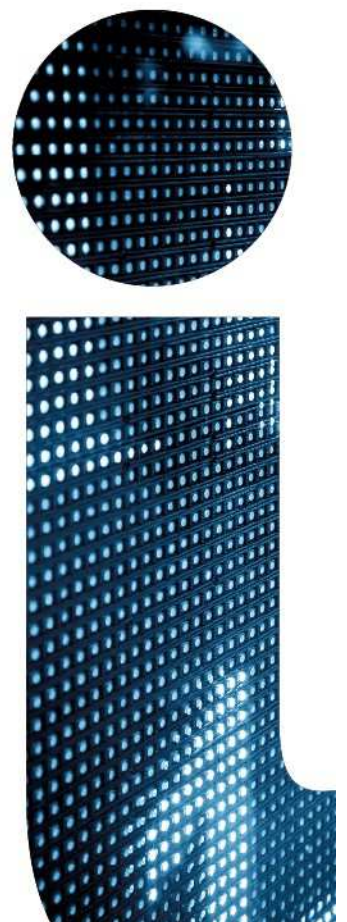


The
IPOPEMA Securities Group

Directors' Report

**on the operations of IPOPEMA Securities S.A.
and the IPOPEMA Securities Group
in the first half of 2017**

Warsaw, August 24th 2017



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PART I

1. Financial results

| Consolidated financial highlights | 2017 | | | 2016 | | |
|---------------------------------------|----------|----------|---------------|----------|----------|---------------|
| | Jan-Mar* | Apr-Jun* | Jan-Jun | Jan-Mar* | Apr-Jun* | Jan-Jun |
| Total revenue, including | 22,193 | 23,673 | 45,866 | 16,916 | 21,594 | 38,510 |
| <i>Brokerage and related services</i> | 10,328 | 12,568 | 22,896 | 7,426 | 9,553 | 16,979 |
| <i>Investment fund management</i> | 7,582 | 7,309 | 14,891 | 7,666 | 7,691 | 15,357 |
| <i>Advisory services</i> | 4,238 | 3,796 | 8,079 | 1,824 | 4,350 | 6,174 |
| Total cost of core activities | 20,524 | 21,535 | 42,059 | 18,536 | 19,505 | 38,041 |
| Profit on core activities | 1,669 | 2,138 | 3,807 | -1,620 | 2,089 | 469 |
| Net profit for period | 519 | 1,424 | 1,943 | -2,181 | 2,653 | 472 |

*Unaudited

Revenue

Higher revenue in the segment of brokerage and advisory services, and a slight decrease in revenue in the fund and portfolio management segment translated into a 19.1% increase in the Group's total consolidated revenue in the first half of the 2017, to PLN 45,866 thousand, from PLN 38,510 thousand in the first half of 2016.

Revenue from brokerage services (PLN 22,896 thousand; 49.9% of consolidated revenue) was 34.8% higher than the year before (PLN 16,979 thousand), driven by higher revenue from securities trading (a 15.1% increase to PLN 12,089 thousand vs PLN 10,505 thousand in the first half of 2016) coupled with a 50% increase in revenue from investment banking services (PLN 9,590 thousand vs PLN 6,368 thousand) and significantly higher other revenue from core activities (PLN 1,217 thousand vs PLN 106 thousand), mainly attributable to stronger revenue streams in the retail business. The higher of brokerage revenue was principally due to increased trading activity on the WSE (by 46.5%) and the Company's larger market share (5.03% in 2017 vs 4.74% a year earlier). The improved revenue from investment banking services was due to a higher value of transactions completed in the first half of 2017 compared with the same period of 2016.

In the first half of 2017, IPOPEMA TFI (the investment fund and portfolio management segment) posted revenue of PLN 14,891 thousand (32.5% of consolidated revenue), i.e. 3% less year on year (PLN 15,357 thousand). However, the structure of revenue changed towards a higher share of revenue from the management of actively managed funds following an increase of their assets value, which in the first half of 2017 averaged PLN 1.0bn, i.e. 39% more year on year (2016: PLN 0.7bn). The total value of assets under management as at the end of June 2017 was PLN 50.7bn (down from PLN 53.5bn a year earlier).

IPOPEMA Business Consulting (advisory services segment) posted revenue of PLN 8,079 thousand in the first half of 2017 (17.6% of consolidated revenue), which represented a 30.9% increase year on year, from PLN 6,174 thousand.

