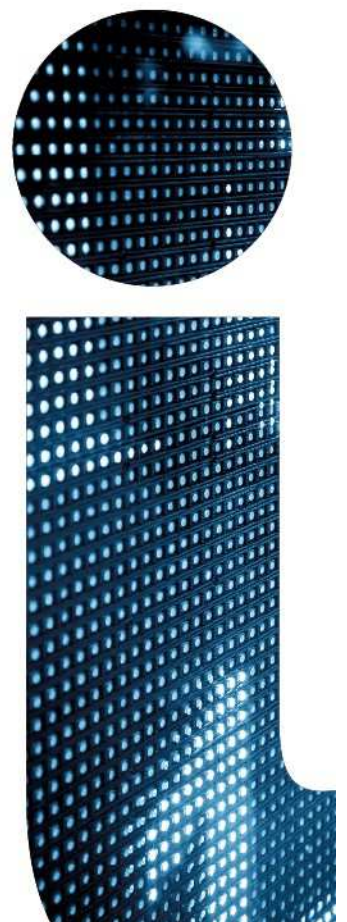


The  
IPOPEMA Securities Group

# Directors' Report

**on the operations of IPOPEMA Securities S.A.  
and the IPOPEMA Securities Group  
in the first half of 2016**

Warsaw, August 23rd 2016



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# PART I

## 1. Financial performance

Key consolidated financial results	2016			2015		
	Q1 *	Q2*	H1	Q1 *	Q2*	H1
Total revenue, including	16,916	21,594	<b>38,510</b>	22,446	23,457	<b>45,903</b>
<i>Brokerage and related services</i>	7,426	9,553	<b>16,979</b>	9,244	10,658	<b>19,902</b>
<i>Investment fund management</i>	7,666	7,691	<b>15,357</b>	10,050	9,768	<b>19,818</b>
<i>Consultancy services</i>	1,824	4,350	<b>6,174</b>	3,152	3,031	<b>6,183</b>
Total cost of core activities	18,536	19,505	<b>38,041</b>	20,983	22,670	<b>43,653</b>
Profit on core activities	-1,620	2,089	<b>469</b>	1,463	787	<b>2,250</b>
Net profit for period	-2,181	2,653	<b>472</b>	128	551	<b>679</b>

\* Unaudited.

### Revenue

Lower revenue in the brokerage services and investment fund and portfolio management segments translated into a 16.1% decline in consolidated revenue of the IPOPEMA Group in H1 2016 – down to PLN 38,510 thousand from PLN 45,903 thousand in H1 2015.

Revenue from brokerage services (PLN 16,979 thousand; 44.1% of consolidated revenue) was 14.7% lower than the year before (PLN 19,902 thousand), driven by a 29.1% drop in revenue from trading in securities (PLN 10,505 thousand vs PLN 14,811 thousand in H1 2015), despite a significant growth (up 25.8%) of revenue from investment banking services (PLN 6,368 thousand vs PLN 5,064 thousand). Lower revenue from brokerage operations was principally attributable to lower trading volumes on the WSE (down by 16.4%) and a decline in the Company's market share (4.74% in H1 2016 vs 6.19% a year earlier).

In H1 2016, IPOPEMA TFI (investment fund and portfolio management business) posted revenue of PLN 15,357 thousand (39.9% of consolidated revenue), which means a 22.5% decrease on H1 2015 (PLN 19,818 thousand), caused mainly by a complete outflow of assets from white label funds following the termination of agreements for the management of such funds. As a result, as at the end of H1 2016 the asset value of white label funds dropped down to zero, while in H1 2015 their value averaged at PLN 0.4bn. On the other hand, the total value of assets in other actively managed funds amounted to PLN 0.9bn as at the end of June 2016, up from PLN 0.7bn as at the end of June 2015. Further, in the asset management segment, the average value of assets under management went down from PLN 0.8bn in H1 2015 to PLN 0.3bn in January–June 2016, while the total value of assets under management as at the end of June 2016 grew to PLN 53.5bn (from PLN 31.6bn the year before).

In January–June 2016, IPOPEMA Business Consulting (consultancy segment) posted revenue of PLN 6,174 thousand (excluding revenue from IPOPEMA Securities) relative to PLN 6,183 thousand the year before); the segment's revenue accounted for 16.0% of the IPOPEMA Group's consolidated revenue.

