

**Capital adequacy information of
Erste Securities Polska S.A.**

as at 31 December 2019

Warsaw, June 2020

1. Introduction

Information contained herein is publicly disclosed under:

- The Capital Adequacy Information Policy of the Brokerage House of ERSTE Securities Polska S.A.
- Regulation of the Minister of Development and Finance of 25 April 2017 (Journal of Laws of 2017, item 856) on internal capital, risk management system, supervisory assessment program and supervisory assessment audit, as well as remuneration policy in the brokerage house;
- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, hereinafter referred to as “**CRR Regulation**” or “**CRR**” (OJ L 176 of 27 June 2013 as amended); The information also meets the requirements of the Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (“**ITS Regulation**”) (OJ L 191 of 28 June 2014 as amended);
- Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) No 2016/200 of 15 February 2016 laying down implementing technical standards with regard to the disclosure of information on the institution's leverage ratio in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- EBA Guidelines on materiality, proprietary nature and confidentiality of disclosed information and on disclosure frequency under Article 432 § 1, Article 432 clause 2 and Article 433 of Regulation (EU) No. 575/2013;
- the Act on Trading in Financial Instruments of 29 July 2015 (Journal of Laws of 2020, item 89, as amended), hereinafter referred to as the “Act on Trading”.

Erste Securities Polska S.A. is a subsidiary entity as referred to in article 4 section 1 point 16 of the CRR Regulation from Erste Group Bank AG.

The capital adequacy related information is presented on stand-alone basis.

Erste Securities Polska S.A. also discloses information specified in Title II of Part Eight of the CRR Regulation.

Erste Securities Polska S.A. does not disclose additional information specified in Title III of Part Eight of the CRR Regulation, as it does not employ the instruments or methods described therein.

2. General information

The Brokerage House Erste Securities Polska S.A. (hereinafter: „the Company” or „Brokerage House”) is a joint stock company with registered office at 16 Królewska Street, 00-103 Warsaw.

The Company pursues the following brokerage activities under the supervision of the Polish Financial Supervisory Authority:

- 1) acceptance and transmission of orders to purchase or sell financial instruments;
- 2) execution of orders referred to in paragraph 1, on the account holder;
- 3) trading on own account in financial instruments;
- 4) investment advice;
- 5) offering financial instruments;
- 6) safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management;

- 7) advice to companies on capital structure, business strategy and other issues related to the structure or strategy;
- 8) consultancy and other services in the field of mergers, splits and acquisitions;
- 9) currency exchange, if it is related to brokerage activities;
- 10) preparation of investment analyses, financial analyses and other recommendations of a general nature relating to transactions in financial instruments.

The Company has been entered in the Register of Enterprises kept by the District Court for the capital city of Warsaw in Warsaw, XII Business Division of the National Court Register (KRS), under KRS No. 0000065121.

All information presented herein have been prepared as at 31 December 2019 and cover the period of 12 months ending on 31 December 2019 or comparable periods.

3. Financial information

Financial statements of Erste Securities Polska S.A. for 2019 comprising: *the introduction to financial statements, balance sheet, income statement, statement of changes in equity, cash flow statement for the financial year and Independent Registered Auditor's Report*, has been approved by the Ordinary General Meeting of Erste Securities Polska S.A. on 26 June 2020 and is available in the Company's files in the National Court Register.

4. Risk management objectives and strategies

The strategy and processes of management of individual risks

Within the risk management system, the Risk Management Specialist function has been separated for ongoing monitoring and advising the Management Board in matters of undertaken risk.

The risk management process at Erste Securities Polska S.A. comprises risk identification, appraisal and measuring, as well as monitoring, control and reporting, and also the undertaking of decisions and actions aimed at risk level and profile modification and monitoring of the effects of such decisions and actions.

The objective of the Company's risk management system is continuous risk reduction, protection of resources, systems and processes, as well as hedging against the possible effects of realization of the risk.

