

**Raiffeisen fond high-yield dluhopisů,  
otevřený podílový fond,  
Raiffeisen investiční společnost a.s.**

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**Annual Report  
for the Period from 30 October 2015 to  
31 January 2017**

## **Raiffeisen investiční společnost a.s. (hereinafter the “Company”)**

Company name: Raiffeisen investiční společnost a.s.  
Legal status: joint stock company  
Registered office: Hvězdova 1716/2b,  
140 78 Prague 4 – Nusle  
Czech Republic  
Corporate ID: 29146739  
Register of Companies: File No. B18837 held by the Municipal Court in Prague  
Registered Capital: CZK 40,000 thousand  
Shareholder: Raiffeisenbank a.s., Hvězdova 1716/2b, 140 78 Prague 4 - Nusle

### **Company profile**

Raiffeisen investiční společnost a.s. is an investment company administering and managing the assets of the Fund. The Company was incorporated on 21 December 2012. The Company obtained operation authorisation based on Decision of the Czech National Bank No. 2013/4256/570 of 9 April 2013 which took effect as of that date. The Company is a 100% subsidiary of Raiffeisenbank a.s.

The Company was incorporated on 21 December 2012 as a company fully owned by the sole shareholder, Raiffeisenbank a.s. The Company was established with the goal of expanding the product portfolio of Raiffeisenbank a.s. and thus increase the bank's market share. Within a few years, the Company has become a respected asset administrator operating in Central Europe.

### **Contacts**

Tel: +420 800 900 900  
Fax: +420 234 402 223  
The Company's website: [www.rfis.cz](http://www.rfis.cz)

### **List of managed funds as of 31 January 2017**

As of 31 January 2017, the Company managed 12 open-ended mutual funds.

#### **Standard funds**

- Raiffeisen fond dluhopisových příležitostí (ISIN CZ0008473998, ISIN CZ0008474921)
- Raiffeisen fond dluhopisové stability (ISIN CZ0008474293)
- Raiffeisen fond dluhopisových trendů (ISIN CZ0008474376)
- Raiffeisen fond globálních trhů (ISIN CZ0008474442)
- Raiffeisen fond udržitelného rozvoje (ISIN CZ0008474400, CZ0008474434)
- Raiffeisen fond high-yield dluhopisů (ISIN CZ0008474848)
- Raiffeisen fond flexibilního růstu (ISIN CZ0008474871)

#### **Special funds**

- Raiffeisen chráněný fond ekonomických cyklů (ISIN CZ0008474038)
- Raiffeisen privátní fond dynamický (ISIN CZ0008474350)

- Raiffeisen fond alternativní (ISIN CZ0008474368, ISIN CZ0008474954)
- Raiffeisen fond optimálního rozložení (ISIN CZ0008474731)

Qualified investor fund

- LEONARDO (ISIN CZ0008474525)

As of 1 January 2017, the Company stopped managing the foreign fund Raiffeisen-Czech-Click Fund II (ISIN AT0000A0QRK9).

**Raiffeisen fond high-yield dluhopisů, (hereinafter the “Fund”)**  
**Annual Report for the Period from 30 October 2015 to 31 January 2017**

Currency:	CZK
ISIN capitalisation class:	CZ0008474848
Nominal value of share certificates:	None
Fund format:	Open-ended mutual fund
Type of fund based on AKAT:	Bond
Date of incorporation:	30 October 2015

**Fund administrator**

The fund is managed by Raiffeisen investiční společnost a.s. The Company did not enter into any agreement regulating the activity of the Fund's principal supporting entity under Sections 85-91 of Act No. 240/2013 Coll, on Investment Companies and Investment Funds.

**Fund depository**

Depository services are provided by UniCredit Bank Czech Republic and Slovakia, a.s., Corporate ID 64948242, with its registered office at Želetavská 1525/1, 140 92 Prague 4, recorded in the Register of Companies held by the Municipal Court in Prague, File B, Insert 3608. The Depository also ensured the custody of the Fund's assets in the reporting period.

**Master fund**

Raiffeisen- Europa-HighYield (ISIN AT0000A0LSS1), hereinafter the “Master Fund”, with its registered office at Schwarzenbergplatz 3, A-1010 Vienna, Austria. The Master Fund is administered by Raiffeisen Kapitalanlage-Gesellschaft m.b.h., with its registered office at Schwarzenbergplatz 3, A-1010 Vienna, Austria. Identification no.: 83517w – Register of Companies held by the Commercial Court in Vienna (Austria). Further information on the Master Fund including the latest annual and semi-annual reports are available at [www.rfis.cz](http://www.rfis.cz).

**Auditor**

The Fund is audited by Deloitte Audit s.r.o., corporate ID 49620592, with its registered office at Karolinská 654/2, 186 00 Prague 8 - Karlín, recorded in the Register of Companies held by the Municipal Court in Prague, File C, Insert 24349.

**Investment focus**

The Fund aims to attain a moderate capital growth by means of investments in the Master Fund, amounting to no less than 85% of the value of the Fund's assets. In addition, the Fund can invest (no more than 15% of its assets) in financial derivatives arranged solely for hedging purposes and money market instruments in CZK or a foreign currency. The Fund was classified in risk group 4 based on the Synthetic Risk and Reward Indicator (SRRI).