### Costs and expenses

As a result of lower costs of operations across all business segments, the IPOPEMA Group's total costs of operations in H1 2016 were down 12.9% on H1 2015 and amounted to PLN 38,041 thousand (H1 2015: PLN 43,653 thousand).

In January–June 2016, costs of operations in the brokerage services segment totalled PLN 17,952 thousand, having decreased by 9.6% on H1 2015 (down from PLN 19,864 thousand), chiefly on the back of lower transaction costs.

In the investment fund and portfolio management segment, total costs of operations dropped by 20.7% on H1 2015, to PLN 13,993 thousand, chiefly because of lower distribution and management costs of actively managed funds, including white label funds, which largely depend on the value of assets of such funds.

Thanks to cost discipline, IPOPEMA Business Consulting's total costs of operations were also down on the previous year (PLN 6,096 thousand vs PLN 6,138 thousand).

## Net profit/(loss)

Despite the loss reported by the brokerage services segment, profit earned by other business segments translated into a consolidated profit on core activities and a net profit of PLN 469 thousand and PLN 472 thousand, respectively (vs a PLN 2,250 thousand profit on core activities and PLN 679 thousand net profit in H1 2015).

As IPOPEMA Securities' equity interest in IPOPEMA Business Consulting is 50.02%, loss attributable to owners of the parent was PLN 398 thousand, and loss attributable to non-controlling interests was PLN 74 thousand.

In the brokerage services segment, despite lower costs of operations, the significant decline in revenue translated into a net loss of PLN 840 thousand (vs a PLN 933 thousand net loss in H1 2015). IPOPEMA Securities' net profit for H1 2016 disclosed in the separate financial statements was PLN 610 thousand (H1 2015: PLN 546 thousand); in both years dividends received by IPOPEMA Securities from subsidiaries: PLN 1,470 thousand from IPOPEMA TFI in H1 2016 and a total of PLN 1,400 thousand from IPOPEMA TFI and IPOPEMA Business Consulting in H1 2015, were not accounted for in the consolidated financial statements.

Despite lower costs of operations of IPOPEMA TFI (down 20.7%), with a 22.5% decline in revenue the fund and portfolio management earned a net profit of PLN 1,220 thousand (H1 2015: PLN 1,569 thousand).

The consultancy services segment's revenue and costs of operations remained virtually unchanged, and the segment reported a slightly higher net profit compared with the year before (PLN 92 thousand vs PLN 43 thousand).

## 2. Material events and factors with a bearing on the financial performance

### Equity market and investment banking

In H1 2016, only the Budapest Stock Exchange recorded an increase in the trading volumes (up 5.8% on H1 2015), while the trading volumes in Warsaw and Prague were 16.4% and 16.7% lower, respectively, relative to the first six months of 2015. Over the same period, the Company's market share on the WSE declined to 4.74% (from 6.19% a year earlier) because of growing competition, chiefly from foreign-based brokerage houses. The market share on the BSE remained almost flat year on year (2.33% vs 2.32% a year earlier). As a result, the Company's revenue from trading in securities in H1 2016 declined by 29.1% year on year (PLN 10,505 thousand vs PLN 14,811 thousand).

On the market for equity transactions, the situation in H1 2016 was more difficult than in H1 2015, with the total value of IPOs on the WSE being three times lower year on year. However, a higher number of successful transactions handled by IPOPEMA Securities in this period contributed to an increase of 25.8% in investment banking revenue (PLN 6,368 thousand vs PLN 5,064 thousand).

As a result of the above factors, the revenue of the brokerage services segment was 14.7% lower year on year, and the segment posted a net loss of PLN 840 thousand in H1 2016 (relative to a PLN 933 thousand net loss in the previous year) despite lower cost of operations.

### IPOPEMA TFI's activities

Despite an increase in the total value of the funds' assets to PLN 53.2bn as at the end of June 2016 (from PLN 31.2bn as at the end of June 2015), a year-on-year decline in the value of assets under management in H1 2016, from PLN 0.5bn to PLN 0.3bn, as well as termination of agreements for the management of white label funds resulting in a complete outflow of assets from those funds, translated into a 22.5% revenue decrease in the fund and portfolio management segment (PLN 15,357 thousand in H1 2016 vs PLN 19,818 thousand in H1 2015). Consequently, even with a 20.7% reduction in the cost of operations, the segment's net profit fell to PLN 1,220 thousand (from PLN 1,569 thousand in H1 2015).