The system's main tasks include:

- identification – providing information about the risk and its profile,
- measurement and appraisal – defining and applying the quantitative or qualitative methods of setting capital requirements and limits as well as appraising materiality of identified risks,
- monitoring of acceptable risk level – control of utilization of determined limits and risk appetite,
- risk and risk effects preventing and reducing actions – defining and taking actions to reduce the potential negative impact of risks on the Company's activity,
- disclosure and reporting – periodical and ongoing provision of risk management system information to the Management Board and Supervisory Board of the Company, supervisory authorities and regulators of the capital market, and other financial market participants.

Table No. 1 shows the characterization, management strategy and method of estimation of the capital requirements and internal capital with respect to risks identified at the Company as at 31 December 2019.

Table No. 1 Specification of risks in activities of the Company

Risk type	Risk definition	Risk management strategy	Method of calculation of capital requirements and estimation of internal capital
Operational	The risk of loss resulting from mismatch or unreliability of internal processes, human errors or systems, or resulting from external events, including also legal and IT risk.	- reporting operational risk events, - keeping a register of operational events capable of exposing the Company to losses on account of risk, - periodical stress testing accompanying the ICAAP reviews.	Pillar I: Part Three, Title III, Chapter 2 CRR (basic indicator approach) Pillar II: Pillar I requirement plus an additional capital add-on above the Pillar I requirement, plus additional expert-estimated elements
Credit and counterparty risk	The risk of non-fulfilment by creditors of their liabilities and the resulting negative financial consequences. The risk of non-fulfilment by the counterparty to a transaction of its liabilities before the final settlement of cash flows related to that transaction.	- daily credit risk monitoring, - monitoring of unsettled transactions, - definition of the principles of granting transaction and deferred payment limits, - periodical stress testing accompanying the ICAAP reviews.	Pillar I: Part Three, Title II, Chapter 2 CRR (standardized approach) Pillar II: Pillar I requirement plus an additional capital add-on above the Pillar I requirement
Concentration and large exposures risk	The risk of non-fulfilment of liabilities by a single entity or by entities related by equity or organization, in the situation of excessive exposure to a single entity or to related entities.	- periodical setting of the large exposure limit, - monitoring of utilization of the large exposure limit, - in the situation of threat that the large exposures limits might be exceeded at the Company, preventive actions are undertaken.	The Company does not calculate the capital requirement for the purposes of Pillar I and II.
Macroeconomic risk	Risk interpreted as unfavourable changes of the macroeconomic conditions affecting the Company's activity	- periodical risk review for changes of macroeconomic conditions, - periodical stress testing accompanying the ICAAP reviews.	The Company does not calculate the capital requirement for the purposes of Pillar I and II.
Market risk	The risk of losses resulting from unfavourable changes in the value of financial instruments, interest rates, currency exchange rates or commodity prices. The risk includes foreign currency and interest rate risks.	- daily monitoring of the currency position and risk, - periodical stress testing accompanying the ICAAP reviews.	Pillar I: Part Three, Title IV CRR Pillar II: Pillar I requirement
Liquidity risk	The risk of losing the ability to finance assets and to timely meet payment liabilities.	- ongoing monitoring of the cash flow structure, - periodical calculation of the liquidity gap, - periodical stress testing accompanying the ICAAP reviews.	The Company does not calculate the capital requirement for the purposes of Pillar I and II.
Hard-to-measure risks	Material risks for which no quantitative measurement methods are available. The Company treats the reputational and strategic risk as hard-to-measure risks.	- daily media monitoring, - periodical appraisal of the efficiency and effectiveness of business decisions, - periodical stress testing accompanying the ICAAP reviews.	The Company does not calculate the capital requirement for the purposes of Pillar I. Pillar II: expert-estimated capital add-on.

