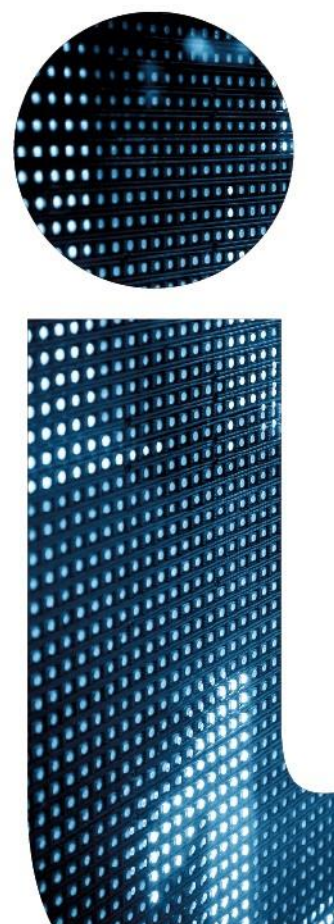


The IPOPEMA Securities  
Group

# Directors' Report

**on the operations of IPOPEMA Securities S.A.  
and the IPOPEMA Securities Group  
in the first half of 2019**

Warsaw, September 11th 2019



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# PART I

## 1. Financial results

Consolidated financial highlights	2019		Jan to Jun	Jan to Mar*	2018	
	Jan to Mar*	Apr to Jun*			Apr to Jun*	Jan to Jun
Total revenue, including	25,917	33,403	<b>59,320</b>	23,529	20,841	<b>44,370</b>
<i>Brokerage and related services</i>	7,472	8,265	<b>15,737</b>	10,860	7,578	<b>18,438</b>
<i>Investment fund management</i>	12,473	18,246	<b>30,719</b>	7,103	7,726	<b>14,829</b>
<i>Advisory services</i>	5,972	6,892	<b>12,864</b>	5,566	5,537	<b>11,103</b>
Total operating expenses	26,589	34,595	<b>61,184</b>	24,142	21,325	<b>45,467</b>
Profit on core activities	-672	-1,192	<b>-1,864</b>	-613	-484	<b>-1,097</b>
Net profit for period	-853	353	<b>-500</b>	-865	-1,039	<b>-1,904</b>

\*Unaudited

### Revenue

Despite a drop in revenue from brokerage services, higher revenue from investment fund management and advisory services contributed to a 33.7% increase in the IPOPEMA Group's total consolidated revenue in the first half of 2019 (to PLN 59,320 thousand from PLN 44,370 thousand in the first half of 2018).

Revenue generated in the segment of brokerage services (PLN 15,737 thousand; 26.5% of consolidated revenue) was down by 14.6% year on year (PLN 18,438 thousand) due to lower revenue in each area of the Company's operations. Revenue from securities trading fell by 13.7% (PLN 10,479 thousand vs PLN 12,14 thousand), while revenue from investment banking services amounted to PLN 4,419 thousand compared with PLN 4,600 thousand a year before, and other revenue (mainly retail revenue) was PLN 830 thousand (relative to PLN 1,694 thousand in the first half of 2018). The drop in revenue from brokerage activities was chiefly attributable to a decline in the Company's market share (3.88% in the first half of 2019 vs 4.87% in the same period of 2018). Revenue from investment banking services deteriorated due to a slightly lower value of transactions completed in the first half of 2019 compared with the first half of 2018. At the same time, the decrease in the segment's other revenue was primarily attributable to the retail clients' reversal of sentiment concerning investments in investment funds.

In the first half of 2019, IPOPEMA TFI (the investment fund and portfolio management segment) posted revenue of PLN 30,719 thousand (51.8% of consolidated revenue), more than double the figure for the first half of 2018 (PLN 14,829 thousand). Success fees from the securitisation funds launched in H2 2018 were the main driver of the strong increase in IPOPEMA TFI's revenue. The share of revenue from management of capital market funds continues to grow following an increase of their asset value, which reached PLN 1.5bn at the end of June 2019 vs PLN 1.4bn a year earlier. The total value of assets under IPOPEMA TFI's management as at the end of the first half of 2019 was PLN 52.2bn (down from PLN 57.7bn at the end of June 2018).