## IPOPEMA Business Consulting

A slight year-on-year decrease in revenue posted by IPOPEMA Business Consulting in H1 2016 (down 0.1%) together with a slightly lower costs of operations (down 0.7%) translated into moderately higher net profit (PLN 92 thousand vs PLN 43 thousand in H1 2015).

# 3. Factors with potential bearing on the H2 2016 results

## Market situation on the Warsaw, Budapest and Prague stock exchanges and IPOPEMA Securities' position on the secondary market

Following moderate changes, in late July the WIG index did not change significantly (-0.6%) on the end of 2015, while over the same period the Budapest BUX index climbed 15.5% and the Prague PX index declined by 7.8%. At the same time, in H1 only the BSE saw a growth in trading volumes (up 5.8%), whereas investor activity on the WSE and PSE slowed down by 16.4% and 16.7%, respectively. It is therefore difficult to predict the developments on the Company's markets in subsequent months of 2016.

## IPOPEMA Securities' involvement in investment banking projects and execution of transactions in the order book

Following a challenging first quarter on the equity transaction market, the situation improved slightly in the subsequent months. IPOPEMA Securities acted as the Joint Bookrunner and Underwriter in this year's largest public offering of X-Trade Brokers DM, and was involved in the offerings of Braster S.A. shares and Bank Pocztowy bonds. However, announcements of further changes to open-ended pension funds and the continuing risk of a further downgrade in Poland's rating may have an adverse effect on market sentiment in the coming months. Nevertheless, the Company is working on several transactions and continues to seek new clients, including from sectors which are more resilient to stock market volatility.

## Expansion of IPOPEMA Securities' retail business

In February 2016, the Company started offering brokerage services and investment products to a broad base of retail customers. To date, the Company has entered into cooperation with two agents of investment companies (Expander Advisors and NWA I Dom Maklerski), and IPOPEMA Securities' retail customers could subscribe for investment certificates (Raiffeisen Centrobank, Trigon), shares as part of public offerings (X-Trade Brokers DM, Auto Partner), and bonds (Bank Pocztowy). However, as the retail business is still in an early phase of development, it is hard to reliably predict the pace of its growth in the coming months and thus its effect on the Company's performance this year.

## Further expansion of IPOPEMA TFI's business

Changes of the situation on capital markets are reflected in the volume of inflows of assets to investment funds. Any strong market downturn causes a decline in the value of assets under management, but also undermines investors' confidence in this type of products, which translates not only into a very limited inflow of new funds but also into unit redemptions. The downturn observed on the WSE from May 2015 through mid-January 2016 resulted in retail investment funds reporting net redemptions for nine consecutive months (up to and including February 2016). Despite renewed interest in investment products (in the period from March to July, June was the only month in which investment funds reported net redemptions), it is difficult to predict how investor sentiment will change in the coming months. The prevailing record-low interest rates may encourage transfers of savings from bank deposits to investment funds, which may have a positive effect on the performance of the fund and portfolio management segment. However, a large proportion of IPOPEMA TFI's revenue (from management of closed-end funds) does not depend on the value of the funds' assets and, consequently, on market conditions.

## Expansion of IPOPEMA Business Consulting's business

In the subsequent months of 2016, the key drivers of IPOPEMA Business Consulting's operations will include continued performance of its existing contracts and new additions to the order book, coupled with tight cost control.

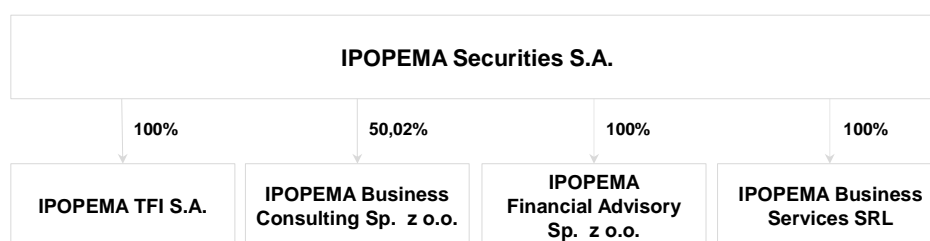
## 4. Performance vs forecasts

The Company did not publish any separate or consolidated profit guidance.

## PART II

### 1. Organisational structure of the IPOPEMA Securities Group

As at June 30th 2016, the group of IPOPEMA Securities S.A. consisted of IPOPEMA Securities S.A. as the parent, and the following subsidiaries: IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A., IPOPEMA Business Consulting Sp. z o.o., IPOPEMA Financial Advisory Sp. z o.o. and IPOPEMA Business Services SRL (Romania). IPOPEMA Securities, IPOPEMA TFI and IPOPEMA Business Consulting are consolidated, while the other companies are excluded from consolidation based on the immateriality of their financial data.