The structure and organization of the risk management function

The following authorities of the Brokerage House take part in the risk management process:

- Supervisory Board of the Brokerage House - supervises compliance of the Brokerage House's risk management approach with the Company's business strategy and financial plan;
- Management Board of the Brokerage House – is responsible for the effectiveness of risk management, the internal capital estimation process, capital management and planning, review of those processes and supervision of their effectiveness; introduces the necessary changes and improvements in the situation of changes of the risk level in the Brokerage House's activity, economic environment factors, and irregularities in the processes' functioning;

- Risk Management Specialist and Chief Accountant – perform ongoing monitoring in the area of identification and measurements of existing risks and make the regulatory calculations of capital adequacy;
- Internal Auditor – reviews and appraises the adequacy and efficiency of the implemented risk management system, as well as the level of its utilization;
- and all organizational units of the Brokerage House, within a scope defined in internal procedures governing the risk management system.

What ensures the awareness of risks taken in relation to activities and the risk level control are the drafted and continuously modified risk management regulations and the resulting limits reflecting the acceptable risk level. The degree of utilization of individual risk limits is subject to ongoing monitoring by persons appointed pursuant to internal regulations and reported to the Management Board.

The scope and nature of the risk reporting and measurement system

The management information system at Erste Securities Polska S.A. is to provide decision makers with information about material risk factors.

Within the Company's management information system, current and periodical information is provided by appointed units of the Company's risk management system to the Management Board and Supervisory Board.

At least once a year, the Management Board and Supervisory Board receive a complex report on risk management at Erste Securities Polska S.A.

Risk hedging and mitigation strategy

The risk hedging and mitigation strategy consists in implementation of the following internal regulations and tools:

- The business continuity plan of Erste Securities Polska S.A. – the purpose of the business continuity plan at Erste Securities Polska S.A. is to develop mechanisms to hedge the Company against the negative impact of disturbances, so as to make it possible in a situation of crisis to continue the business processes related to provision of services;
- The security policy of Erste Securities Polska S.A. – defines:
 - the principles of administration and utilization of systems available within the Company's computer network,
 - the principles of granting access to facilities and IT systems,
 - the principles of electronic data archiving,
 - the principles of continuity of operation of the IT systems,
 - the principles of fire safety and evacuation of the Company's office,
 - the principles of access to the Company's backup office;
- The personnel policy of Erste Securities Polska S.A. – defines the Company's principles of personnel selection and supplementation, human resources needs monitoring and personnel pool planning for the purpose of pursuit of an effective employment policy;
- The capital management policy of Erste Securities Polska S.A. – defines:
 - the Company's long-term capital targets,
 - its preferred capital structure,
 - its capital emergency plans,
- The Backup Office service - consists in organization and maintenance of readiness of a specific number of key positions in a separated office area of restricted access, protected by an access control system, equipped with appropriate infrastructure and made available following an emergency call on terms stated in the Security Policy of Erste Securities Polska S.A.

Objectives of the capital management policy

The Company's basic capital objective is to maintain a safe level of own funds and a common equity Tier I capital ratio in relation to risk incurred. Observing the absolute capital safety rule, the Company at the same time seeks to determine the optimum own funds to risk ratio so as to optimize the long-term return on capital.

The purpose and principles of financial risk management

The activity on capital markets involves inherent risks capable of materially affecting the Company's functioning, which are briefly described below. All risk types are monitored and controlled in relation to return on activity and capital level required to hedge transactions from the viewpoint of capital requirements.

Statement on adequacy of risk management arrangements at Erste Securities Polska S.A., approved by the management body

The statement on adequacy of the risk management arrangements at Erste Securities S.A., approved by the Company's Management Board, is attached hereto as Appendix No. 1.

Risk statement approved by the management body

The statement on risk profile related to the business strategy of Erste Securities S.A., approved by the Company's Management Board, is attached hereto as Appendix No. 2.

The number of directorships held by members of the Management Board

In 2019, one member of the management body held the position of Financial Director at Erste Securities Polska S.A. The remaining members of the management body did not hold any directorships at the Brokerage House.

The recruitment policy for the selection of members of the Management Board

Erste Securities Polska S.A. does not have a formalized recruitment policy for the selection of members of the management body. The body that selects members of the Management Board is the Supervisory Board. Taken into account when selecting candidates for members of the Management Board is their expertise, professional experience and skills, which should meet the position- and function-specific requirements.

