed on April 18, 2017.



.....  
Signature of statutory body



.....  
Signature of the person responsible  
for preparation of financial statements



.....  
Signature of the person responsible  
for accounting

# STATEMENT OF FINANCIAL POSITION

TO DECEMBER 31, 2016

(In whole Euros)	Note	31.12.2016	31.12.2015
Income from fees and commissions	12	2,484,988	2,449,016
Expenses for fees and commissions	12	(583,947)	(601,442)
<b>Net fee and commission revenue</b>	<b>12</b>	<b>1,901,041</b>	<b>1,847,574</b>
Interest income and similiar income	13	34,566	29,306
Interest expense and similiar expense	13		(113)
<b>Net interest income</b>	<b>13</b>	<b>34,566</b>	<b>29,193</b>
Net (loss)/profit from financial instruments at fair value, revalued through profit and loss statement	14	(13,343)	(232,373)
Net (loss)/profit from operations with foreign exchange and assets and liabilities, valued in foreign currency	15	(53,997)	8,015
<b>Net loss/profit from trading</b>		<b>(67,340)</b>	<b>(224,358)</b>
Payroll costs	16	(643,398)	(606,309)
Depreciation of tangible and intengible assets	16	(3,573)	(7,328)
Other administrative costs	16	(1,276,010)	(1,130,452)
<b>Total administrative costs</b>	<b>16</b>	<b>(1,922,981)</b>	<b>(1,744,089)</b>
<b>Total administrative costs</b>	<b>17</b>	<b>(23,575)</b>	<b>(13,735)</b>
<b>Ostatné prevádzkové výnosy</b>	<b>17</b>	<b>366,632</b>	<b>352,817</b>
Costs for Creation of provisions for other assets		(99,090)	(133,705)
<b>Profit before tax</b>		<b>189,253</b>	<b>113,697</b>
Deferred income tax	8	(25,397)	31,459
Income tax	18	(34,093)	(30,885)
<b>Profit after tax</b>		<b>129,763</b>	<b>114,271</b>
<b>Other parts of comprehensive result</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>129,763</b>	<b>114,271</b>

Financial statements which include the notes on pages 19 to 49 were signed on April 18, 2017.



Signature of statutory body



Signature of the person responsible  
for preparation of financial statements



Signature of the person responsible  
for accounting

# STATEMENT OF CHANGES IN EQUITY

A summary of changes in equity during the accounting period is shown below.

Item	Registered capital EUR	Reserve funds EUR	Funds from valuation EUR	Retained earnings EUR	Total EUR
Closing balance as of December 31, 2014	1,494,000	94,546	-	60,458	1,649,004
Profit/ loss in 2015	-	4,629	-	109,642	114,271
<b>Closing balance as of December 31, 2015</b>	<b>1,494,000</b>	<b>99,175</b>	<b>-</b>	<b>170,100</b>	<b>1,763,276</b>
Profit in 2016	-	-	-	129,763	129,763
Dividend distribution		11,427		(11,427)	
<b>Closing balance as of December 31, 2016</b>	<b>1,494,000</b>	<b>110,602</b>	<b>-</b>	<b>288,436</b>	<b>1,893,039</b>

039A settlement regarding the use of the Company's profit of EUR114,271 for 2015 was agreed at a General Assembly held on June 30, 2016 as follows:

- EUR11,427 to be transferred to the Company's legal reserve fund,
- part of the amount - EUR102,844 - will remain as undivided profit.

# STATEMENT OF CASH FLOWS

TO DECEMBER 31, 2016

	2016	2015
<b>Cash flow from operating activities</b>		
Profit/ loss for accounting period before tax	189,253	113,697
Adjustments by non-monetary operations		
Depreciations	3,573	7,328
Change in reserves	(3,171)	(33,944)
Profit/loss from sale of capital assets		
Profit or loss from operations with foreign currency and with assets and liabilities valued in foreign currency	53,997	(8,015)
Revaluation of financial assets in real value revalued through profit and loss account	13,343	232,373
Impairment of assets value	99,090	133,705
Interest recorded under expenses		113
Interest recorded under income	(34,566)	(29,306)
Change in receivables against clients	(145,281)	(110,521)
Change in trading securities	(4,951)	(3,967)
Change in trading securities		
Loans provided		
Change in other assets and other tax receivables	181,149	(808,318)
Increase in the balance of liabilities	(429,760)	614,895
Interest paid		(113)
Accepted interest	-	-
Returned tax/Paid tax	(35,928)	(133,036)
<b>Net cash flow from operating activities</b>	<b>(113,252)</b>	<b>(25,109)</b>
<b>Cash flow from investment activities</b>		
Purchase of intangible and tangible assets	(832)	(9,412)
Income from sale of intangible and tangible assets	-	-
Sale of securities for sale	-	-
<b>Net cash flow from investment activities</b>	<b>(832)</b>	<b>(9,412)</b>

<b>Cash flow from financial activities</b>		
Instalments for finance lease		
Change in loans	-	(4,773)
Dividends paid	-	-
<b>Net cash flow from financial activities</b>	-	<b>(4,773)</b>
Cash and cash equivalents increase (decrease)	(114,084)	(39,294)
<b>Cash and cash equivalent at the beginning of the year</b>	<b>656,138</b>	<b>695,432</b>
<b>Cash and cash equivalent at the end of the year</b>	<b>542,054</b>	<b>656,138</b>

The notes on pages 19-49 are part of the Financial Statements.

# FINANCIAL STATEMENTS

## 1. General information

Cornhill Management, o.c.p., a.s. was established on August 3, 1999 and was registered in to the Commercial Register on 09.03.1999 (Commercial Register of District Court Bratislava in Bratislava I, Section Sa, File No. 4532 / B). Company Identification Number (ID) is 35771801, tax identification number (TIN) is 2020275587.

### The main activities of the Company

The Company's main activity is the provision of investment services, investment activities and ancillary services according to act no. 566/2001 Law on Securities and Investment Services and on amendments to some laws as amended to the extent:

- receipt and transmission of client orders for one or more financial instruments in relation to financial instruments,
- execution of orders on behalf of clients in relation to financial instruments,
- portfolio management in relation to financial instruments,
- investment consulting in relation to financial instruments,
- deposit and administration of financial instruments on behalf of clients, including custodianship and related services, especially money management and financial guarantees in relation to financial instruments,
- investment research and financial analysis or other forms of general recommendation relating to transactions with financial instruments.

### Legal basis for preparing financial statements

The Company's financial statement as of December 31, 2016 is in accordance with Slovak law, § 17 par. No. 6 of Act No. 431/2002 Accounting Act, for the period from January 1, 2016 to December 31, 2016.

### Date of approval of financial statements for the previous reporting period

The Company's financial statement as of December 31, 2015, for the previous reporting period, was approved by General Assembly on June 30, 2016.

### Members of the statutory and the supervisory authority of the Company

#### Board of Directors

Jakub Sýkora

#### Supervisory Board

Jana Frňková  
Daniel Petrakovič  
Derek Chambers

### Information about the consolidated entity

The Company is not included in the consolidated financial statements of any other Company.

### Ownership Structure

The sole shareholder of the Company is SFM Group International S.A. registered at 20A rue des 3 Cantons, 8354 GARNICH.

As of December 31, 2016	Share of fixed assets		Voting rights	
	in EUR (rounding)	%		%
SFM Group International S.A.	1,494,000	100		100
<b>Total</b>	<b>1,494,000</b>	<b>100</b>		<b>100</b>

## **2. Accounting principles and methods that were used**

The Company's financial statements ("Financial Statements") for the year ended December 31, 2016 have been prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") as adopted by the European Union and the Act No. 431/2002 of Slovak law on accounting as amended.

The Financial Statements include at least one comparable period.

### **Basis of preparation of financial statements**

The Financial Statements have been prepared on an accrual basis, it means that the Company reports effects of transactions and other events at the time when they occur. Transactions and other events are reported in the period to which the Financial Statements relate, assuming that the Company continues as a going business.

The Financial Statements have been prepared using historical cost valuation, with financial instruments recalculated to real value.

The currency used is the euro ("€") and balances are given in whole euro sums.

### **Significant accounting estimates**

The preparation of financial statements in accordance with IFRS requires the establishment of estimates and assumptions that affect the reported amounts of assets and liabilities and for the development of accruals of active and passive losses on the balance sheet date and the reported amounts of revenues and expenses during the accounting period. Actual results may be different from estimates because of future changes in economic conditions, business strategies, regulatory requirements, accounting rules, or other factors which could cause a change in estimates.

Significant areas requiring subjective judgement:

- amounts recognized as reserves are calculated based on the judgement of the management and represent the best estimate of expenses required to settle a liability of uncertain timing or amount.

### **Cash and cash equivalents**

Cash and cash equivalents for purposes of drawing up "*Statement of cash flows*" and "*Statement of financial position*" include cash and balances on current accounts and other bank accounts with a contractual maturity less than three months.