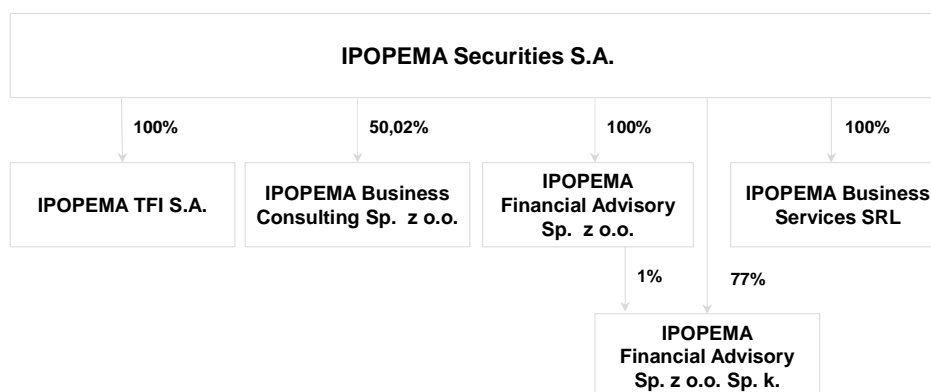


### 2. Changes in the structure of the IPOPEMA Securities Group

In accordance with the information provided in the Company's latest annual report, given changes to the model of operating in foreign markets, the process of winding up IPOPEMA Business Services Kft. (Hungary) and IPOPEMA Business Services SRLIBS SRL (Romania) was launched. On April 1st 2016, the process of winding up the Hungarian subsidiary was completed, resulting in IPOPEMA Securities becoming the sole shareholder of IPOPEMA Business Services SRL (whose winding up is expected to be concluded in H2 2016).

Moreover, the Company acquired from IPOPEMA Business Consulting all shares in IPOPEMA Outsourcing Sp. z o.o., whose name was then changed to IPOPEMA Financial Advisory Sp. z o.o. At the same time, in July, the subsidiary IPOPEMA Financial Advisory Spółka z ograniczoną odpowiedzialnością Sp.k. (IFA SK) was registered. The abovementioned structure was established in connection with the planned transfer to IFA SK of advisory services related to corporate financial restructuring and raising financing for infrastructural projects, currently provided within IPOPEMA Securities, which is scheduled for the second half of 2016.

Given the above changes, as at the date of authorising this report, the organisational structure of the IPOPEMA Securities Group was as follows:



### 3. Shareholding structure of IPOPEMA Securities S.A.

As at June 30th 2016, the following shareholders held more than 5% of shares in IPOPEMA Securities S.A.:

Shareholder	Number of shares and voting rights at GM	% of total voting rights at GM
IPOPEMA PRE-IPO FIZAN <sup>1</sup>	2,990,789	9.99%
JLC Lewandowski S.K.A. <sup>2</sup>	2,990,789	9.99%
OFE PZU Złota Jesień*	2,950,000	9.85%
IPOPEMA 10 FIZAN <sup>3</sup>	2,851,420	9.52%
Katarzyna Lewandowska	2,136,749	7.14%
Quercus Parasolowy SFIO*	1,754,164	5.86%
<b>Total shareholders holding over 5% of the share capital</b>	<b>15,673,911</b>	<b>52.35%</b>

\* Based on notifications received by the Company from the shareholders.

<sup>1</sup> The main investors in the fund are Jacek Lewandowski, President of the Company's Management Board, and Katarzyna Lewandowska.

<sup>2</sup> Subsidiary of Jacek Lewandowski, President of the Company's Management Board.

<sup>3</sup> The only investor in the fund is Stanisław Waczkowski, Vice President of the Company's Management Board.

Until the date of this report, there were no changes in the group of shareholders directly or indirectly holding 5% or more of the Company shares and of total voting rights at the Company's General Meeting.

### 4. Changes in the number of shares held by members of management and supervisory personnel

As at March 31st 2016 and June 30th 2016, members of the management staff held, directly or indirectly through their subsidiaries or related entities (including dedicated funds), the following shareholdings in IPOPEMA Securities S.A.