The strategy of diversity with regard to selection of members of the Management Board

Erste Securities Polska S.A. does not have a strategy of diversity with regard to selection of members of the Management Board. Suitable candidates for management positions are selected by the Company's Supervisory Board, which selects members of the management body according to specific functions they are to perform.

The Risk Committee

Erste Securities Polska S.A. has a Risk Committee. The Risk Committee is composed of members of the Supervisory Board of Erste Securities Polska S.A.

The Risk Committee within its competences focuses in particular on:

- preparing a draft document regarding the risk appetite of a brokerage house;
- giving opinions on the strategy of a brokerage house developed by the Management Board in the scope of risk management;
- supporting the Supervisory Board in overseeing the implementation of the strategy of the brokerage house in the scope of risk management by the Management Board;
- verification of the remuneration policy and the rules of its implementation in terms of adjustment of the remuneration system to the risk to which the brokerage house is exposed, its capital, liquidity and probability and dates of earning income.

In 2019, 4 meetings of the Risk Committee were held.

The flow of risk information addressed at the management body

Erste Securities Polska S.A. has a system of internal risk data reporting. The principles, frequency and due dates of drafting management information on individual risk categories have been determined in the Company's internal procedures of the risk management system.

5. Own funds

From 1 January 2014, being an investment firm, Erste Securities Polska S.A. is obliged to calculate own funds and prudential requirements pursuant to the CRR Regulation.

The CRR Regulation is part of the so-called CRD IV/CRR package, which beside that regulation comprises also the CRD IV Directive – Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, hereinafter referred to as the “**CRD Directive**” (OJ L 176 of 27 June 2013 as amended).

Full reconciliation of the common equity Tier I capital items, additional Tier I items, Tier II items as well as the filters and deductions applied under Articles 32-35, 36, 56, 66 and 79 with respect to the institution's own funds and balance sheet contained in its audited financial statements

The structure of own funds as at 31 December 2019 is shown in Table No. 2.

Table No. 2. The structure of the Company's own funds as at 31 December 2019

ID as per ITS Regulation	Item	Amount in PLN	Balance sheet item (as per the Polish Accounting Standards)
1	OWN FUNDS	31 998 395,29	
1.1	TIER I CAPITAL	31 998 395,29	
1.1.1	COMMON EQUITY TIER I CAPITAL	31 998 395,29	
1.1.1.1	Capital instruments qualifying as common equity Tier I capital	28 492 742,01	
1.1.1.1.1	Paid capital instruments	15 500 000,00	Basic capital (fund)
1.1.1.1.3	Agio	12 992 742,01	Spare capital (fund): a) from the sale of shares at premium
1.1.1.2	Retained profit	-	
1.1.1.2.1	Retained profit of previous years	-	
1.1.1.2.2	Recognized profit or recognized loss	-	
1.1.1.2.2.1	Profit or loss attributable to owners of the parent entity	86 624,91	Net profit (loss)
1.1.1.2.2.2	(-) Part of interim or year-end profit not eligible	-86 624,91	
1.1.1.3	Accumulated other comprehensive income	-	
1.1.1.4	Reserve capital	4 341 927,43	Spare capital (fund): c) established by force of the articles
1.1.1.11	(-) Other intangible assets	- 836 274,15	Intangible assets: Acquired concessions, patents, licenses and other assets
1.2	TIER II CAPITAL	-	

Source: COREP Report (Form C 01.00) as at 31 December 2019

Other items of own funds with zero balance have been classified as immaterial and left out from the above table.

Throughout the year 2019, the Brokerage House was a small trading book business according to the CRR Regulation (and an insignificant trading book business according to the Requirements Regulation).

The Brokerage House does not include exposures on account to securitization positions among decreases of the basic capitals - the Company does not securitize its assets.

Among items decreasing the Company's basic capital as at 31 December 2019, only the item of other intangible assets had a value of PLN 836,274.15.

