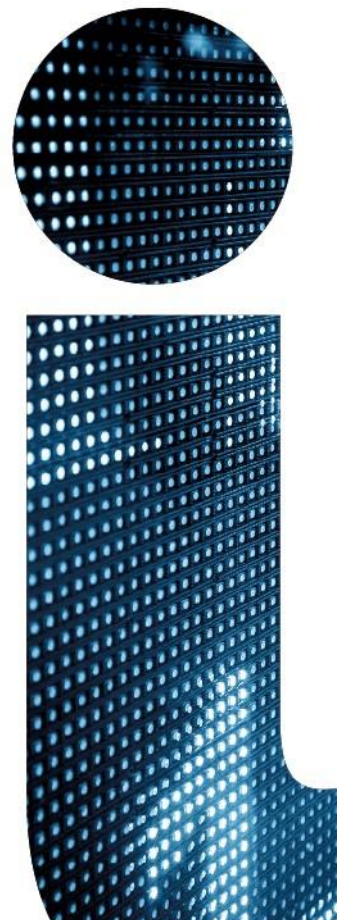


IPOPEMA Securities
Group

Directors' Report

**on the operations of IPOPEMA Securities S.A.
and the IPOPEMA Securities Group
in the first half of 2018**

Warsaw, September 13th 2018



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PART I

1. Financial results

Consolidated financial highlights	2018		Jan to Jun	Jan to Mar*	2017	
	Jan to Mar*	Apr to Jun*			Apr to Jun*	Jan to Jun
Total revenue, including	23,529	20,841	44,370	22,193	23,673	45,866
<i>Brokerage and related services</i>	10,860	7,578	18.438	10,328	12,568	22.896
<i>Investment fund management</i>	7,103	7,726	14.829	7,582	7,309	14.891
<i>Advisory services</i>	5,566	5,537	11.103	4,283	3,796	8.079
Total operating costs	24,142	21,325	45,467	20,524	21,535	42,059
Profit on core activities	-613	-484	-1,097	1,669	2,138	3,807
Net profit for period	-865	-1,039	-1,904	519	1,424	1,943

*Unaudited

Revenue

Despite higher revenue from advisory services, a decline in revenue from brokerage services with revenue from investment fund management unchanged in relation to the previous year contributed to a slight decrease (by 3.3%) in the Group's total consolidated revenue in the first half of 2018 (to PLN 44,370 thousand from PLN 45,866 thousand in the first half of 2017).

Revenue generated in the segment of brokerage services (PLN 18,438 thousand; 41.6% of consolidated revenue) was 19.5% lower than a year earlier (PLN 22,896 thousand), due mainly to a significant decline in revenue from investment banking services (PLN 4,600 thousand vs PLN 9,590 thousand in the first half of 2017), with revenue from securities trading broadly unchanged year on year (PLN 12,144 thousand vs PLN 12,098 thousand in the first half of 2017). The decrease in revenue from investment banking services was due to a significantly lower value of transactions completed in the first half of 2018 compared with the same period of 2017. On the other hand, an increase in retail business revenue by 39.2% (to PLN 1,694 thousand) drove an increase in other revenue from core activities.

In the first half of 2018, IPOPEMA TFI (the investment fund and portfolio management segment) posted PLN 14,829 thousand in revenue (33.4% of the consolidated figure), almost as much as a year earlier (PLN 14,891 thousand). Relative to the first half of 2017, the structure of revenue changed towards a higher share of revenue from the management of capital market funds following an increase in their assets value, which averaged PLN 1.3bn in the first half of 2018 vs PLN 1.0bn in the first half of 2017. The total value of assets under management as at the end of June 2018 was PLN 57.7bn (up from PLN 50.7bn a year earlier).

IPOPEMA Business Consulting (the advisory services segment) posted PLN 11,103 thousand in revenue for the first half of 2018 (25.0% of the consolidated figure), which represented a 37.4% increase vs the first half of 2017, from PLN 8,079 thousand.

Costs and expenses

The IPOPEMA Group's total costs of operations in the first half of 2018 were up 8.1% year on year and amounted to PLN 45,467 thousand (vs PLN 42,059 thousand).

From January to June 2018, operating costs in the brokerage services segment totalled PLN 19,139 thousand, having decreased by 7.6% compared with the first half of 2017 (from PLN 20,707 thousand), due mostly to lower transaction costs.

Higher costs of operations in the investment fund and portfolio management segment (PLN 15,807 thousand vs PLN 13,680 thousand in the first half of 2017) were primarily driven by higher costs of fund distribution.

The higher revenue in the advisory services segment in the first half of 2018 entailed an increase in operating costs (PLN 10,521 thousand), which went up by 37.1% compared with the first half of 2017.