Person	Number of shares and votes	% of ownership interest and total voting rights
Jacek Lewandowski – President of the Management Board <sup>1</sup>	6,320,868	21.11%
Stanisław Waczkowski – Vice President of the Management Board	3,142,855	10.50%
Mariusz Piskorski – Vice President of the Management Board	915,000	3.06%
Miroslaw Borys – Vice President of the Management Board	696,428	2.33%
Daniel Ścigała – Member of the Management Board	118,212	0.39%
<b>Total</b>	<b>11,193,363</b>	<b>37.39%</b>

<sup>1</sup> As disclosed in the table in Section 3, shares in IPOPEMA Securities S.A. are also held by Katarzyna Lewandowska, Jacek Lewandowski's wife.



## 5. Issue, redemption and repayment of equity and non-equity securities

Except for an issue of registered bonds with a total par value of PLN 2 thousand, no equity or non-equity securities of IPOPEMA Securities S.A. were issued, redeemed or repurchased in H1 2016 or the comparative period. The total amount of liabilities payable by the Company on redemption of the bonds will not exceed the bonds' par value and is not significant to the Company, and the issue is related to the Variable Remuneration Component Policy implemented at the Company. For more information, see Note 11 to the interim condensed separate financial statements and Note 14 to the interim condensed consolidated financial statements.

## 6. Loans, guarantees, sureties

In H1 2016 (and in the comparative period), the Company did not receive and did not provide any sureties or loans (other than loans to its employees and associates). The guarantees provided to the Company, disclosed in Note 12 to the interim condensed financial statements of IPOPEMA Securities, were renewed.

## 7. Selected corporate events in H1 2016

### Changes in the IPOPEMA Group's structure

As disclosed in Section 2 above, in 2016 the winding up of the Hungarian subsidiary IPOPEMA Business Services Kft was completed. Furthermore, IPOPEMA Securities acquired from IPOPEMA Business Consulting the subsidiary IPOPEMA Outsourcing Sp. z o.o., which, following the change of its name to IPOPEMA Financial Advisory Sp. z o.o., became the general partner in newly established IPOPEMA Financial Advisory Spółka z ograniczoną odpowiedzialnością Sp.k. In the second half of 2016, IPOPEMA Securities' consultancy services related to financial restructuring and securing financing for infrastructural projects are to be transferred to IPOPEMA Financial Advisory Spółka z ograniczoną odpowiedzialnością Sp.k.

### Dividend from IPOPEMA TFI

In H1 2016, a resolution was adopted concerning IPOPEMA TFI's payment of dividend of PLN 1,470 thousand to IPOPEMA Securities. The dividend amount represents the Company's finance income and is disclosed in its separate financial statements but eliminated in the Group's consolidated financial statements.

## 8. Litigation and court proceedings

In March 2014, administrative proceedings against IPOPEMA TFI were initiated before the Polish Financial Supervision Authority concerning compliance with the provisions its Articles of Association by one of the funds. Even though IPOPEMA TFI presented detailed explanations and arguments, the Polish Financial Supervision Authority decided to impose a fine of PLN 50 thousand on IPOPEMA TFI. IPOPEMA TFI filed a request for re-examination of the case.

Furthermore, in July 2015, IPOPEMA TFI received a decision of the General Inspector for Financial Information on the instigation of proceedings to impose a fine for failure to meet the obligation to register a transaction and failure to implement follow-up recommendations issued by the Polish Financial Supervision Authority within the prescribed time limit. IPOPEMA TFI presented detailed explanations in the proceedings and filed a petition with the Minister of Finance to re-examine the case. However, in December, the Minister of Finance upheld the challenged decision. IPOPEMA TFI filed an appeal against the decision to the Provincial Administrative Court,

which, however, dismissed the complaint in full. IPOPEMA TFI filed for a statement of reasons for this decision and will consider lodging a complaint with the Supreme Administrative Court.

In April 2016, IPOPEMA Securities filed a suit against one of its clients for payment of PLN 49 thousand plus interest under unpaid invoices for consultancy in raising funds. In June 2016, the court issued an order of payment in writ-of-payment proceedings. Now, the defendant has time to object against the order of payment.

In July 2016, IPOPEMA TFI received a copy of a statement of claim filed by Górnośląskie Przedsiębiorstwo Wodociągów S.A. of Katowice ("GPW"), for payment of PLN 20.5m for loss incurred by GPW due to GPW's investment in investment certificates of IPOPEMA 60 FIZAN, a fund managed by IPOPEMA TFI. IPOPEMA TFI believes the claim to be groundless and has taken legal action to have it dismissed. Currently, a response to the claim is being prepared. The time limit for IPOPEMA TFI to submit the response is end of August 2016.