Pursuant to Article 48 CRR, the Company is not obliged to deduct from own funds the amount of assets on account of deferred income tax dependent on future profitability and arising from temporary differences, the total amount of which does not exceed:

- 10% of the common equity Tier I capital,
- 17.65% of the threshold amount referred to in Article 48 clause 2.

Description of the main features of common equity Tier I instruments, additional Tier I instruments, and Tier II instruments issued by the institution. Full terms for all common equity Tier I instruments, additional Tier I instruments, and Tier II instruments

Common equity Tier I capitals:

- Basic capital (fund) – as at 31 December 2019, it amounted to PLN 15,500,000 and consisted of 7,500 series A registered shares, 5,000 Series B registered shares, 1,500 series C registered shares and 1,500 series D registered shares. The face value of one share of each series is PLN 1,000.
- The sole shareholder, holding 100% shares in ERSTE Securities Polska S.A., is EB Erste Bank Internationale Beteiligungen GmbH with registered office at Am Belvedere 1, A-1100 Vienna, Austria.
- Spare capital (fund) – as at 31 December 2019, it amounted to PLN 17,334,669.44. It arose from the sale of shares at premium and from profits of previous years.

Erste Securities Polska S.A. has no qualified capital instruments in Tier I additional capitals or in Tier II capitals. The Brokerage House did not issue instruments that according to the CRR Regulation should be treated as additional Tier I instruments and Tier II instruments.

Description of all restrictions on the calculation of own funds under the CRR Regulation, and on the instruments, prudential filters and deductions to which such restrictions apply

Erste Securities Polska S.A. does not impose restrictions on the calculation of own funds under the CRR Regulation, and on the instruments, prudential filters and deductions to which such restrictions apply.

Explanation of the basis for calculation of capital ratios calculated with the use of own funds elements established on a basis other than the one defined in the CRR Regulation

Erste Securities Polska S.A. does not apply capital ratios calculated with the use of own funds elements established on a basis other than the one defined in the CRR Regulation.

6. Capital requirements

Description of the approach used by Erste Securities Polska S.A. to appraise the adequacy of internal capital to support the Company's current and future activities

Erste Securities Polska S.A. has implemented an internal capital calculation methodology.

Internal capital is defined as the amount estimated by the Brokerage House that is required to cover all material risk types found in its activity and changes of its business environment, the expected risk level taken into account.

The materiality of risks is appraised by means of analysis of risks found in the activity and environment of Erste Securities Polska SA, aimed at identification of risks that are material in its activity, which are then analysed further within next stages of the ICAAP Process. The Brokerage House introduces processes aimed at management of the risks that are found to be material, and puts aside internal capital to cover such risks.

When calculating internal capital, the Brokerage House uses a solution based on the regulatory requirement for own funds (8% capital ratio) that follows from Pillar I, where the point of departure is estimation of additional capital that might be required for all risk types which remain uncovered or partly covered by the minimum regulatory requirement for own funds that follows from Pillar I, and application of an appropriate add-on on that account.

Risks analysed by Erste Securities Polska S.A. and the respective measurement approaches applicable to individual risks are presented in Table No. 1 in Chapter 4 of this document.

The internal capital estimation process is subject to regular verification and, whenever necessary, to modification. Verification of the internal capital estimation process comprises:

- a review of the risks found in the Company's activity,
- a review of approaches to the appraisal of materiality of individual risks,
- a review of approaches to the measurement of material risks.

The internal capital estimation process is reviewed at least annually. Additionally, the review is performed whenever new risk types, material strategy and action plan changes, the Brokerage House's external environment changes and other factors occur that affect the proper functioning of that process.

