

# Directors' Report

**on the operations of IPOPEMA  
Securities S.A. and the IPOPEMA  
Securities Group in H1 2012**

Warsaw, August 23rd 2012

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# PART I

## 1. Financial performance

Consolidated financial highlights	2012			2011		
	Jan– Mar*	Apr– Jun*	Jan –Jun	Jan– Mar*	Apr– Jun*	Jan –Jun
Total revenue, including	24,173	20,516	<b>44,689</b>	26,328	28,769	<b>55,097</b>
<i>Brokerage and related services</i>	13,751	10,661	<b>24,412</b>	18,168	19,078	<b>37,246</b>
<i>Investment fund management</i>	6,680	6,714	<b>13,394</b>	4,986	5,484	<b>10,470</b>
<i>Consultancy services</i>	3,742	3,141	<b>6,883</b>	3,174	4,207	<b>7,381</b>
Total cost of core activities	19,118	17,671	<b>36,789</b>	18,079	20,305	<b>38,384</b>
Profit on core activities	5,055	2,845	<b>7,900</b>	8,249	8,464	<b>16,713</b>
Net profit for the period	2,833	2,030	<b>4,863</b>	6,129	6,638	<b>12,767</b>

\* Unaudited.

### Revenue

The year-on-year decline in market conditions in H1 2012 is reflected in the Group's total revenue, which in January–June 2012 was down 18.9% over H1 2011 (PLN 44,689 thousand vs. PLN 55,097 thousand, respectively).

The most significant source of the Group's revenue continued to be securities trading, which in H1 2012 contributed PLN **19,914 thousand** (44.6% of the consolidated revenue from core activities). However, a significant downturn on the secondary equity markets of the WSE and BSE (with trading volumes down year on year by 24.1% and 34.5%, respectively) drove revenue from securities trading down by 33.2% (H1 2011: PLN 29,803 thousand).

The unfavourable market climate had a similar adverse effect on revenues from investment banking services, which fell by 40.5% year on year, from PLN 7,049 thousand in H1 2011 to PLN 4,197 thousand.

Compared with H1 2011, the investment fund and portfolio management business (IPOPEMA TFI and IPOPEMA Asset Management) posted a major growth in revenue (up by 27.9%, to PLN 13,394 thousand), driven by an increase in the number of funds and a higher value of assets under management (as at the end of June 2012, IPOPEMA TFI had 75 funds and subfunds under management, with an aggregate asset value of PLN 6,527m, compared with 55 funds and an aggregate asset value of PLN 5,040m a year earlier) and consolidation of revenues generated by IPOPEMA Asset Management (the company has been consolidated since Q4 2011).

In H1 2012, revenue generated by the advisory business (IPOPEMA Business Consulting) amounted to PLN 6,883 thousand (representing 15.4% of the Group's total revenue), having slipped by 6.7% from PLN 7,381 thousand in H1 2011.

IPOPEMA Securities' separate revenue (brokerage and related services) amounted to PLN 24,412 thousand in H1 2012, compared with PLN 37,246 thousand recorded in H1 2011.

### Costs and expenses

Despite higher costs posted by the fund management segment and the consultancy services segment, lower costs of operations posted by the brokerage services segment resulted in total costs of operations declining in H1 2012 by 4.2% year on year (from PLN 38,384 thousand to PLN 36,789 thousand).

In H1 2012, total costs of operations in the brokerage services segment stood at PLN 18,665 thousand and were down by 25.3% on H1 2011 (PLN 24,983 thousand), mainly due to lower transaction costs and lower cost of salaries and wages.

The key factor driving up costs in the investment fund and portfolio management segment, which went up by 56.2% relative to H1 2011 (from PLN 7,928 thousand to PLN 12,386 thousand), was primarily the higher cost of salaries and wages following from the consolidation of IPOPEMA Asset Management as of Q4 2011.

Costs of operations in the consultancy services segment rose slightly, from PLN 5,473 thousand in H1 2011 to PLN 5,738 thousand in H1 2012.