**Portfolio manager of the Fund**

Martin Zezula

Education	Faulty of Finance and Accounting of the University of Economics in Prague
Courses/training	Broker licence, Ministry of Finance of the Czech Republic
Professional experience	19 years
Portfolio manager in RIS	since 17 June 20163

## Commentary of the portfolio manager

In the past months, we continued to purchase additional share certificates of the Master Fund (Raiffeisen-Europa-HighYield (I) VTA; ISIN: AT0000A0EY43) for the portfolio of Raiffeisen fond high-yield dluhopisů, in order to maintain their representation in the range between 85% and 100% of the assets (at the end of January 2017 they amounted to 97.8% of the assets). Given the continued credibility of the foreign currency commitment of the Czech National Bank (exchange rate of no less than CZK 27/EUR), the portion of non-currency-hedged investments was maintained at around 20% of assets throughout most of the reporting period; in January 2017, we hedged the majority of the managed portfolio against currency fluctuations.

No significant changes occurred during the reporting period in the information included in the prospectus as per Article 23 of Directive 2011/61/EU of the European Parliament and of the Council on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (hereinafter the "AIFMD Directive").

### Financial indicators

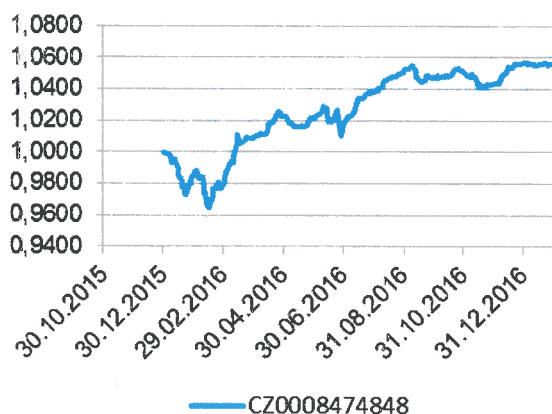
31 January 2017

Mutual fund equity, in CZK '000	1 024 361
Equity per share certificate, in CZK	1.0549
Profit/loss after tax, in CZK '000	24 975
Number of share certificates, in pieces	971 019 366

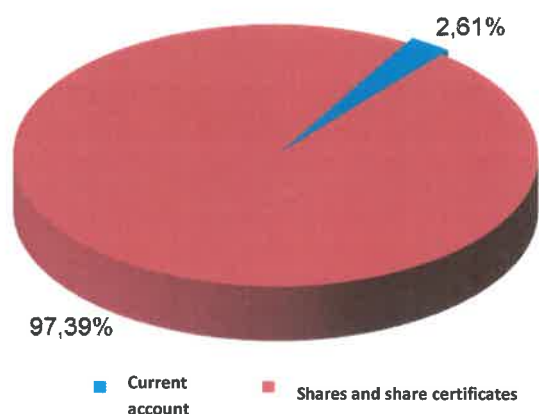
Number of share certificates issued and redeemed in the period from 10 October 2015 to 31 January 2017

ISIN	Issued share certificates		Redeemed share certificates		BALANCE (+/-)	
	in pieces	in CZK '000	in pieces	in CZK '000	in pieces	in CZK '000
CZ0008474848	1 050 109 978	1 081 815	79 090 612	82 429	971 019 366	999 386

Share certificate value curve



Asset composition



List of securities held in excess of 1% as of 31 January 2017

SECURITIES CURRENCY	COUNTRY	ISIN	SECURITY NAME	PURCHASE PRICE in CZK '000	FAIR VALUE in CZK '000	STAKE IN ASSETS in %
EUR	AT	AT0000A0EY43	RAIFFEISEN-EUROPA-HI YD	966 482	1 008 309	97.36
<b>TOTAL</b>				<b>966 482</b>	<b>1 008 309</b>	<b>97.36</b>

**Information about deductions, surcharges or fees that will be paid from the feeder fund's assets in relation to its investments and whether a discount or a refund is applied to them as per par. 4 (b) of Annex 2 to Decree No. 244/2013 Coll.**

No deductions or surcharges arise for the Fund in relation to the investments in the Master Fund. The Fund received an incentive in the amount of CZK 745 thousand for the reporting period in relation to the investments in the Master Fund.

**Other material information according to Annex 2 to Regulation No. 244/2013 Coll.:**

g) In the reporting period, the Company did not participate in any legal dispute or arbitration proceedings on behalf of the Fund.

h) The Fund is a growth fund, i.e. all assets are reinvested.

i) Information about the fee actually paid to the manager for managing the Fund, distinguishing information about payment for the performance of the activity of depository, administrator, primary supporter and auditor, and information about other fees or taxes.