Financial results

Despite operating profit earned on advisory services, loss posted by the brokerage services and investment fund management segments resulted in a consolidated operating loss of PLN 1,097 thousand (vs profit of PLN 3,807 thousand a year earlier). As regards the net result, the advisory services segment was again the only one to record a profit and, consequently, the consolidated net loss for the first half of 2018 amounted to PLN 1,904 thousand (vs net profit of PLN 1,943 thousand a year earlier).

As IPOPEMA Securities' respective equity interests in IPOPEMA Business Consulting and IPOPEMA Financial Advisory are 50.02% and 77%, loss attributable to owners of the parent amounted to PLN 1.873 thousand, while loss attributable to non-controlling interests was PLN 31 thousand.

Despite reduced operating costs, the lower revenue in the brokerage services segment resulted in a loss on core operations of PLN 701 thousand (vs profit of PLN 2,189 thousand a year earlier), and a net loss of PLN 1,682 thousand (vs net profit of PLN 537 thousand a year earlier).

On a separate basis, IPOPEMA Securities reported a net loss of PLN 601 thousand for the first half of 2018 (vs net profit of PLN 2,180 thousand for the first half of 2017).

Despite the same level of revenue from management of investment funds, an increase in operating expenses (by 15.5%) translated into a PLN 978 thousand loss on the operations of the fund and portfolio management segment (vs profit of PLN 1,211 thousand a year earlier) and a PLN 700 thousand net loss (vs net profit of PLN 1,149 thousand for the first half of 2017).

For the first half of 2018, the advisory services segment recorded an operating profit of PLN 582 thousand and net profit of PLN 478 thousand, vs PLN 407 thousand and PLN 257 thousand, respectively, a year earlier.

2. Material events and factors with bearing on financial results

Equity market and investment banking

In the first half of 2018, the total value of trades executed on the Warsaw Stock Exchange was 18.6% lower than a year earlier. Over the same period, the Company's market share contracted slightly as well, to 4.87% from 5.03%. Nevertheless, its increased activity in equities trading on foreign markets and higher revenue from OTC trading in financial instruments allowed the Company to maintain revenue at the previous year's level (PLN 12,144 thousand vs PLN 12,089 thousand a year earlier).

Conditions on the capital market were definitely more challenging in the first half of 2018 than in the same period of 2017. Despite several transactions, the Company's revenue was significantly lower than for the first half of 2017 (PLN 4,600 thousand vs PLN 9,590 thousand).

On the other hand, in the first half of 2018, the Company recorded an increase in other revenue from core activities (PLN 1,694 thousand vs PLN 1,217 thousand a year earlier), driven mainly by higher revenue from the retail business.

As a result of these factors, despite its lower operating expenses, the brokerage segment posted a loss on core activities amounting to PLN 701 thousand and net loss of PLN 1,682 thousand (vs profit on core operations of PLN 2,189 thousand and net profit of PLN 527 thousand, respectively, in the first half of 2017).

Activities of IPOPEMA TFI

An increase in the value of assets in actively managed funds (to PLN 1.4bn at the end of June 2018 from PLN 1.1bn a year earlier) improved revenue from the management of these funds. At the same time, as a result of changes in the laws regulating fund activities introduced in late 2016, revenue from fees for managing closed-end investment funds declined. Although its revenue remained almost unchanged (PLN 14,829 thousand in the first half of 2018 vs PLN 14,891 thousand a year earlier), a 15.5% increase in the segment's operating expenses

resulted in an operating loss of PLN 978 thousand and net loss of PLN 700 thousand (compared with operating profit of PLN 1,211 thousand and net profit of PLN 1,149 thousand in the first half of 2017).

IPOPEMA Business Consulting

A higher number of advisory projects carried out by IPOPEMA Business Consulting in the first half of 2018 resulted in a significant increase in revenue (by 37.4%), which, despite higher operating costs (up by 37.1%), was reflected in improved net profit (PLN 478 thousand vs PLN 257 thousand posted a year earlier).

3. Factors which may affect the Group's performance in the second half of 2018

Market situation on the Warsaw Stock Exchange and IPOPEMA Securities' position on the secondary market

Following a surge in the WIG index by more than 20% in 2017, the Warsaw Stock Exchange has remained in a downward trend this year. At the end of August, WIG was 5.6% lower than at the end of 2017 (and at the end of June it lost as much as 18.3% from its peak of late January). The deteriorated sentiment is also reflected in weaker investor activity – in the first half of 2018, the value of trading on the WSE was 18.6% lower than last year. It is difficult to predict how the market situation will develop in the coming months of 2018.