### **Foreign currency**

The Company's operational currency is the euro.

Foreign currency transactions are initially recorded in the functional currency, while the foreign currency amount uses the exchange rate announced by the European Central Bank ("ECB") the day before the transaction between the functional currency and foreign currency.

The transaction date is the date when the transaction first qualifies to be reported in accordance with International Financial Reporting Standards. For practical reasons, often using a rate that approximates the actual rate at the date of the transaction, for example average rate per week or month can be used for all transactions in each foreign currency occurring during the accounting period. However, if the rate fluctuates considerably, the use of the average rate for a period is inappropriate. The Company will use the exchange rate announced by the ECB on the day preceding the transaction.

Foreign exchange differences incurred by revaluations of assets and liabilities in foreign currency are booked as net profit / loss from operations in foreign exchange and assets and liabilities, as valued foreign currency. On the last day of the month the Company always converted assets and liabilities denominated in foreign currency to EUR using the exchange rate of the ECB on the day preceding that day or the ECB rate on the last day of each month and the date on which financial statements are compiled.

## Financial assets

The Company recognises trading securities as financial assets at fair value, revalued through profit and loss statement. Trading takes the form of active and frequent buying and selling, and financial instruments held for trading are generally used to generate profit from short-term changes in price or dealer margins.

Trading securities are securities held to generate profit from short-term changes in price. Valuing is the difference in correlation of values booked through profit or loss on account of the net loss / profit from financial instruments at fair value revalued through profit and loss statement.

The transaction date is the date of settlement (settlement date).

The settlement date is the date on which the asset is delivered to an entity or asset which is supplied by the entity. Settlement date accounting means:

- recognition as an asset on the date of its receipt by the entity and
- derecognition of assets and recognition of any profits or losses on disposal on the date of an entity and its delivery the Company recognizes any change in the fair value of the assets to be accepted within the period starting from the date of the transaction until the settlement date, in the same way as acquired assets are recognized . For assets classified as financial assets at fair value through profit and loss statement, any change in value is recognized in profit, and with respect to assets classified as available for sale, is recognized in equity.

The securities are initially recorded at its fair value. If there is a difference between the price at which the securities held for trading are procured and their fair value, the difference is income or expense to be charged to the account Net loss / profit from financial instruments in fair value revalued through profit and loss statement.

From the date of acquisition debt security is added to the interest income account. Accrual of interest is calculated using the effective interest rate.

On the day of the revaluation of the security it is written down or charged in a securities account in the corresponding entry to or from the account Net loss / profit from financial instruments in fair value revalued through profit or loss statement for trading securities and credit or debit to account "Funds from the award " in the case of securities for sale. Evaluation has no effect on interest income attributed to a particular security.

### *Valuation of financial instruments*

The Company determines fair value using the following hierarchy of methods:

- Stage 1: The market price in active markets for identical instrument.
- Stage 2: Valuation techniques based on directly observable inputs (e.g. prices) or indirectly (for example, directly derived from prices). This method involves instruments valued by using the following information: the quoted price in active markets for similar instruments or other valuation techniques where all significant inputs are observable directly or indirectly from market data.
- Stage 3: valuation techniques using significant unobservable inputs.

Reported amounts of financial instruments in fair value analyzed by the above methods of valuation:

to December 31, 2016

<b>Financial instruments</b>				
		<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>
Financial assets remeasured at fair value through profit and loss statement	6	-	386,837	-
<b>Total</b>			<b>386,837</b>	

to December 31, 2015

<b>Financial instruments</b>				
		<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>
Financial assets remeasured at fair value through profit and loss statement	6	-	395,229	-
<b>Total</b>			<b>395,229</b>	

### Reserves

A reserve is a liability of undetermined timing or amount.

An obligating event is an event that creates a legal or constructive obligation that leads to the Company having no realistic alternative but to settle a given obligation.

The legal obligation is an obligation that derives from:

- a contract (through its explicit or implicit terms);
- legislation or
- other legal act.

Non-contractual obligation is an obligation that derives from the activities of the Company if:

- established patterns of behaviour from past practice, published procedures or a sufficiently specific current statement of the Company indicated to the other parties to accept certain liabilities
- consequently the Company created a valid expectation on the part of other parties to fulfill this responsibility.

### Reserves and other liabilities

Reserves can be differentiated from other liabilities such as current trade liabilities and future expenses because there is uncertainty about the period or amount of future expenses required in settlement.

A reserve is reported when:

- the Company has a present obligation (legal or constructive) as a result of a past event,
- it is probable that the settlement of the obligation will be required to outflow of resources embodying economic benefits and
- it is possible to make a reliable estimate of the liability.

If these conditions are not met, no reserve is reported.

### The best estimate

- The amount reported as a reserve is the best estimate of expenses required to settle the present obligation at the date the financial statements are prepared.
- The best estimate of expenses required to settle the present obligation is the amount paid by the Company to settle a logical obligation on the date the financial statements are prepared or to its transfer to the third party at that time. There will be often impossible or prohibitively expensive to settle or transfer an obligation at the date the financial statements are prepared. However, the best estimate of an expense should be provided about the amount which would the Company logically pay to settle or transfer the obligation, provided that such an expense is required for the current obligation to be settled to the date of compilation of the annual report. However, estimate of the amount to be logically paid by the Company to settle or transfer an obligation is the best estimate of an expense required to settle the present obligation at the date the financial statements are prepared
- Estimates of results and financial impacts are determined by the management accounting unit, supplemented by experiences of similar transactions and, in some cases, reports from independent experts.. Evidence under consideration contains any additional evidence provided by the events following the balance sheet date. Any uncertainty surrounding the amount at which a reserve is recognised shall be determined according to circumstances. When the reserve, which is valued, contains a wide set of items, the obligation is estimated by

considering all possible outcomes by their associated probabilities. This statistical method of estimation is "expected value". A reserve will therefore be different depending on whether the probability of loss from the amount is 60 percent or 90 percent. If there is a continuous range of possible results and each point of this range is as likely as any other, the mid-point range will be used.

## **Asset Impairment**

### Identification of impaired assets

The Company has the date on which the financial statements are prepared and the last day of each quarter to determine whether there is an indication that an asset may be impaired. If there is any indication, the Company estimates the recoverable amount of such assets. The recoverable amount of an asset or cash generating unit is the higher of these two values:

- fair value of assets minus cost of sales
- the value of used assets.

Fair value minus cost of sales - is the amount obtainable from the sale of an asset or cash generating unit in transaction under the usual conditions, between knowledgeable, willing parties minus cost from the sale. Cost of sales are costs directly related to the sale of assets, excluding finance costs and tax costs.

The value of a used asset - is the present value of future cash flows expected to be derived from an asset or cash generating unit.

The recoverable amount for a given asset must always be determined so that the real value of the asset minus costs to sell and value in use can also be determined. If one of these values is higher than the accounting value, the asset is impaired and it is not necessary to determine a second value.

### Fair value minus costs to sell

The best evidence of fair value of an asset minus costs to sell is the price in a binding sales contract at independent transaction, adjusted for the additional costs that would be directly attributable to the disposal of the asset. If there is no binding sale agreement but the asset is traded in an active market, the fair value of the asset minus costs to sell is the market value of the asset minus cost of disposal. The appropriate market price is usually the current price of the tender. If it is not immediately possible to determine the offer prices, the fair value of an asset minus costs to sell can be estimated based on the final price of the provided transaction and there is no significant change in economic circumstances between the transaction date and the date the estimate is made.

### External indicators of impairment

- The market value of the asset during the period fell significantly more than would be expected due to time or normal usage
- Significant changes in technology, the market, economic or legal environment in which the Company operates or in the market for which the asset is determined to have occurred within a period or become in the near future, with a negative impact on business
- An increase in market interest rates or rates of return on investment with it being likely that this increase will affect the discount rate used in calculating the value of the asset used and significantly reduce its recoverable value.

### Internal indicators of impairment

- Accounting net value of the asset is higher than its market capitalization,
- Evidence of obsolescence or physical deterioration,
- Significant changes with a negative impact on business that have occurred over a period or will occur in the near future in scope and intended use of the asset that is or will be determined. These changes include plans for cancellation or restructuring of operations in which the asset is used or unplanned disposal of the asset
- Evidence from internal reporting that indicates that the economic performance of the asset is or will be lower than expected.

## **Tangible and intangible assets**

Purchase price of assets, plant and equipment are recognized as assets only if:

- it is likely that the accounting entity will incur future economic benefits from the item, and
- cost of the item can be measured reliably.

Components of purchase price

Purchase price of an asset, plant and equipment includes:

- the purchase price, including import duties and non-reimbursable taxes, after deducting trade discounts and rebates,
- till directly attributable costs in connection with the transportation of an asset to a destination and in a state in which it is capable of operation, by a method determined by management,
- initial estimate of the cost of dismantling and removing the item and rebuilding to its original state, which is an obligation for the entity starting either by the acquisition of the asset or as a result of its use during a particular period for other purposes than to produce inventories during this period.