This information is included in Notes 4. FEE AND COMMISSION EXPENSES and 6. ADMINISTRATIVE EXPENSES to the Financial Statements that form part of this report.

j) The Fund's investment activity carried out in the reporting period was in line with the investment strategy defined in the Fund's Statute and relevant legislation. The risk of financial derivatives involves a) the "basis" risk arising from different price developments of derivatives and hedging assets, b) counterparty default risk. The market value of financial derivatives arranged for hedging purposes and the receivable for the payment of financial resources from accounts in CZK or a foreign currency may amount to no more than 15% of the value of the Fund's assets. The aggregate value of foreign currency investment instruments, i.e. securities issued by the Master Fund, and receivables for the payment of cash from accounts in foreign currencies for which no currency hedging to CZK is applied, must not exceed 25% of the value of the Fund's assets. Financial derivatives were arranged particularly with UniCredit Bank Czech Republic and Slovakia, a.s. More information about quantitative restrictions and methods that were chosen for the assessment for risks related to techniques and instruments of the Fund is included in the financial statements which form a part of this report.

In line with Article 13 (Section A of the Annex) of Regulation (EU) 2015/2365 of the European Parliament and of the Council, the Company states that no securities financing transactions (SFT) or total return swaps were performed in respect of the Fund in the reporting period.

**Additional information**

The Fund incurred no research and development expenses in the reporting period nor did it perform any activities in the area of environmental protection and labour relations during the reporting period.

**Material events subsequent to the balance sheet date**

Aside from the material events included in the Fund's financial statements, the management of the Company is as of the date of preparation of the financial statements not aware of any material subsequent events that would affect the financial statements for the year ended 31 January 2017.

## INDEPENDENT AUDITOR'S REPORT

To the Partners of Raiffeisen fond  
high – yield dluhopisů, otevřený podílový fond,  
Raiffeisen investiční společnost a.s.

Having its registered office at: Hvězdova 1716/2b, 140 78 Praha 4- Nusle

### Opinion

We have audited the accompanying financial statements of Raiffeisen fond high – yield dluhopisů, otevřený podílový fond, Raiffeisen investiční společnost a.s. (hereinafter also the "Fund") prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as of 31 January 2017, and the profit and loss account and statement of changes in equity for the period then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Raiffeisen fond high – yield dluhopisů, otevřený podílový fond, Raiffeisen investiční společnost a.s. as of 31 January 2017, and of its financial performance for the period then ended in accordance with accounting regulations applicable in the Czech Republic.

### Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund and Raiffeisen investiční společnost a.s. (hereinafter also the "Company") in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter

We draw attention to Note 1 to the financial statements describing that the Fund's current reporting period is the fiscal year from 30 October 2015 to 31 January 2017, with this fiscal year being also the first reporting period. The profit and loss account does not include any comparative information.

Our opinion is not modified in respect of this matter.

### Other Information in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors of Raiffeisen investiční společnost a.s. is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Fund obtained in the audit, on whether the other information contains any material misstatement of fact. As described in the Basis for Qualified Opinion section above, we have concluded that the other information is not materially misstated.

Responsibilities of the Board of Directors and Supervisory Board of Raiffeisen investiční společnost a.s. for the Financial Statements

The Board of Directors of Raiffeisen investiční společnost a.s. is responsible for the preparation and fair presentation of the financial statements in accordance with accounting regulations applicable in the Czech Republic and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors of Raiffeisen investiční společnost a.s. is responsible for assessing the Fund'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 the Board of Directors either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board of Raiffeisen investiční společnost a.s. is responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are 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 ISAs 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 the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

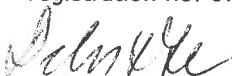
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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 used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' 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 Fund'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 Fund 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.

We communicate with the Board of Directors and the Supervisory Board of Raiffeisen investiční společnost a.s. regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

In Prague on 10 March 2017

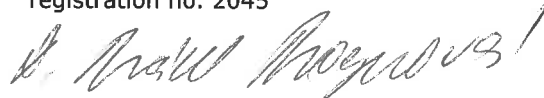
Audit firm:

Deloitte Audit s.r.o.  
registration no. 079



Statutory auditor:

Diana Rádl Rogerová  
registration no. 2045





## FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 JANUARY 2017

**Name of the Company:** Raiffeisen fond high-yield dluhopisů, otevřený podílový fond, Raiffeisen investiční společnost a.s.

**Registered Office:** Hvězdova 1716/2b, 140 78 Praha 4 - Nusle

**Corporate ID:** 291 46 739

### Components of the Financial Statements:


Balance Sheet

Profit and Loss Account

Statement of Changes in Equity

Notes to the Financial Statements

These financial statements were prepared on 10 March 2017.

