

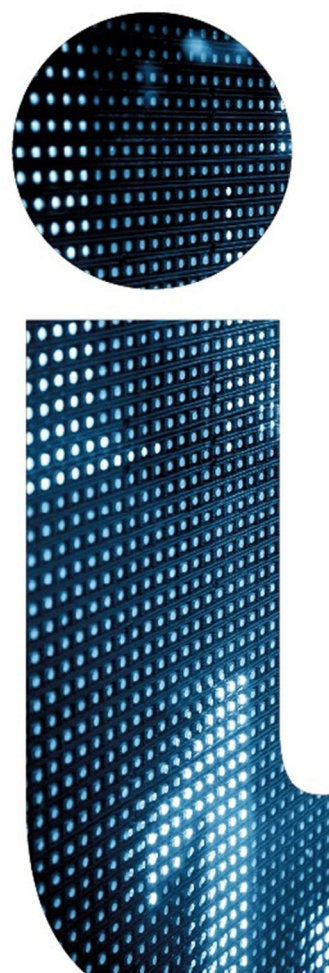
The IPOPEMA Securities Group

# Directors' Report

**for the nine months**

**ended September 30th 2020**

Warsaw, November 19h 2020



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# PART I

## 1. Financial results

Consolidated financial highlights*	Q1–Q3 2020	Q1–Q3 2019
Total revenue, including	171,779	93,086
<i>Brokerage and related services</i>	35,682	24,429
<i>Investment fund management</i>	117,398	48,950
<i>Advisory services</i>	18,699	19,707
Total operating expenses	156,709	94,605
Profit on core activities	15,070	-1,519
Net profit for period	10,015	-1,354

\*Unaudited

### Revenue

The IPOPEMA Group recorded significant revenue growth in the brokerage services and investment fund management segments (with a slight decline in revenue of the advisory services segment), which translated into a marked year-on-year increase in the Group's consolidated revenue in the nine months to September 30th 2020 (up 84.5%).

Revenue from brokerage services (PLN 35,682 thousand; 20.8% of consolidated revenue) was 46.1% higher than a year earlier (PLN 24,429 thousand), driven by increased revenue across the brokerage business. Revenue from securities trading rose by 38.5% year on year (to PLN 22,963 thousand from PLN 16,583 thousand), revenue from investment banking services amounted to PLN 10,533 thousand compared with PLN 6,363 thousand the year before, and other revenue (mainly retail revenue) was PLN 2,186 thousand (relative to PLN 1,483 thousand in the nine months ended September 30th 2019). The higher revenue from brokerage activities was largely attributable to increased bond trading activities combined with the Company being more active on foreign markets and was partly offset by a lower volume of trades executed by the Company on the WSE, leading to a decline in its market share (2.74% vs 4.35% a year earlier), mainly in favour of brokerage offices specialising in services for retail customers. The 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 nine months to September 30th 2020, IPOPEMA TFI (the investment fund and portfolio management segment) posted revenue of PLN 117,398 thousand (68.3% of consolidated revenue), more than double the figure for the corresponding period of 2019 (PLN 48,950 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 2bn at the end of September 2020, compared with PLN 1.5bn a year earlier). The total value of assets under IPOPEMA TFI's management as at September 30th 2020 was PLN 59.2bn (up from PLN 56.4bn as at September 30th 2019).

IPOPEMA Business Consulting (the advisory services segment) posted PLN 18,699 thousand in revenue for the nine months ended September 30th 2020 (10.9% of consolidated revenue), down 5.1% year on year (nine months ended September 30th 2019: PLN 19,707 thousand).

## Costs and expenses

The IPOPEMA Group's total operating expenses in the nine months ended September 30th 2020 were up 65.6% year on year and amounted to PLN 156,709 thousand (vs PLN 94,605 thousand).

In January–September 2020, operating expenses in the brokerage services segment totalled PLN 29,883 thousand, having increased by 14.8% year on year (nine months ended September 30th 2019: PLN 26,038 thousand), chiefly on higher costs of services, salaries and wages.

Higher operating expenses in the investment fund and portfolio management segment (PLN 108,217 thousand vs PLN 48,993 thousand in the nine months ended September 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 operating expenses to PLN 18,609 thousand, down 4.9% year on year (nine months ended September 30th 2019: PLN 19,574 thousand).

## Financial results

In the nine months ended September 30th 2020, operating profit delivered by all segments translated into a consolidated operating profit of PLN 15,070 thousand (vs a PLN 1,519 thousand loss a year earlier). Likewise, net profit earned by all segments translated into a consolidated net profit of PLN 10,015 thousand, a marked year-on-year improvement in the Group's financial condition compared with a PLN 1,354 thousand loss the year before.