Risk exposure estimation methods for individual risk types with reference to the relevant provisions of the CRR Regulation

Table No. 3. Risk exposure estimation methods

Label	Estimation methods	Reference to CRR Regulation
Value of risk-weighted exposures for credit risk, counterparty credit risk, dilution risk and free deliveries	standardized approach	Part Three, Title II, Chapter 2
Total value of exposure to foreign exchange risk	Articles 351 - 352 CRR	Part Three, Title IV, Chapter 3
Total value of exposure to operational risk	basic indicator approach	Part Three, Title III, Articles 315 - 316

Disclosures of the 8% of risk-weighted exposure for each exposure category specified in Article 112 of the CRR Regulation

As at 31 December 2019, the credit risk capital requirement (8% of risk-weighted exposure) of Erste Securities Polska S.A. broken down by asset classes was as follows:

Table No. 4. Credit risk requirements by asset classes as at 31 December 2019

Exposure class	8% of risk-weighted exposure in PLN
Exposures to central governments or central banks	-
Exposures to regional governments or local authorities	-
Exposures to public sector entities	-
Exposures to multilateral development banks	-
Exposures to international organizations	-
Exposures to institutions	5 889 774,19
Exposures to corporates	208 811,27
Retail exposures	-
Exposures secured by mortgages on immovable property	-
Exposures in default	-
Exposures associated with particularly high risk	-
Exposures in the form of covered bonds	-
Exposures to institutions and corporates with a short-term credit assessment	-
Exposures in the form of units or shares in collective investment undertakings	-
Equity exposures	-
Other items	258 738,41
TOTAL	6 357 323,87

Source: COREP Report (Form C 02.00) as at 31 December 2019

Own funds requirements

As at 31 December 2019, the total risk exposure of Erste Securities Polska S.A. was as follows:

Table No. 5. Exposures to individual risk types as at 31 December 2019

	Exposure class	Exposure value in PLN
1.	Value of risk-weighted exposures for credit risk, counterparty credit risk, dilution risk and free deliveries	79 466 548,31
2.	Total value of exposure to position risk, foreign exchange risk and commodity prices risk	979 258,70
2.1	Settlement/delivery risk	-
2.2	Total value of exposure to position risk, foreign exchange risk and commodity prices risk	979 258,70
2.2.1	Listed debt instruments	-
2.2.2	Stocks	-
2.2.3	Currencies	979 258,70
2.2.4	Commodities	-
3.	Total value of exposure to operational risk	34 422 626,35
4.	Total value of exposure to risk related to large exposures in the trading book	-
	Total risk exposure	114 868 433,36

Source: COREP Report (Form C 02.00) as at 31 December 2019

The value of the Company's capital ratios as at 31 December 2019 is presented in Table No. 6.

Table No. 6. The value of capital ratios as at 31 December 2019

ID as per ITS Regulation	Item	Amount (% or PLN)	Minimum required value
1	Common equity Tier I capital ratio	27,86%	4.50%
2	Common equity Tier I surplus(+) / shortage(-)	26 829 315,79	
3	Tier I capital ratio	27,86%	6.00%
4	Tier I capital surplus(+) / shortage(-)	25 106 289,29	
5	Total capital ratio	27,86%	8.00%
6	Total capital surplus(+) / shortage(-)	22 808 920,62	

Source: COREP Report (Form C 03.00) as at 31 December 2019

Within the process capital adequacy and particularly capital ratios monitoring process throughout the year 2019, no instances of non-compliance with the capital adequacy standards were found both at the domestic and the EU levels.

7. Exposure to counterparty credit risk

The counterparty credit risk is the risk of the counterparty's non-fulfillment of liabilities before the final settlement of transaction-related cash flows, and of emergence of negative financial consequences.

Additionally, the Company is also exposed to credit risk related to deferred payment terms in the case of a limited number of clients. The Company manages the related risk through periodical verification of granted limits and their utilization rates. If the client is in default, the Company may sell the previously purchased stocks. The credit risk is appraised within stress tests – the ICAAP process.

As regards other financial assets of the Company, such as cash and cash equivalents or financial assets available for sale, the Company's credit risk results from the counterparty's inability to pay, and the maximum exposure to that risk equals the balance sheet value of such instruments. What contributes to the mitigation of credit risk related to bank deposits, financial instruments and other investments is the fact that the Company concluded transactions with institutions with an established financial position.