The depreciable value of an asset is systematically scheduled for the whole cycle of its working life.

The residual value and useful life of the of asset should be reviewed at least at the end of each financial year and if the expected value differs from previous estimates, the amount is recorded as an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and errors*.

Depreciation is recognized even if the fair value of the asset exceeds its accounting value but only if its residual value does not exceed its book value. Repairs and maintenance do not exclude the need to depreciate an asset.

Depreciable asset value is determined after deduction of its residual value. In practice, the residual value of assets is often insignificant and therefore not relevant in calculating the depreciable value.

The residual value of an asset may be increased to an amount equal to its accounting value or higher. In this case, the depreciation expense of assets is zero when its residual value has subsequently been reduced to an amount less than the book value of assets.

The depreciation of an asset begins from the time it is available for use meaning when it is in situ and in a state in which it is capable of operating in a manner determined by management. The depreciation of the asset shall be terminated either on the date when the asset is classified as available for sale (or included in a group that is classified as available for sale) in accordance with IFRS 5, or the date on which the reporting of assets is completed, whichever is the sooner. Therefore, if the usage of the asset is interrupted or its active usage is terminated, depreciation of the asset is not completed unless the asset is fully depreciated. When using the performance method of depreciation, the depreciation expense may be equal to zero if the asset is not used within production.

The future economic benefits included in the assets are used mainly by its use. Other factors, such as technical or commercial obsolescence and physical depreciation of assets during the period when the asset is not used, might often result in a decrease of economic benefits which could be otherwise obtained from the asset. All of the following factors must be considered in determining the useful life of an asset:

- The expected use of assets. This use is assessed with regard to the expected capacity or physical output of the assets
- The expected physical use which depends on operational factors such as number of shifts, during which an asset is in use and schedule of repairs and maintenance, as well as the level of maintenance and care of an asset when not in use
- Technical or commercial obsolescence arising from changes or improvements in production or from changes in market demand for the product or service representing the outputs of assets
- Legal or similar limits on the use of assets, such as the date for the completion of related leases.

The useful life of assets is determined according to the expected utilization of assets by the Company. The principles of the

Company's asset management may involve an asset's disposal after a specified period of time or after consumption of certain part of the future economic benefits included in the asset. The useful life of an asset may therefore be shorter than its economic life. Estimated useful lives of assets are a matter of judgment based on the experience of the Company's accounting unit with similar assets.

The amortization of intangible assets is based on the expected period of use and expected physical use. Depreciation starts within the month, when the intangible assets were put into use, therefore when the intangible assets are prepared for the intended use. An intangible asset is considered an asset valued at more than EUR2,400 and with a useful life of longer than one year, while intangible assets also include assets valued at less than EUR2,400 and more than EUR450 and a useful life of longer than one year. Assets with a value of less than EUR450 and useful life shorter than one year are for accounting purposes recorded only once as a cost. Estimated useful life, depreciation method and depreciation rate are shown below:

	Expected period of use in years	Depreciation method	Annual depreciation rate in %
Software	2; 5	linear	50; 20

Depreciation of tangible assets are based on their expected period of use and expected useful life. Depreciation starts within the month, when the intangible assets were put into use, therefore when the intangible assets are prepared for the intended use.. Tangible assets are assets with an acquisition cost greater than EUR1,700 and operational - technical time of use is longer than one year, while tangible assets also include assets valued at less than EUR ,700 and more than 450 EUR and a useful life of longer than one year. Assets whose value is less than EUR450 and useful life is shorter than one year are recorded for accounting purposes only once as a cost.

Estimated useful life, depreciation method and depreciation rate are shown below:

	Expected period of use in years	Depreciation method	Annual depreciation rate in %
Technical assessment of leased property	5	linear	20
Machinery and equipment	2; 4	linear	50; 25
Transport Equipment	3; 4	linear	33,3; 25
Inventory	4; 6	linear	25; 16,7

## Lease

A lease is classified as a finance lease when all risks and rewards connected to ownership are transferred. The lease is classified as an operating lease, if there is no substantial transfer of all risks and rewards connected to ownership.

Because the transaction between the lessor and the lessee is based on a leasing contract between them, it is appropriate to use consistent definitions. Applying these definitions to the differing circumstances of the lessor and lessee may result in the same lease being classified differently. This can happen for example if the lessor benefits from a residual value guaranteed by a person who is unrelated to the lessee.

Whether the lease is a finance lease or an operating lease depends on the nature of the transaction not on the form of contract. Examples of situations that could, individually or in combination normally lead to classification of leases as finance leases are:

- ownership of an asset at the end of its leasing is transferred to the lessee,
- the tenant has an option to purchase the asset at a price which is expected to be significantly lower than real value at the date the option becomes applicable, in the case that at the beginning of the lease it is reasonably certain that the option is applicable,
- the term of the lease comprises of the substantial part of the economic life of the asset even if ownership is not transferred,
- at the beginning of leasing the present value of minimum lease payments at least equals the entire real value of the leased asset
- rented asset has such a specific nature that without major modifications it can only be used by the lessee.

## **Finance lease**

At the beginning of the leasing period the Company reports finance leases as assets and liabilities on their balance sheets at amounts set at at the beginning of the lease that equal the real value of the leased asset or, if lower, the present value of minimum lease payments. Discount rate used to calculate the present value of minimum lease payments, is the implicit interest rate of leasing, if it can be determined, and if not, then the interest rate of loans to the lessee. Any initial direct costs of the lessee are added to the amount recognized as an asset.

Transactions and other events are booked and presented in accordance with their substance and financial reality and not only in legal form. Even when the legal form of leasing agreements is such that the lessee can not obtain legal rights to the leased assets, the nature and financial reality of finance leases is such that the lessee acquires the economic benefits from the use of the leased asset during a substantial part of its economic life in exchange for taking the obligation to pay an amount for that right at the beginning of the lease which is close to the real value of the financial asset and related fees.

Company finance leases are reported in the statement of financial position as well as assets and liability to pay future lease payments. At the beginning of the lease term, the assets and liabilities of future lease payments are recorded in the balance in equal amounts less initial direct costs of the lessee that are added to the amount recognized as an asset.

Initial direct costs are often created in connection with specific leasing activities, such as negotiating and securing leasing arrangements. The costs identified as directly attributable to costs of activities undertaken by the lessee for financial leasing are added to the amount recognized as an asset.

## **Deferred tax**

Deferred tax assets are the amounts of income taxes refundable in future periods in connection with:

- deductible temporary differences (temporary differences)
- unused tax losses transferred from previous years and
- unused tax relief transferred from previous years.

Temporary differences are differences between the accounting value of an asset or liability in the balance sheet and their tax base. Temporary differences may be either:

- taxable temporary differences are temporary differences that result in taxable amounts in determining taxable profit (tax loss) in future periods when the book value of an asset or liability is recovered back or settled across, or
- deductible temporary differences are temporary differences that result in amounts that are deductible in determining taxable profit (tax loss) in future periods when the carrying amount of an asset or liability is recovered back or settled across.

When reporting an asset it is important that its accounting value is paid in the form of economic benefits that will flow back to the Company in the future. If the value of the asset exceeds the tax base, the value of taxable economic benefits will exceed the amount recognized as deductible for tax purposes. This difference is a taxable temporary difference and to pay the final income taxes from future periods is a deferred tax liability. When the Company recovers the accounting value of the asset, the taxable temporary difference is canceled and the accounting entity will have taxable profit. As a result, it is probable that the economic benefits will leave the Company via tax payments.

Some temporary differences arise when incomes or expenses are included in accounting profit in one period, but included in taxable income in another period. Such temporary differences are often described as timing differences. The following are examples of temporary differences of this kind which are taxable temporary differences, and therefore create deferred tax liabilities:

- The depreciation used in determining taxable profit (tax loss) may differ from those used in determining accounting profit. A temporary difference is the difference between the book value of an asset and its tax base, which equals the original cost of the asset less deductions in respect of the asset recognized by tax authorities in determining taxable profit for the current period and previous periods. Taxable temporary difference arises, and creates deferred tax liability, when tax depreciation is accelerated (if tax depreciation is slower than the accounting, there is a deductible temporary difference which creates a deferred tax asset).

## **Cost , revenues and accruals**

Costs and revenues are always charged in the period to which they relate. Correction of significant errors of the previous accounting period are always charged to retained earnings from previous years or retained loss from previous years.

The criteria for accrual charging are that their factual content, the amount and period to which they relate is known. The accounting unit follows the accrual expenses and revenues on a monthly basis.

#### **Client Assets**

Clients' assets and liabilities of entrusted assets are assets which have been entrusted to a securities trader as part of the provision of investment services or those the securities trader has acquired as part of the provision of investment services to clients and with a commitment to return those assets.

Assets in the portfolio, submitted for management, are valued on the last day of the month.