Apart from the above-mentioned proceedings, in 2016 none of the IPOPEMA Group companies was party to any other court or administrative proceedings.

## 9. Related-party transactions

In H1 2016, the Company did not execute any material related party transactions. For more information on related-party transactions, see Note 25 to the interim condensed consolidated financial statements.

## 10. Material events subsequent to the reporting date

In the period between June 30th 2016 and the issue date of the financial statements, there were no material events with a bearing on the Company's operations.

## 11. Risk factors

Below are presented risk factors specific to the business of the IPOPEMA Securities Group as a whole or its individual companies, which the Management Board believes to be the most material and which – should they materialise – may have an adverse effect on the operations, financial standing, performance or development prospects of the Company and the Group.

### Risk related to the situation on capital markets

The Company's financial results depend primarily on capital market conditions, especially in Poland. The economic slowdown is a driver of adverse trends in global stock markets and the CEE stock markets where the Company operates. The capital market downturn is affecting the Company's revenue through lower trading volumes on the stock exchanges and the challenging conditions for execution of public offerings of securities.

With respect to IPOPEMA TFI, such adverse market conditions discourage investment in listed securities (mainly equities) and thereby affect revenue from active management services. To date, this has had a limited effect on the performance of IPOPEMA TFI, as it focused on creating closed-end private equity funds. However, since the company is expanding its active management business, a prolonged market downturn may erode revenues and earnings of IPOPEMA TFI (particularly due to difficulties in acquiring new assets for management or even maintaining their current volumes). Likewise, in the asset management business, the factor of crucial importance to its operations is the market sentiment, which drives equity and debt instrument prices, thus affecting the value of assets under management and revenue from portfolio management services.

## Risk related to competition in the services markets on which IPOPEMA Securities and other Group companies operate

IPOPEMA Securities is exposed to strong competition across all its markets, both from well-established Polish brokerage houses and foreign financial institutions, which are increasingly active in the CEE region (operating as foreign-based brokerage houses or through local offices). The competitive pressure is particularly evident in Poland, as in the recent years Warsaw grew to become the largest and most important capital market in this part of Europe. The growing competition may result in the Company losing some of its market share and in higher pressure on prices, which may have an adverse effect on the Company's financial performance.

Similarly, IPOPEMA TFI and IPOPEMA Business Consulting compete against companies with established market positions and against new market entrants. IPOPEMA TFI is currently the largest investment fund management company in terms of total assets under management, and one of the market leaders in creating closed-end investment funds. Moreover, IPOPEMA TFI continues to expand its offering and consolidate its position on the market of actively managed funds. IPOPEMA Business Consulting is consistently expanding its client base and order book. Nonetheless, there can be no assurance that the competitors' activities will not stand in the way of the development plans of IPOPEMA TFI and IPOPEMA Business Consulting; if so, this may have an adverse effect on the future performance of the IPOPEMA Securities Group as a whole.

## Risk related to dependence on the management personnel, necessity to retain key employees, acquisition of highly qualified specialists and level of remuneration

The IPOPEMA Securities Group's business and development prospects largely depend on the expertise, experience and qualifications of the management personnel. Their work for the Group has been a key factor behind its success to date. Hence, if any of the members of the Group's management personnel decides to leave the Company, this may have an adverse effect on the operations and financial standing of the Company and its subsidiaries, as well as on their financial performance and development prospects.

Furthermore, in order to deliver an adequate quality of service, the Group companies must retain highly qualified staff. The nature of the Company's business requires that part of IPOPEMA Securities' and IPOPEMA TFI's employees, in addition to having relevant experience, meet formal requirements to be able to provide brokerage or investment advisory services. Besides, to ensure continued development of the Group, it is necessary to hire new employees with relevant expertise and experience. Given the strong competition and a limited availability of qualified professionals that guarantee the required level of service, with a view to ensuring stability of the key staff, the Company's Management Board seeks to apply appropriate incentive mechanisms to motivate employees to link their future with the Group. However, the pursuit of those plans may require increased expenditure on employee remuneration, which, given the considerable share of salaries and wages in total operating expenses, may have an adverse effect on the financial results of the Group companies in the future.