IPOPEMA Business Consulting (the advisory services segment) posted PLN 12,864 thousand in revenue for the first half of 2019 (21.7% of the consolidated figure), up by 15.9% on the first half of 2018, from PLN 11,103 thousand.

### Costs and expenses

The IPOPEMA Group's total operating expenses in the first half of 2019 were up 34.6% year on year and amounted to PLN 61,184 thousand (vs PLN 45,467 thousand).

In the first half of 2019, operating expenses in the brokerage services segment totalled PLN 17,658 thousand, having decreased by 7.7% on the first half of 2018 (from PLN 19,139 thousand), chiefly on lower transaction costs and lower cost of services.

Higher operating expenses in the investment fund and portfolio management segment (PLN 30,818 thousand vs PLN 15,807 thousand in the first half of 2018) were primarily driven by costs related to securitisation funds management and higher costs of capital market funds distribution.

The higher revenue in the advisory services segment in the first half of 2019 entailed an increase in operating expenses (PLN 12,708 thousand), which went up by 20.8% compared with the first half of 2018.

## Financial performance

Despite the operating profit earned on advisory services, the loss posted by the brokerage services and investment fund management segments resulted in a consolidated operating loss of PLN 1,864 thousand (vs loss of PLN 1,097 thousand a year earlier). The investment fund management segment and the advisory services segment posted net profits, but the loss posted by the brokerage services segment resulted in a consolidated net loss of PLN 500 thousand (vs net loss of PLN 1,904 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 522 thousand, while profit attributable to non-controlling interests was PLN 22 thousand.

Despite a drop in operating expenses, the lower revenue in the brokerage services segment resulted in a loss on core activities of PLN 1,921 thousand (vs loss of PLN 701 thousand a year earlier), and a net loss of PLN 667 thousand (vs net loss of PLN 1,682 thousand a year earlier) after consolidation eliminations.

On a separate basis, IPOPEMA Securities reported a net profit of PLN 478 thousand for the first half of 2019 (vs net loss of PLN 601 thousand for the first half of 2018).

The surge in revenue from investment fund management (up by 107.2%) was offset by markedly higher operating expenses (up by 95.0%), resulting in a PLN 99 thousand operating loss of the investment fund and portfolio management segment (vs a loss of PLN 978 thousand the year before) and a PLN 51 thousand net profit (compared with a net loss of PLN 700 thousand posted in the first half of 2018).

For the first half of 2019, the advisory services segment recorded an operating profit of PLN 156 thousand and net profit of PLN 116 thousand, vs PLN 582 thousand and PLN 478 thousand, respectively, a year earlier.

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

### Equity market and investment banking

Although the value of stock exchange trades executed on the Warsaw Stock Exchange in the first half of 2019 was only 1.0% lower than in the first half of 2018, in the same period the Company's market share dropped significantly, from 4.87% to 3.88%, leading to a 13.7% decline in revenue from securities trading (PLN 10,479 thousand vs PLN 12,144 thousand in the first half of 2018).

On the capital market, the first half of 2019 was as difficult as the entire previous year, and the Company's investment banking revenue stayed largely flat on the first half of 2018 (PLN 4,419 thousand vs PLN 4,600 thousand).

Also on the investment funds market, the first half of 2019 was much more challenging than the first half of 2018, as redemptions exceeded subscriptions. This translated into a major drop in revenue from the retail business, and consequently in the revenue classified as other revenue from core activities, which amounted to PLN 839 thousand in the first half of 2019, compared with PLN 1,694 thousand in January-June 2018.

As a result of these factors, despite lower operating expenses, in the first half of 2019 the brokerage services segment posted a PLN 1,921 thousand loss on core activities and a net loss of PLN 667 thousand (vs a PLN 701 thousand loss on core activities and a net loss of PLN 1,682 thousand reported in the first half of 2018).

### Activities of IPOPEMA TFI

Success fees from the securitisation funds launched in 2018 were the main driver of a material increase in revenue in the investment fund management segment. Additionally, a rise in the value of assets in capital market funds (to PLN 1.5bn at the end of June 2019, compared with PLN 1.4bn a year earlier) brought about an increase in revenue

from the management of these funds. At the same time, revenue from the management of closed-end funds declined. All in all, revenue posted by the investment fund management segment for the first half of 2019 more than doubled, reaching PLN 30,719 thousand (PLN 14,829 thousand in the first half of 2018). Still, despite a significantly higher revenue figure, a 95.0% increase in operating expenses (mainly due to higher costs of management of securitisation funds and distribution of capital market funds) resulted in a loss on core activities of PLN 99 thousand and a net profit of PLN 51 thousand (compared with a PLN 978 thousand loss on core activities and a net loss of PLN 700 thousand in the first half of 2018).

