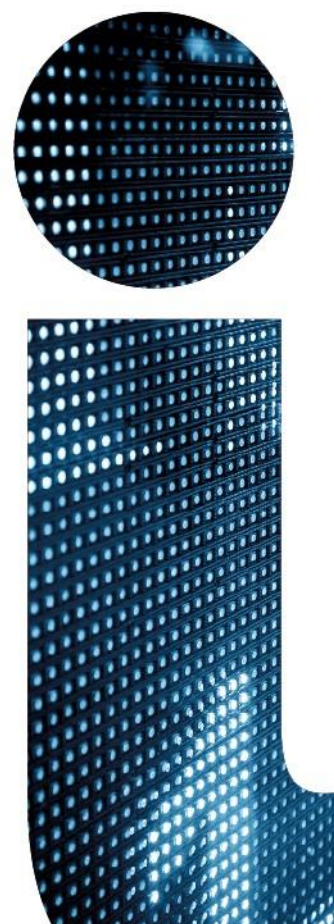


The IPOPEMA Securities
Group

Directors' Report

**on the operations of IPOPEMA Securities S.A.
and the IPOPEMA Securities Group
in the first half of 2020**

Warsaw, September 10th 2020



Contents

PART I

1. Financial results	3
2. Material events and factors with a bearing on financial result	4
3. Factors which may affect the Group's performance in the second half of 2020	5
4. Performance against forecasts	7

PART II

1. Organisational structure of the IPOPEMA Securities Group	8
2. Changes in the Group's organisational structure	8
3. Shareholding structure of IPOPEMA Securities S.A.	8
4. Changes in the number of shares held by members of management and supervisory personnel	9
5. Issue, redemption and repayment of equity and non-equity securities.....	10
6. Loans, guarantees and sureties	10
7. Selected corporate events in the first half of 2020	10
8. Court proceedings.....	11
9. Related-party transactions	11
10. Material events subsequent to the reporting date	11
11. Risk factors	11

PART I

1. Financial results

Consolidated financial highlights	2020		2019			
	Jan to Mar*	Apr to Jun*	Jan to Jun	Jan to Mar*	Apr to Jun*	Jan to Jun
Total revenue, including	49,045	56,696	105,741	25,917	33,403	59,320
<i>Brokerage and related services</i>	9,581	11,840	21,421	7,472	8,265	15,737
<i>Investment fund management</i>	33,078	39,039	72,117	12,473	18,246	30,719
<i>Advisory services</i>	6,386	5,817	12,203	5,972	6,892	12,864
Total operating expenses	46,891	50,824	97,715	26,589	34,595	61,184
Profit on core activities	2,154	5,872	8,026	-672	-1,192	-1,864
Net profit for period	-164	4,924	4,760	-853	353	-500

*Unaudited

Revenue

Significant revenue growth in the brokerage services and investment fund management segments (with a slight decline in revenue of the advisory services segment) translated into a marked year-on-year increase in the IPOPEMA Group's consolidated revenue in the six months to June 30th 2020 (up 78.3%).

Revenue from brokerage services (PLN 21,421 thousand; 20.3% of consolidated revenue) was 36.1% higher than a year earlier (PLN 15,737 thousand), driven by increased revenue across the brokerage business. Revenue from securities trading rose by 46.4% year on year (to PLN 15,338 thousand from PLN 10,479 thousand), revenue from investment banking services amounted to PLN 4,713 thousand compared with PLN 4,419 thousand the year before, and other revenue (mainly retail revenue) was PLN 1,370 thousand (relative to PLN 839 thousand in the six months ended June 30th 2019). The higher revenue from brokerage activities was chiefly attributable to an increase in the volume of trades, both in shares (despite a slight decline in the Company's market share: 2.98% in the six months to June 30th 2020 vs 3.92% in the corresponding period of 2019) and in bonds. The slight increase in investment banking revenue was attributable to the Company's successfully advising on several transactions despite the coronavirus pandemic. The increase in other revenue was driven mainly by consistent scale-up of the Company's retail business.

In the six months ended June 30th 2020, IPOPEMA TFI (the investment fund and portfolio management segment) posted revenue of PLN 72,117 thousand (68.2% of consolidated revenue), more than double the figure for the corresponding period of 2019 (PLN 30,719 thousand). This material improvement was mainly driven by success fees from the securitisation funds and funds whose management was gradually taken over by IPOPEMA TFI in late 2019 and early 2020 from other investment fund companies. The share of revenue from management of capital market funds has continued to grow (the value of the funds' assets was PLN 1.7bn at the end of June 2020, compared with PLN 1.5bn a year earlier). The total value of assets under IPOPEMA TFI's management as at the reporting date was PLN 57.7bn (up from PLN 52.2bn as at June 30th 2019).

