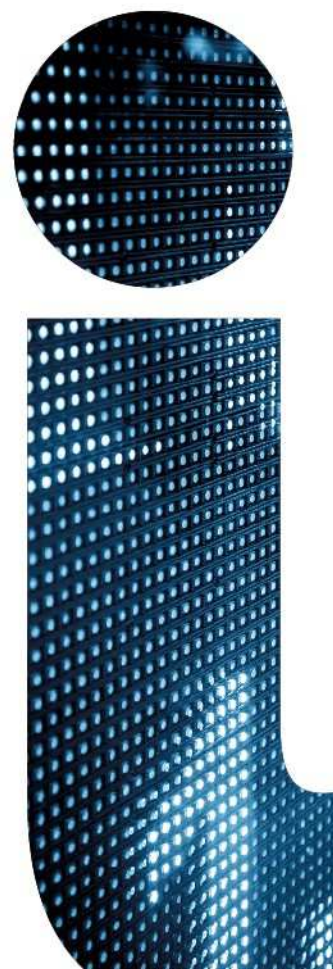


The IPOPEMA Securities Group

# Directors' Report

**on the operations of IPOPEMA Securities S.A.  
and the IPOPEMA Securities Group  
in 2016**

Warsaw, March 21st 2017



## Contents

1.	General information.....	3
2.	Financial highlights and overview of the financial standing of the Group .....	4
3.	Material events and factors with bearing on the financial performance.....	6
4.	Factors which may affect the 2017 performance .....	7
5.	Business profiles of IPOPEMA Securities and the IPOPEMA Securities Group .....	8
5.1	Key markets, clients and suppliers of IPOPEMA Securities and the IPOPEMA Securities Group .....	8
5.2	Organisational structure of the IPOPEMA Securities Group .....	9
5.3	Development prospects and strategy of the IPOPEMA Securities Group .....	9
5.4	Related-party transactions .....	10
5.5	Important corporate events in 2016 and in 2017 before the date of issue of the report .....	10
5.6	Awards and distinctions .....	10
5.7	Research and development .....	10
5.8	Changes in significant management policies .....	10
6.	Share capital and shareholding structure of IPOPEMA Securities S.A. ....	11
6.1	Change in the share capital of IPOPEMA Securities S.A.....	11
6.2	Change in the share capital of other Group companies .....	11
6.3	Shareholding structure of IPOPEMA Securities S.A. ....	11
6.4	Share buy-back .....	11
6.5	Employee share option plans control system.....	11
7.	Management and supervisory personnel .....	12
8.	Court and administrative proceedings.....	13
9.	Credit facility agreements, sureties, guarantees and other agreements .....	13
10.	Risk factors and threats .....	14
11.	Auditor of the financial statements .....	17
12.	Statement of compliance with corporate governance standards.....	17

## Introduction

This Directors' Report was prepared in accordance with the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, and in accordance with the International Financial Reporting Standards ('IFRS') and the Polish Accountancy Act.

# 1. General information

The IPOPEMA Securities Group ('IPOPEMA Securities Group') is a financial institution specialising in the provision of brokerage services and equity research, as well as investment banking services (through the Parent – IPOPEMA Securities S.A. – the 'Company'), creation and management of closed-end and open-end investment funds and asset management services (through subsidiary IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A. – 'IPOPEMA TFI'), and business and IT consultancy services (through the subsidiary IPOPEMA Business Consulting Sp. z o.o.). IPOPEMA Securities also specialises in the provision of consultancy services related to financial restructuring and fund raising for infrastructure projects. These services used to be provided by IPOPEMA Securities, but as of 2017 they have been taken over by a dedicated subsidiary – IPOPEMA Financial Advisory Sp. z o.o. spółka komandytowa. IPOPEMA's operating history dates back to May 2003, when Dom Inwestycyjny IPOPEMA S.A. was established to provide advisory services related to the preparation and execution of capital market transactions. In pursuance of the strategy to provide comprehensive investment banking services, in June 2005 DI IPOPEMA established a subsidiary, Dom Maklerski IPOPEMA S.A., which concentrated on the services relating to the execution of public offerings. In the second half of 2006, DI IPOPEMA's business was transferred to DM IPOPEMA, whose name was changed to IPOPEMA Securities S.A. In October 2006, the range of services offered by the Company was expanded to include brokerage services on the secondary market of the Warsaw Stock Exchange and – in subsequent years – on foreign markets. The Group was extended by adding IPOPEMA TFI in 2007, IPOPEMA Business Consulting in 2008, IPOPEMA Asset Management in 2011 (with the latter merged with IPOPEMA TFI in November 2015), and IPOPEMA Financial Advisory in 2016.

As part of its brokerage business, IPOPEMA Securities provides comprehensive intermediation services for institutional clients related to securities trading, chiefly on the exchanges where it has the status of a member, i.e. the Warsaw Stock Exchange ('WSE'), the Budapest Stock Exchange ('BSE'), the Prague Stock Exchange ('PSE'), but also on other global stock exchanges. In February 2014, the Company was registered as an entity regulated by the Romanian Financial Supervision Authority, and in June 2014 it became a member of the Bucharest Stock Exchange. Since 2010, the Company has been providing intermediation services in debt instruments trading outside the regulated market. The Company's partners and clients include both high-profile international financial institutions and most of the leading local institutional investors, including open-end pension funds, investment fund companies, asset managers and insurers. The brokerage operations of IPOPEMA Securities are supported by a team of analysts, who prepare research reports, recommendations and comments on several dozen companies listed on the WSE and foreign stock exchanges.

The Company's investment banking offering includes comprehensive assistance in the preparation and execution of transactions on the capital market, involving the use of equity instruments (shares), debt instruments (corporate bonds), and hybrid solutions (convertible bonds). In particular, the Company focuses on public offerings of securities (especially shares) – in which it acts as coordinator, offering broker and financial adviser – M&A and management buy-outs, as well as advisory on the raising of financing on the private market, including from private equity funds and through pre-IPO placements. IPOPEMA also specialises in the provision of comprehensive financial restructuring services and raising funds for infrastructure projects (previously the services were provided by IPOPEMA Securities, but were transferred to IPOPEMA Financial Advisory in February 2017).

In February 2016, the Company expanded its existing offering of brokerage services and investment products by targeting a broader base of retail customers. These activities are carried out directly by IPOPEMA Securities and through third parties acting as its agents. At present, there are four such agents (Expander Advisors, NWA1 Dom Maklerski, Grupa Finanset and HKN Capital Fund).

IPOPEMA TFI's business focuses on the creation and management of both closed-end investment funds (targeted at high-net-worth individuals and corporate clients) and open-end investment funds (offered to a wide group of retail investors). IPOPEMA TFI also provides discretionary portfolio management services (asset management) involving personalised investment strategies, to institutional clients (insurers, investment funds, non-profit organisations) and individuals.