Statutory body of the reporting entity:	Signature
<b>On behalf of the statutory body:</b> Ing. Jaromír Sladkovský Ing. Michal Ondruška <b>Individual in charge of the accounting records:</b> Petra Paďourová	

**Business name: Raiffeisen fond high yield dluhopisů**  
 Raiffeisen investiční společnost a.s.  
 Seat: Hvězdova 1716/2b, Praha 4, 140 78  
 Corporate ID: 29146739  
 Principal activities: fund administration and management  
 Financial statements preparation date: 6.2.2017

**BALANCE SHEET**  
**as of 31 January 2017**

CZK thousand	Note	31.1.2017
<b>ASSETS</b>		
3 Receivables from banks and cooperative credit unions	7	26 978
<i>of which: a) payable upon request</i>		26 978
6 Shares, share certificates and other investments	8	1 008 309
<i>b) share certificates</i>		1 008 309
11 Other assets	9	394
<b>Total assets</b>		<b>1 035 681</b>

CZK thousand	Note	31.1.2017
<b>LIABILITIES</b>		
4 Other liabilities	11	6 360
<i>of which: derivatives</i>	13	6 672
5 Accrued expenses and deferred income	12	3 646
6 Reserves	14	1 314
<i>b) tax</i>		1 314
12 Capital funds		999 386
15 Profit or loss for the reporting period	15	24 975
<b>Total liabilities</b>		<b>1 035 681</b>

CZK thousand	Note	31.1.2017
<b>OFF BALANCE SHEET ITEMS</b>		
<b>Off balance sheet assets</b>		
3 Receivables from spot transactions	13	21 616
4 Receivables from fixed term operations		997 927
<b>Off balance sheet liabilities</b>		
11 Payables from spot transactions	13	21 618
12 Payables from fixed term operations		1 002 442

**Business name: Raiffeisen fond high yield dlhopisů**  
 Raiffeisen investiční společnost a.s.  
 Seat: Hvězdova 1716/2b, Praha 4, 140 78  
 Corporate ID: 29146739  
 Principal activities: fund administration and management  
 Financial statements preparation date: 6.2.2017

**PROFIT AND LOSS ACCOUNT**  
**for the period from 30 October 2015 to 31 January 2017**

CZK thousand	Note	31.1.2017
4 Fees and commission income	3	745
5 Fees and commission expenses	4	(7 934)
6 Profit or loss from financial operations	5	33 574
9 Administrative expenses	6	(96)
<i>b) other administrative expenses</i>		(96)
<b>19 Profit or loss for the reporting period from ordinary activities before tax</b>		<b>26 289</b>
23 Income tax	16	(1 314)
<b>24 Profit or loss for the reporting period after tax</b>		<b>24 975</b>

**Business name: Raiffeisen fond high yield dluhopisů**  
 Raiffeisen investiční společnost a.s.  
 Seat: Hvězdova 1716/2b, Praha 4, 140 78  
 Corporate ID: 29146739  
 Principal activities: fund administration and management  
 Financial statements preparation date: 6.2.2017

**STATEMENT OF CHANGES IN EQUITY**  
**for the period from 30 October 2015 to 31 January 2017**

CZK thousand	Capital funds	Profit (loss)	Total
<b>Balance at 30.10. 2015</b>	-	-	-
Net profit/loss for the reporting period	-	24 975	24 975
Share certificates sold	1 081 815	-	1 081 815
Share certificates purchased	(82 429)	-	(82 429)
<b>Balance at 31.01.2017</b>	<b>999 386</b>	<b>24 975</b>	<b>1 024 361</b>

**1. GENERAL INFORMATION**

**(a) Fund characteristics**

***Fund emergence and characteristics***

Raiffeisen fond high – yield dluhopisů, otevřený podílový fond, Raiffeisen investiční společnost a.s. (hereinafter the “Fund”) represents an accounting entity without legal personality managed by Raiffeisen investiční společnost a.s. (hereinafter the “Company”) pursuant to Act no. 240/2013 Coll., on management companies and investment funds (hereinafter the “Act”). The Fund came into existence on the day of its entry into the list of investment funds on 30 October 2015 based on the decision of the Czech National Bank ref. no. 2015/118481/CNB/570 of 27 October 2015. The Fund has been publically offered since 23 November 2015.

The fund is a standard securities fund in accordance with the Act, complying with all legal requirements of the European Communities.

Neither the number of issued share certificates nor the duration of the Fund are limited.

The Fund has no employees and all administration relating to the business activities of the Fund is supplied by the Company.

***Information about the management company***

The Fund assets are administered and managed by Raiffeisen investiční společnost a.s., Corporate ID 29146739, with its registered office at Hvězdova 1716/2b, Praha 4 – Nusle, 140 78. The Company was incorporated on 21 December 2012. The Company obtained operation authorisation based on Decision of the Czech National Bank No. 2013/4256/570 of 9 April 2013 which took effect on 9 April 2013.

The Company is a management company in the sense of the existing legislation and it acts in the capacity of a legal entity, which collects cash from both legal entities and natural persons (individuals), in order to use them to participate in business (collective investing).

***Principal activity of the Company***

Under the Act, the Company is authorised, in the scope of the authorisation of the Czech National Bank, to:

- Manage investment funds or foreign investment funds;
- Exceed the critical limit; and
- Administer investment funds or foreign investment funds.

***Depository information***

Depository services are provided by UniCredit Bank Czech Republic and Slovakia, a.s., Corporate ID 64948242, with its registered office at Želetavská 1525/1, Praha 4, 140 92 (hereinafter the “Depository”) under the Depository Agreement dated 6 February 2014.