Costs and expenses

As a result of higher costs of operations in the brokerage and advisory services segments, the IPOPEMA Group's total operating costs in the first half of 2017 increased by 10.6% year on year, to PLN 42,059 thousand (H1 2016: PLN 38,041 thousand).

In January–June 2017, operating costs in the brokerage services segment totalled PLN 20,707 thousand, having increased by 15.3% on the first half of 2016 (from PLN 17,952 thousand), chiefly on higher transaction costs and costs of distribution of investment products.

Total operating costs of the investment fund and portfolio management segment in the first half of 2017 decreased by 2.2% (PLN 13,680 thousand vs PLN 13,993 thousand a year earlier).

Expansion in the advisory services segment in the first half of 2017 led to higher operating costs (PLN 7,672 thousand), which increased 25.9% year on year.

Financial results

In the first half of 2017, profit was reported across all segments, which translated into a consolidated operating profit of PLN 3,807 thousand (PLN 469 thousand a year earlier) and consolidated net profit of PLN 1,943 thousand (PLN 472 thousand a year earlier).

As IPOPEMA Securities' respective equity interests in IPOPEMA Business Consulting and IPOPEMA Financial Advisory are 50.02% and 78%, net profit attributable to owners of the parent was PLN 1,960 thousand, and loss attributable to non-controlling interests was PLN -17 thousand.

Despite higher operating costs, higher revenue in the brokerage services segment translated into the segment's profit on core operations of PLN 2,189 thousand (PLN -973 thousand loss a year earlier), and net profit of PLN 537 thousand (PLN -840 net loss a year earlier).

On a separate basis, IPOPEMA Securities reported a net profit of PLN 2,180 thousand the first half of 2017 (compared with a net loss of PLN -610 thousand in the first half of 2016).

Despite lower operating costs in the fund and portfolio management segment, the lower revenue in the first half of 2017 led to lower operating profit (PLN 1,211 thousand vs PLN 1,364 thousand a year earlier) and lower net profit (PLN 1,149 thousand vs PLN 1,220 thousand).

In the advisory services segment, higher revenue outpaced an increase in operating costs to yield an operating profit of PLN 407 thousand and net profit of PLN 257 thousand, compared with operating profit of PLN 78 thousand and net profit of PLN 92 thousand reported in the first half of 2016.

2. Material events and factors with a bearing on financial results

Equity market and investment banking

In the first half of 2017, only the Prague Stock Exchange saw investor activity decrease compared with the first half of 2016 (down 2.0%), while the trading volumes in Warsaw and Budapest were higher by 46.5% and 8.4%, respectively. Over the same period, the Company strengthened its position both on the WSE, where its market share increased to 5.13% (from 4.86%), and on the BSE (in the first half of 2017 its market share was 2.37%, compared with 2.07% a year earlier). As a result, in the first half of 2017 the Company's revenue from trading in securities increased by 15.1% year on year, to PLN 12,089 thousand (H1 2016: PLN 10,505 thousand).

Conditions on the capital market were equally challenging as in the first half of 2016. Nevertheless, the brokerage segment's revenue from investment banking business increased in the reporting period by 50.6% (PLN 9,590 thousand vs PLN 6,368 thousand in the first half of 2016).

In the first half of 2017, the segment also delivered a significant increase in other revenue from core activities (PLN 1,217 thousand vs PLN 106 thousand a year earlier), mainly on higher revenue from the retail business.

As a result of these factors, the brokerage segment posted a profit on core activities and a net profit of PLN 2,189 thousand and PLN 537 thousand, respectively (compared with a PLN 973 thousand loss and a PLN 840 thousand net loss a year earlier).

Activities of IPOPEMA TFI

An increase in the value of assets in actively managed funds (to PLN 1.1bn at the end of June 2017, vs PLN 0.9bn a year earlier) brought about an increase in revenue from the management of these funds. At the same time, as a result of changes in the laws regulating fund activities, introduced in 2016, revenue from fees for managing closed-end investment funds declined. As a result, IPOPEMA TFI's total revenue for the first half of 2017 fell slightly (to PLN 14,891 thousand, from PLN 15,357 thousand in the first half of 2016), and despite

reduction of operating costs by 2.2%, the segment delivered a slightly lower net profit (PLN 1,149 thousand vs PLN 1,220 thousand in the first half of 2016).