IPOPEMA Business Consulting Sp. z o.o. focuses on the provision of consultancy services in the area of corporate strategies and operations, as well as IT consultancy services.

## 2. Financial highlights and overview of the financial standing of the Group

Consolidated financial highlights (PLN '000)	2016	2015
Total revenue, including	88,038	98,015
<i>Brokerage and related services</i>	37,457	47,425
<i>Investment fund and asset management</i>	32,762	38,525
<i>Consultancy services</i>	17,819	12,065
Total cost of core activities	84,700	90,760
Profit on core activities	3,338	7,255
Operating profit	3,669	6,741
Net profit for period	2,365	3,980

### Revenue

Lower revenue in the brokerage services and investment fund and portfolio management segments translated into a 10.2% decline in total consolidated revenue of the IPOPEMA Group in 2016 – to PLN 88,038 thousand from PLN 98,015 thousand in 2015.

Revenue from brokerage services (PLN 37,457 thousand; 42.5% of consolidated revenue) fell 21.0% year on year (from PLN 47,425 thousand) on the back of a 21.1% drop in revenue from securities trading (PLN 22,665 thousand vs PLN 28,715 thousand a year earlier) and a 22.1% drop in revenue from investment banking services (PLN 14,460 thousand vs PLN 18,565 thousand). The erosion of revenue from brokerage operations was principally due to lower value of trading on the WSE (down by 6.9%) and a decline in the Company's market share (4.86% in 2016 vs 5.87% a year earlier). Investment banking revenue fell as a consequence of a lower number of transactions handled by IPOPEMA Securities in the period.

In 2016, IPOPEMA TFI (investment fund and portfolio management business) posted revenue of PLN 32,762 thousand (37.2% of consolidated revenue), down 15.0% on 2015 (PLN 38,525 thousand). Lower revenue in this segment was mostly due to the transfer of the management of white label funds to other fund management companies. The total value of assets in other actively managed funds amounted to PLN 1.1bn as at the end of 2016, up from PLN 0.6bn as at the end of 2015, while the total value of assets in the funds and portfolios managed by IPOPEMA TFI as at the end of 2016 grew to PLN 50.6bn (from PLN 48.3bn the year before).

In 2016, IPOPEMA Business Consulting (the consultancy segment) posted revenue of PLN 17,819 thousand (20.2% of consolidated revenue), up by 47.7% on 2015 (PLN 12,065 thousand).

### Costs and expenses

As a result of lower costs in the brokerage services and the investment fund and portfolio management segments (and despite significantly higher costs in the consultancy segment), at PLN 84,700 thousand the IPOPEMA Group's total costs of operations in 2016 were 6.7% lower year on year (2015: PLN 90,760 thousand).

In 2016, costs of operations in the brokerage services segment totalled PLN 37,167 thousand, having shrunk by 13.5% on 2015 (from PLN 42,963 thousand), chiefly on the back of lower transaction costs and lower cost of salaries and wages.

In the investment fund and portfolio management segment, total costs of operations fell by 11.2% on 2015, to PLN 31,819 thousand, chiefly because of lower distribution and management costs related to actively managed funds, including white label funds, which largely depend on the value of assets of such funds.

IPOPEMA Business Consulting reported costs of operations of PLN 15,714 thousand in 2016, up by 31.2% from a year earlier, when these costs amounted to PLN 11,976 thousand.

### Net profit/(loss)

Despite the loss reported by the brokerage services segment, profits earned by the other business segments translated into a consolidated profit on core activities and a net profit of PLN 3,338 thousand and PLN 2,365

thousand, respectively (vs profit on core activities of PLN 7,255 thousand and net profit of PLN 3,980 thousand a year earlier).

As IPOPEMA Securities' equity interest in IPOPEMA Business Consulting is 50.02%, net profit attributable to owners of the parent was PLN 1,463 thousand, and profit attributable to non-controlling interests was PLN 902 thousand.

In the brokerage services segment, despite lower costs of operations the significant decline in revenue translated into a net loss of PLN 396 thousand (vs a PLN 2,032 thousand net profit a year earlier). IPOPEMA Securities' net profit for 2016 disclosed in the separate financial statements was PLN 1,046 thousand (2015: PLN 3,493 thousand). In both years, dividends received by IPOPEMA Securities from subsidiaries (PLN 1,470 thousand from IPOPEMA TFI in 2016 and a total of PLN 1,400 thousand from IPOPEMA TFI and IPOPEMA Business Consulting in 2015) were not accounted for in the consolidated financial statements.

Due to a 15.0% drop in revenue, IPOPEMA TFI's investment fund and portfolio management segment posted a lower net profit (PLN 1,051 thousand vs PLN 1,907 thousand in 2015) despite a 11.2% decrease in costs of operations.

In the consultancy services segment, a nearly 50% rise in revenue, although accompanied by 31.2% higher costs of operations, contributed to a sharp increase in net profit (PLN 1,710 thousand vs PLN 41 thousand a year earlier).

## Analysis of the Group's statement of financial position

The key items of the Company's consolidated statement of financial position are short-term receivables and short-term payables, which as at December 31st 2016 accounted for 79.0% and 72.3% of total assets and equity and liabilities, respectively. Short-term receivables and liabilities are recognised predominantly in connection with the executed buy and sell transactions in securities, not yet settled at the Central Securities Depository of Poland. In the case of buy transactions executed on the WSE on behalf of clients whose accounts are maintained by custodian banks, the Company recognises liabilities towards the parties to such market transactions (brokerage offices and brokerage houses, known as the anonymous party to a transaction) and receivables from the clients on behalf of whom such buy transactions have been executed. In the case of sell transactions executed on the WSE on behalf of clients whose accounts are maintained by custodian banks, the Company recognises receivables from the parties to such market transactions and liabilities towards the clients on behalf of whom such sell trades have been executed.

As at December 31st 2016, cash stood at PLN 42,714 thousand (12.6% of total assets), of which PLN 12,411 thousand was clients' cash.

As at the end of 2016, equity (PLN 83,635 thousand including non-controlling interests) accounted for 24.6% of total equity and liabilities. The outstanding amount of interest-bearing debt under a short-term working capital facility contracted by IPOPEMA Securities to finance stock-exchange transaction settlements amounted to PLN 14,784 thousand as at December 31st 2016 (4.3% of total equity and liabilities).

## Assessment of financial resources management

IPOPEMA Securities S.A. and other Group companies meet their liabilities as they fall due. Since the high level of short-term payables related to transactions executed as part of brokerage activities is offset by the high level of receivables from such transactions, and taking into account the amount of cash held by the Company, the Company did not identify an increased liquidity risk.

## Explanation of differences between financial performance and published financial performance forecasts

The Company did not publish any performance forecasts.