#### **Off-balance sheet evidence**

The entity recognizes as off-balance sheet accounts:

- Debts and liabilities of the liens, security and other transfers of rights, security - assets taken as security and assets given as security and commitment of all kinds of material security. Securities are recognized at fair value,
- Clients' assets and liabilities of their entrusted assets values taken into custody, administration, for deposit, which are handled within the portfolio acquired for management, values entrusted for the purpose of the purchase or sale of securities for client, are recorded based on the benefits for client from the provided investment service (for example collection of dividends from administered share) and values rendered for client, which are recorded as settlement with the market of transactions carried out for the account of client,
- amortized receivables.

#### **New standards and interpretations applied in the period for this report**

The Company implemented all new and revised standards and interpretations issued by International Accounting Standards Board - IASB) and International Financial Reporting Interpretations Committee - IFRIC) at IASB related to its activities, which were approved by the EU with effect for the accounting periods commencing on January 1, 2016:

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),

- Amendments to various standards “Improvements to IFRSs” (cycle 2010 – 2012) resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- Amendments to various standards “Improvements to IFRSs” (cycle 2012 – 2014) resulting from the annual improvement project of IFRSs (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments did not lead to any changes in the Company’s accounting principles.

#### **New standards and interpretations not yet effective**

The following standards and interpretations or amendments to the existing standards and interpretations were issued as of the date of the compilation of these financial statements and are effective for the yearly accounting period commencing on January 1, 2017 or later:

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016) – effective date deferred indefinitely until the research project on the equity method has been concluded,
- IFRS 9 “Financial Instruments” and subsequent amendments (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 7 “Statement of Cash Flows” – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 “Income Taxes” – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 40 “Investment Property” – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards “Improvements to IFRSs (cycle 2014 – 2016)” resulting from the annual improvement project of IFRSs (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018)..

The Company decided not to adopt these standards, revised versions and interpretations prior to the date on which they come into effect. The Company expects the adoption of these standards, revised versions and interpretations does not have a significant impact on its financial statements in the period after their first adoption.

### 3. Cash and cash equivalents

<b>Cash and cash equivalents</b>	<b>31. 12. 2016</b>	<b>31. 12. 2015</b>
Cash in the Treasury	8,830	10,550
Current accounts in banks (with payment period to 3 months)	533,224	645,588
<b>Total</b>	<b>542,054</b>	<b>656,138</b>

Cash and cash equivalents are reported as petty cash, valuables and bank accounts with agreed payment period up to 3 months, which the dealer uses for manages cash flow.

### 4. Claims to clients

<b>Claims to clients</b>	<b>31. 12. 2016</b>	<b>31. 12. 2015</b>
Claims to clients - Slovak Republic	13,225	15,557
Claims to clients - Czech Republic	32,946	33,641
Claims to clients - Great Britain	291,895	143,573
Claims to clients - Poland	108	122
<b>Total</b>	<b>338,174</b>	<b>192,893</b>

Claims clients are charges for services provided to investment such as portfolio management of clients for products Konto života PLUS/ Lifestyle account, Konto života, LifeFlex and FlexMax.

### 5. Financial assets remeasured at fair value through profit and loss statement

<b>Trading securities</b>	<b>ISIN</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
GFG FX ALGORITHMIC FUND	GG00BQRRWB08	315,609	325,357
Central & Eastern Europe Real Estate Fund	MT0000076423	0	0
WSF Global Equity Fund - USD Class I	GG00B4Q85X38	71,228	69,872
<b>Total</b>		<b>386,837</b>	<b>395,229</b>

#### *GFG FX ALGORITHMIC FUND*

GFG FX Algorithmic Fund is an optimised selection of FxPro algorithmic strategies that trade on multiple major currencies with emphasis on EUR/USD, GBP/CHF, GBP/USD and USD/JPY.

#### *Central & Eastern Europe Real Estate Fund*

Indirect investments in real estate through real estate listed and unlisted funds, which invest mainly in Central and Eastern European securities and securities related to Central and Eastern European real estate.

#### *WSF Global Equity Fund - USD Class I*

Worldwide investments into an actively managed portfolio of Shariah-compliant equities, which may be located in any jurisdiction or in any economic sector and quoted on a Recognised Stock Exchange.

## 6. Non-current intangible assets

Overview of intangible assets from January 1, 2015 to December 31, 2015:

Type		Purchase price	Adjustments and impairment	Net book value
Intangible assets	1.1.2015	34,044	33,277	767
	+ increase	5,658	1,117	
	- decrease			
	+/- transfer	-		
	31.12.2015	39,702	34,394	5,308
Software and other intangible assets	1.1.2015	34,044	33,277	767
	+ increase	5,658	1,117	
	- decrease			
	+/- transfer	-		
	31.12.2015	39,702	34,394	5,308

Overview of intangible assets from January 1, 2016 to December 31, 2016:

Type		Purchase price	Adjustments and impairment	Net book value
Intangible assets	1.1.2016	39,702	34,394	5,308
	+ increase	-	1,401	
	- decrease			
	+/- transfer	-		
	31.12.2016	39,702	35,795	3,907
Software and other intangible assets	1.1.2016	39,702	34,394	5,308
	+ přírůstky	-	1,401	
	- decrease	-		
	+/- transfer	-		
	31.12.2016	39,702	35,795	3,907

## 7. Long-term tangible assets

Overview of fixed assets from January 1, 2015 to December 31, 2015:

Type		Purchase price	Adjustments	Residual value
Tangible assets	1.1.2015	188,075	181,875	6,200
	+ increase	3,754	6,211	
	- decrease	-	-	
	+/- transfer	-	-	
	31.12.2015	191,829	188,086	3,743
Machines and equipment	1.1.2015	67,189	65,566	1,623
	+ increase	3,754	2,012	
	- decrease	-	-	
	+/- transfer	-	-	
	31.12.2015	70,943	67,578	3,365
Vehicles	1.1.2015	61,242	57,456	3,786
	+ increase	-	3,786	
	- decrease	-	-	
	+/- transfer	-	-	
	31.12.2015	61,242	61,242	-
Inventory	1.1.2015	39,296	38,505	791
	+ increase	-	413	
	- decrease	-	-	
	+/- transfer	-	-	
	31.12.2015	39,296	38,918	378
Other fixed assets	1.1.2015	20,348	20,348	-
	+ increase	-	-	
	- decrease	-	-	
	+/- transfer	-	-	
	31.12.2015	20,348	20,348	-

Overview of fixed assets from January 1, 2016 to December 31, 2016:

Type		Purchase price	Adjustments	Residual value
Tangible assets	1.1.2016	191,829	188,086	3,743
	+ increase	832	2,171	
	- decrease	-	-	
	+/- transfer	-	-	
	31.12.2016	192,661	190,257	2,404
Machines and equipment	1.1.2016	70,943	67,578	3,365
	+ increase	832	1,793	
	- decrease	-	-	
	+/- transfer	-	-	
	31.12.2016	71,775	39,371	2,404
Vehicles	1.1.2016	61,242	61,242	-
	+ increase	-	-	
	- decrease	-	-	
	+/- transfer	-	-	
	31.12.2016	61,242	61,242	-
Inventory	1.1.2016	39,296	38,918	378
	+ increase	-	378	
	- decrease	-	-	
	+/- transfer	-	-	
	31.12.2016	39,296	39,296	-
Other fixed assets	1.1.2016	20,348	20,348	-
	+ increase	-	-	
	- decrease	-	-	
	+/- transfer	-	-	
	31.12.2016	20,348	20,348	-

There was no adjustment/correction made regarding tangible or intangible assets

The non-fixed assets of the Company are insured with the insurance company Union poisťovňa, a.s. for the sum of EUR 132,800 and there is a separate insurance for cars for which the ownership is transferred to the finance Company based on the contract on the security transfer of ownership right.

#### 8. Deferred tax liability

The calculation of deferred tax has been made with the tax rate applicable for 2017 which is 21%.

The calculation of deferred tax assets is shown in the table below:

Deferred tax	31.12.2016	31.12.2015
Temporary differences between the accounting value of assets and liabilities and their tax base		
- deductible (tangible fixed assets)	12,544	12,670
- deductible (reserve for clients bonuses)	71,325	74,496
- deductible (provisions not included into the tax base)	229,752	306,200
- deductible (liabilities after payment period)	86,595	104,429
- tax deductible costs after payment	4,276	3,750
<b>Total temporary differences</b>	<b>404,492</b>	<b>501,545</b>
Income tax (in %)	21%	22%
<b>Deferred tax receivable</b>	<b>84,943</b>	<b>110,340</b>

In calculating the deferred tax as at December 31, 2016, the income tax rate of 21% applicable from January 1, 2017 was used (the rate of 22% was used as at December 31, 2015). If a 22% rate was used to calculate the deferred tax as at December 31, 2016, the deferred tax asset would have been reported at EUR88,988, which is a difference of EUR4,045 from the deferred tax asset recognised as at December 31, 2016.