IPOPEMA Business Consulting

A higher number of projects carried out by IPOPEMA Business Consulting in the first half of 2017 resulted in a 30% increase in the company's revenue, which, despite higher operating costs (up by 25.9%), was reflected in improved net profit (PLN 257 thousand, compared with a PLN 92 thousand posted a year earlier).

3. Factors which may affect the Group's performance in the second half of 2017

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

The first half of 2017 saw relatively stable increase of the indices on the WSE and BSE – at the end of July, the WIG, BUX and PX indices were up by 20.9%, 11.8% and 6.4%, respectively, on year-end of 2016. At the same time, only the Prague Stock Exchange recorded a year-on-year decline in investor activity (down by 2.0%), while trading volumes on the WSE and BSE increased by 46.5% and 8.4%, respectively. Despite this optimistic sentiment, it is difficult to predict how the market situation will be developing in the coming months of 2017.

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

After a difficult first quarter, in the following months conditions on the equity market improved, mainly due to large public offerings (Griffin RE, Dino Polska, GetBack and Play Communications). However, the current optimistic market sentiment may deteriorate later in 2017 due to the lingering uncertainty as to final details of the reform of the Polish open-end pension funds (OFE) system. Nonetheless, the Company is currently working on several transactions and continues to seek new clients, including from sectors which are more resilient to the stock market volatility.

Expansion of IPOPEMA Securities' retail business

In February 2016, the Company started offering brokerage services and investment products to a wider retail audience. To date, the Company has entered into cooperation with six entities acting as investment firm agents (Expander Advisors, NWA I Dom Maklerski, Grupa FINANSET, HKN Capital Fund, Caspar Asset Management, and HRE Finanse), and intends to partner with further organisations (including Fintegra which has already been entered in IPOPEMA's list of investment firm agents). Although the retail business is already contributing to the Company's revenue, the project is still at an early stage of development, and therefore it is hard to reliably predict the rate of its growth in the following periods and, consequently, its further effect on results of the Company's operations.

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. Despite the current increased interest in investment products (in March 2016–July 2017, retail investment funds delivered net outflows only in June and December 2016), it is difficult to make a fair prediction of investor sentiment in the coming months of 2017. However, the continuing record-low interest rates may encourage transfers of savings from bank deposits to investment funds, which in turn 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. Nevertheless, changes in the legal regime introduced in 2016 and affecting the operation of such funds have had an adverse effect on revenues from this area. This negative impact may also continue into future periods, and its actual scale will depend on the direction of further changes in the laws governing fund activities, including taxation. Given that IPOPEMA TFI is a leading market player specialising in closed-end investment funds, such legislative changes may have an adverse effect on its revenue streams in this business segment.

Expansion of IPOPEMA Business Consulting's business

In the following months of 2017, 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.

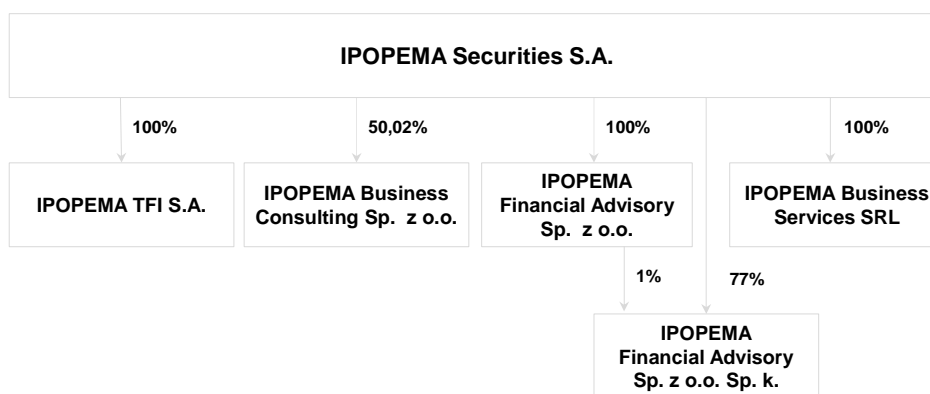
4. Performance against forecasts

The Company has not published any forecasts of its financial results (separate or consolidated).