## Material off-balance sheet items

As at December 31st 2016, the Company had no off-balance sheet items.

## Capital expenditure

Total capital expenditure incurred by the IPOPEMA Securities Group in 2016 amounted to PLN 1,507 thousand and included expenditure on IT infrastructure and modification of trading and settlement systems following the implementation of new systems by the stock exchanges on which the Company operates. As at the date of

these financial statements, the Group did not plan any material investments that would require financing other than internal funds of the Group companies.

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

### Equity market and investment banking

In 2016, the total value of trading on the Budapest Stock Exchange was up 7.5% year on year, the trading value in Warsaw fell 6.9%, and in Prague it remained practically unchanged relative to 2015 (+0.1%). Over the same period, the Company's market share shrank to 4.86% on the WSE and 2.07% on the BSE (from 5.87% and 2.42% in 2015) because of growing competition, chiefly from foreign-based brokerage houses. As a result, the Company's revenue from trading in securities in 2016 declined by 21.1% year on year (PLN 22,665 thousand vs PLN 28,715 thousand).

The situation on the Polish capital market was even more challenging in 2016 than in the year before, with the total value of IPOs on the Warsaw Stock Exchange having almost halved year on year. A lower number of transactions handled by IPOPEMA Securities in the period translated into lower investment banking revenue (PLN 14,460 thousand vs PLN 18,565 thousand).

As a result of the above factors, revenue of the brokerage services segment was down 21.0% year on year, and the segment posted a net loss of PLN 396 thousand in 2016 (relative to net profit of PLN 2,032 thousand in the previous year) despite lower cost of operations.

### IPOPEMA TFI's and IPOPEMA AM's activities

Despite an overall growth in total assets of the funds and portfolios managed by IPOPEMA TFI (to PLN 50.6bn at the end of 2016 from PLN 48.3bn a year earlier), the transfer of management of white label funds coupled with a decline in assets managed as part of the asset management business translated into a 15.0% drop in revenue of the investment fund and portfolio management segment, to PLN 32,762 thousand in 2016, from PLN 38,525 thousand a year earlier. Despite costs of operations reduced by 11.2%, the segment's net profit fell to PLN 1,051 thousand (from PLN 1,907 thousand in 2015).

### IPOPEMA Business Consulting

In terms of revenue, 2016 was a very successful year for IPOPEMA Business Consulting – a larger number of advisory projects translated into a nearly 50% revenue growth compared with the previous year, resulting in a steep increase in net profit (to PLN 1,710 thousand from PLN 41 thousand) despite a 31.2% rise on costs of operations.



## 4. Factors which may affect the 2017 performance

### Market situation on the Warsaw, Budapest and Prague stock exchanges and IPOPEMA Securities' position on the secondary market

Following moderate changes in the first three quarters of 2016, in the middle of March 2017 the WIG index was 25.9% higher than at the end of September 2016. Over the same period, the Budapest stock exchange index BUX and the Prague stock exchange index PX grew by 18.0% and 13.5%, respectively. At the same time, in 2016 only the BSE recorded an increase in trading volume (up by 7.5%), while investor activity at the WSE fell by 6.9%, and the trading volume at the PSE remained practically unchanged (+0.1% on 2015). However, at the present moment it is difficult to predict whether the upward trend observed on the Company's markets in the fourth quarter of 2016 will continue in the coming months of 2017.

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

After a difficult first quarter in the equity transactions market, in the subsequent months of 2016 the market situation started to improve (particularly from the end of December). In 2016, IPOPEMA Securities was engaged in share offerings by X-Trade Brokers DM, Braster and Wirtualna Polska Holding (ABB), bond issues by Bank Pocztowy (for retail investors), Rank Progress, Globe Trade Centre, and Braster, as well as a tender offer for Kredyt Inkaso shares. However, the current optimistic market sentiment may deteriorate later in 2017 due to the continuing uncertainty as to the final form of the Polish open-end pension funds (OFE) system reform. 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 broad base of retail customers. To date, the Company has entered into cooperation with four entities acting as investment firm agents (Expander Advisors, NWA I Dom Maklerski, Grupa FINANSET, and HKN Capital Fund), and soon intends to launch collaboration with Fintegra and Caspar Asset Management, which are already entered in IPOPEMA's list of investment firm agents. IPOPEMA Securities' retail clients could subscribe for investment certificates (Raiffeisen Centrobank, Trigon, Agio), shares offered in public offerings (X-Trade Brokers DM, Auto Partner), and bonds (Bank Pocztowy, Braster GTC). However, as the retail business is still at an early stage of development, it is hard to reliably predict the pace of its growth in 2017 and, consequently, its effect on the Company's performance.

### 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. The downturn observed on the WSE since May 2015 through mid-January 2016 saw nine months of net outflows from retail investment funds (up to and including February 2016). Despite a resurgence of sentiment for investment products (between March 2016 and February 2017 retail investment funds recorded net outflows only in June and December), it is hard to make a fair prediction of investor sentiment in the coming months of 2017. However, the continuing record-low interest rates may encourage transfers of savings from bank deposits to investment funds, which in turn may have a positive effect on the performance of the fund and portfolio management segment. However, a large proportion of IPOPEMA TFI's revenue (from management of closed-end funds) does not depend on the value of the funds' assets and, consequently, on market conditions. In 2017, the market of closed-end investment funds may be materially affected by changes in the laws regulating their operations, including their taxation. Given that IPOPEMA TFI is a leading market player specializing in such funds, such changes may have an adverse effect on its revenues in this business segment.

### Further expansion of IPOPEMA Business Consulting's business

In 2017, the key drivers of IPOPEMA Business Consulting's operations will include continued performance of its existing contracts and new additions to the order book, coupled with tight cost control.

## 5. Business profiles of IPOPEMA Securities and the IPOPEMA Securities Group

### 5.1 Key markets, clients and suppliers of IPOPEMA Securities and the IPOPEMA Securities Group

#### Key markets of the IPOPEMA Securities Group

In the area of intermediation in securities trading, the key market for IPOPEMA Securities is the Warsaw Stock Exchange. The Company also conducts brokerage activities on foreign markets, including as a member of the Budapest, Prague and Bucharest stock exchanges.

In investment banking, the Company offers services to both domestic and foreign clients, handling equity transactions and providing advisory services on the domestic market, being its key market, and abroad.

The Company's activities related to the offering launched in February 2016 targeting retail investors are currently focused on the domestic market.

IPOPEMA TFI operates on the investment fund market, managing both closed-end investment funds as well as open-end investment funds, which are targeted at a wide group of retail clients. Consistent efforts are being made to strengthen IPOPEMA TFI's market position in the open-end investment fund segment. In the area of securities portfolio management services, IPOPEMA TFI focuses on the Polish market.