#### Client bonuses

Clients using the LifeFlex product have, under certain terms and conditions of the agreed period of saving, a right to a bonus. The Company has created financial reserves to the full amount for these bonuses, less a discount rate.

The change in deferred tax assets is included in the table below:

Change in deferred tax assets	in Euro
Value to December 31, 2015	110,340
Value to December 31, 2016	84,943
<b>Change</b>	<b>(25,397)</b>

#### 9. Other assets

Other assets	December 31, 2016	December 31, 2015
Various debts	1,201,587	1,444,440
Provided loans	638,040	603,494
Deferred expenses	35,810	35,881
Long term advance payments	33,293	33,294
Short term advance payments	205	200
Deferred income	10,760	2,946
Value Added Tax		
Resources	92	112
<b>Other assets before adjustments</b>	<b>1,919,787</b>	<b>2,120,367</b>
Decreased value of assets (provisions)	868,049	768,959
<b>Total other assets</b>	<b>1,051,738</b>	<b>1,351,408</b>

Other claims include short-term claims from business activity, investment brokering services and other services.

The age structure of various debts to December 31, 2016 is given in the table below:

Different debts						
within payment period	after payment period					Total
	to 30 days	from 31 to 90 days	from 91 to 180 days	from 181 to 360 days	over 360 days	
106,645	9,339	37,893	53,180	110,977	883,553	1,201,587

Information about costs for future periods can be found in this chart:

Costs for future periods	December 31, 2016	December 31, 2015
Deferred expenses - Rent	30,632	29,548
Insurance	2,598	2,189
Software updates	1,828	1,536
Other	752	2,608
<b>Total</b>	<b>35,810</b>	<b>35,881</b>

Long term advance payments are rent payments paid in advance.

No security has been created for the above claims.

The Company has no interest in assets after payment.

Creation of adjusted (corrected) entries

As at December 31, 2016, the Company recognised provisions in the amount of EUR868,049 (2015: EUR768,959). A provision was created for receivables from various debtors. Impairment was identified for receivables from debtors overdue by more than 365 days as well as from other debtors (within maturity or overdue by up to 365 days) if such receivables were assessed as being at risk by management of the Company.

## 10. Reserves

Reserves	December 31, 2015	Creation	Usage	Cancelation	December 31, 2016
<b>Long-term reserves due over 5 years</b>					
Reserve for clients' benefits	74,496	-	3,171	-	71,325
<b>Total long-term reserves</b>	<b>74,496</b>	<b>-</b>	<b>3,171</b>	<b>-</b>	<b>71,325</b>
<b>Short-term reserves due over 1 year</b>					
					-
<b>Total short-term reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>74,496</b>	<b>-</b>	<b>3,171</b>	<b>-</b>	<b>71,325</b>

A financial reserve is created against a liability using an estimate corresponding to the cost of the account to which the liability would be booked. Clients of the LifeFlex product have, under certain terms and conditions of the agreed period of saving a right to a bonus. The Company has created financial reserves to the full amount of these bonuses, less a discount rate.

## 11. Other liabilities

Different creditors: for the purpose of Company records these are short term liabilities related to business activities, fees and commissions.

<b>Other liabilities</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Various creditors	356,560	582,691
Liabilities from provided loans (car loans)	-	-
Liabilities to employees	28,726	27,180
companies	21,635	16,902
Costs for future periods	15,416	256,953
Social fund	1,761	1,243
Tax obligation on value added tax	33,653	8,146
Tax from dependent activities	6,243	4,587
Other taxes and fees	390	390
Vacation pay including social security	34,738	30,789
Audit	3,750	3,500
Others	-	250
<b>Total other liabilities</b>	<b>502,872</b>	<b>932,631</b>

Liabilities as of December 31, 2016 according to remaining due date

<b>Other liabilities according to remaining due date</b>	<b>Up to 1 year</b>	<b>more than 1 year and less than 5 years</b>	<b>Total</b>
Various creditors	356,560		356,560
Liabilities against employees	28,726		28,726
Liabilities against Social Insurance and health insurance companies	21,635		21,635
Prepaid expenses	15,416		15,416
Social Fund		1,761	1,761
Value added tax	33,653		33,653
Tax on dependent activity	6,243		6,243
Other taxes and fees	390		390
Vacation pay	34,738		34,738
Audit	3,750		3,750
Others	0		-
<b>Total other liabilities</b>	<b>501,111</b>	<b>1,761</b>	<b>502,872</b>

Age structure of various creditors as of December 31, 2016 is included in the following overview

<b>Various creditors</b>		
<b>due</b>	<b>overdue</b>	<b>Total</b>
242,480	114,080	356,560

All other liabilities are due in time.

The creation and use of the Social Fund during the accounting period are shown in the table below:

<b>Social fund</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Value to January 1st	1,243	931
Created against expenses	2,540	2,389
Usage	(2,022)	(2,077)
<b>Status</b>	<b>1,761</b>	<b>1,243</b>

One part of the Social Fund is under the Law on the Social Fund created against expenses and one part may be created from profits. Under the Social Fund Act, social funds are withdrawn in the form of a contribution for food vouchers equal to 10 % of the nominal value of a food voucher.

#### Statement of client assets

Clients' assets and liabilities are considered to be assets entrusted to a securities trader under the provision of investment services to clients and commitment to return the assets. The Company recorded the assets in off-balance sheet records.

Item	December 31, 2016	December 31, 2015
<b>Clients' assets</b>		
Clients' funds	10,415,841	5,154,708
Securities	132,278,536	127,910,836
<b>Total clients' assets</b>	<b>142,694,377</b>	<b>133,065,544</b>
<b>Liabilities to clients of entrusted assets</b>		
Liabilities to clients' funds	10,415,841	5,154,708
Liabilities to securities (portfolio management)	20,823,447	25,676,570
Liabilities from securities rating (custodianship)	111,455,089	102,234,266
<b>Total liabilities to clients of entrusted property</b>	<b>142,694,377</b>	<b>133,065,544</b>

#### 12. Net income from fees and commissions

	December 31, 2016	December 31, 2015
<b>Income from fees and commissions</b>	<b>2,484,988</b>	<b>2,449,016</b>
Management of financial services	148,999	233,198
Portfolio management	2,102,821	2,009,932
Investment consultation	-	-
Other financial services	233,168	205,886
<b>Costs of fees and commissions</b>	<b>(583,947)</b>	<b>(601,442)</b>
services	(95,819)	(132,928)
Client bonuses	2,504	33,365
Other	(490,632)	(501,879)
<b>Net income from fees and commissions</b>	<b>1,901,041</b>	<b>1,847,574</b>

Income from fees and commissions by type of service and main territories are listed in the table below:

Period	December 31, 2016					December 31, 2015				
	Management of financial services	Portfolio management and custodianship	Investment consulting	Other financial services	Spolu	Management of financial services	Portfolio management and custodianship	Investment consulting	Other financial services	Spolu
Slovakia	5,333	139,490		6,627	151,450	12,293	158,972		8,714	179,979
Luxemburg	127,927			226,541	354,468	199,431			197,172	396,603
Czech republic		203,150			203,150		198,002			198,002
United Kingdom	15,739	1,759,011			1,774,750	21,474	1,651,778			1,673,252
Cyprus										
Guernsey					0					0
Poland		1,170			1,170		1,180			1,180
<b>Total</b>	<b>148,999</b>	<b>2,102,821</b>		<b>233,168</b>	<b>2,484,988</b>	<b>233,198</b>	<b>2,009,932</b>	<b>0</b>	<b>205,886</b>	<b>2,449,016</b>

### 13. Net interest income

	December 31, 2016	December 31, 2015
<b>Interest income and similar incomes</b>	<b>34,566</b>	<b>29,306</b>
Interest from bank accounts and bank deposits	20	12
Interest from debt financial instruments	-	-
Loan interests	34,546	29,294
<b>Interest cost and similar cost</b>	<b>-</b>	<b>(113)</b>
Debit interest from bank accounts	-	-
Interest from financial car loan	-	(113)
<b>Net interest income</b>	<b>34,566</b>	<b>29,193</b>

### 14. Net profit/loss from financial instruments in real value calculated through profit and loss statement

	Profit 31.12.2016	Loss 31.12.2016	Net profit 31.12.2016	Profit 31.12.2015	Loss 31.12.2015	Net profit 31.12.2015
Net profit (loss) from financial instruments in real value calculated through profit and loss statement	24,089	37,432	(13,343)	43,662	276,035	(232,373)
<b>Total</b>	<b>24,089</b>	<b>37,432</b>	<b>(13,343)</b>	<b>43,662</b>	<b>276,035</b>	<b>(232,373)</b>

### 15. Net profit/loss from operations with foreign exchange and assets and liabilities valued in foreign currency

	Profit 31.12.2016	Loss 31.12.2016	Net profit 31.12.2016	Profit 31.12.2015	Loss 31.12.2015	Net profit 31.12.2015
Net profit/loss from operations with foreign exchange and assets and liabilities valued in foreign currency	53,032	107,029	(53,997)	83,297	75,282	8,015
<b>Total</b>	<b>53,032</b>	<b>107,029</b>	<b>(53,997)</b>	<b>83,297</b>	<b>75,282</b>	<b>8,015</b>