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

Looking at the capital and public offerings market in the first half of the year, it is hard to expect any improvement in the market conditions over the entire 2018 in relation to last year. Nonetheless, the Company is currently 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 wider retail audience. At present, the Company works with three entities acting as investment firm agents (Expander Advisors, the Finanset Group and HKN Capital Fund), and notification procedures before the Polish Financial Supervision Authority are under way to establish several new relations. Although the retail business is already contributing to the Company's revenue, considering the relatively early stage of the project as well as current market conditions that suppress demand from retail investors for specific investment products (bonds, closed-end investment fund certificates), it is hard to reliably predict the rate of its growth in the following periods and, consequently, its effect on the results of the Company's operations in the coming months of 2018. Nevertheless, the Company is continuing efforts to expand its product offering and establish relations with new entities acting as agents of IPOPEMA Securities.

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 renewed interest in investment products (between January 2017 and August 2018, retail investment funds recorded net redemptions only in June 2018), it is difficult to make a fair prediction of investor sentiment in the coming months of 2018. 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. On the other hand, the current market turmoil

associated with the risk of default by some debt issuers has resulted in a noticeable decline in retail demand for certain investment products. 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 adverse effect may continue into future periods, and its 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 2018, 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.

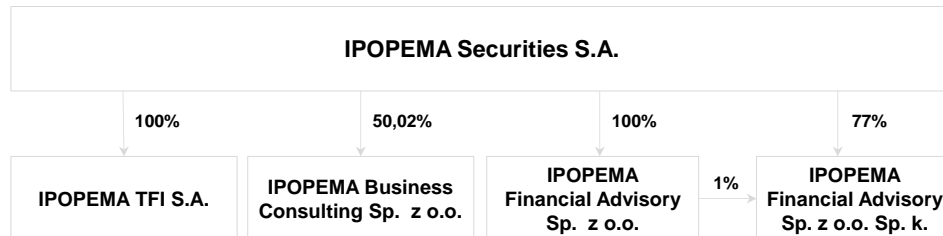
4. Performance against forecasts

The Company has not published any performance forecasts (separate or consolidated).

PART II

1. Organisational structure of the IPOPEMA Securities Group

As at June 30th 2018, 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., and IPOPEMA Financial Advisory Sp. z o.o. Sp. k. IPOPEMA Securities, IPOPEMA TFI, IPOPEMA Business Consulting and IPOPEMA Financial Advisory Sp. z o.o. Sp. k. are consolidated, while IPOPEMA Financial Advisory Sp. z o.o. is excluded from consolidation based on the immateriality of its financial data.



2. Changes in the Group's organisational structure

Liquidation of the Romanian subsidiary IPOPEMA Business Services SRL was completed in the first half of the year.

3. Shareholding structure of IPOPEMA Securities S.A.

As at March 31st 2018, 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	9.98%
JLC Lewandowski S.K.A. ²	2,990,789	9.98%
OFE PZU Złota Jesień*	2,950,000	9.85%
IPOPEMA 10 FIZAN ³	2,851,420	9.52%
Value FIZ*	2,750,933	9.18%
Katarzyna Lewandowska	2,136,749	7.13%
Quercus Parasolowy SFIO*	1,754,164	5.85%
Total shareholders holding over 5% of the share capital	18,424,844	61.54%

* 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.

As at June 30th 2018, the following shareholders held more than 5% of the Company shares:

Shareholder	Number of shares and voting rights	% of total voting rights at GM
IPOPEMA PRE-IPO FIZAN ¹	2,990,789	9.98%
JLC Lewandowski S.K.A. ²	2,990,789	9.98%
OFE PZU Złota Jesień*	2,950,000	9.85%
IPOPEMA 10 FIZAN ³	2,851,420	9.52%
Quercus Parasolowy SFIO*	2,827,552	9.44%
Value FIZ*	2,750,933	9.18%
Katarzyna Lewandowska	2,136,749	7.14%
Total shareholders holding over 5% of the share capital	19,498,232	65.12%

* 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 this report, there were no changes relative to the status presented above as regards shareholders holding, either directly or indirectly, 5% or more of the total number of shares and total voting rights at the General Meeting.

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

Below are listed members of the management and supervisory personnel who held as at March 31st 2018 – either directly or indirectly through their subsidiaries or related parties (including dedicated funds) – shares in the Company:

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	10.49%
Mariusz Piskorski – Vice President of the Management Board	915,000	3.05%
Mirosław Borys – Vice President of the Management Board	696,428	2.32%
Piotr Szczepiórkowski – Member of the Supervisory Board	9,811	0.03%
Total	11,084,962	37.03%

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

Furthermore, below are presented the shareholdings of members of the management and supervisory personnel as at June 30th 2018, held by them directly or indirectly through subsidiaries or related parties (including dedicated funds):

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%
Mirosław Borys – Vice President of the Management Board	696,428	2.33%
Piotr Szczepiórkowski – Member of the Supervisory Board	10,020	0.03%
Total	11,085,171	37.03%

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 IPOPEMA Group's variable remuneration components policy, in the first half of 2018 Group companies issued PLN 2.4 thousand worth of bonds and redeemed PLN 3.2 thousand worth of bonds (PLN 4 thousand by the date of issue of this report), while in the first half of 2017 the Company issued and redeemed PLN 3.2 thousand and PLN 2.3 thousand worth of bonds, respectively. 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 15 to the consolidated financial statements.