IPOPEMA Business Consulting operates primarily on the Polish business and IT consultancy market, focusing on advisory services relating to strategy, operational management and IT management.

#### Key clients

The Company provides brokerage services to both high-profile international financial institutions and leading local intermediaries (including branches of major investment banks). IPOPEMA Securities' clients include most of the leading local institutional investors, open-end pension funds, investment fund companies, asset managers and insurers.

The investment banking services of IPOPEMA Securities are used by a wide variety of clients, including companies already listed on the WSE, for whom IPOPEMA Securities prepares secondary offerings or provides advice on M&A transactions. The Company also arranges tender offers for shares of WSE listed companies. The Company prepares and executes initial public offerings for private companies, advises such companies on M&A transactions and capital raising, and provides financial advisory services, e.g. services related to financial restructuring. In addition, the Company arranges exits for major shareholders of public companies (both private individuals and legal persons), effected through sale of shares on the WSE or through private placements. IPOPEMA Securities also provides services related to the execution and financing of infrastructure projects (at the beginning of 2017, this business was transferred to IPOPEMA Financial Advisory).

In the retail business currently under development, the target market is a broad base of retail investors.

IPOPEMA TFI's offering of closed-end investment funds is addressed primarily to high-net-worth individuals and institutional clients, in particular major shareholders of companies listed on the WSE or large private enterprises, as well as multinational corporations (chiefly operating in the property and financial segments). The company is also consistently expanding its business in the area of open-ended investment funds targeted at a wide group of retail investors, where IPOPEMA TFI cooperates with third-party distributors. IPOPEMA TFI's asset management clients primarily include insurers, investment funds, non-profit organisations and high-net-worth individuals.

IPOPEMA Business Consulting concentrates on services to corporate clients from the following sectors: industrial, energy, consumer goods, trade and distribution, IT and telecommunications.

In 2016, no client accounted for more than 10% of the Group's revenue.

#### Key suppliers

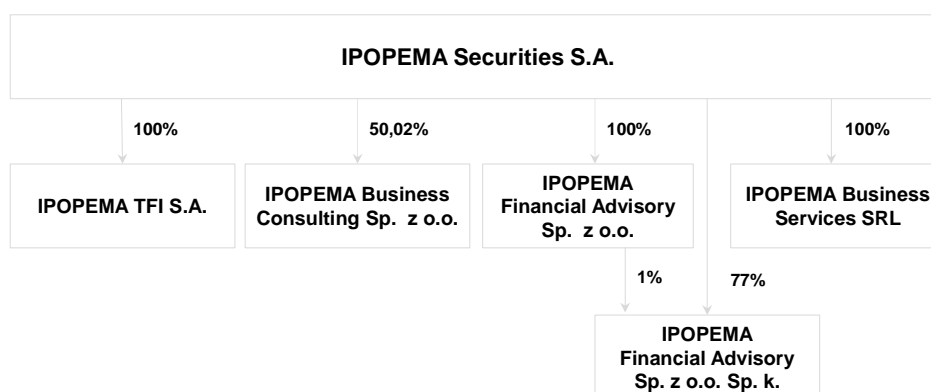
The Company works with several providers of services (including banking services, clearing services for brokerage activities, office space lease, or IT services), however, none of them has a position which would give



it advantage over the Company, including by making the Company dependent on the services of a single provider or imposing on the Company disadvantageous terms of trade. The most significant item of service costs were transaction costs (payable to stock exchanges and clearing houses), which in 2016 accounted for 8.0% of consolidated operating expenses.

## 5.2 Organisational structure of the IPOPEMA Securities Group

On April 1st 2016, the process of winding up the Hungarian subsidiary was completed, resulting in IPOPEMA Securities becoming the sole shareholder of IPOPEMA Business Services SRL (whose liquidation is expected to be closed in the first half of 2017). Moreover, the Company acquired from IPOPEMA Business Consulting all shares in IPOPEMA Outsourcing Sp. z o.o., whose name was then changed to IPOPEMA Financial Advisory Sp. z o.o. At the same time, the subsidiary IPOPEMA Financial Advisory Spółka z ograniczoną odpowiedzialnością Sp.k. was registered in July 2016. As a result, the IPOPEMA Securities Group currently comprises IPOPEMA Securities S.A. as the parent, and the following subsidiaries: IPOPEMA Towarzystwo Funduszy Inwestycyjnych S.A., IPOPEMA Business Consulting Sp. z o.o., IPOPEMA Financial Advisory Sp. z o.o., IPOPEMA Financial Advisory Sp. z o.o. Sp. k., and IPOPEMA Business Services SRL (Romania). IPOPEMA Securities, IPOPEMA TFI and IPOPEMA Business Consulting are consolidated, while the other companies are excluded from consolidation based on the immateriality of their financial data.



In an effort to streamline the IPOPEMA Securities Group's organisational structure and align it with the business segments, IPOPEMA TFI and IPOPEMA Asset Management were merged in 2015 (the merger was formally registered on November 30th 2015).

## 5.3 Development prospects and strategy of the IPOPEMA Securities Group

In line with its development strategy, IPOPEMA Securities – as one of Poland's leading brokerage houses in selected segments of the brokerage and investment banking markets – will continue to consolidate its position on the CEE markets. While to date IPOPEMA Securities Group's operations were focused on services to institutional clients and high-net-worth individuals who are looking for active advice on asset management or who are major shareholders of business entities (including public companies), the Group is gradually expanding its offering to retail investors – with respect to both investment funds (IPOPEMA TFI) and brokerage services (IPOPEMA Securities). With the comprehensive range of services and substantial synergies within the Group, the Company and its subsidiaries will build and tighten their relations with clients by offering them a variety of products for each stage of business development.

In the brokerage services segment, the Company is a member of four regional stock exchanges – in Warsaw, Budapest, Prague and, since mid-2015, Bucharest. At the same time, the Company provides its clients with access to trading on global exchanges. An important factor in establishing the Company's presence in the region is maintenance of its research coverage (which already includes several dozen companies) to include the largest companies listed on stock exchanges in Central and Eastern Europe. In the investment banking business, the Company intends to consolidate its position as one of the most active brokerage offices in the area of services related to capital market transactions, with diversified revenue sources.

The Company is also strategically looking to expand its offering of brokerage services and investment products targeting a broad base of retail customers. February 2016 saw the launch of the first phase of operations of this business; the subsequent months will be devoted to developing and expanding the product range.

In the portfolio and investment fund management segment (activities of IPOPEMA TFI), the objective continues to be further strengthening of the leading position on the market of investment fund companies offering closed-end funds, as well as further growth in assets under management in a consistently growing range of funds targeted at retail investors.

IPOPEMA Business Consulting intends to further consolidate its position on the consultancy services market by acquiring new clients (domestic and foreign) and establishing relations with global players on the consultancy and IT markets to implement joint projects.