PART II

1. Organisational structure of the IPOPEMA Securities Group

As at June 30th 2017, the IPOPEMA Securities Group comprised IPOPEMA Securities S.A. (the parent) and its subsidiaries: IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A., IPOPEMA Business Consulting Sp. z o.o., IPOPEMA Financial Advisory Sp. z o.o., IPOPEMA Financial Advisory Sp. z o.o. Sp. k. and IPOPEMA Business Services SRL (Romania). IPOPEMA Securities, IPOPEMA TFI, IPOPEMA Business Consulting and IPOPEMA Financial Advisory Sp. z o.o. Sp. k. are consolidated, while IPOPEMA Business Services SRL and IPOPEMA Financial Advisory Sp. z o.o. are excluded from consolidation based on the immateriality of their financial data.



2. Changes in the Group's organisational structure

Since the release of the most recent full-year financial statement, there have been no changes to the Group's (liquidation of IPOPEMA Business Services SRL has not been completed).

3. Shareholding structure of IPOPEMA Securities S.A.

As at June 30th 2017, the following shareholders held more than 5% of shares in IPOPEMA Securities S.A.:

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

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

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

² Subsidiary of Jacek Lewandowski, President of the Company's Management Board.

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

By the date of authorisation of this Report for issue, there were no changes in major holdings of the Company shares (i.e. holdings of 5% or more of shares and total voting rights).

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

Below are specified members of the management and supervisory personnel who, as at June 30th 2017, held – either directly or indirectly through their subsidiaries or related entities (including dedicated funds) – IPOPEMA Securities shares. The holdings of shares owned by the specified individuals have not changed since the release of the full-year financial statements for 2016.

| Person | No. of shares and voting rights | % of ownership interest and total voting rights |
|--|---------------------------------|---|
| Jacek Lewandowski – CEO and President of the Management Board ¹ | 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% |
| Total | 11,075,151 | 36.99% |

¹ As disclosed in item 3, shares in IPOPEMA Securities S.A. were also held by Katarzyna Lewandowska, Jacek Lewandowski's wife.

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

In connection with the implementation of the variable remuneration components policy, in the first half of 2017, IPOPEMA Group issued bonds with a total amount of PLN 5.2 thousand, and redeemed bonds with a total amount of 3 thousand (PLN 4.9 thousand until the date of issue of this report). In the first half of 2016, the Group issued bonds with a total amount of PLN 2 thousand, and redeemed bonds with a total amount of PLN 4.5 thousand. For more information on the issue and redemption of bonds, see Note 11 to the separate financial statements of IPOPEMA Securities S.A., and Note 14 to the consolidated financial statements.

6. Loans, guarantees and sureties

In the first half of 2017, the Company did not receive or provide any sureties or loans (except small loans to Company employees and associates), while the guarantees provided to the Company, described in detail in Note 12 to the financial statements of IPOPEMA Securities, were renewed.

7. Selected corporate events in the first half of 2017

Transfer of part of the advisory business to IPOPEMA Financial Advisory

In February 2017, the advisory services related to financial restructuring and fund raising for infrastructure projects, thus far provided by IPOPEMA Securities, were transferred to IPOPEMA Financial Advisory Sp. z o.o. Sp. k. For more information on this company, see the Directors' Report for 2016 and the consolidated financial statements of the IPOPEMA Group for the first half of 2017.

Resignations by members of the Company's and IPOPEMA TFI's Management Boards

On January 4th 2017, Mr Daniel Ścigała tendered his resignation as a Management Board Member citing important personal reasons, effective from the end of January 2017. January 31st 2017 was the last day of work of Daniel Ścigała at the Company.

On March 14th 2017, Mr Maciej Jasiński resigned as Vice President of the Management Board of IPOPEMA TFI. The resignation is due to personal reasons, but Maciej Jasiński has remained with the IPOPEMA Group and continues to be engaged in the activities of IPOPEMA TFI.

Change in the composition of the Supervisory Board

In connection with the expiry in 2017 of the statutory mandate of the Supervisory Board, on June 27th 2017 the Annual General Meeting elected the Supervisory Board for the next term of office. Mr Zbigniew Mrowiec, who resigned as candidate for the new term, was replaced on the Supervisory Board by Piotr Szczepiórkowski. There were no other changes in the composition of the IPOPEMA Securities Supervisory board.