### 16. Administrative costs

	December 31, 2016	December 31, 2015
<b>Payroll costs</b>	<b>(643,398)</b>	<b>(606,309)</b>
Payroll costs	(466,841)	(436,763)
Social security costs	(158,355)	(150,855)
Other social costs	(18,202)	(18,691)
<b>Amortization of tangible and intangible assets</b>	<b>(3,573)</b>	<b>(7,328)</b>
Tangible fixed assets	(2,171)	(6,211)
Intangible Assets	(1,402)	(1,117)
<b>Other administrative costs</b>	<b>(1,276,010)</b>	<b>(1,130,452)</b>
Material usage	(14,160)	(11,228)
Car usage (petrol , material for cars)	(11,321)	(14,098)
Representation expenses	(42,604)	(30,596)
Post and delivery services	(35,679)	(39,942)
Phones and internet	(11,673)	(11,538)
Rental of premises	(124,442)	(122,535)
Translation services	(16,850)	(19,656)
Computer services	(53,971)	(38,480)
Trainings	(427,689)	(79,877)
Tax and fees (except the income tax)	(1,007)	(1,156)
Marketing activities	(151,173)	(159,192)
Law consultancy	(52,202)	(37,568)
Software services	(21,056)	(20,545)
Audit	(13,450)	(13,450)
Marketing and administrative product support	(263,150)	(242,000)
Other administrative costs	(35,583)	(288,591)
<b>Total</b>	<b>(1,922,981)</b>	<b>(1,744,089)</b>

## 17. Other operational income / expenses

	December 31, 2016	December 31, 2015
<b>Other operational costs</b>	<b>(23,575)</b>	<b>(13,735)</b>
Not applicable VAT (coefficient)	(6,213)	(6,231)
Insurance	(7,134)	(7,446)
Other	(10,228)	(58)
<b>Other operational income</b>	<b>366,632</b>	<b>352,871</b>
Operational income	304,980	332,409
Income from selling assets	60,652	-
Other	1,000	20,408

Operational income also includes income from the Konto života product, from data management of the WIOF, WPP and WSP funds, asset sales and other operational income.

## 18. Income tax

Income tax	Corporate tax base 2016	Tax 2016	Corporate tax base 2015	Tax 2015
<b>Profit/ loss before tax</b>	189,254	41,636	113,698	25,014
<b>Deductible items</b>	109,697	24,133	106,467	23,423
<b>Attributable/added items</b>	-143,982	-31,676	-79,779	-17,551
<b>Tax loss amortization</b>	-	-	-	-
	154,969	34,093	140,386	30,885
<b>Deferred tax 21%(2016), 22%(2015)</b>		(25,397)		(31 459)
<b>Income tax total</b>		59,490		-574
<b>Effective tax rate</b>		<b>31.43%</b>		<b>-0.50%</b>

## 19. Information on income and benefits of members of statutory bodies, supervisory authorities and other bodies of the accounting unit

Members of the statutory and supervisory bodies do not receive any income for membership. All income of members of statutory and supervisory bodies is derived from their work. These are as follows:

Gross income of members of the statutory and supervisory bodies arising from their labour relations		
	2016	2015
Board of Directors	4,194	3,960
Board of Supervisors	42,026	38,978
<b>Total</b>	<b>46,220</b>	<b>42,938</b>

## 20. Transactions with related parties

The mother company and the only shareholder of the Company is SFM Group International SA with its registered office at 20A rue des 3 Cantons, 8354 GARNICH.

a) Shareholder

Summary of shareholder balances in the Company's financial statement

(in Euro)	December 31, 2016	December 31, 2015
<b>Assets</b>		
Other Assets	524,462	451,996
<b>Total</b>	<b>524,462</b>	<b>451,996</b>
<b>Liabilities</b>		
Other Liabilities	15,042	17,548
<b>Total</b>	<b>15,042</b>	<b>17,548</b>

The Company reported a provision on the receivables against SFM Group International SA in the total amount of EUR524,224 (in 2015: EUR451,261).

During the accounting period the Company carried out the following transactions with shareholders:

(in Euro)	December 31, 2016	December 31, 2015
Income from interest and similar earnings	-	-
Income from fees and commissions	72,962	101,430
<b>Total</b>	<b>72,962</b>	<b>101,430</b>

b) Other related parties

Summary of balances to other related parties in the Company's financial statement

(in Euro)	December 31, 2016	December 31, 2015
<b>Assets</b>		
Financial assets with real value calculated through profit and loss		
Other assets	639,040	603,494
<b>Total</b>	<b>639,040</b>	<b>603,494</b>
<b>Liabilities</b>		
Other Liabilities	10,220	348,296
<b>Total</b>	<b>10,220</b>	<b>348,296</b>

The Company carried out the following transactions with other related parties during the accounting period:

(in Euro)	December 31, 2016	December 31, 2015
Income from fees and commissions		
Costs of fees and commissions	(396,618)	(394,724)
Other administration costs	-	(258,000)
Interests on debt financial instruments	34,546	29,294
Other operational costs	-	
Other operational incomes	1,000	-
<b>Total</b>	<b>(361,072)</b>	<b>(623,430)</b>

## 21. Accurate values in accounting and reporting

The accurate and real value of assets is the amount of money for which an asset could be exchanged or paid for liability at usual price.

The estimated accurate values of financial assets and liabilities as of December 31, 2015 and December 31, 2016 correspond with their accounting value.

## 22. Average number of employees

Average number of employees	December 31, 2016	December 31, 2015
Average number of employees:	24	24
Managers	5	5

## 23. Information about events that occurred between the end of the financial year and the date the balance sheet was created

After December 31, 2016 no events occurred which significantly affected the fair presentation of facts relevant to the accounts.

## 24. Proposal for distribution of profit from 2015

Proposal for distribution of profit from 2015	
Reserve fund	11,427
Retained earnings from previous years	102,844
<b>Profit for 2015</b>	<b>114,271</b>

## 25. Settlement of economic results for 2016

Proposal for distribution of profit from 2016	
Reserve fund	12,976
Retained earnings from previous years	116,787
<b>Profit for 2016</b>	<b>129,763</b>

## 26. Earning/loss per one share

The calculation of earnings per share is listed in the table below:

Earning/ loss per one share	December 31, 2016	December 31, 2015
Profit/ loss for the reported period	129,763	114,271
Average of shares during the year	4,500	4,500
<b>Earning/ loss per one share</b>	<b>29</b>	<b>25</b>

## Risk control in the Company

Performing business activities requires a controlled undergoing of potential risks associated with it. The Company must therefore be able to effectively manage any risks as well as to have adequate capital to cover such risks.

The Company's risk management is carried out in accordance with the Act. 566/2001 (collection of Laws) on securities and investment services and other generally binding legal regulations governing risks and risk management system.

The purpose of risk management is to prevent potential losses from business risks by means of early identification, tracking, measurement and mitigation of risks. This system also serves as a basis for informing the board of the Company and the National Bank of Slovakia about the risk situation.

The main objective of risk management is to prevent Company losses and thereby contribute to ensuring achievement of the Company's long-term business goals, mainly to ensure profitability and competitiveness.

The Company is obliged to comply with the regulatory requirements of the NBS. These include limits and restrictions on capital adequacy and asset engagements. These requirements apply to all investment firms in Slovakia and their implementation is designed based on the reports that the Company submits in accordance with the regulations.

The Company defines and identifies risks in the following areas:

- credit risk,
- market risk,
- operational risk,
- liquidity risk.

#### *Risk Management Strategy*

Is a set of documents approved by the Board of Directors of the Company which includes the main objectives and principles used for risk management.

The Company's credit risk management strategy is:

- targets for credit risk management,
- acceptable level of credit risk
- acceptable level of risk to a single client, economically related group of clients, economic sectors, geographical areas and countries
- types of transactions and activities, which exposes the Company to credit risk,
- methods for measuring, monitoring and mitigation of credit risk
- types of limits that the Company will use to manage credit risk,
- sharing responsibility for managing credit risk.

The Company's market risk management strategy is:

- targets for market risk management,
- acceptable level of market risk;
- types of transactions and activities, which exposes the Company to market risk,
- methods for measuring, monitoring and mitigating market risk,
- types of limits which the Company will use for market risk management,
- sharing responsibility for managing market risk
- guidelines for classifying positions into the trading book.

The Company's operational risk management strategy is:

- targets for operational risk management,
- the base for identification and classification of operational risk events in accordance with the definition of operational risk
- definition of major sources of operational risk, which the Company is exposed to,
- methods of identification, estimation, tracking and reconciliation of operational risk,
- allocation of responsibilities for operational risk management.