The Group's strategy also envisages an expansion of the financial restructuring and infrastructure finance consultancy business, which used to be part of IPOPEMA Securities, but has been transferred, as of 2017, to a dedicated subsidiary (IPOPEMA Financial Advisory).

## 5.4 Related-party transactions

In 2016, the Company did not enter into any material related-party transactions. For details of related party-transactions, see Note 25 to the full-year consolidated financial statements.

## 5.5 Important corporate events in 2016 and in 2017 before the date of issue of the report

### Changes in the IPOPEMA Group structure

As mentioned in Section 5.2 above, in 2016 the process of winding up the Hungarian subsidiary IPOPEMA Business Services Kft. was completed. Furthermore, IPOPEMA Securities acquired from IPOPEMA Business Consulting the subsidiary IPOPEMA Outsourcing Sp. z o.o. which, following change of its name to IPOPEMA Financial Advisory Sp. z o.o., became the general partner in the newly established IPOPEMA Financial Advisory Spółka z ograniczoną odpowiedzialnością Sp.k. Starting from February 2017, this limited partnership took over IPOPEMA Securities' consultancy services related to financial restructuring and fund raising for infrastructure projects.

### Dividend from IPOPEMA TFI

In 2016, IPOPEMA TFI passed a resolution to pay dividend of PLN 1,470 thousand to IPOPEMA Securities. While this amount represents the Company's finance income shown in its separate financial statements, it has been eliminated in the IPOPEMA Group's consolidated financial statements.

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

On January 4th 2017, Mr Daniel Ścigała tendered his resignation as a Management Board Member due to important personal reasons, effective from the end of January 2017. As of January 31st 2017, Mr Daniel Ścigała does not work for the Company.

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

## 5.6 Awards and distinctions

In February 2017, IPOPEMA TFI was named the best investment fund company in 2016 according to a ranking by the editors of the *Puls Biznesu* daily, prepared on the basis of performance recorded by open-end investment funds.

## 5.7 Research and development

The Company and the IPOPEMA Securities Group are not involved in any R&D activities.

## 5.8 Changes in significant management policies

In 2016, the Company and its subsidiaries did not change any significant management policies.

## 6. Share capital and shareholding structure of IPOPEMA Securities S.A.

### 6.1 Change in the share capital of IPOPEMA Securities S.A.

In 2016, there were no changes in the Company's share capital.

### 6.2 Change in the share capital of other Group companies

In April 2016, the process of winding up the Hungarian subsidiary IPOPEMA Business Services Kft. was completed. In July 2016, IPOPEMA Financial Advisory Spółka z ograniczoną odpowiedzialnością Sp.k. was registered. The company has a share capital of PLN 10,000 and is 78% owned by IPOPEMA Securities. In 2016, there were no changes in the share capital of the other companies of the IPOPEMA Securities Group.

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

As at December 31st 2016 and as at the date of approval of this Report, the shareholding structure of the Company (shareholders holding 5% or more of shares in IPOPEMA Securities S.A. and of the total vote at the Company's General Meeting) was as follows:

Shareholder	Number of shares and voting rights at GM	% of total voting rights at GM
IPOPEMA PRE-IPO FIZAN <sup>1</sup>	2,990,789	9.99%
JLC Lewandowski S.K.A. <sup>2</sup>	2,990,789	9.99%
OFE PZU Złota Jesień*	2,950,000	9.85%
IPOPEMA 10 FIZAN <sup>3</sup>	2,851,420	9.52%
Katarzyna Lewandowska	2,136,749	7.14%
Quercus Parasolowy SFIO*	1,754,164	5.86%
<b>Total shareholders holding over 5% of the share capital</b>	<b>15,673,911</b>	<b>52.35%</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 Company did not enter into any agreements which could result in future issues of shares, leading to changes in the proportion of shares held by the Company's existing shareholders.

### 6.4 Share buy-back

Except for transactions executed as part of the Company's brokerage activities (intermediation in equities trading on the WSE), the Company did not purchase any of its own shares.

### 6.5 Employee share option plans control system

For details of the employee share option plans control system, see Note 17.1 of the full-year consolidated financial statements of the IPOPEMA Securities Group.

## 7. Management and supervisory personnel

### Remuneration of members of management and supervisory personnel

The table below presents the remuneration for 2016 (both paid and potentially payable) and additional benefits (including the part of healthcare benefits financed by the Company) received by the Management Board members from the Company:

First name and surname	2016 (PLN '000)	2015 (PLN '000)
Jacek Lewandowski	617	1,239
Mirosław Borys	424	468
Mariusz Piskorski	398	838
Stanisław Waczkowski	459	685
Daniel Ścigała	368	243

For the total amounts of remuneration received by members of the Company's Management Board for the performance of duties at the IPOPEMA Group and at the subsidiaries of IPOPEMA Securities, see Note 25.5 to the full-year consolidated financial statements of IPOPEMA Securities.

The table below presents the remuneration received for 2016 from IPOPEMA Securities by the Supervisory Board members for the performance of their supervisory duties:

First name and surname	2016 (PLN '000)	2015 (PLN '000)
Jacek Jonak	33	30
Janusz Diemko	16	10
Bogdan Kryca	18	16
Michał Dobak	24	24
Zbigniew Mrowiec	26	8

In 2016, the Supervisory Board members did not receive remuneration from the subsidiaries of IPOPEMA Securities.

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

On January 15th 2016, the Company was notified by Daniel Ścigała, a Member of the Management Board, of the acquisition of a further 18,293 shares in the Company (Current Report No. 1/2016). The table below presents information on the number of shares held (directly or through controlled entities) by members of the management and supervisory personnel as at December 31st 2016:

Person	No. of shares and votes	% of ownership interest and total vote
Jacek Lewandowski – President of the Management Board <sup>1</sup>	6,320,868	21.11%
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%
Daniel Ścigała – Member of the Management Board	118,212	0.39%
<b>Total</b>	<b>11,193,363</b>	<b>37.39%</b>

<sup>1</sup> As disclosed in the table in Section 6.3, shares in IPOPEMA Securities S.A. are also held by Katarzyna Lewandowska, Jacek Lewandowski's wife.

Following Mr Daniel Ścigała's resignation as a Management Board Member (with effect from the end of January 2017), the number of shares held by members of the management personnel (directly or through controlled entities) as at the date of authorisation of this Report for issue was as follows:

Person	No. of shares and votes	% of ownership interest and total vote
Jacek Lewandowski – President of the Management Board <sup>1</sup>	6,320,868	21.11%
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%
<b>Total</b>	<b>11,075,151</b>	<b>36.99%</b>

Apart from the Company shares specified above, members of the Company's management and supervisory personnel did not hold (directly or indirectly) any shares in subsidiaries of IPOPEMA Securities.