6. Loans, guarantees and sureties

In the first half of 2018, the Company did not receive or provide any sureties or loans (with the exception of loans to employees and associates of immaterial value to the Company). The guarantees provided to the Company, as detailed in Note 12 to the financial statements of IPOPEMA Securities, were renewed.

7. Selected corporate actions in the first half of 2018

Changes in the structure of the IPOPEMA Group

As mentioned in Section 2 above, liquidation of the Romanian subsidiary IPOPEMA Business Services SRL was completed in June 2018.

Dividend paid by IPOPEMA Business Consulting

In June 2018, a resolution on dividend payment was passed by IPOPEMA Business Consulting, pursuant to which IPOPEMA Securities is to receive PLN 600 thousand.

8. Court proceedings

In May 2017, the Company filed two further suits for payment against entities to which it had provided certain services and which had failed to meet their obligations. In each case, the amount of the claim was PLN 30 thousand. In January 2018, in one of these cases, the court issued a payment order with a writ of execution, and enforcement proceedings were instituted. As at the date of the interim condensed financial statements, the claimed amount had been enforced. With regard to the other case, a payment order was issued in December 2017 and made enforceable in June 2018. Enforcement proceedings are currently under way to enforce the claimed amount.

On July 27th 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 sought payment of PLN 20,554,900.90m for an alleged financial loss incurred by GPW as a result of its investment in investment certificates of one of the dedicated funds managed by IPOPEMA TFI (a closed-end private equity fund). IPOPEMA TFI considers GPW's claims to be groundless and is seeking to have the action dismissed. It filed a response to the statement of claim with the court and has participated in successive procedural steps. By the date of this report, only one hearing had been held (on February 13th 2018). During the hearing, IPOPEMA TFI's attorney requested the court to admit further evidence which, as was the case with the request to admit evidence submitted in the response to the statement of claim, has not yet been considered. In view of the early stage of evidence taking and the complexity of factual and legal circumstances, the outcome of the proceedings cannot yet be determined.

On November 14th 2017, IPOPEMA TFI received a copy of a statement of claim filed by a former employee, seeking payment of PLN 40,500 in severance pay allegedly agreed between the parties. IPOPEMA TFI denied the claim in its entirety, taking steps to have it dismissed by the court. The parties failed to reach an agreement through mediation. Therefore, the statement of claim will be considered by the court.

9. Related-party transactions

In the first half of 2018, the Company did not execute any material related-party transactions. For details of related party-transactions, see Note 27 to the interim condensed consolidated financial statements.

10. Material events subsequent to the reporting date

In the period between June 30th 2018 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 particularly relevant and which – should they materialise – may have an adverse effect on the operations, financial condition, 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. An economic slowdown adversely affects global stock markets and the CEE stock markets where the Company operates. Any downturn on the capital market affects the Company's revenue through lower trading volumes on stock exchanges and challenging conditions for 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 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 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 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 valued members of the Group's management personnel decide to leave, this may have an adverse effect on the operations and financial condition 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 Group'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 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 clearing 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. Equity on a separate and consolidated basis (as at June 30th 2018: PLN 59,995 thousand and PLN 80,602 thousand, respectively) is maintained at a level ensuring an adequate surplus over the capital requirements. However, it cannot be ruled out that a rapid business expansion, particularly as a result of new business projects, or any 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 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 Romanian branch of Raiffeisen Bank, with which the Company has concluded agreements in relation to transactions executed on 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.

Regulatory risk

The Company, as a brokerage house, and its subsidiary, as an investment fund company, carry out their activities under a licence granted by the Polish Financial Supervision Authority, operating on a highly complex market and in a changing regulatory landscape affecting many areas of their business. This leads to an increased risk of non-compliance with legal requirements and potential violations of laws, regulations or administrative provisions governing the operations of the Group companies, IPOPEMA Securities and IPOPEMA TFI in particular. As a consequence, regulatory authorities (including the Polish Financial Supervision Authority) may impose sanctions such as fines or, in extreme cases, revoke the licence to conduct a particular type of activity.

Notwithstanding the above formal aspect, further changes in law and new regulations may affect various areas of the IPOPEMA Group's operations and its profitability, forcing it to incur additional costs or negatively impacting its revenue.

Warsaw, September 13th 2018

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