***Master Fund information***

Raiffeisen-Europa-HighYield (ISIN AT0000A0EY43), hereinafter the “Master Fund”, with its registered office at Schwarzenbergplatz 3, A-1010 Vienna, Austria. The Master Fund is administered by Raiffeisen Kapitalanlage-Gesellschaft m.b.h., with its registered office at Schwarzenbergplatz 3, A-1010 Vienna, Austria. Identification no.: 83517w – Register of Companies held by the Business Court in Vienna (Austria). More details on the Master Fund including the latest published annual and biannual reports are available at [www.rfis.cz](http://www.rfis.cz).

**(b) Basis for the Preparation of the Financial Statements**

The financial statements have been prepared based on accounting records maintained in line with:

- Accounting Act No. 563/1991, as amended;
- Regulation No. 501/2002 issued by the Ministry of Finance, as amended; and
- Czech Accounting Standards for financial institutions as published by the Ministry of Finance.

The financial statements have been prepared in compliance with the accruals principle and historical prices, excluding selected financial instruments valued at fair value.

The financial statements are based on the going concern assumption and assuming that no facts exist that would restrict the Fund or prevent it from carrying out its activity in the foreseeable future.

The current reporting period of the Fund is the fiscal year from 30 October 2015 to 31 January 2017.

These financial statements are presented in thousands of Czech crowns ('CZK') unless stated otherwise. Figures in brackets are negative.

These financial statements are unconsolidated financial statements.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Transaction Date**

Depending on the transaction type, the transaction date is predominantly:

- Date of payment or receipt of money in circulation;
- Date of purchase or sale of foreign currency, foreign exchange or securities;
- Date of payment;
- Date of crediting (foreign currency) funds based on the account statement;
- Date of arrangement and settlement of spot transactions, namely purchase or sale of financial instruments or commodities with such a delivery date where the period between the trade date and the settlement date is no more than five days; and
- Trade date and settlement date of derivative transactions.

Spot transactions (i.e. purchases and sales of financial assets with a usual term of delivery) of the Fund are reported directly in the relevant asset or liability at the trade date.

The Fund will derecognise a financial asset or any part thereof from the balance sheet if control over the contractual rights to such a financial asset or any part thereof is lost. The loss of control occurs if the Company exercises its rights to contractual benefits, if such rights expire or should the Fund waive these rights.

If a financial liability or any part thereof expires (such as when a contractual obligation is met, cancelled or expires), the financial liability or a part thereof will no longer be recognised in the Fund's balance sheet. The difference between the carrying amount of the financial liability or a part thereof that has expired or has been transferred to another entity and the amount paid for the respective debt shall be reported through expenses or revenues as appropriate.

**(b) Securities**

In compliance with the Fund strategy, all securities have been classified as securities valued at their fair value. Securities are re-valued on a daily basis during the reporting period, pursuant to Decree no. 244/2013 Coll., of the Ministry of Finance of the Czech Republic, on detailed issues related to the Act on Management Companies and Investment Funds, as amended (hereinafter the "Decree"). Pursuant to the Decree, securities are valued at prices derived from public markets, which may be further adjusted in keeping with the provisions of the Decree. If no market price is available, such value shall be applied

as determined according to valuation models based on discounted future cash flows according to the yield curve.

Upon their initial recognition, securities are valued at acquisition cost. Acquisition cost also includes direct transaction costs related to the acquisition of securities.

#### ***Interest income***

The term ‘interest income’ means the following:

- a) as regards debt securities with coupon, the accrued coupon as determined in the issue terms and conditions and the accrued difference between the nominal value and the net acquisition cost, known as a premium or discount;
- b) as regards debt securities without coupon and bills of exchange, the accrued difference between the nominal value and the acquisition cost.

Interest income on debt securities is reported in the profit and loss account commencing on the purchase using the effective interest rate method.

#### ***Debiting of securities***

Upon sales of securities, the Fund values such securities disposals using the ‘average price method’.

### **(c) Receivables and Provisions**

Operating receivables are recognised at their nominal value net of provisions, if any. Bad debts are written off after the completion of the debtor’s bankruptcy proceedings or when it is highly unlikely for the bad debt to be settled.

Provisions are recognised as expenses; the utilisation of a provision is recognised in the profit and loss account along with expenses or losses arising from asset disposals. The release of a provision due to redundancy is recognised in revenues.

### **(d) Financial Derivatives**

Derivatives are financial instruments meeting the following conditions:

- a) their fair value varies depending on changes in interest rates, security prices, commodity prices, foreign exchange rates, price indices, credit assessments (ratings) or indices, and/or depending on any other variables (so-called underlying assets);
- b) as compared to other types of contracts, which show similar responses to changing market conditions, they require little or no initial investments;
- c) they will be settled in the future and the period from the trade date to settlement exceeds that of spot transactions.

Derivatives are reported in the balance sheet at their fair values. Positive fair values of derivatives are reported in assets under ‘Other assets’. Negative fair values of derivatives are reported in liabilities under ‘Other liabilities’.

Fair value of financial derivatives is determined as the present value of future cash flows from these transactions. The present value is determined with the help of parameters identified on the active market, such as exchange rates, interest rates for a given maturity based on the yield curve, etc.