### **Credit Risk**

#### *Credit Risk Management*

The Company's goal is to develop an appropriate system for the purpose of concluding transactions of credit risk management involving the trading of financial instruments, money market and capital market financial instruments, which have the potential for credit risk and in particular:

- a) defining the types of financial instruments that can be traded with,
- b) establishment of rules for closing of business transaction, cases in which a person can grant an exemption from the restrictions and cases where the employee may claim an exemption
- c) a request for a written or audio record of the negotiation and conclusion of each transaction and also the requirement to store the records referred to in point. c) outside the organizational unit that closes the transaction, to prevent tampering at least for the duration of the obligation until its cessation.

For the purposes of credit risk management, internal regulations in accordance with the approved management strategy of credit risk include also:

- a) competence for the conclusion and approval of various types of transactions that have the potential for credit risk, for the approvals of limits and also exceptions from approved limits and also procedures for exceeding these limits
- b) a description of the method of cooperation and information flows between departments which carry out business activities, activities related to trading and dealing activities associated with managing credit risk,
- c) procedure for the management of transactions giving rise to credit risk with the rules for the creation of resources covering the identified risk
- d) the procedure for recovery of outstanding debts
- e) the procedure for measurement of security
- f) requirements for regular and detailed information about credit risk for the statutory body and other responsible staff
- g) control activities at the conclusion of transactions and business activities.

The measurement of credit risk within the Company should comply mainly with the scale and complexity of the activities of Company and in particular:

- a) provide for the measurement of credit risk in all transactions and activities in which credit risk has been identified
- b) ensure that all transactions are recorded correctly and on time,
- c) allow the identification of all significant sources of credit risk in assets and liabilities,
- d) evaluate the impact of changes in risk factors on costs and revenues,
- e) allow the measurement of credit risk using the method chosen in accordance with Company strategy,
- f) permit the measurement of credit risk in individual businesses, groups of related parties, in individual portfolios, economic sectors, geographical areas and countries and currencies.

The main things which should be considered when choosing the method of measuring of credit risk are:

- a) type of business and trading conditions,
- b) the volume of business operations until it is paid,
- c) the economic situation of the contracted party until the operation is paid.

In order to monitor credit risk, the Company will mainly ensure:

- a) the setting of limits and monitoring positions
- b) the limiting of the Company's internal compliance with all limits and regulations of secure business
- c) a system of ongoing review of compliance with specified limits,
- d) the establishment of rules and procedures in in cases where limits are exceeded and the authorization of exceptions to specified limits,
- e) the responsible departments are informed when these limits are exceeded
- f) monitoring the progress of the overall portfolio composition and quality appropriate to the scale and complexity of operations.

Company for the purposes of calculating the credit risk uses standardized approach. This means that the risk levels are assigned to the contracting party in accordance with the measure. Risk level depends on the perspective of rating agencies (ECAIs) on the contractual party.

Level of credit quality	1	2	3	4	5	6
Risk level	20%	50%	100%	100%	150%	150%

For the purposes of calculating risk measured exposures according to the standardized approach for credit risk, the Company assigns and determinesthe risk measured exposures to legal entities. Exposures to business entities for which a rating from a standard rating agency (ECAI) is available are assigned a risk measurement according to the attached table, which adheres to six levels of credit quality as is standard in recognised ratings agencies.

An overview of exposures is given in the table below:

Overview of the exposure values	Value of exposure to December 31, 2016
Exposures towards institutions	EUR533,224
Exposures to retail	EUR338,174
Exposures to companies	EUR1,391,709
Other exposures	EUR134,213
<b>Total</b>	<b>EUR2,397,320</b>

An overview of exposures according to risk importance is given in the table below:

Risk value	Value of exposure to December 31, 2016 (in Euro)
risk value 20%	533,224
risk value 100%	1,864,096
<b>Total</b>	<b>2,397,320</b>

## Market risk

### Market risk management

The establishment of an appropriate system of transactions in financial instruments in capital markets where there is a potential of market risk also includes:

- a) defining the types of financial instruments which can be used for trading
- b) establishment of rules for closing of transactions,
- c) a request for a written or audio record of the negotiation and conclusion of each transaction,
- d) the requirement to store the records referred to in point. c) outside the organizational unit that closes the transaction, to prevent tampering at least until such time as the obligation ceases.

For the purposes of market risk management, internal regulations in accordance with the approved strategy of market risk management also include:

- a) competence for the conclusion and approval of transactions in which there is a possibility of market risk,
- b) the rules for classifying transactions in the trading book
- c) procedures and competences for managing trading with financial instruments
- d) the procedure for monitoring of prices in the trade and their comparison with market prices,
- e) a description of cooperation and information flows between departments which carry out business activities, activities related to trading and activities associated with managing of market risk,
- f) requirements for regular and detailed information about market risk for the statutory body and responsible employees
- g) control activities for closing of businesses and other activities.

The measurement of market risk established in the Company should correspond with the scale and complexity of the Company's activities, mainly:

- a) provide the measurement of market risk in all the transactions and activities in which this risk has already been identified
- b) record all entered transactions correctly and on time,
- c) allow the identification of all significant sources of market risk in the Company's assets and liabilities,
- d) evaluate the impact of changes in risk factors on costs and revenues,
- e) allow the measurement of market risk by means of a method chosen in accordance with Company strategy,
- f) permit the measurement of market risk in individual stores, groups of related parties, in individual portfolios, economic sectors, geographical areas and countries and currencies
- g) ensure proper evaluation of positions,
- h) enable the measurement of interest rate risk in each major currency.

In order to monitor market risk, the Company mainly ensures:

- a) determination of a limit for market risk exposures and limits for each component of the market risk
- b) the connection of internal limits of the Company with all limits and regulations of secure business making.
- c) monitoring of all positions where the Company is exposed to market risk
- d) establishment of a system of ongoing review of compliance with specified limits,
- e) establish rules and procedures for exceeding limits and for the authorization of exceptions to those limits
- f) the informing of competent bodies of the degree of market risk and exceeding those limits.

For the purposes of calculating market risk, the Company decided to use the standardized method

Trading book positions are subject to market risk, i.e. :

- Positions in financial instruments or commodities held for trading for own account
- Long position in a financial instrument or commodity recorded in the trading book, the quantity of financial instruments or commodity for which the Company is either a creditor or owner.

	(in thousands of EUR)
<b>Own resources as of December 31, 2016</b>	<b>1,763</b>
Capital Tier 1	1,763
Own capital Tier 1	1,763
Capital instruments admissible as capital CET1	1,494
Paid-up capital instruments	1,494
Retained earnings	269
Retained earnings from previous years	269
<b>OVERALL RISK EXPOSURE VALUE as of December 31, 2016</b>	<b>2,587</b>
THE VALUES OF RISK-WEIGHTED EXPOSURES FOR CREDIT RISK, CREDIT RISK OF COUNTERPARTY AND RISK OF REDUCTION OF THE QUALITY OF RECEIVABLES FOR OTHER THAN CREDIT REASONS AND FREE DELIVERY	1,971
Standardised approach (SA)	1,971
SA exposure classes without securitisation positions	1,791
Institutions	107
Business entities	1,392
Retail	338
Other items	134
OVERALL VALUE OF RISK EXPOSURES FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	616
The value of risk exposures for position, foreign exchange and commodities risks within standardised approaches (SA)	616
Foreign exchange	616
<b>Shares and levels of capital as of December 31, 2016</b>	
Item	Value
Share of capital CET1	0.6799
Surplus (+)/deficit (-) of capital CET1	1,643
Share of capital T1	0.6799
Surplus (+)/deficit (-) of capital T1	1,604
Total share of capital	0.6799
Surplus (+)/deficit (-) of total capital	1,552

	(in thousands of EUR)
<b>Own resources as of December 31, 2015</b>	<b>1,644</b>
Capital Tier 1	1,644
Own capital Tier 1	1,644
Capital instruments admissible as capital CET1	1,494
Paid-up capital instruments	1,494
Retained earnings	155
Retained earnings from previous years	155
<b>OVERALL RISK EXPOSURE VALUE as of December 31, 2015</b>	<b>2,668</b>
THE VALUES OF RISK-WEIGHTED EXPOSURES FOR CREDIT RISK, CREDIT RISK OF COUNTERPARTY AND RISK OF REDUCTION OF THE QUALITY OF RECEIVABLES FOR OTHER THAN CREDIT REASONS AND FREE DELIVERY	2,125
Standardised approach (SA)	2,125
SA exposure classes without securitisation positions	2,125
Institutions	129
Business entities	1,650
Retail	192
Other items	154
OVERALL VALUE OF RISK EXPOSURES FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	543
The value of risk exposures for position, foreign exchange and commodities risks within standardised approaches (SA)	543
Foreign exchange	543
<b>Shares and levels of capital as of December 31, 2015</b>	
Item	Value
Share of capital CET1	0.6031
Surplus (+)/deficit (-) of capital CET1	1,521
Share of capital T1	0.6031
Surplus (+)/deficit (-) of capital T1	1,480
Total share of capital	0.6031
Surplus (+)/deficit (-) of total capital	1,426