### Agreements concluded with members of management and supervisory personnel

In 2008, the Company entered into agreements with two Management Board members (Mirosław Borys and Mariusz Piskorski), under which each of them is entitled to compensation equal to three times their monthly salary if they are removed from the Management Board or not reappointed for another term of office (subject to conditions set forth in the agreements) or their remuneration terms are changed to less favourable.

## 8. Court and administrative proceedings

In March 2015, the Polish Financial Supervision Authority imposed a fine of PLN 50,000 on IPOPEMA TFI for non-compliance by one of the funds with the provisions of its Articles of Association between September 4th 2012 and July 29th 2013. IPOPEMA TFI rejected the Authority's arguments and filed a request for re-examination of the case, which has not been considered to date.

In October 2015, the General Inspector for Financial Information imposed a fine of PLN 5 thousand on IPOPEMA TFI for failure to meet the obligation to register a transaction and failure to implement follow-up recommendations issued by the Polish Financial Supervision Authority within the prescribed time limit. IPOPEMA TFI filed a petition with the Minister of Finance to review the case, but in December the Minister upheld the contested decision. IPOPEMA TFI appealed the decision to the Provincial Administrative Court, but on August 18th 2016 the Court denied the appeal in full.

In April 2016, IPOPEMA Securities brought an action against one of its clients, with the claim amounting to PLN 49,200. The proceedings are pending.

In July 2016, IPOPEMA TFI received a certified copy of a statement of claim filed by Górnośląskie Przedsiębiorstwo Wodociągów S.A. of Katowice ("GPW"), in which GPW seeks payment of PLN 20.5m in connection with a financial loss incurred by GPW as a result of its investment in the certificates issued by the IPOPEMA 60 FIZAN fund managed by IPOPEMA TFI. IPOPEMA TFI considers GPW's claims to be groundless and is seeking to dismiss the action. IPOPEMA TFI filed an response to the statement of claim in due time and is currently awaiting the court's further decisions on the matter.

Apart from the above-mentioned proceedings, in 2016 none of the IPOPEMA Group companies was party to any other court or administrative proceedings.

## 9. Credit facility agreements, sureties, guarantees and other agreements

### Credit facility agreements

IPOPEMA Securities is a party to agreements made on July 22nd 2009 with Alior Bank, providing for two working-capital overdraft facilities (bearing interest at variable rates based on 1M WIBOR plus bank margin in PLN) which are used for payment of liabilities to the Central Securities Depository of Poland in connection with the brokerage business conducted by the Company. The agreements are extended every year, and were also extended in 2016. Their current expiry date is September 15th 2017.

## Agreements concluded in the ordinary course of business

In 2016, IPOPEMA Securities concluded more than a dozen agreements for the provision of brokerage services with institutional clients and over 1,700 brokerage agreements with retail clients, as well as more than a dozen agreements for the provision of investment banking and consultancy services. IPOPEMA TFI entered into several agreements to create closed-end investment funds, and IPOPEMA Business Consulting signed more than a dozen agreements for the provision of consultancy services.

Given the expansion of its brokerage business targeting retail customers, the Company entered into agreements with entities who will intermediate in offering its products and services to customers as „investment firm agents“.

## Loans, guarantees and sureties

In 2016, the Company did not receive or provide any sureties or loans (other than loans to employees and associates). The guarantees provided to the Company, described in detail in Note 42 to the financial statements of IPOPEMA Securities, were renewed.

## Shareholder agreements

The Management Board of IPOPEMA Securities S.A. is not aware of any agreements between the Company's shareholders.

# 10. Risk factors and threats

Below are presented risk factors specific to the business of the IPOPEMA Securities Group as a whole or its individual companies, which the Management Board believes to be the most material and which – should they materialise – may have an adverse effect on the operations, financial standing, performance or development prospects of the Company and the Group.

## Risk related to the situation on capital markets

The Company's financial results depend primarily on capital market conditions, especially in Poland. The economic slowdown adversely affects global stock markets and the CEE stock markets where the Company operates. The capital market downturn affects the Company's revenue through lower trading volumes on the stock exchanges and the challenging conditions for execution of public offerings of securities.

With respect to IPOPEMA TFI, such adverse market conditions discourage investment in listed securities (mainly equities) and thereby affect revenue from active management services. To date, this has had a limited effect on the performance of IPOPEMA TFI, as it focused on creating closed-end private equity funds. However, since the company is expanding its offering addressed to individuals, 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 services 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 mainly as foreign-based brokerage houses). 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 continuing intense 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 currently 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 the Company, this may have an adverse effect on the operations and financial standing of the Company and its subsidiaries, as well as on their financial performance and development prospects.

Furthermore, in order to deliver an adequate quality of service, the Group companies must retain highly qualified staff. The nature of the Company's business requires that part of IPOPEMA Securities' and IPOPEMA TFI's employees, in addition to having relevant experience, meet formal requirements to be able to provide brokerage or investment advisory services. Besides, to ensure continued development of the Group, it is necessary to hire new employees with relevant expertise and experience.

Given the strong competition and a limited availability of qualified professionals that guarantee the required level of service, with a view to ensuring stability of the key staff, the Company's Management Board seeks to apply appropriate incentive mechanisms to motivate employees to link their future with the Group. However, the pursuit of those plans may require increased expenditure on employee remuneration, which, given the considerable share of salaries and wages in total operating expenses, may have an adverse effect on the financial results of the Group companies in the future.

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

The Company is a clearing member of the Polish national securities depository KDPW\_CCP, which means that on the clearing date it is required to pay for executed buy transactions and deliver securities in order to clear executed sell transactions. The Company executes transactions for clients (holding accounts with custodian banks), who should deliver cash for executed buy transactions or securities for executed sell transactions on the clearing date. However, a client may fail to provide the cash or securities on time. In such a case, until the client has settled the relevant liabilities, for the purpose of the transaction clearing the Company must use its own resources (buy transactions) or deliver securities acquired on the market (sell transactions). Additionally, if the client fails to pay for a buy transaction, there is also a risk that the Company may acquire securities which it may be unable to sell on equally favourable terms or which it may be unable to sell at all. In the case of sell transactions, there is a risk that the Company may need to acquire the securities on the market at a price higher than the price at which the client was supposed to deliver such securities or that it will be impossible to acquire such securities. Such a situation does not limit the Company's right to assert claims against the client on account of the client's failure to perform obligations under an agreement (order) concerning a transaction in securities.

### **Risk related to the nature of investment banking services**

The Company's services in the area of investment banking, in particular advisory services to companies seeking introduction of their shares to trading on the WSE as well as M&A transactions, are characterised by relatively long execution periods (typically not less than several months). Given the volatile nature of capital markets and changes of investment plans by the Company's clients, there is a risk that some of the projects commenced by the Company may be postponed or the clients may decide to abandon execution of the transaction (in particular when faced with adverse market conditions). As success fees account for a substantial portion of the Company's consideration in the case of such projects, any such decisions may have an adverse effect on the Company's financial performance.