In the off-balance sheet, derivatives are reported at contractual undiscounted values of the underlying instrument under ‘Receivables from fixed-term operations’ and ‘Payables from fixed-term operations’.

**(e) Funds Invested by Shareholders**

The Fund has no share capital. The share certificates have the nominal value of CZK 1. The total nominal value of all share certificates is captured on the account Capital funds.

***Capital funds***

The selling price of share certificates is calculated as a ratio of the Fund's equity and the number of issued share certificates. Share certificates are sold to investors for selling prices determined on a daily basis.

***Share premium***

The share premium from the difference between the nominal value and the selling price of share certificates is reported separately. The Fund recognises the share premium both upon the sale of share certificates and upon their re-purchase.

**(f) Reserves**

Reserves represent probable cash outflows of uncertain timing and amount. Reserves are charged to expenses in such amounts which are the best estimate of expenditures required in order to settle existing liabilities.

Reserves are created if the following criteria are met:

- a) A performance obligation (legal or constructive) exists as a result of past events;
- b) It is probable or certain that an event will occur and will require an outflow of resources representing economic benefits, where "probable" means probability greater than 50%; and
- c) It is possible to make a reliable estimate of such fulfilment.

**(g) Foreign Currency Translation**

Transactions denominated in foreign currencies are translated into the local currency using the exchange rate of the Czech National Bank effective on the date of the transaction.

Assets and liabilities denominated in foreign currencies along with foreign-currency spot transactions before their due dates are translated into the local currency using the exchange rate of the Czech National Bank effective at the balance sheet date. Any profit or loss resulting from the translation of assets and liabilities denominated in foreign currencies, excepting equity investments in foreign currencies, or items hedging against foreign currency risk arising from contracts not yet recognised in the Fund's balance sheet, or from anticipated future transactions is recognised in the profit and loss account as "Profit or loss from financial operations".

**(h) Taxation**

***Tax payable***

The corporate tax base is calculated from the profit for the current period before tax, increased by non-deductible expenses, less the revenues that are not subject to income tax, and further adjusted for tax allowances and relevant credits, if any. Based on valid tax regulations, corporate income tax for mutual funds amounts to 5%.

***Deferred tax***

Deferred tax is based on all temporary differences between the carrying and tax values of assets and liabilities, using the anticipated tax rate effective for the following period. A deferred tax asset will be only recognised if there is no doubt as to its recovery in the following reporting periods.

**(i) Interest income and interest expense and dividend income**

Interest income and interest expense are reported on an accrual basis.

Dividend income is reported on the effective date of entitlement to receive its payment (ex-dividend date). Dividend income from domestic securities is reported after the deduction of withholding tax.



Dividend income from foreign securities is reported prior to the deduction of withholding tax.

### 3. FEES AND COMMISSION INCOME

The item 'Fees and commission income' includes the incentive received in relation to the investment in KAG funds in the amount of CZK 745 thousand.

### 4. FEES AND COMMISSION EXPENSES

CZK '000	30 Oct 2015 – 31 Jan 2017
Management fee	4 240
Fee for the appreciation of the Fund's assets	2 921
Depository fee	365
Securities administration	350
Other fees and commissions	58
<b>Total</b>	<b>7 934</b>

The management fee paid by the Fund to the Company amounts, according to the Fund Prospectus, to 0.70% of the average annual value of the Fund equity.

The fee for the appreciation of the Fund's assets is paid by the Fund to the Company and amounts to 10% of profit/loss before tax.

Under the Depository Agreement, the Fund pays a fee in the amount of 0.0605% of the average annual value of the Fund equity.

### 5. PROFIT OR LOSS FROM FINANCIAL OPERATIONS

CZK '000	30 Oct 2015 – 31 Jan 2017
Profit from securities valued at fair value	41 827
Loss from exchange rate differences	(80)
Loss from spot and fixed term transactions	(8 173)
<b>Total</b>	<b>33 574</b>

Profit or loss from securities valued at fair value mainly represents daily revaluation of securities to fair value.

Profit or loss from exchange rate differences mainly represents both realised and unrealised exchange rate differences from revaluation of bond securities and balances on current accounts denominated in foreign currencies.

Profit or loss from spot and fixed term transactions includes profit and loss from settlements of spot transactions and fixed term transactions with financial instruments as well as revaluation of open derivatives at fair value.

### 6. ADMINISTRATIVE EXPENSES

Administrative expenses include audit expenses in the amount of CZK 96 thousand.

### 7. RECEIVABLES FROM BANKS AND COOPERATIVE CREDIT UNIONS

Receivables from banks include current accounts maintained by Unicredit bank Czech Republic and Slovakia, a.s., amounting to CZK 26,978 thousand.

Current accounts are payable upon request.

**8. SHARES, SHARE CERTIFICATES AND OTHER INVESTMENTS**

CZK '000	31 Jan 2017
Share certificates	1 008 309
<b>Net book value</b>	<b>1 008 309</b>

**9. OTHER ASSETS**

CZK '000	31 Jan 2017
Estimated receivable for the KAG fund incentive	394
<b>Total</b>	<b>394</b>

**10. EQUITY**

As of 31 January 2017, 971,019,366 share certificates of the Fund were issued.