## Net profit (loss)

A fall in total revenues combined with a significantly lower reduction in total cost of operations had a negative impact on the overall financial performance. In H1 2012, consolidated profit on core activities amounted to PLN 7,900 thousand (H1 2011: PLN 16,713 thousand). Operating profit and net profit amounted to PLN 7,094 thousand and PLN 4,863 thousand, respectively, versus PLN 16,241 thousand and PLN 12,767 thousand, respectively, in H1 2011.

As IPOPEMA Securities' interest in IPOPEMA Business Consulting is 50.02%, profit attributable to owners of the parent was PLN 4,406 thousand, and profit attributable to non-controlling interests was PLN 457 thousand.

IPOPEMA Securities' net profit for H1 2012 as shown in the Company's separate financial statements amounted to PLN 6,186 thousand (H1 2011: PLN 9,246 thousand) and was up by PLN 3,777 thousand on net profit for the same period disclosed (as profit of the brokerage and related services segment) in the consolidated financial statements, which was mostly due to the dividend of PLN 3,800 thousand received from IPOPEMA TFI and eliminated in the consolidated financial statements.

In H1 2012, the investment fund and portfolio management segment (IPOPEMA TFI and IPOPEMA Asset Management) posted net profit of PLN 1,603 thousand, down by 20.8% year on year (H1 2011: PLN 2,023 thousand).

Lower revenues combined with higher costs of operations in the consultancy services segment (IPOPEMA Business Consulting) caused the segment's net profit to drop to PLN 851 thousand, versus PLN 1,572 thousand in H1 2011.

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

### Situation on the equity markets of the Warsaw and Budapest Stock Exchanges

In H1 2011, the WSE's WIG index continued its climb started in March 2009. The growing trend was also reflected in the trading volume – the monthly average of trading values was PLN 42.9bn (on a double counted basis) during that period. Unfortunately, at the beginning of H2 2011, the WSE, like other global markets, saw a major retreat – in a few sessions the WIG index dropped by approx. 20%. Since then, the situation on the WSE has been highly volatile and it has been difficult to identify any prevailing trend. The deterioration of market conditions translated also into a lower monthly average of trading value, which in H1 2012 was PLN 32.6bn (down 24.1% year on year).

On the Budapest Stock Exchange, the monthly trading value on the equity market in the period January–June 2012 was down by 34.5% year on year.

In addition, due to the growing competition, the Company's market shares shrank slightly year on year, from 8.62% to 8.13% on the WSE and from 7.48% to 6.77% on the BSE.

All those factors drove down the Company's revenue from trading in securities by 33.2%, to PLN 19,914 thousand (from PLN 29,803 thousand in H1 2011).

### Investment banking services

Similarly, H1 2012 was much less favourable for the capital raising business compared with the corresponding period of 2011. Although a modest recovery was seen after a complete freeze of market activity in the second half of 2011, investors' prevailing uncertainty as to further market developments contributed to lower company valuations, which discouraged new public offerings. Consequently, due to a lower number of closed transactions in H1 2012, during that period the Company's revenue from investment banking services was down by 40.5% on H1 2011 (PLN 4,197 thousand against PLN 7,049 thousand a year earlier).

### IPOPEMA TFI's and IPOPEMA Asset Management's activities

The key drivers of the considerable increase in revenue from fund and portfolio management (up 27.9%, to PLN 13,394 thousand) included an increase in the number of funds, a higher value of assets held by the funds managed by IPOPEMA TFI, and consolidation of revenues generated by IPOPEMA Asset Management (consolidated since Q4 2011). At the end of June 2011, IPOPEMA TFI had 55 funds under its management with

an aggregate asset value of PLN 5,040m. As at the end of June 2012, the number of funds rose to 75 (including subfunds), whereas the aggregate value of their assets grew to PLN 6,527m. Despite a 27.9% growth of revenue, a major increase in cost of operations reported in H1 2012 (by 56.2%) contributed to a decline in net profit (PLN 1,603 thousand relative to PLN 2,023 thousand in H1 2011).