IPOPEMA Business Consulting (the advisory services segment) posted PLN 12,203 thousand in revenue for the six months ended June 30th 2020 (11.5% of consolidated revenue), down 5.1% year on year (six months ended June 30th 2019: PLN 12,864 thousand).

Costs and expenses

The IPOPEMA Group's total operating expenses in the first half of 2020 were up 59.7% year on year and amounted to PLN 97,715 thousand (vs PLN 61,184 thousand).

In January–June 2020, costs of operations in the brokerage services segment totalled PLN 19,497 thousand, having increased by 10.4% on the six months to June 30th 2019 (PLN 17,658 thousand), chiefly on higher costs of services and salaries and wages.

Higher costs of operations in the investment fund and portfolio management segment (PLN 66,062 thousand vs PLN 30,818 thousand in the six months ended June 30th 2019) were primarily driven by costs related to the management of an increased number of funds, mainly securitisation funds, and an increase in costs of services and salaries and wages.

The advisory services segment saw a slight decrease in costs to PLN 12,156 thousand, down 4.3% year on year.

Financial results

In the six months ended June 30th 2020, operating profit delivered by all segments translated into consolidated operating profit of PLN 8,026 thousand (vs a PLN 1,864 thousand loss a year earlier). On the net profit level, the brokerage services segment's loss of PLN 292 thousand combined with the investment fund management segment's net profit (PLN 4,916 thousand) and the advisory services segment's net profit (PLN 136 thousand) resulted in a consolidated net profit of PLN 4,760 thousand. Given the net loss of PLN 500 thousand reported a year earlier, this means that the Group's financial condition improved significantly.

As IPOPEMA Securities' equity interests in IPOPEMA Business Consulting and IPOPEMA Financial Advisory are 50.02% and 77%, respectively, the profit attributable to owners of the parent was PLN 4,660 thousand, while the profit attributable to non-controlling interests was PLN 100 thousand.

Despite a 10.4% increase in the brokerage services segment's operating expenses, the 36.1% growth in revenue translated into a profit on core activities of PLN 1,924 thousand (vs a PLN 1,921 thousand operating loss a year earlier). However, interest expense and other finance costs contributed to the segment's net loss of PLN 292 thousand (vs a PLN 667 thousand net loss in the six months to June 30th 2019).

On a separate basis, IPOPEMA Securities reported a net profit of PLN 391 thousand for the six months ended June 30th 2020 (vs net profit of PLN 478 thousand for the corresponding period of 2019).

A more than 2-fold increase in revenue from the management of investment funds and portfolios, accompanied by a 114.4% increase in operating expenses, resulted in a material improvement of the segment's financial result in the six months ended June 30th 2020, with operating profit of PLN 6,055 thousand (vs a PLN 99 thousand loss a year earlier) and net profit of PLN 4,916 thousand (vs PLN 51 thousand in the six months to June 30th 2019).

Despite effective monitoring of the advisory services segment's operating expenses, which in the six months ended June 30th 2020 fell by 4.3% year on year, the decrease in the segment's revenue translated into a lower operating profit of PLN 47 thousand (vs PLN 156 thousand in the six months ended June 30th 2019), with a year-on-year increase in net profit (to PLN 136 thousand from PLN 116 thousand).

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

The most important and dominant factor with a direct impact on the activities of almost all businesses is the global coronavirus pandemic. Given its scale and the pace of development, the pandemic triggered volatility levels and concerns about the state of the economy, both on a global scale and locally, which have not been seen for years. Although the coronavirus epidemic in Poland did not begin to spread until March, it exerted a noticeably adverse impact on some of the IPOPEMA Group's business areas over the entire reporting period. It is more than likely that the economic effects of the pandemic will affect the Group's business also in subsequent periods.

Equity market and investment banking

The uncertainty associated with the coronavirus pandemic and the related high volatility of share prices on the WSE have been observable since March, with a 23–71.4% year-on-year increase in the value of trades in the months that followed (to June 30th 2020). Stock trading volumes in the six months ended June 30th 2020 were 34.7% higher year on year, largely driven by the activity of retail investors. As a result, IPOPEMA Securities recorded a lower share in total market trading volumes (2.98% vs 3.92% a year earlier, losing to brokerage offices specialising in services for retail customers), but the value of trades executed by the Company went up by 2.4% relative to the six months ended June 30th 2019. Combined with increased bond trading activities, this translated into a 46.4% year-on-year growth in revenue from securities trading (to PLN 15,338 thousand from PLN 10,479 thousand).