## Risk related to settlement of stock exchange transactions

The Company is a clearing member of the Polish national securities depository KDPW\_CCP, which means that on the clearing date it is required to pay for executed buy transactions and deliver securities in order to clear executed sell transactions. The Company executes transactions for clients (holding accounts with custodian banks), who should deliver cash for executed buy transactions or securities for executed sell transactions on the clearing date. However, a client may fail to provide the cash or securities on time. In such a case, until the client has settled the relevant liabilities, for the purpose of the transaction clearing the Company must use its own resources (buy transactions) or deliver securities acquired on the market (sell transactions). Additionally, if the client fails to pay for a buy transaction, there is also a risk that the Company may acquire securities which it may be unable to sell on equally favourable terms or which it may be unable to sell at all. In the case of sell transactions, there is a risk that the Company may need to acquire the securities on the market at a price higher than the price at which the client was supposed to deliver such securities or that it will be impossible to acquire such securities. Such a situation does not limit the Company's right to assert claims against the client on account of the client's failure to perform obligations under an agreement (order) concerning a transaction in securities.

## Risk related to the nature of investment banking services

The Company's services in the area of investment banking, in particular advisory services to companies seeking introduction of their shares to trading on the WSE as well as M&A transactions, are characterised by relatively long execution periods (typically not less than several months). Given the volatile nature of capital markets and changes of investment plans by the Company's clients, there is a risk that some of the projects commenced by the Company may be postponed or the clients may decide to abandon execution of the transaction (in particular when faced with adverse market conditions). As success fees account for a substantial portion of the

Company's consideration in the case of such projects, any such decisions may have an adverse effect on the Company's financial performance.

### **Risk related to the expansion of IPOPEMA Securities' retail business**

In February 2016, the Company started offering brokerage services and investment products to a broad base of retail customers. As this is still a young business, it is hard to reliably predict its growth in the coming months. Consequently, if this business fails to expand at the expected pace, its effect on the Company's financial performance may be lower than anticipated.

### **Risk related to the business of IPOPEMA TFI**

Given the strong competition on the market of investment funds as well as the dependence of individual funds' performance on the economic situation (in particular the situation on the capital markets) and correctness of investment decisions made by the IPOPEMA TFI fund managers, there is a risk that the funds may not yield the expected rate of return (or, in an extreme case, they may incur losses) and the clients may lose confidence in the fund managers, which may eventually lead to some clients discontinuing their relationship with the funds managed by IPOPEMA TFI or make attracting new clients more difficult. In connection with the above and the fact that in the case of selected funds IPOPEMA TFI's consideration depends on the funds' performance against an agreed benchmark rate of return, the risk that the fund managers will not meet the targets and that the clients will discontinue their relationship with IPOPEMA TFI may cause IPOPEMA TFI to be unable to generate the assumed level of revenue.

The rate of IPOPEMA TFI's business growth depends to a certain extent on whether the company is able to secure relevant administrative approvals (particularly to create new funds), as well as the direction of possible changes in the legal environment relevant to the business of investment funds and taxation of investment funds and unit holders.

As regards asset management, IPOPEMA TFI's business is primarily exposed to investment risk. It cannot be ruled out that the IPOPEMA TFI's managers will not make wrong decisions or pursue wrong investment strategies, which may result in the loss of current clients and difficulties in winning new clients, and may thus have an adverse effect on IPOPEMA TFI's performance.

### **Risk related to the level of equity and financial requirements of IPOPEMA Securities and the Group**

In connection with its operations on the secondary market, upon the closing of each trading day the Company is obliged to ensure an appropriate amount of funds for the Settlement Guarantee Fund managed by KDPW CCP. Currently, each day the Company makes a contribution to the Fund using a credit facility. In the case of any events with an adverse effect on the Company's financial performance, the Company's ability to use debt financing may be limited and it may be necessary for the Company to scale down its business or increase its equity base.

To date, the Company has not encountered any problems in making sufficient contributions to the Settlement Guarantee Fund, and the present amount available under the credit facility ensures safe continuation of business on the current scale or even a substantial increase in business volumes. It should also be noted that, if the Company's clients fail to settle transactions concluded on the basis of their orders in a timely manner, the Company may be required to execute such transactions using its own funds if the available credit facility is not sufficient to cover the liabilities.

Moreover, as a brokerage house, the Company is obliged to meet the capital requirements, including the separate and consolidated capital adequacy requirements, which to a large extent depend on the scope and scale of brokerage activities. IPOPEMA Securities' equity on a separate and consolidated basis (June 30th 2016: PLN 60,748 thousand and PLN 77,752 thousand, respectively) is maintained at a level ensuring an appropriate surplus over the capital requirements. However, it cannot be ruled out that a rapid business expansion, in particular as a result of implementation of new business projects, and legal and regulatory changes will require the equity to be increased. The necessity to increase the equity may also extend to IPOPEMA TFI, which may be subject to additional risk estimation and capital requirement obligations as a result of potential regulatory changes affecting investment fund companies.