### **Risk related to the expansion of IPOPEMA Securities' retail business**

In February 2016, the Company started offering brokerage services and investment products to a broad base of retail customers. As this is still a young business, it is hard 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.

## Risk related to the business 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 connection with the above and the fact that in the case of selected funds IPOPEMA TFI's consideration depends on the funds' performance against an agreed benchmark rate of return, the risk that the fund managers will not meet the targets and that the clients will discontinue their relationship with IPOPEMA TFI may cause IPOPEMA TFI to be unable to generate the assumed level of revenue. In addition, the market of closed-end funds, whose management has historically been a major source of revenue for IPOPEMA TFI, may be materially affected by amendments to applicable laws and regulations, including taxation rules. As a consequence, such amendments may have an adverse impact on IPOPEMA TFI's revenue from such operations.

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

As regards asset management, IPOPEMA TFI's business is primarily exposed to investment risk. It cannot be ruled out that the IPOPEMA TFI's managers will not make wrong decisions or pursue wrong investment strategies, which may result in the loss of current clients and difficulties in winning new clients, and may thus have an adverse effect on IPOPEMA TFI's performance.

## Risk related to the level of equity and financial requirements of IPOPEMA Securities and the Group

In connection with its operations on the secondary market, upon the closing of each trading day the Company is obliged to ensure an appropriate amount of funds for the Settlement Guarantee Fund managed by KDPW\_CCP. Currently, each day the Company makes a contribution to the Fund using a credit facility. In the case of any events with an adverse effect on the Company's financial performance, the Company's ability to use debt financing may be limited and it may be necessary for the Company to scale down its business or increase its equity base.

To date, the Company has not encountered any problems in making sufficient contributions to the Settlement Guarantee Fund, and the present amount available under the credit facility ensures safe continuation of business on the current scale or even a substantial increase in business volumes. It should also be noted that, if the Company's clients fail to settle transactions concluded on the basis of their orders in a timely manner, the Company may be required to execute such transactions using its own funds if the available credit facility is not sufficient to cover the liabilities.

Moreover, as a brokerage house, the Company is obliged to meet the capital requirements, including the separate and consolidated capital adequacy requirements, which to a large extent depend on the scope and scale of brokerage activities. IPOPEMA Securities' equity on a separate and consolidated basis (as at December 31st 2016: PLN 61,405 thousand and PLN 83,635 thousand, respectively) is maintained at a level ensuring an appropriate surplus over the capital requirements. However, it cannot be ruled out that a rapid business expansion, in particular as a result of implementation of new business projects, and legal and regulatory changes will require the equity to be increased. The necessity to increase the equity may also extend to IPOPEMA TFI, which may be subject to additional risk estimation and capital requirement obligations as a result of potential regulatory changes affecting investment fund companies.

## Risk related to the function of payment bank

In order to be able to start and conduct operations on the WSE, the Company (as well as other brokerage houses which are direct members of the WSE) is required to have a valid agreement on payment bank services with a bank which is a member of the CSDP. The Company's payment bank is currently Alior Bank S.A. If the agreement on payment bank services was terminated, the Company would need to enter into a new agreement with another bank, which would take time and require the Company to agree new terms of business. Any difficulties in finding a successor payment bank could even pose a risk that the Company might have to temporarily suspend its brokerage until a new agreement is signed.

A similar risk exists with respect to the Hungarian and Romanian branches of Raiffeisen Bank, with which the Company executed agreements in relation to transactions executed on the Budapest Stock Exchange and the Bucharest Stock Exchange, as well as with respect to the Polish branch of Raiffeisen Bank, which clears the Company's transactions on the other foreign stock exchanges.

## Risk related to the IT and telecommunications systems

A particularly significant aspect of the Company's activities is the need to ensure uninterrupted and secure operation of its IT and telecommunications systems. Any serious system failure may not only expose the Company to the risk of financial liability to clients for not executed or incorrectly executed orders, but may also undermine the client's confidence in the long term. The Company purchased and implemented a dedicated IT system for providers of brokerage services, which has been upgraded and modified on a continual basis. The objective behind the purchase of the system and the ongoing steps taken by the Company in order to ensure the best possible security solutions for its IT and telecommunications infrastructure, is to mitigate the risk of adverse effects of possible failure of the IT systems, unauthorised access to the data stored on the servers used by the Company, or loss of such data. In spite of all the steps taken by the Company, the potential materialisation of risks in this area cannot be ruled out.

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

The IPOPEMA Securities Group's position on the markets on which it is present depends primarily on the degree of client confidence in the Group companies and their employees. The nature and scope of the Group's services require its employees not only to possess the relevant expertise and experience, but also to comply with the procedures in place at each company of the Group, designed to limit the risk of mistakes and errors in the course of the Group's operations. Although each employee of the IPOPEMA Securities Group is obliged to know and apply the operational procedures in effect at a given company, there can be no assurance that mistakes or errors will not occur in day-to-day operations. Any such errors or mistakes may, depending on their scale, affect the financial standing and financial performance of the IPOPEMA Securities Group. Given the nature of the Group's operations, the risk of mistakes is particularly relevant in the case of staff operating directly on the secondary market.

In line with the applicable laws, a company authorised to conduct brokerage activities is required to have a unit which exercises ongoing supervision over compliance of the employees who provide brokerage and investment advice services with legal regulations and internal rules of procedure (including those applicable to inside information and market manipulation). Although as at date of this Report there were no instances of criminal or unethical conduct on the part of the Company's employees, there can be no assurance that such events will not occur in the future. Any such incident may expose the Company to administrative sanctions from competent authorities, including the Polish Financial Supervision Authority, and may lead to financial losses and loss of reputation.

# 11. Auditor of the financial statements

For information on the date of the agreement concluded with the qualified auditor of financial statements and its remuneration, see Note 35 of the annual consolidated financial statements of the IPOPEMA Securities Group.

# 12. Statement of compliance with corporate governance standards

## Corporate governance code applicable to the Company

IPOPEMA Securities complies with the corporate governance rules defined by the WSE. Until December 31st 2015, these rules were set out in the document 'Code of Best Practice for WSE Listed Companies' ('Best Practices'), adopted by Resolution No. 17/1249/2010 of the WSE Supervisory Board, dated May 19th 2010, and amended pursuant to subsequent resolutions of the WSE Supervisory Board: No. 15/1282/2011 of August 31st 2011, No. 20/1287/2011 of October 19th 2011 and No. 19/1307/2012 of November 21st 2012. However, on January 1st 2016, new corporate governance rules for listed companies entered into force. These are set out in the document 'Code of Best Practice for WSE Listed Companies 2016', adopted by Resolution of the WSE Supervisory Board, dated October 13th 2015 (the relevant statement on compliance with these rule is available on the Company's website). The consolidated texts of both documents are available at: [www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl), in the 'Regulations' section.