The value of the share certificate as of the last business day 31 January 2017 amounted to CZK 1.0549. This is the last value of a share certificate in the respective year for which purchases and re-purchases of the Fund's share certificates were made.

**11. OTHER LIABILITIES**

CZK '000	31 Jan 2017
Negative values of financial derivatives	6 672
Other liabilities	(312)
<b>Total</b>	<b>6 360</b>

**12. ACCRUED EXPENSES AND DEFERRED INCOME**

The item 'Accrued expenses' primarily includes the uninvoiced management fee in the amount of CZK 600 thousand and uninvoiced fee for the appreciation of the Fund's assets in the amount of CZK 2,921 thousand.

**13. FINANCIAL DERIVATIVES**

**Nominal value of derivatives:**

CZK '000	31 Jan 2017	
	Receivable	Payable
Currency forwards	997 927	1 002 442
Spot operations	21 616	21 618
<b>Total</b>	<b>1 019 543</b>	<b>1 024 060</b>

Off-balance sheet assets and liabilities represent the nominal (contractual) undiscounted values which are revalued by the Fund using the CNB's exchange rate valid as of the financial statements date. All the above financial instruments were concluded on the inter-bank market (OTC).

**Fair value of derivatives:**

CZK '000	31 Jan 2017	
	Positive	Negative
Currency forwards	-	6 672
<b>Total</b>	<b>-</b>	<b>6 672</b>

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Period Ended 31 January 2017

All currency derivatives mature within one year.

**14. RESERVES**

	Income tax	Total reserves
Balance at 30 October 2015	-	-
Creation	1 314	1 314
Usage	-	-
<b>Balance at 31 January 2017</b>	<b>1 314</b>	<b>1 314</b>

The Fund creates the income tax reserve because the financial statements are prepared prior to the date of determining the tax liability. In the following reporting period, the Fund will release the reserve and account for the established tax liability.

**15. PROPOSED ALLOCATION OF PROFIT**

*The Company's Board of Directors proposes the allocation of the profit for the period from 30 October 2015 to 31 January 2017 as follows:*

CZK '000	Profit / loss	Retained earnings or accumulated loss brought forward
Balance at 31 January 2017 prior to the allocation of the profit for the period from 30 October 2015 to 31 January 2017	-	-
Profit for the period from 30 October 2015 to 31 January 2017	24 975	-
<b><i>Proposed allocation of the profit for the period from 30 October 2015 to 31 January 2017:</i></b>		
Transfer to retained earnings	(24 975)	24 975
<b>Total</b>	<b>-</b>	<b>24 975</b>

**16. INCOME TAXATION**

**(a) Income Tax**

CZK '000	30 Oct 2015 – 31 Jan 2017
Income tax reserve	1 314
<b>Total</b>	<b>1 314</b>

**(b) Income Tax – Tax Analysis**

CZK '000	30 Oct 2015 – 31 Jan 2017
Profit or loss for the period before tax	26 289
Revenues that are not subject to tax	-
Tax non-deductible expenses	-
Other items	-
<b>Subtotal</b>	<b>26 289</b>
<b>Tax calculated using the 5% tax rate</b>	<b>1 314</b>

## 17. RELATED PARTY TRANSACTIONS

CZK '000	31 Jan 2017
Assets	
Incentive related to investments in KAG funds	394
Liabilities	
Management fee payable to the Company	600
Performance fee paid to the Company	2 921
CZK '000	30 Oct 2015 – 31 Jan 2017
Expenses	
Management fee payable to the Company	4 240
Performance fee paid to the Company	2 921
Income	
Incentive related to investments in KAG funds	745

## 18. VALUES PLACED UNDER MANAGEMENT

The Fund has all its assets managed by the Company. The item entitled 'Values placed under management' covers both foreign and local securities, term deposits as well as current account balances.

## 19. FINANCIAL INSTRUMENTS – MARKET RISK

The Fund is exposed to market risks arising from open positions in interest rate, equity and currency instrument transactions that are sensitive to changes in financial market conditions. The risk profile of the Fund corresponds to the risk profile of the Master Fund.

### (a) Risk management

The basic risk management instrument is represented by imposing limits on the ratio of different types of financial instruments in the portfolio, which are determined in accordance with legal requirements, the Fund Prospectus, and its investment strategy. The key risks, which are evaluated on a daily basis, include foreign currency exposures, sensitivity to interest rate fluctuations and allocations to securities with equity exposure.

Market risks are measured using the Value at Risk ("VaR") method. Value at Risk represents a potential loss resulting from unfavourable developments on the market within a certain time period and at a certain level of reliability. The 'Value at Risk' is measured on the basis of a one-year holding period and a 95% reliability level.

### (b) Liquidity risk

'Liquidity risk' represents the risk that the Fund will not have sufficient cash resources to meet its commitments associated with its financial contracts. Liquidity is monitored and managed on the basis of expected cash flows; in this context, the structure of the securities and the term deposits portfolio is adjusted.