### **IPOPEMA Business Consulting**

The increasingly challenging market environment affected also the operations of IPOPEMA Business Consulting, which in H1 2012 reported revenue of PLN 6,883 thousand, down 6.7% year on year. This, and a slight increase in total cost of operations (by 4.8%, to PLN 5,738 thousand) yielded the consulting services segment's net profit of PLN 851 thousand (relative to PLN 1,572 thousand in the corresponding period of 2011).

## **3. Factors with potential bearing on the H2 2012 results**

### **Market situation on the Warsaw, Budapest and Prague Stock Exchanges and IPOPEMA Securities' position on the secondary market**

Following the market slump in mid-2011, the Company's markets (as well as the global markets in general) saw horizontal price movements, accompanied by a high volatility and considerably lower trading values. It is therefore difficult to predict how the situation will unfold in H2 2012. At present, however, there are no clear signs of any developments that might provide fresh impetus for a significant recovery on the markets and drive up trading volumes to the levels seen in H1 2011.

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

Although a modest short-term recovery was seen on the capital raising markets in the first months of 2012, the prevailing investors' uncertainty as to further market developments contributed to lower company valuations, which discouraged new public offerings. Despite this unfavourable backdrop, the Company is working on new equity transactions and will make attempts at winning new clients, including from sectors more resilient to the volatile sentiment on the stock-exchange market.

### **Further expansion of IPOPEMA TFI's and IPOPEMA Asset Management's business**

The deterioration of market conditions on the WSE in the second half of 2011 not only caused an outflow of clients' money from investment funds, but also undermined investors' confidence in this type of products, as evidenced by the very limited inflow of new funds and redemptions of investment fund units. In the period February-July 2012, despite the still high investors' uncertainty, Polish investment funds reported net subscriptions (after consecutive six months of net redemptions). While investor sentiment in the following months of the year is difficult to predict, a possible revival of clients' interest in investment funds should improve 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 H2 2012, the key drivers of IPOPEMA Business Consulting's operations will include performance of its existing contracts and new additions to the order book, with a concurrent tight cost control.

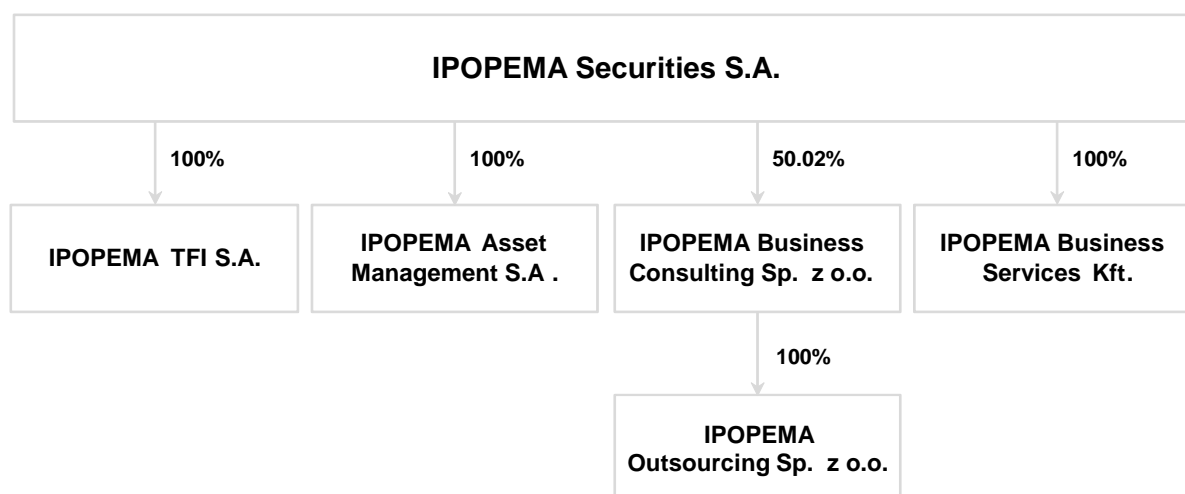
## 4. Performance against forecasts

The Company and the Group did not publish any performance forecasts.