Dividend paid by IPOPEMA Business Consulting

In May 2017, a resolution on dividend payment was passed by IPOPEMA Business Consulting, pursuant to which IPOPEMA Securities is to receive PLN 900 thousand.

8. Court proceedings

In March 2015, the Polish Financial Supervision Authority imposed a fine of PLN 50 thousand on IPOPEMA TFI for non-compliance by one of the funds with the provisions of its Articles of Association between September 4th 2012 and July 29th 2013. IPOPEMA TFI rejected the Authority's arguments and filed a request for re-examination of the case. In August 2017, following re-examination of the case, the Polish Financial Supervision Authority maintained its position.

In April 2016, IPOPEMA Securities filed a suit for payment under writ-of-payment proceedings against one of its clients. The amount of the claim is PLN 49.2 thousand. In May 2017, the Company filed two further suits against its customers. In each case, the amount of the claim is PLN 30 thousand. The proceedings are pending.

In July 2016, IPOPEMA TFI received a certified copy of a statement of claim filed by Górnośląskie Przedsiębiorstwo Wodociągów S.A. of Katowice ('GPW'), in which GPW seeks payment of PLN 20.5m in connection with a financial loss incurred by GPW as a result of its investment in certificates issued by the IPOPEMA 60 FIZAN fund managed by IPOPEMA TFI. IPOPEMA TFI considers GPW's claims to be groundless and is seeking to dismiss the action. A response to the claim has been filed with the court. The date of the first hearing has not been set. For this reason, IPOPEMA TFI has not recognised any provision for potential costs related to the claim.

Apart from the above-mentioned proceedings, none of the IPOPEMA Group companies was party to any other court or administrative proceedings in the first half of 2017.

9. Related-party transactions

In the first half of 2017, the Company did not execute any material related-party transactions. For details of 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 2017 and the date of issue of the financial statements, there were no material events which would affect the Company's business.

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 adversely affects global stock markets and the CEE stock markets where the Company operates. The capital market downturn affects 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, as the company is expanding its active asset management services, in the context of the negative effect of regulations on the operation of the closed-end investment funds 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 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 both as foreign-based brokerage houses and through their 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 intensifying competition may result in a further loss of the Company's 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 one of the largest investment fund management companies 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 valued members of the Group's management personnel decide 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 incentives 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 wider retail audience. As this is still a young business for the Company, it is difficult to reliably predict its growth in the coming periods. Consequently, if this business fails to expand at the expected pace, its contribution to the Company's financial performance may be lower than anticipated.

Activities 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 view of the above and the fact that in some funds a part of IPOPEMA TFI's remuneration depends on its investment performance and delivery of returns above the benchmark, the risk of the manager failing to meet the set targets and clients' decisions to discontinue using the services offered by IPOPEMA TFI may result in IPOPEMA TFI not being able to achieve the planned volume of revenues. In addition, the market of closed-end funds, whose management has historically been an important source of revenue for IPOPEMA TFI, has been materially affected, and may be affected in the future, by changes applicable laws and regulations, including taxation rules. As a consequence, such amendments have had an adverse effect on IPOPEMA TFI's revenue from such activities, and may continue to have such adverse effect in the future.

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 (as at June 30th 2017: PLN 62,615 thousand and PLN 83,995 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. Such need 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 activities of the 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 part of the Company 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 associated with claims against IPOPEMA TFI

As discussed in Note 8, a legal action has been brought against IPOPEMA TFI by a holder of units in a fund managed by the company. The claimant demands payment of PLN 20.5m due to the loss incurred by the claimant on investment in units of the fund managed by the company. IPOPEMA TFI believes that the claim is groundless and has taken legal steps to have it dismissed by filing a response to the statement of claim with the court (the court is to set the date of the first hearing). However, it cannot be ruled out that the final judgment may be unfavourable for IPOPEMA TFI, but given the early stage of the proceedings, the probability of the outcome cannot be reliably determined.

Warsaw, August 24th 2017

Management Board of IPOPEMA Securities S.A.:

Jacek Lewandowski
President of the
Management Board

Mariusz Piskorski
Vice President of the
Management Board

Stanisław Waczkowski
Vice President of the
Management Board

Mirosław Borys
Vice President of the
Management Board