#### Foreign exchange risk

Financial assets and financial liabilities in foreign currency were as follows (calculated to December 31, 2016):

Assets and liabilities in foreign currency	CZK	Pounds	Polish Zloty	American dollar	Other	EURO	Total
<b>Assets</b>							
Cash and cash equivalents	43,974	103,106	2,487	165,505	226	226,756	542,054
Claims towards clients	32,946	213,402	109	76,627	-	15,090	338,174
Financial assets in real value calculated through profit and loss	-	-	-	71,228	-	315,609	386,837
Deferred tax assets	-	-	-	-	-	84,943	84,943
Income tax						57,178	57,178
Other assets	224	39,071	-	13,988	-	998,455	1,051,738
<b>Total</b>	<b>77,144</b>	<b>355,579</b>	<b>2,596</b>	<b>327,348</b>	<b>226</b>	<b>1,698,031</b>	<b>2,460,924</b>
<b>Liabilities</b>							
Reserves	13,234	5,277	-	32,509	-	20,305	71,325
Liabilities - other	15,643	58,009	449	22,045	-	406,726	502,872
<b>Total</b>	<b>28,877</b>	<b>63,286</b>	<b>449</b>	<b>54,554</b>	<b>-</b>	<b>427,031</b>	<b>574,197</b>

Financial assets and financial liabilities in foreign currency were as follows (calculated to December 31, 2015)

Assets and liabilities in foreign currency	CZK	Pounds	Polish Zloty	American dollar	Other	EURO	Total
<b>Assets</b>							
Peňažné prostriedky a ekvivalenty peňažných prostriedkov	102,900	44,317	1,650	143,008	223	364,040	656,138
Pohľadávky voči klientom	33,641	74,086	122	68,313	-	16,731	192,893
Finančné aktíva v reálnej hodnote precenené cez výkaz ziskov a strát	-	-	-	69,872	-	325,357	395,229
Odložená daňová pohľadávka	-	-	-	-	-	110,340	110,340
Daň z príjmov						55,343	55,343
Ostatné aktíva	71	59,406	-	12,834	-	1,279,097	1,351,408
<b>Spolu</b>	<b>136,612</b>	<b>177,809</b>	<b>1,772</b>	<b>294,027</b>	<b>223</b>	<b>2,150,908</b>	<b>2,761,351</b>
<b>Závazky</b>							
Rezervy	14,821	5,747	-	30,962	-	22,966	74,496
Ostatné záväzky	19,562	43,214	464	18,704	-	850,687	932,631
<b>Spolu</b>	<b>34,383</b>	<b>48,961</b>	<b>464</b>	<b>49,666</b>	<b>-</b>	<b>873,653</b>	<b>1,007,127</b>

### Liquidity Risk

Distribution of balance sheet assets and liabilities into time bands according to maturity as of December 31, 2016

Distribution of balance sheet assets and liabilities into time bands according to maturity as of December 31, 2016 (in euro)						
	To 1 month	From 1 month to 3 months	From 3 months to 12 months	From 1 year to 5 years	Not specified	Total
Cash and equivalents	542,054	-	-	-	-	542,054
Claims to clients	338,174	-	-	-	-	338,174
Financial assets in real value calculated through profit and loss	386,837	-	-	-	-	386,837
Long term intangible assets	-	-	-	-	3,907	3,907
Long term tangible assets	-	-	-	-	2,404	2,404
Income tax	-	-	57,178	-	-	57,178
Deferred tax assets	-	-	-	-	84,943	84,943
Other Assets	564,341	277,999	176,105	-	33,293	1,051,738
<b>Total assets</b>	<b>1,831,406</b>	<b>277,999</b>	<b>233,283</b>	<b>-</b>	<b>124,547</b>	<b>2,467,235</b>
Provisions	-	-	-	-	71,325	71,325
Other liabilities	462,623	3,750	34,738	-	1,761	502,872
<b>Total liabilities</b>	<b>462,623</b>	<b>3,750</b>	<b>34,738</b>	<b>-</b>	<b>73,086</b>	<b>574,197</b>

Distribution of balance sheet assets and liabilities into time bands according to maturity as of December 31, 2015

Distribution of balance sheet assets and liabilities into time bands according to maturity as of December 31, 2015 (in euro)						
	To 1 month	From 1 month to 3 months	From 3 months to 12 months	From 1 year to 5 years	Not specified	Total
Cash and equivalents	656,138	-	-	-	-	656,138
Claims to clients	192,893	-	-	-	-	192,893
Financial assets in real value calculated through profit and loss	395,229	-	-	-	-	395,229
Long term intangible assets	-	-	-	-	5,308	5,308
Long term tangible assets	-	-	-	-	3,743	3,743
Income tax	-	-	55,343	-	-	55,343
Deferred tax assets	-	-	-	-	110,340	110,340
Other Assets	714,620	-	174,052	429,442	33,294	1,351,408
<b>Total assets</b>	<b>1,958,880</b>	<b>-</b>	<b>229,395</b>	<b>429,442</b>	<b>152,685</b>	<b>2,770,402</b>
Reserves	-	-	-	-	74,496	74,496
Other liabilities	896,849	3,500	31,039	-	1,243	932,631
<b>Total liabilities</b>	<b>896,849</b>	<b>3,500</b>	<b>31,039</b>	<b>-</b>	<b>75,739</b>	<b>1,007,127</b>

## **Operational risk**

### *Operational risk management*

The identification of operational risk applies

- a) in all kinds of businesses the Company is making
- b) in all processes that are applied,
- c) all information systems used.

For the purpose of managing operational risk an identification shall include the following:

- a) definition of operational risk events observed by the Company
- b) classification of operational risk events into groups designated by the Company in accordance with Company strategy.

For the purposes of operational risk management control there are internal regulations in accordance with the approved management strategy that also include:

- a) establishing procedures for identifying sources of operational risk in transactions , key activities, processes and systems
- b) breakdown of operational risk events and their classification,
- c) the inclusion of monitoring and evaluation of operational risk in the performance of everyday activities in the Company
- d) the procedure for the use of mitigating operational risk, particularly operational risk events with low frequency but potentially high financial losses for the Company,
- e) developing policies and procedures for managing the risks associated with activities provided by contractors (outsourcing)
- f) preparation of contingency plans for unexpected situations to ensure business continuity,
- g) regular testing and review of contingency plans to match current business strategy of the Company
- h) the manner of cooperation and exchange of information the departments which created operational risk and organisational units which assess the operational risk for the entire Company.

A forecasting system for management of operational risk will be implemented which:

- a) corresponds to the scale and complexity of the Company and especially
- b) allows regular monitoring of cases of losses connected with operational risk
- c) allows identification of all sources of operational risk in businesses and activities and provides early warning of increased risk of future losses based on the number of indicators.

Operational risk can be estimated particularly from:

- a) evaluation of processes and operations versus defined set of operational risk events monitored by Company
- b) Operational risk mapping
- c) monitoring indicators of operational risk, as the number of failed businesses, staff turnover rate, frequency and number of errors
- d) measurement of operational risk, for example, by tracking the historical losses from operational risk events.

For the purposes of monitoring operational risk, the Company ensures in particular:

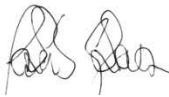
- a) determination of operational risk indicators for early warning of increased risk of potential losses,
- b) monitoring of operational risk events and losses that may result from these events,
- c) to inform the competent departments of the degree of operational risk based on the prepared system of monitoring of operational risk and major events of operational risk.

For the purpose of mitigating operational risk, the Company undertakes to ensure:

- a) the establishment of procedures for the selection of ways how the Company manages access to the identified risk

- b) the delivery of regular reports on the Company's approach to the identified risk on the basis of the results of changes in the use of different approaches
- c) that relevant responsible employees are regularly informed about the results of the Company's approach to operational risk,
- d) safe, reliable and continuous operation of its information system, especially
  - developing an information system security policy, which sets targets for the security of the Company's information system, guiding principles and procedures to achieve them and ensure compliance with this policy,
  - creating an information security infrastructure which presents governing bodies and working groups, whose role is to manage and ensure the efficient level of information system security, data and information
  - developing risk analysis of the information system, which is regularly reviewed,
  - ensuring the protection of information systems against unauthorized access and damage and protect premises where data is processed , equipment and data itself,
  - ensuring efficient, safe, reliable and continuous operation of processing equipment,
  - ensuring access of different people to management data and information about the Company
  - ensuring the identification and assessment of unauthorized activities in the information system
  - ensuring continuity of information system operation in case of major failures and accidents and creation of a recovery plan and an information back-up system in case of accident.

The financial statements were prepared and signed on April 18, 2017.



.....  
Signature of statutory body



.....  
Signature of the person responsible  
for preparation of financial statements



.....  
Signature of the person responsible  
for accounting

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