## PART II

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

The Group of IPOPEMA Securities S.A. consists of IPOPEMA Securities S.A., which is the parent, and subsidiaries: IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A., IPOPEMA Business Consulting Sp. z o.o., IPOPEMA Asset Management S.A., IPOPEMA Business Services Kft, and IPOPEMA Outsourcing Sp. z o.o. – a subsidiary of IPOPEMA Business Consulting. IPOPEMA Securities, IPOPEMA TFI, IPOPEMA Asset Management and IPOPEMA Business Consulting are consolidated, while IPOPEMA Business Services and IPOPEMA Outsourcing have been excluded from consolidation given the immateriality of their financial information.



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

In H1 2012, the IPOPEMA Securities Group was expanded through addition of IPOPEMA Outsourcing Sp. z o.o., which provides support to the operations of IPOPEMA Business Consulting (IPOPEMA Outsourcing Sp. z o.o.'s parent).

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

As at June 30th 2012, the shareholder structure of the Company (shareholders directly or indirectly holding 5% or more of the shares in IPOPEMA Securities S.A. and of the total vote at the Company's General Meeting) was as follows:

Shareholder	Number of shares and votes at GM	% of total vote at GM
IPOPEMA 10 FIZAN <sup>1</sup>	2,851,420	9.58%
OFE PZU Złota Jesień*	2,770,000	9.31%
PRE-IPO FIZAN <sup>2</sup>	2,188,370	7.36%
KL Lewandowska S.K.A. <sup>3</sup>	2,086,749	7.01%
JLK Lewandowski S.K.A. <sup>4</sup>	2,066,249	6.94%
JLS Lewandowski S.K.A. <sup>4</sup>	2,066,249	6.94%
Aviva OFE Aviva BZ WBK*	1,562,539	5.25%
<b>Total shareholders holding over 5% of the share capital</b>	<b>15,591,576</b>	<b>52.39%</b>

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

<sup>1</sup> The only investor in the fund is Stanisław Waczkowski, Vice-President of the Company's Management Board.

<sup>2</sup> The main investors in the fund are Jacek Lewandowski, President of the Company's Management Board, and Katarzyna Lewandowska.

<sup>3</sup> Subsidiary of Katarzyna Lewandowska.

<sup>4</sup> Subsidiary of Jacek Lewandowski, President of the Company's Management Board.

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

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

As at March 31st 2012 and June 30th 2012, members of the management and supervisory staff held, directly or indirectly through their subsidiaries or related entities (including dedicated funds), the following shareholdings in IPOPEMA Securities S.A.

Person	No. of shares and votes	% of ownership interest and total vote
Jacek Lewandowski – President of the Management Board <sup>1</sup>	6,320,868	21.25%
Stanisław Waczkowski – Vice-President of the Management Board	3,142,855	10.56%
Mariusz Piskorski – Vice-President of the Management Board	965,000	3.24%
Mirosław Borys – Vice-President of the Management Board	696,428	2.34%
Bogdan Kryca – Member of the Supervisory Board	442,854	1.49%
<b>Total</b>	<b>11,568,005</b>	<b>38.88%</b>

<sup>1</sup> As stated in the table in Section 3, shares in IPOPEMA Securities S.A. are also held (indirectly, through a subsidiary) by Katarzyna Lewandowska, Jacek Lewandowski's wife.

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

Save for the shares issued as part of the incentive scheme (see Section 7 below), no non-equity or equity securities of IPOPEMA Securities S.A. were issued, redeemed or repurchased in H1 2012 or in the comparative period.