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 9,960 thousand, while the profit attributable to non-controlling interests was PLN 55 thousand.

Despite a 14.8% increase in the brokerage services segment's operating expenses in the nine months to September 30th 2020, the 46.1% growth in revenue in the same period translated into a profit on core activities of PLN 5,799 thousand and a net profit of PLN 2,350 thousand (vs a PLN 1,609 thousand operating loss and a PLN 1,709 thousand net loss a year earlier).

On a separate basis, i.e. net of intragroup sales and other consolidation eliminations, IPOPEMA Securities reported a net profit of PLN 3,759 thousand in the nine months ended September 30th 2020 (vs a net loss of PLN 519 thousand in the corresponding period of 2019).

A more than 2-fold increase in revenue from the management of investment funds and portfolios, accompanied by a 120.9% increase in operating expenses, resulted in a material improvement of the segment's financial result in the nine months ended September 30th 2020, with operating profit of PLN 9,181 thousand (vs a PLN 43 thousand operating loss a year earlier) and net profit of PLN 7,471 thousand (vs PLN 189 thousand in the nine months to September 30th 2019).

Despite effective monitoring of the advisory services segment's operating expenses, which in the nine months ended September 30th 2020 fell by 4.9% year on year, the decrease in the segment's revenue translated into a lower operating profit of PLN 90 thousand (vs PLN 133 thousand in the nine months ended September 30th 2019), with a year-on-year increase in net profit (to PLN 194 thousand from PLN 166 thousand).

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

### Equity market and investment banking

Despite the continuing economic uncertainty due to the COVID-19 pandemic, in the nine months to September 30th 2020 the WSE saw markedly higher investor activity, with the total turnover for the period up 32.7%, largely on the back of increased retail trading. As a result, IPOPEMA Securities recorded a lower share in total market trading volumes (2.74% vs 4.35% a year earlier, losing to brokerage offices specialising in services for retail customers), but its increased bond trading activities combined with increased activity on foreign markets translated into a 38.5% year-on-year growth in revenue from securities trading to PLN 22,963 thousand (nine months ended September 30th 2019: PLN 16,583).

Despite the fact that in the three months ended March 31st 2020 equity 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 second and third quarters of 2020 saw a definite rebound, with the Company advising on several transactions. In the nine months ended September 30th 2020, investment banking revenue came in at PLN 10,533 thousand, up 65.5% year on year (nine months ended September 30th 2019: PLN 6,363 thousand).

As a result of the above factors, the brokerage services segment reported an operating profit of PLN 5,799 thousand (vs a PLN 1,609 thousand loss a year earlier) and net profit of PLN 2,350 thousand (vs net loss of PLN 1,709 thousand the year before). On a separate basis, i.e. net of intragroup sales and other consolidation eliminations, IPOPEMA Securities reported a net profit of PLN 3,759 thousand in the nine months ended September 30th 2020 (vs a net loss of PLN 519 thousand in the corresponding period of 2019).

### 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 2bn at the end of September 2020, compared with PLN 1.5bn a year earlier). At the same time, the total value of assets under IPOPEMA TFI's management as at September 30th 2020 was PLN 59.2bn (up from PLN 56.4bn as at September 30th 2019). Despite a significant increase in operating expenses (by 120.9%, 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 9,181 thousand and a net profit of PLN 7,471 thousand (vs PLN 43 thousand loss and PLN 189 thousand net profit in the nine months to September 30th 2019, respectively).

### IPOPEMA Business Consulting

With some of IPOPEMA Business Consulting customers affected by uncertainty around the coronavirus pandemic, in the nine months ended September 30th 2020 the segment saw a decline of 5.1% in revenue year on year. Despite effective monitoring of operating expenses, which in the nine months ended September 30th 2020 fell by 4.9% year on year, the decrease in revenue translated into a lower operating profit of PLN 90 thousand (vs PLN 133 thousand in the nine months ended September 30th 2019), with a year-on-year increase in net profit (to PLN 194 thousand from PLN 166 thousand).

## 3. Factors which may affect the Group's performance in Q4 2020

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

The continuing coronavirus epidemic (in particular its second wave) 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. However, the resurgence of coronavirus cases across the world, including Poland, in the months immediately preceding the issue of this report and related restrictions may lead to further negative consequences whose scale and duration are difficult to foresee.

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 second and third quarter of 2020 and is expected to drive further revenue growth in the remaining months of 2020, whether it will be able to do so remains highly uncertain in view of the current unprecedented situation.