## Corporate governance rules which the Issuer does not comply with, including the extent of and reasons for such non-compliance

In 2016, the Company complied with the recommendations set forth in the Best Practices, with the following exceptions:

- I.Z.1.20. – rule regarding the audio or video recording of general meetings:  
Given the little interest in general meetings, they are not recorded in any audio or video format.
- IV.R.2. – recommendation regarding participation of shareholders in general meetings using means of electronic communication:  
Given the complexity involved in ensuring access to general meetings, identifying shareholders and their proxies, and ensuring appropriate bilateral communication, the Company decided not to comply with this recommendation, as it had done in previous years.
- IV.Z.2. / I.Z.1.16. – rules regarding real-time broadcast of general meetings where justified by the shareholder structure:  
Given the condition laid down in the rule and the little interest in general meetings, they are not broadcast by the Company.
- VI.Z.4. – rule regarding reporting on the remuneration policy in the directors' report:  
As a brokerage house, the Company is obliged to publish annual capital adequacy reports. Such reports contain a detailed description of the Company's remuneration policy (including quantitative data), largely covering the information referred to in rule VI.Z.4 of the Best Practices.  
As regards information on the remuneration paid to individual members of the Management and Supervisory Boards, it was concluded that the scope of disclosures made both in the full-year report and in the capital adequacy report is sufficient and complies with the applicable regulations.

## Key features of the risk control and management system used in the preparation of financial statements

The risk control and management system used by the Company in the process of preparation of financial statements (both separate and consolidated) aims to ensure that the financial statements are reliable, complete and compliant with applicable regulations – both with respect to their contents and timely publication. The system meeting the above criteria is based on the following items:

- Adopted and employed rules for circulation and approval of documents, which facilitate prompt and complete recognition of all accounting data;
- Proper flow of information to be registered in accounting records between designated persons from appropriate organisational units and persons engaged in the preparation of financial statements;
- Use of appropriate software and IT systems to facilitate internal reporting and financial information processing;
- Adoption of proper criteria for selection and evaluation of employees engaged in the reporting process, possessing the competences, knowledge and experience relevant to the functions and tasks they are charged with;
- Ensuring cooperation between the Company's auditor and its Supervisory Board to ensure exchange of information related to the financial statements (especially at the audit plan preparation stage, and at its final stage, but before the audit process is complete);
- Division of tasks and responsibilities related to the preparation of financial statements between various internal units to facilitate independent assessment and cross-verification of the documentation prepared, taking into account the cooperation that is necessary for the process (i.e. allocation of accounting and financial controlling tasks, engaging the Management Board at an early stage of the report preparation, ongoing cooperation with the Company's auditor);
- Ensuring proper communication and information flow between Group companies with respect to the timing and form of information.

Considering the above, the Management Board believes that the risk control and management system employed by the Company in the preparation of financial statements fulfils the aims defined above and is adequate given the structure of the Company and the Group.

## Major holdings of shares in the Company

For a list of shareholders holding over 5% of shares in IPOPEMA Securities S.A., see Section 6.3 of this Report.

## Holders of any securities conferring special control rights

There are no securities of IPOPEMA Securities S.A. conferring special control rights.

## Restrictions on voting rights

There are no restrictions on the voting rights attached to IPOPEMA Securities S.A. shares.

## Restrictions on transfer of ownership rights to the Company's securities

As at the date of approval of the financial statements, there are no restrictions on transferability of the Company's securities.

## Rules governing appointment and removal of the Company's management personnel; powers of the management personnel, including in particular the authority to resolve to issue or buy back shares

Pursuant to the Articles of Association, the Management Board is composed of two to five members, including the President, who are appointed for a three-year term and removed from office by the Supervisory Board. The Management Board acts in accordance with the Rules of Procedure for the Management Board, adopted by the Supervisory Board.

## Rules governing amendments to the Company's Articles of Association

The rules governing amendments to the Company's Articles of Association provided in the Articles of Association do not differ from those set forth in the Polish Commercial Companies Code.

## Manner of operation and basic powers of the General Meeting, shareholders' rights and the procedure for their exercise

As the Company did not introduce rules of procedure for the General Meeting, the manner of operation of the General Meeting of IPOPEMA Securities, its basic powers as well as the shareholders' rights and the procedure for their exercise are as defined in the Polish Commercial Companies Code, as well as 'Code of Best Practice for WSE Listed Companies' applied by the Company.

## Composition and activities of the Company's management, supervisory and administrative bodies or of their committees; changes in their composition in the last financial year

The table below presents the composition of the Management Board of IPOPEMA Securities S.A. as at the date of this Report. With effect from the end of January 2017, Daniel Ścigała resigned from the position of Management Board Member, to which he was appointed on May 21st 2015.

First name and surname	Position	Appointment date <sup>1</sup>
Jacek Lewandowski	President of the Management Board	May 16th 2014
Miroslaw Borys	Vice-President of the Management Board	May 16th 2014
Mariusz Piskorski	Vice-President of the Management Board	May 16th 2014
Stanisław Waczkowski	Vice-President of the Management Board	May 16th 2014

<sup>1</sup> Date of appointment for the current term of office.

The table below presents the composition of the Supervisory Board of IPOPEMA Securities S.A. as at the date of this Report.

<b>First name and surname</b>	<b>Position</b>	<b>Appointment date<sup>1</sup></b>
Jacek Jonak	Chairman of the Supervisory Board	June 17th 2014
Janusz Diemko	Secretary of the Supervisory Board	June 17th 2014
Michał Dobak	Member of the Supervisory Board	June 17th 2014
Bogdan Kryca	Member of the Supervisory Board	June 17th 2014
Zbigniew Mrowiec	Member of the Supervisory Board	June 17th 2014

<sup>1</sup> Date of appointment for the current term of office.

The Company believes that all members of the Supervisory Board met the independence criterion provided for in Annex II to the Commission Recommendation (2005/162/EC) of February 15th 2005.

Information on holdings of Company shares by the management and supervisory personnel is presented in Section 7 of this Report.

Warsaw, March 21st 2017

## Management Board of IPOPEMA Securities S.A.:

\_\_\_\_\_  
 Jacek Lewandowski  
 President of the  
 Management Board

\_\_\_\_\_  
 Mariusz Piskorski  
 Vice-President of the  
 Management Board

\_\_\_\_\_  
 Stanisław Waczkowski  
 Vice-President of the  
 Management Board

\_\_\_\_\_  
 Mirosław Borys  
 Vice-President of the  
 Management Board