## 6. Sureties granted

No sureties for loans or guarantees were issued by the IPOPEMA Securities Group entities in H1 2012 or in the comparative period.

## 7. Selected corporate events in H1 2012

### Subscription for shares under the incentive scheme

The second subscription for shares under Share Option Plan II took place in February 2012. A total of 197,321 shares were subscribed for, which increased the share capital by PLN 19,732.10, to PLN 2,975,212.20 (the first subscription for 212,500 shares took place in February 2011). All the shares were issued within the conditional share capital, and their issue price was PLN 5 per share. The shares were registered with the Polish NDS and introduced to trading on the Warsaw Stock Exchange, following assimilation with the existing Company shares.

### Adoption of consolidated text of the Company's Articles of Association

Following a change in the Company's share capital due to the subscription for Series C shares issued within the limits of the conditional share capital (see above), on February 23rd 2012 the Supervisory Board adopted a consolidated text of the Company's Articles of Association reflecting that change.

### Awards and distinctions

In January 2012, IPOPEMA came in second in the 2011 ranking of best-performing capital market teams. The ranking was published in the *Parkiet* and *Rzeczpospolita* dailies, with its key criterion being the total value of primary market transactions launched on the WSE in 2011.

In February 2012, the Company was also presented with the first prize awarded by the WSE in the category "Largest number of IPOs launched on the WSE in 2010-2011".

Moreover, IPOPEMA took the second place in a ranking of best research teams selected by institutional investors, which is published by the *Forbes* monthly. In the individual ranking, two analysts of the Research Department at IPOPEMA Securities were in the top ten.

### Dividend from IPOPEMA TFI

In H1 2012, a resolution was adopted concerning IPOPEMA TFI's payment of dividend of PLN 3,800 thousand to IPOPEMA Securities. While the dividend amount is the Company's finance income and is disclosed in its separate financial statements, it is eliminated from the IPOPEMA Group's consolidated financial statements.

## 8. Litigations

On January 13th 2009, the Company filed with the Regional Court a suit for payment of past due receivables of PLN 891 thousand. The suit was finally dismissed by the Court's judgement of July 28th 2011. This had no effect on the Company's or the Group's financial performance in H1 2012, because an impairment loss had been recognised in previous years for the full amount of the receivables. The IPOPEMA Securities Group entities were not parties to any other court proceedings.

## 9. Related-party transactions

In H1 2012, the Company did not conclude any material transactions with related parties other than at arm's length. For details of related party-transactions, see Note 24 to the interim condensed consolidated financial statements.

## 10. Material events subsequent to the balance-sheet date

### Execution of annexes to credit facility agreements with Alior Bank

After the balance-sheet date, the Company signed annexes to credit facility agreements with Alior Bank providing for two credit facilities, contracted to finance the Company's liabilities towards the Polish NDS in respect of settlement of transactions concluded by the Company on the WSE (PLN 10m) and to finance the Company's liabilities resulting from its membership in the Stock-Exchange Transactions Settlement Guarantee Fund (PLN 30m). The annexes extended the term of the agreements until July 19th 2013.

## 11. Risk factors

Below are presented risk factors specific to the business of the IPOPEMA Securities Group or its member 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 IPOPEMA Securities Group.

### Risk related to the situation on capital markets

The Company's financial results are primarily dependent on capital market conditions, especially in Poland. In particular, the economic slowdown is causing a slump on global stock exchanges, including the Warsaw Stock Exchange, Budapest Stock Exchange, and Prague Stock Exchange, where the Company operates. The downturn affects the Company's revenue through lower trading volumes on the stock exchanges and difficult conditions for execution of public offerings. It is currently difficult to unambiguously predict how the situation on global markets, now marked by investors' uncertainty, will develop in the coming months.

With respect to IPOPEMA TFI, a less favourable climate on the capital markets affects interest in investing in listed securities (mainly equities) and thereby reduces revenues from active management services. To date, this factor has had a limited effect on the performance of IPOPEMA TFI as its activities consisted to a large extent in establishing closed-end private equity funds. However, since the company is expanding its active management services, a prolonged market downturn may erode revenues and earnings of IPOPEMA TFI.