Calculating the own funds requirement on account of credit risk under the standardized approach pursuant to Part Three, Title II, Chapter 2 of the CRR Regulation, the Brokerage House included each exposure in one of exposure categories pursuant to Article 112 CRR.

Erste Securities Polska S.A. did not establish collaterals or loan provisions and did not conclude transactions and agreements that would require additional collateral in the case of the Company's reduced credit rating.

The Brokerage House did not use any risk hedging derivatives and a coefficient.

8. Capital buffers

As at 31 December 2019, the Company was not obliged to disclose information on compliance with the requirements pertaining to the countercyclical capital buffer referred to in Title VII, Chapter 4 of Directive 2013/36/EU.

9. Global systemic importance indicators

As at 31 December 2019, the Company was not obliged to disclose information pursuant to Article 131 of Directive 2013/36/EC.

10. Credit risk adjustments

Definition of overdue receivables and receivables affected by recognized impairment

Erste Securities Polska S.A. applies the definitions of overdue receivables and receivables affected by recognized impairment as contained in the Accountancy Act of 29 September 1994 (Journal of Laws of 2019 item 351 as amended).

Total exposure without taking into account of the effect of credit risk mitigation, and mean exposure in period by classes

Table No. 7. Value of risk-weighted exposures for credit risk as at 31 December 2019 and mean value for 2019

Exposure class	Exposure value in PLN	Mean
Exposures to central governments or central banks	-	-
Exposures to regional governments or local authorities	-	-
Exposures to public sector entities	-	-
Exposures to multilateral development banks,	-	-
Exposures to international organizations	-	-
Exposures to institutions	73 622 177,34	105 092 021,83
Exposures to corporates	2 610 140,87	4 732 508,21
Retail exposures	-	-
Exposures secured by mortgages on immovable property	-	-
Exposures in default*	-	-
Exposures associated with particularly high risk	-	286 532,93
Exposures in the form of covered bonds	-	-
Exposures to institutions and corporates with short-term credit assessment	-	-
Exposures in the form of units or shares in collective investment undertakings	-	-
Equity exposures	-	-
Other items	3 234 230,10	3 908 159,80
TOTAL	79 466 548,31	114 019 222,77

Source: COREP Report (Form C 02.00) as at 31 December 2019 and monthly statements for 2019

*) Overdue exposure

Geographical breakdown of exposures, impaired and overdue exposures included

Table No. 8. Geographical breakdown of risk-weighted exposures as at 31 December 2019

Exposure class	Country	Exposure value in PLN
Exposures to public sector entities	Poland	-
Exposures to institutions	Poland	50 820 883,16
	Austria	22 798 144,01
	Hungary	3 150,17
Exposures to corporates	Poland	2 610 140,87
Exposures associated with particularly high risk	Poland	-
Other items	Poland	3 234 230,10
TOTAL		79 466 548,31

Source: COREP Report (Form C 09.01) as at 31 December 2019

Breakdown of exposures by industry or counterparty type, impaired and overdue exposures taken into account

The Brokerage House does not monitor the industry structure of its credit exposures.

Residual maturity breakdown for all exposures on account of own funds for credit risk, broken down by exposure categories

Table No. 9. Residual maturity breakdown for all exposures on account of own funds for credit risk, broken down by exposure categories, as at 31 December 2019.

Exposure class	Up to 1 month	Over 1 month	Perpetual	Total exposure value in PLN
Exposures to public sector entities	-	-	-	-
Exposures to institutions	73 622 177,34	-	-	73 622 177,34
Exposures to corporates	2 610 140,87	-	-	2 610 140,87
Exposures associated with particularly high risk	-	-	-	-
Other items	-	770 974,37	2 463 255,73	3 234 230,10
TOTAL	76 232 318,21	770 974,37	2 463 255,73	79 466 548,31

Source: COREP Report (Form C 02.00) as at 31 December 2019

11. Unencumbered assets

The unencumbered assets include first of all cash transferred as collateral to clearing systems, central counterparties and other infrastructural institutions as the condition of access to services, i.e. to compensation funds, and as guarantee of settlement of transactions, as well as deposits securing operations on financial instruments, transferred to the National Depository of Securities (KDPW) or KDPW_CCP.