Despite the fact that in the three months ended March 31st 2020 equity capital market transactions was the IPOPEMA Group's business area most affected by the coronavirus epidemic (following suspension of a number of transactions in the pipeline), the three months ended June 30th 2020 saw a moderate rebound, with the Company advising on several transactions. In the six months ended June 30th 2020, investment banking revenue came in at PLN 4,713 thousand, up 6.7% year on year (six months ended June 30th 2019: PLN 4,419 thousand).

As a result of the above factors, the brokerage services segment reported an operating profit of PLN 1,924 thousand (vs a PLN 1,921 thousand loss a year earlier) and net loss of PLN 292 thousand (vs net loss of PLN 667 thousand the year before). On a standalone basis, i.e. net of consolidation eliminations, IPOPEMA Securities posted a net profit of PLN 391 thousand (vs a net profit of PLN 478 thousand a year earlier).

IPOPEMA TFI

Success fees from the securitisation funds and fees for the management of funds whose management was gradually taken over by IPOPEMA TFI in late 2019 and early 2020 from other investment fund companies were the main driver of the more than 2-fold increase in the investment fund management segment's revenue. The share of revenue from management of capital market funds continued to grow (the value of the funds' assets was PLN 1.7bn at the end of June 2020, compared with PLN 1.5bn a year earlier). The total value of assets under IPOPEMA TFI's management at the end of June 2020 was PLN 57.7bn (PLN 52.2bn at June 30th 2019). Despite a significant increase in operating expenses (by 114.4%, mainly due to higher costs of management of an increased number of funds and higher costs of services and salaries and wages), the segment posted a profit on core activities of PLN 6,055 thousand and a net profit of PLN 4,916 thousand (vs PLN 99 thousand loss and PLN 51 thousand net profit in the six months to June 30th 2019, respectively).

IPOPEMA Business Consulting

With some of IPOPEMA Business Consulting customers affected by uncertainty around the coronavirus pandemic, in the six months ended June 30th 2020 the segment saw a decline of 5.1% in revenue year on year. Despite effective monitoring of operating expenses, which in the six months ended June 30th 2020 fell by 4.3% year on year, the decrease in revenue translated into a lower operating profit of PLN 47 thousand (vs PLN 156 thousand in the six months ended June 30th 2019), with a year-on-year increase in net profit (to PLN 136 thousand from PLN 116 thousand).

3. Factors which may affect the Group's performance in the second half of 2020

Effect of SARS-CoV-2 epidemic on the IPOPEMA Group's business

The continuing coronavirus epidemic is expected to be the factor that can potentially exert the strongest adverse impact on the economy and the condition of the financial markets, and consequently on the IPOPEMA Group's business, in the remaining months of 2020. In the months following the so far most critical period at the onset of the pandemic, the COVID-19-related restrictions were gradually eased and the economy reopened, with financial

aid programmes launched to support businesses and entrepreneurs most affected by the situation. According to many economists, the epidemic is, however, still expected to have far-reaching negative consequences for the economy, which may become more pronounced over the latter half of 2020. Thus, given the above circumstances, compounded by the increasing coronavirus incidence in Poland, other European countries and worldwide over recent weeks, it is difficult to reliably estimate when and to what extent the economy and social sentiments will return to the pre-pandemic status quo.

The unprecedented nature as well as the scale and complexity of the crisis make it equally difficult to estimate the impact of the epidemic on the operations of the Group's individual segments. Although IPOPEMA seeks to benefit from the recovery observed in certain areas and industries, which already had a positive effect on revenue for the three months ended June 30th 2020 and is expected to drive further revenue growth in the latter half of 2020, whether it will be able to do so remains highly uncertain in view of the current unprecedented situation.

In the secondary market, following a sharp downward revaluation of equities in the first half of March, in April stocks recovered, with trading volumes practically unchanged (up 59.8% and 71.4% on March and April 2019, respectively). Nevertheless, it is hard to predict further developments on the WSE in the coming months of the year.