Similarly, for IPOPEMA Asset Management the market sentiment (which drives equity and debt instrument prices and thus the value of assets under management and, in effect, revenues from portfolio management services) is the primary factor affecting its business.

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

In recent years, many new companies have entered the market on which IPOPEMA Securities S.A. operates. In addition to brokerage houses which have operated for a number of years and have successfully established a strong foothold on the capital market in Poland, some new entrants have appeared, providing brokerage and advisory services on a limited scale. They are established by individuals with relevant professional experience, who can guarantee a standard of service comparable to that offered by Poland's leading brokerage institutions. Furthermore, the recent significant growth of the Polish capital market and the State Treasury's privatisation policy have translated into a surge of interest in the brokerage and advisory business from foreign financial institutions which establish or expand their offices in Warsaw. The growing competition may result in the existing

market players losing part of their market shares and in higher pressure on prices of the offered services, which may have an adverse effect on the Company's financial position.

Similarly, IPOPEMA TFI, IPOPEMA Asset Management and IPOPEMA Business Consulting compete against both companies with established market positions and new market entrants. In nearly five years of its operation, IPOPEMA TFI has become one of the most active players on the Polish market in terms of creating closed-end investment funds, and continues to expand its offering and strengthen its position on the market of actively managed funds. IPOPEMA Asset Management is one of the longest-standing businesses on the Polish *asset management* market. After nearly fifteen years of operations (formerly as Credit Suisse Asset Management (Polska) S.A.), the company holds a firm position and boasts extensive experience in the area of asset management for institutional and individual investors. IPOPEMA Business Consulting has consistently been broadening its client base and enhancing its order portfolio. However, there can be no assurance that measures taken by competitors will not stand in the way of the development plans of IPOPEMA TFI, IPOPEMA Asset Management and IPOPEMA Business Consulting; if so, this may have an adverse effect on the future results 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 business of the IPOPEMA Securities Group and its development prospects largely depend on the knowledge, experience and qualifications of the management personnel. Their work for the IPOPEMA Securities Group has been a key factor behind its successes to date. Hence, if any of the members of the IPOPEMA Securities Group's management personnel decides to leave the Company, this may have an adverse effect on the business 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 IPOPEMA Securities Group companies must retain highly qualified staff. The nature of the Company's business requires part of IPOPEMA Securities', IPOPEMA TFI's, or IPOPEMA Asset Management's employees to have relevant experience and to comply with formal requirements for the provision of brokerage or investment advisory services. Besides, to ensure continued development of the Group, it is necessary to hire new employees with relevant competencies and experience.

Given the strong competition and a limited availability of qualified professionals that guarantee the required level of service quality, with a view to ensuring stability of the key staff, the Company's Management Board seeks to develop 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 IPOPEMA Securities Group in the future.

### **Risk related to settlement of stock exchange transactions**

The Company is a clearing member of the Polish NDS, 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 part of the projects commenced by the Company may be postponed or the clients may decide to abandon the process of introducing their shares to trading (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 level of equity and financial requirements of the Company and the IPOPEMA Securities Group

In connection with its activity on the secondary market, upon the closing of each trading day the Company is obliged to ensure an appropriate amount of funds for the Stock-Exchange Transactions Settlement Guarantee Fund, managed by the Polish NDS. 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 and the resulting losses, the Company's ability to use debt financing may be limited and it may be necessary for the Company to scale down its business.

It should be also 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. To date, the Company has not encountered any problems in making sufficient contributions to the Guarantee Fund, while the present level of the available credit facility ensures safe continuation of business on the current scale or even a substantial increase in business volumes.