### **Risk related to the function of payment bank**

In order to be able to start and conduct operations on the WSE, the Company (as well as other brokerage houses which are direct members of the WSE) is required to have a valid agreement on payment bank services with a bank which is a member of the CSDP. The Company's payment bank is currently Alior Bank S.A. If the agreement on payment bank services was terminated, the Company would need to enter into a new agreement

with another bank, which would take time and require the Company to agree new terms of business. Any difficulties in finding a successor payment bank could even pose a risk that the Company might have to temporarily suspend its brokerage until a new agreement is signed.

A similar risk exists with respect to the Hungarian and Romanian branches of Raiffeisen Bank, with which the Company executed agreements in relation to transactions executed on the Budapest Stock Exchange and the Bucharest Stock Exchange, as well as with respect to the Polish branch of Raiffeisen Bank, which clears the Company's transactions on the other foreign stock exchanges.

### **Risk related to the IT and telecommunications systems**

A particularly significant aspect of the Company's activities is the need to ensure uninterrupted and secure operation of its IT and telecommunications systems. Any serious system failure may not only expose the Company to the risk of financial liability to clients for not executed or incorrectly executed orders, but may also undermine the client's confidence in the long term. The Company purchased and implemented a dedicated IT system for providers of brokerage services, which has been upgraded and modified on a continual basis. The objective behind the purchase of the system and the ongoing steps taken by the Company in order to ensure the best possible security solutions for its IT and telecommunications infrastructure, is to mitigate the risk of adverse effects of possible failure of the IT systems, unauthorised access to the data stored on the servers used by the Company, or loss of such data. In spite of all the steps taken by the Company, the potential materialisation of risks in this area cannot be ruled out.

### **Risk related to mistakes and errors of IPOPEMA Securities' employees and breaches of law**

The IPOPEMA Securities Group's position on the markets on which it is present depends primarily on the degree of client confidence in the Group companies and their employees. The nature and scope of the Group's services require its employees not only to possess the relevant expertise and experience, but also to comply with the procedures in place at each company of the Group, designed to limit the risk of mistakes and errors in the course of the Group's operations. Although each employee of the IPOPEMA Securities Group is obliged to know and apply the operational procedures in effect at a given company, there can be no assurance that mistakes or errors will not occur in day-to-day operations. Any such errors or mistakes may, depending on their scale, affect the financial standing and financial performance of the IPOPEMA Securities Group. Given the nature of the Group's operations, the risk of mistakes is particularly relevant in the case of staff operating directly on the secondary market.

In line with the applicable laws, a company authorised to conduct brokerage activities is required to have a unit which exercises ongoing supervision over compliance of the employees who provide brokerage and investment advice services with legal regulations and internal rules of procedure (including those applicable to inside information and market manipulation). Although as at date of this Report there were no instances of criminal or unethical conduct on the part of the Company's employees, there can be no assurance that such events will not occur in the future. Any such incident may expose the Company to administrative sanctions from competent authorities, including the Polish Financial Supervision Authority, and may lead to financial losses and loss of reputation.

## Risk related to a claim against IPOPEMA TFI

As disclosed in Section 8, a statement of a claim has been filed against IPOPEMA TFI by one of the certificate holders in a fund managed by IPOPEMA TFI. The claim is for payment of PLN 20.5m for loss incurred by that certificate holder due to its investment in certificates of a fund managed by IPOPEMA TFI. IPOPEMA TFI believes the claim to be groundless and has taken legal action to have it dismissed (currently, a response to the claim is being prepared; the deadline for submission of the response is end of August 2016. No assurance can be given that the final ruling will not be unfavourable to IPOPEMA TFI. However, considering the early stage of the proceedings, their outcome cannot be reliably predicted.

Warsaw, August 23rd 2016

## Management Board of IPOPEMA Securities S.A.:

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Jacek Lewandowski  
President of the  
Management Board

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Mariusz Piskorski  
Vice President of the  
Management Board

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Stanisław Waczkowski  
Vice President of the  
Management Board

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Mirostaw Borys  
Vice President of the  
Management Board

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Daniel Ścigała  
Member of the  
Management Board