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***Residual maturity of the Fund's assets and liabilities***

CZK '000	Less than 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Not specified	Total
<b>As of 31 January 2017</b>						
Receivables from banks	26 978	-	-	-	-	26 978
Shares, share certificates	-	-	-	-	1 008 309	1 008 309
Other assets	394	-	-	-	-	394
<b>Total</b>	<b>27 372</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 008 309</b>	<b>1 035 681</b>
Other liabilities	6 360	-	-	-	-	6 360
Accrued/deferred income and expenses	3 646	-	-	-	-	3 646
Reserves	-	1 314	-	-	-	1 314
Equity	-	-	-	-	1 024 361	1 024 361
<b>Total</b>	<b>10 006</b>	<b>1 314</b>	<b>-</b>	<b>-</b>	<b>1 024 361</b>	<b>1 035 681</b>
<b>GAP</b>	<b>17 366</b>	<b>(1 314)</b>	<b>-</b>	<b>-</b>	<b>(16 052)</b>	<b>-</b>
<b>Cumulative GAP</b>	<b>17 366</b>	<b>16 052</b>	<b>16 052</b>	<b>16 052</b>	<b>-</b>	<b>-</b>

The above table shows residual maturities of the book values of the individual financial instruments, rather than of all cash flows resulting from such instruments.

**(c) Interest rate risk**

The Fund is exposed to interest rate risk due to the impacts of fluctuations of the current interest rates on the market. On account of such changes, the fair value and income from financial assets may both increase and decrease.

The table below provides a summary of the mismatch between the Fund's assets and liabilities that are interest-rate sensitive. The table below includes data about the extent of Fund's interest rate risk based on the contractual maturity of the financial instruments.

***Interest-rate sensitivity of the Fund's assets and liabilities***

CZK '000	Less than 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total
<b>As of 31 January 2017</b>					
Receivables from banks	26 978	-	-	-	26 978
<b>Total</b>	<b>26 978</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26 978</b>

The above summary only includes interest-rate sensitive assets and liabilities and, therefore, it is not identical to the values presented in the Fund's balance sheet.

**(d) Currency risk**

Assets and liabilities in foreign currencies including off-balance sheet participations represent the Fund's exposure to currency risks. Both realised and unrealised foreign exchange profit and loss is reported directly in the profit and loss account. The foreign exchange positions of the Fund in the most significant currencies are as follows:

***Foreign exchange positions of the Fund***

CZK '000	EUR	USD	CZK	Total
<b>As of 31 January 2017</b>				
Receivables from banks	1 223	-	25 755	<b>26 978</b>
Shares, share certificates and other investments	1 008 309	-	-	<b>1 008 309</b>
Other assets	-	-	394	<b>394</b>
<b>Total</b>	<b>1 009 532</b>	<b>-</b>	<b>26 149</b>	<b>1 035 681</b>
Other liabilities	6 672	-	(312)	<b>6 360</b>
Accrued/deferred income and expenses	-	-	3 646	<b>3 646</b>
Reserves	-	-	1 314	<b>1 314</b>
Equity	-	-	1 024 361	<b>1 024 361</b>
<b>Total</b>	<b>6 672</b>	<b>-</b>	<b>1 029 009</b>	<b>1 035 681</b>
Long off-balance instruments positions	21 616	-	997 927	<b>1 019 543</b>
Short off-balance instruments positions	1 002 442	-	21 618	<b>1 024 060</b>
<b>Net foreign exchange position</b>	<b>22 034</b>	<b>-</b>	<b>(26 551)</b>	<b>-</b>

**20. FINANCIAL INSTRUMENTS – CREDIT RISK**

Credit risk is the risk of financial loss that the Fund faces if the counterparty in a financial instrument transaction does not comply with its contractual obligations.

Fund investments are implemented so that the rating structure of the securities complies with the Fund Prospectus and its investment strategy. Credit risk management includes the monitoring of diversification of investments in terms of their geographical distribution and in terms of exposure of individual issuers to credit risk. The Fund has been exposed to a risk arising from investments in the Master Fund – given that at least 85% of the Fund's assets will be invested in securities issued by the Master Fund, the risk profile of the Master fund has a substantial impact on the risk profile of the Fund.

***Distribution of assets based on geographical segments***

**As of 31 January 2017**

CZK '000	Czech Rep.	EU	Other European Countries	Other	Total
Receivables from banks	26 978	-	-	-	<b>26 978</b>
Shares, share certificates and other investments	-	1 008 309	-	-	<b>1 008 309</b>
Other assets	394	-	-	-	<b>394</b>
<b>Total</b>	<b>27 372</b>	<b>1 008 309</b>	<b>-</b>	<b>-</b>	<b>1 035 681</b>

***Distribution of securities based on the issuer***

CZK '000	31 Jan 2017
Issued by collective investment funds	1 008 309
<b>Total</b>	<b>1 008 309</b>

**21. POST BALANCE SHEET EVENTS**

No events occurred subsequent to the balance sheet date on 31 January 2017 that would have a significant impact on the financial statements of the Fund.