Moreover, as a brokerage house, the Company is obliged to meet the capital requirements as part of the separate and consolidated capital adequacy requirement, which to a large extent depend on the scope and scale of brokerage activities. IPOPEMA's equity on a separate and consolidated basis (as at June 30th 2012: PLN 56,998 thousand and PLN 71,972 thousand, respectively) is maintained at a level ensuring an appropriate surplus over the capital requirements, however, it cannot be ruled out that a rapid expansion of the operations (particularly as regards potential new business projects) will require the equity to be significantly increased.

## Risk related to the business of IPOPEMA TFI

Given the rising competition on the market of investment funds as well as the relationship between individual funds' performance and the economic situation, including in particular the situation on the capital markets, and the correctness of investment decisions made by the managers of IPOPEMA TFI funds, there is a risk that the funds may not yield the expected rate of return (or, in an extreme case, they may incur losses), the clients will lose confidence in the fund managers, which may eventually lead to some clients closing their relationship with the funds managed by IPOPEMA TFI. 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.

Furthermore, while thus far the number of funds managed by IPOPEMA TFI has been growing dynamically, there can be no assurance that IPOPEMA TFI will be able to maintain its existing client base and acquire new clients in the future, which may have an adverse effect on revenue growth. Furthermore, IPOPEMA TFI is constantly expanding its offering addressed to a broad group of investors. There is a risk that - if IPOPEMA TFI fails to acquire clients and assets for the funds or if the funds fail to achieve adequate rates of return, subsequently leading to client churn and difficulties in winning new clients - the company will not be able to generate satisfactory revenue from these funds.

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

## Risk related to the activities of the Market Making and Proprietary Trading Department

The nature of the operations of the Market Making and Proprietary Trading Department, that is entering into short-term transactions on the stock-exchange market for the Company's own account, exposes the Company to investment risk. In particular, there can be no assurance that decisions made by the Department's staff or the applied investment strategies will be successful, and therefore the Department's activities may bring unsatisfactory results or even result in losses.

## Risk related to the business of IPOPEMA Asset Management

IPOPEMA Asset Management's business is primarily exposed to investment risk. It cannot be ruled out that the IPOPEMA Asset Management's managers will 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 a negative effect on IPOPEMA Asset Management's performance.

## Risk related to brokerage operations in Hungary and the Czech Republic

In two years of its operations on the Hungarian market, the Company gained a significant market share (6.95% in 2010, 7.23% in 2011 and 6.80 in H1 2012) similar to that seen on the Warsaw Stock Exchange. However, due to economic and political instability in Hungary, at present it is difficult to predict how the conditions prevailing on the Budapest Stock Exchange will be shaping in the future, and eventually, what their impact on the performance of IPOPEMA on that market will be.

In Q1 2012, IPOPEMA Securities launched brokerage activities on the Prague Stock Exchange (PSE). Given the short operating history on the Czech market, it is difficult to assess the impact of the Czech operations on the Company's performance in the future. It is possible that the break-even point will be achieved later than expected and that the results will prove unsatisfactory.

## 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 Polish NDS. 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 another Payment Bank could even pose a risk that the Company might have to temporarily suspend its brokerage or market making and proprietary trading activities on the WSE until a new agreement is signed.

A similar risk exists with respect to cooperation with Deutsche Bank, with which the Company executed agreements in relation to transactions executed on the Budapest Stock Exchange and the Prague Stock Exchange.

## Risk related to the IT and telecommunications systems

A particularly sensitive area of the Company's activities is the necessity 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. However, there can be no assurance that the risk does not materialise despite the precautions taken by the Company.

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

The IPOPEMA Securities Group's position on the markets on which it is present relies primarily on the degree of client confidence in the IPOPEMA Securities Group and its 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 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 Company'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 activity 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 the rules for the protection of inside information and the procedure for counteracting and identifying instances of manipulation). Although as at date of this Report there have been 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 to the Company, resulting from the necessity to pay compensations and loss of reputation.

Warsaw, August 23rd 2012

## 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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Mirosław Borys  
Vice-President of the  
Management Board