### **IPOPEMA Business Consulting**

A higher number of advisory projects carried out by IPOPEMA Business Consulting in the first half of 2019 resulted in a 15.9% increase in revenue, which was offset by a 20.8% increase in operating expenses. As a result, the net profit figure went down (PLN 116 thousand vs PLN 478 thousand posted a year earlier).

## **3. Factors which may affect the Group's performance in the second half of 2019**

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

After a 15% decline in the WIG index in the first nine months of 2018, the downward trend came to a halt and in 2019 the Warsaw Stock Exchange has been in a sideways trend: after the first seven months of the year, the WIG index was 11.7% higher from the low recorded in October 2018 and 4.6% higher than at the end of 2018. The sideways drift of the index was a reflection of the broadly similar investor activity – in the first half of 2019 trading volume was virtually the same as in the corresponding period of 2018. However, it is difficult to predict how the market situation will develop in the coming months of 2019.

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

The year 2018 proved very challenging for the equity transaction market, and the first half of this year also failed to inspire hope of any significant improvement in the second half of the year. Nonetheless, the Company is currently working on several transactions and continues the efforts to win new clients, including from sectors which are more resilient to stock market volatility.

### **Expansion of IPOPEMA Securities' retail business**

In 2016, the Company started offering brokerage services and investment products to a wider retail audience. At present, the Company is working with seven entities acting as investment firm agents, and notification procedures are pending before the Polish Financial Supervision Authority concerning several new relations. Although the retail business is already contributing to the Company's revenue, considering current market conditions that suppress demand from retail investors for certain investment products (bonds, closed-end investment fund certificates), it is hard to reliably predict the rate of its growth in the next months of 2019. Nonetheless, the Company constantly seeks to enhance its product offering and secure new entities to act as agents for 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. From January 2018 to June 2018, investment funds recorded net subscriptions

(continued since the beginning of 2017), but the second half of 2018 saw a clear trend to redeem rather than subscribe for investment fund units. Also in 2019 management companies have to deal with net redemptions (in the first seven months of the year, only in February and July subscriptions were slightly higher than redemptions). It is difficult, though, to predict shifts in investor sentiment in the coming months of 2019. 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. Although 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, those revenues still account for a considerable portion of IPOPEMA TFI's total revenue. This adverse effect may continue into future periods if the legal framework for the business of investment funds, including the tax regime applicable to those funds, should change.

### **Expansion of IPOPEMA Business Consulting's business**

In the following months of 2019, 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.

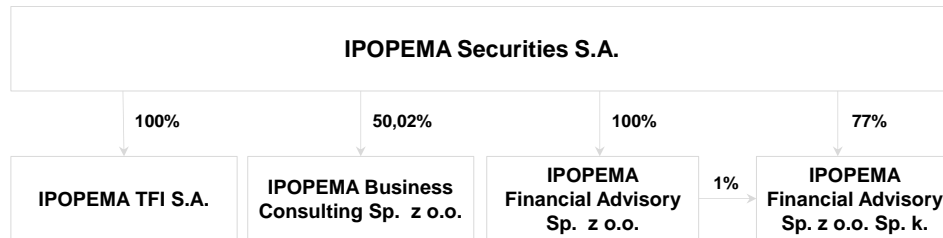
## **4. Performance against forecasts**

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 2019, 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

In the first half of 2019, there were no changes in the structure of the IPOPEMA Securities Group.

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

As at June 30th 2019, 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
OFE PZU Złota Jesień*	3,471,868	11.59%
IPOPEMA PRE-IPO FIZAN <sup>1</sup>	2,990,789	9.98%
JLC Lewandowski S.K.A. <sup>2</sup>	2,990,789	9.98%
IPOPEMA 10 FIZAN <sup>3</sup>	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	7.13%
<b>Total shareholders holding over 5% of the share capital</b>	<b>20,020,100</b>	<b>66.87%</b>

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

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

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

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

The holdings presented above did not change vs those presented in the Q1 2019 report or by the date of these financial statements.