While market sentiment in the area of equity capital market transactions looked promising in January and February, the coronavirus epidemic significantly changed the investors' and the companies' perception of the market conditions. Some of the transactions prepared by the Company were suspended and the success of those planned to be closed in subsequent months of the year is much more uncertain than usual. Nevertheless, IPOPEMA Securities continues to execute transactions for entities in sectors that are relatively unlikely to be adversely affected by the economic slowdown, and the Group sees potential for involvement in financial restructuring projects (with the demand coming from entities most affected by the economic fallout of the epidemic).

In the investment funds segment of the Group's business, in the early months of 2020 clients appeared to be relatively optimistic (February was the fifth consecutive month with net subscriptions), but March turned out the worst month ever (redemptions exceeded PLN 20bn), and April saw only a slowdown of this trend (redemptions totalled PLN 2.6bn). However, the next three months were marked by net inflows of assets to the investment funds. The continuing high uncertainty about how the general situation will develop makes it difficult to predict the behaviour of investors in the coming months and the impact of the market situation on the funds actively managed by IPOPEMA TFI and thus on its revenue from their management. 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 the market sentiment.

In the advisory segment, IPOPEMA Business Consulting continues execution of its ongoing projects, but in the following months it may see a further decline in demand for its services as a result of difficulties likely to be faced by companies.

Variable fee for fund and portfolio management (investment fund and portfolio management segment)

In line with the trend observed in the six months ended June 30th 2020, the third and fourth quarters of 2020 are expected to see revenue from management fees and fund management costs to continue to increase significantly relative to the corresponding periods of 2019. As explained in Sections 1 and 2 of this Directors' Report, the growth has been mainly driven by funds whose management was gradually taken over from other investment fund companies in late 2019 and early 2020 as well as by the performance of the other funds and the situation on the financial markets. Late 2020 may see significant revenue growth attributable to the variable management fee, which is settled as at the last day of the financial year and may not be recognised in the statement of profit or loss until December 2020. Therefore, prior to its settlement, the total amount of the fee is only an estimate subject to ongoing updates depending on the performance of investments funds and the amount of assets under management, and, as such, the fee is not included in revenue of the investment fund and portfolio management segment reported in interim financial statements. As at the end of the last calendar month preceding the date of this report, i.e. August 31st 2020, the potential effect of the variable management fee on the gross profit of the investment fund and portfolio management segment was estimated at PLN 12.6m.

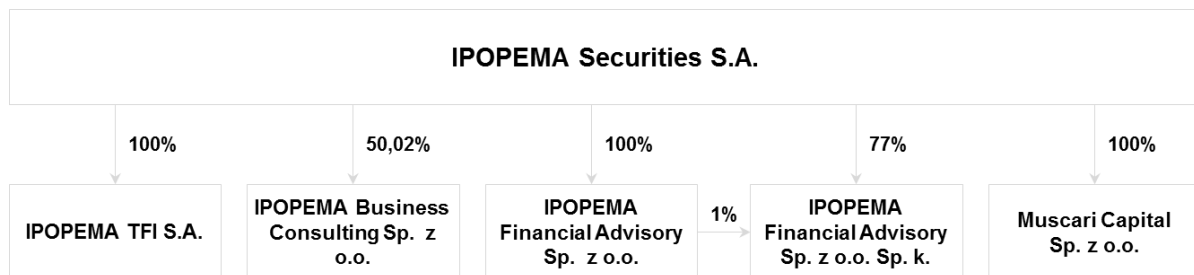
4. Performance against forecasts

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 2020, 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 Muscari Capital Sp. z o.o. Consolidated companies are IPOPEMA Securities, IPOPEMA TFI, IPOPEMA Business Consulting and IPOPEMA Financial Advisory Sp. z o.o. Sp. k., while IPOPEMA Financial Advisory Sp. z o.o. and Muscari Capital Sp. z o.o. are excluded from consolidation based on the immateriality of their financial data.



2. Changes in the Group's organisational structure

In March 2020, the Company acquired a 100% equity interest in Muscari Capital Sp. z o.o. (formerly Grupa Finanset Sp. z o.o.).

3. Shareholding structure of IPOPEMA Securities S.A.

As at June 30th 2020, 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*	2,993,684	9.99%
IPOPEMA PRE-IPO FIZAN ¹	2,990,789	9.98%
JLC Lewandowski S.K.A. ²	2,990,789	9.98%
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	7.13%
Swiss Capital S.A.	1,539,039	5.14%
Shareholders holding over 5% of the share capital – total	21,080,955	70.41%

* 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.