As regards the secondary market, after a sharp downward revaluation of equities in the first half of March 2020, the main index of the Warsaw Stock Exchange has consistently recovered (since a temporary decline in stock prices in late October followed by a strong rebound in November, the index has remained largely flat relative to highs recorded in August 2020). In the year to date, the WSE has also seen higher investor activity than in 2019, with the turnover up 34.7% and 42.9% year on year in the first nine months and the first ten months of 2020, respectively. The marked growth in October 2020 was largely attributable to the record-breaking IPO of Allegro. Despite those positive developments, it is hard to predict how the situation on the WSE will evolve in the remaining months of 2020.

Following the equity market's strong performance in early 2020, the sentiment among both investors and companies temporarily deteriorated in the wake of the COVID-19 outbreak, in particular in late March and early April 2020. Optimism has since returned to the stock market, whose strong recovery seems to have slightly slowed down in the fourth quarter of 2020 (Allegro's record-high IPO and cancellation of Canal+'s IPO). 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).

After a relatively good performance in early 2020 (February was the fifth consecutive month with net subscriptions), the investment funds segment of the Group's business experienced a sharp but short-lived increase in investor anxiety – following record-high redemptions in excess of PLN 20bn in March 2020 (the segment's worst month ever) and further redemptions of PLN 2.6bn in April 2020, over the next six months the funds recorded net subscriptions. However, the annual balance of investment funds' sales as at October 31st 2020 was negative, with PLN -6bn in net redemptions. The continuing high uncertainty about how the general situation will develop (especially in view of the second wave of the pandemic) 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 as early as the first half of 2020, the remaining months 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 Management's Discussion and Analysis, 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 date immediately preceding the date of this Management's Discussion and Analysis, the potential effect of the variable management fee on the gross profit of the investment fund and portfolio management segment was estimated at PLN 14.1m.

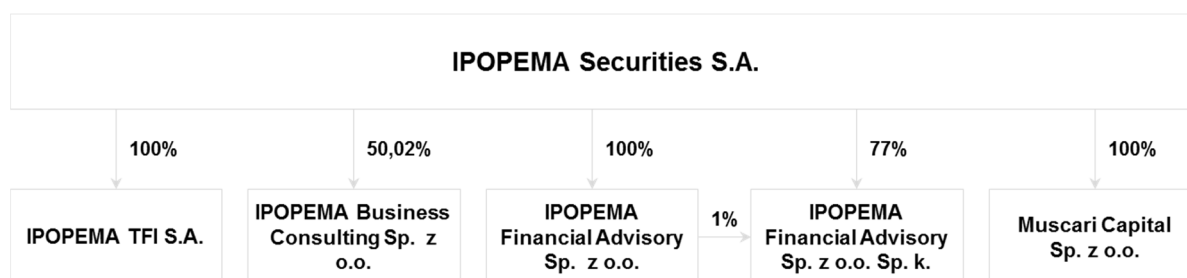
## **4. Performance against forecasts**

The Company has not published any performance forecasts.

## 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 September 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 <sup>1</sup>	2,990,789	9.98%
IPOPEMA 10 FIZAN <sup>2</sup>	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 <sup>3</sup>	1,499,900	5.01%
<b>Shareholders holding over 5% of the share capital – total</b>	<b>16,762,514</b>	<b>55.99%</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> The only investor in the fund is Stanisław Waczkowski, Vice President of the Company's Management Board.

<sup>3</sup> 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.

The holdings shown above did not change relative to those presented in the H1 2020 report or by the date of this report.

## 4. Number of shares held by members of management and supervisory personnel

Below are specified members of the management and supervisory personnel who, as at September 30th 2020 (and as at the date of this report), held – either directly or indirectly through subsidiaries or related entities (including dedicated funds) – IPOPEMA Securities shares. The shareholdings of members of the management and supervisory staff did not differ from those disclosed in the report for H1 2020.

Person	No. of shares and voting rights	% of ownership interest and total voting rights
Jacek Lewandowski – CEO and President of the Management Board <sup>1</sup>	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%
<b>Total</b>	<b>8,084,362</b>	<b>27.00%</b>

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

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

In connection with the IPOPEMA Group's variable remuneration components policy, in the nine months ended September 30th 2020 Group companies redeemed PLN 1.2 thousand worth of bonds, while in the nine months ended September 30th 2019 the Company issued and redeemed PLN 1.6 thousand and PLN 3.2 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 nine months ended September 30th 2020, the Company advanced a loan of PLN 515 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

### 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. Material 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 nine months to September 30th 2020, the Company did not conclude any material related-party transactions on a non-arm's length basis. 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 September 30th 2020 and the issue date of the financial statements, there were no material events which would affect the Company's business.

Warsaw, November 19h 2020

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

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Jacek Lewandowski  
President of the Management  
Board

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Mariusz Piskorski  
Vice President of the  
Management Board

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Stanisław Waczkowski  
Vice President of the  
Management Board

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Mirosław Borys  
Vice President of the  
Management Board