## 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 June 30th 2019 – either directly or indirectly through their subsidiaries or related parties (including dedicated funds) – shares in the Company: The holdings of the management and supervisory personnel did not change vs those presented in the Q1 2019 report.

Person	No. of shares and voting rights	% of ownership interest and total voting rights
Jacek Lewandowski – CEO and President of the Management Board <sup>1</sup>	6,320,868	21.11%
Stanisław Waczkowski – Vice President of the Management Board	3,142,855	10.49%
Mariusz Piskorski – Vice President of the Management Board	915,000	3.05%
Mirosław Borys – Vice President of the Management Board	696,428	2.32%
<b>Total</b>	<b>11,075,151</b>	<b>36.99%</b>

<sup>1</sup> 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 2019 Group companies issued PLN 1.6 thousand worth of bonds and redeemed PLN 2.3 thousand worth of bonds, while in the first half of 2018 the Company issued and redeemed PLN 2.4 thousand and PLN 3.4 thousand worth of bonds, respectively. For more information on the issue and redemption of bonds, see Note 15 to the consolidated financial statements.



## 6. Loans, guarantees and sureties

In the first half of 2019, 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 events in the first half of 2019

### Change in the composition of the Supervisory Board

On June 27th 2019, Mr Piotr Szczepiórkowski, appointed to the Supervisory Board on June 27th 2017, ceased to be its member following resignation. An Extraordinary General Meeting was convened for September 17th 2019 to fill the vacancy on the Supervisory Board.

### Dividend paid by IPOPEMA Business Consulting

In June 2019, a resolution on dividend payment was passed by IPOPEMA Business Consulting, pursuant to which IPOPEMA Securities is to receive PLN 400 thousand.

## 8. Court proceedings

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, two hearings had been held in the case, during which further evidence motions were submitted and a witness was heard. The Court scheduled the next hearings for September, October and December 2019. 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.

## 9. Related-party transactions

In the first half of 2019, 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 2019 and the date 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).

### 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, including Poland (operating both as foreign-based brokerage houses and through their local offices). 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 IPOPEMA Securities' retail business**

In 2016, the Company started offering brokerage services and investment products to a wider retail audience. These activities are carried out largely through distributors cooperating with the Company as investment firm's agents. The agent network is still under development and is yet to reach the desired scale. Moreover, the current market situation in which demand for certain investment products fell significantly as a result of insolvency of their issuers, combined with regulatory changes limiting the ability of distributors (including IPOPEMA Securities) to earn revenue under the existing market model, make it difficult to reliably assess how such operations will develop in the coming periods and, consequently, to assess their impact on the Company's performance.

## 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 is maintained at a level which ensures adequate surplus over the capital requirements referred to above. However, it cannot be ruled out that as a result of change in the scope or scale of operations, a significant loss or changes in the regulatory and legal framework equity will need 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. Despite the measures taken by the Company, there can be no assurance that a risk in this area would not materialise, leading to a risk of claims against or penalties, including fines, imposed on the Company (or other Group companies).

### **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. Moreover, as the Company develops its operations consisting in offering investment products to a broad retail audience, there is also a growing risk of potential claims against the Company, particularly if products purchased by an investor generate a loss – both as a result of potential failure by the Company and for reasons beyond its control (i.e. attributable to the issuer or manager of a given instrument).

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. Nevertheless, 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 considers the claims to be groundless and is seeking to have the action dismissed. It has filed a response to the statement of claim with the court and has participated in successive procedural steps. Given the current stage of the proceedings, the probability of the outcome cannot be reliably determined, and it cannot be ruled out that the final judgment may be unfavourable to IPOPEMA TFI.

### **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.

Frequent legal changes, the overall quality of legislation, as well as imposition of new obligations affect not only the IPOPEMA Group's business, but also the conduct of business activities and business management in general. These factors increase the risk of non-compliance or incorrect compliance with certain regulations, aggravating the risk of fines and penalties for business entities. The number and maximum amounts of such fines and penalties, enforced under various legal acts, are also on the rise, particularly in view of ambiguities in many regulations.

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 11th 2019

### 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