Following with the transactions reported by the Company in Current Report No. 13 (dated July 23rd 2020) and Current Report No. 14 (dated August 7th 2020), as at the date of this Report the following entities held more than 5% of the total number of shares in IPOPEMA Securities S.A.:

Shareholder	Number of shares and voting rights	% of total voting rights at GM
OFE PZU Złota Jesień*	2,993,684	9.99%
IPOPEMA PRE-IPO FIZAN ¹	2,990,789	9.98%
IPOPEMA 10 FIZAN ²	2,851,420	9.52%
Value FIZ*	2,750,933	9.18%
Katarzyna Lewandowska	2,136,749	7.13%
Swiss Capital S.A.	1,539,039	5.14%
Jarosław Wikaliński ³	1,499,900	5.01%
Shareholders holding over 5% of the share capital – total	16,762,514	55.99%

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

³ Pursuant to an oral agreement on unanimous voting at the General Meeting, Jarosław Wikaliński and Małgorzata Wikalińska hold a total of 2,990,798 voting rights, or 9.98% of 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 June 30th 2020 – 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 2020 report.

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%
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.

Following with the transactions reported by the Company in Current Report No. 14 (dated August 7th 2020), as at the date of this Report the holdings of Company shares by management and supervisory personnel were as follows:

Person	No. of shares and voting rights	% of ownership interest and total voting rights
Jacek Lewandowski – CEO and President of the Management Board ¹	3,330,079	11.12%
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%
Total	8,084,362	27.00%

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 six months ended June 30th 2020 Group companies redeemed PLN 1.2 thousand worth of bonds, while in the six months ended June 30th 2019 the Company issued and redeemed PLN 1.6 thousand and PLN 2.3 thousand worth of bonds, respectively. For more information on the issue and redemption of bonds, see Note 14 to the consolidated financial statements.

6. Loans, guarantees and sureties

In the six months ended June 30th 2020, the Company advanced a loan of PLN 365 thousand. It did not receive or provide any sureties or loans. The guarantees provided to the Company are described in Note 22 to the consolidated financial statements.

In addition, in June 2020 IPOPEMA Business Consulting received PLN 1,751 thousand in subsidy under a governmental financial aid programme run by the Polish Development Fund. The financing may qualify for partial cancellation. For more information on the subsidy, see Note 14 to the consolidated financial statements.

7. Selected corporate events in the first half of 2020

Change in the composition of the Supervisory Board

On January 23rd 2020, Mr Zbigniew Mrowiec tendered his resignation as member of the Supervisory Board, and was replaced by Ms Ewa Radkowska-Świętoń, as per appointment by the Extraordinary General Meeting.

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 20,554,900.90 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, several hearings were held, with some of the witnesses heard. Given the complex factual and legal circumstances, it is not possible at this point to predict the date of conclusion of the proceedings and the outcome of the proceedings.

9. Related-party transactions

In the first half of 2020, the Company did not execute any material related-party transactions. For details of related party-transactions, see Note 24 to the interim condensed consolidated financial statements.

10. Material events subsequent to the reporting date

In the period between June 30th 2020 and the date of the financial statements, there were no material events which would affect the Company's business.

11. Risk factors

The most important and dominant factor with a direct impact on the activities of almost all businesses is the global coronavirus pandemic. Given its scale and the pace of spreading, the pandemic triggered volatility and concerns about the state of the economy, both on a global scale and locally, which have not been seen for years. This situation is currently identified by the Company as potentially the most significant threat to the Group's business operations and its future financial condition. As the current situation is unprecedented, the effects of the pandemic on the economy, including its impact on the Polish financial sector, and consequently on the Group's business, cannot be meaningfully measured and assessed at this stage. For a more detailed assessment of the impact of the coronavirus pandemic on the Group's business and risks, see Section 3 of this Directors' Report.

Notwithstanding the above threat, there are also other risk factors specific to the business of the IPOPEMA Group and its individual companies which may have an adverse effect on the business, financial condition, results or development prospects of the Company and the IPOPEMA Group. Those of the risk factors which in the opinion of the Management Board are the most significant are presented below.

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. In past years, this 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 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, 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 members of the Group's management or other key 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. It is 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 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. 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 actions to be groundless and has taken legal steps to have it dismissed by submitting a response to the statement of claim to the court and participating in further procedural steps (several hearings were held by the date of this report, during which some of the witnesses were heard). 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.

Legal and 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 10th 2020

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