As at 31 December 2019, the balance sheet value of encumbered assets amounted to PLN 78,302,311.17, and of unencumbered assets – PLN 359,648,356.00.

12. Use of ECAI

The names of the nominated ECAIs and ECAs and the reason for any changes

In 2019, Erste Securities Polska S.A. used the credit assessment for the calculation of risk weighted exposure amounts for credit risk prepared by the following external credit rating agencies:

- Fitch Ratings, Inc.,
- Moody's Investors Service, Inc.,
- Standard & Poor's Financial Services LLC.

The exposure classes for which each ECAIs and ECAs is used

As at 31 December 2019 ERSTE Securities Polska S.A. used credit assessments given by designated ECAI for exposures to institutions.

A description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book

If a given item has two credit assessments granted by designated ECAI, and each of them corresponds to a different risk weight, then the Company assigns a higher risk weight.

The association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Part Three, Title II, Chapter 2, taking into account that this information needs not be disclosed if the institution complies with the standard association published by EBA

ERSTE Securities Polska S.A. uses the mapping of ratings to the credit quality steps set in the Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016 laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of the CRR Regulation.

The exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Part Three, Title II, Chapter 2 as well as those deducted from own funds

Table No. 10. The exposures to institutions by credit quality step, as at 31 December 2019.

Exposure class	Total exposure value in PLN	Total risk-weighted exposure in PLN	Total capital requirement value in PLN
Exposures by credit quality steps:	-	-	-
The first step	-	-	-
The second step	16 556 927,94	3 311 385,59	264 910,85
The third step	263 051 600,79	52 610 320,16	4 208 825,61
The fourth step	-	-	-
The fifth step	-	-	-
The sixth step	-	-	-
Exposures with a grade of 0%	-	-	-
Exposures without a rating	152 501 808,51	17 700 471,59	1 416 037,73
TOTAL exposures to institutions	432 110 337,24	73 622 177,34	5 889 774,19

13. Exposure to market risk

As at 31 December 2019, Erste Securities Polska S.A. benefited from the derogation for small trading book business (pursuant to Article 94 CRR), for which reason it did not calculate the position risk requirements.

The Company calculates the capital requirements for own funds on account of foreign exchange risk pursuant to Part Three, Title IV, Chapter 3 of the CRR Regulation – *“Own funds requirements for foreign exchange risk”*.

As at 31 December 2019, the value of exposure to foreign currency risk amounted to PLN 979,258.70.

14. Operational risk

For the purpose of calculation of the capital requirement for own funds on account of operational risk, Erste Securities Polska S.A. applies the basic indicator approach pursuant to Part Three, Title III, Chapter II of the CRR Regulation.

The value of the total exposure to operational risk as at 31 December 2019 amounted to PLN 34,422,626.35.

15. Exposures in equities not included in the trading book

As at 31 December 2019, Erste Securities Polska S.A. did not have any equity instruments in the ***non-trading book***.

16. Exposure to interest rate risk on positions not included in the trading book

Erste Securities Polska S.A. defines the interest rate risk in the non-trading book as a risk resulting from exposure of the Company's current and future financial result and capital to unfavourable impact of interest rate changes for positions in the non-trading book.

The Brokerage House is not involved in the deposit and credit activities within the meaning of the Banking Law, for which reason the Company does not identify the interest rate risk in the non-trading book as material and does not manage that risk.

17. Exposure to securitization positions

The Company had no securitization positions in 2019.

18. Remuneration policy

In connection with the entry into force of new provisions regarding the principles of remuneration in brokerage houses, defined in the amended Act on Trading in Financial Instruments and the Ordinance of the Minister of Development and Finance of 25 April 2017 on internal capital, risk management system, supervisory assessment program and research the supervisory assessment, as well as the remuneration policy in the brokerage house, the Company updated the "Remuneration policy of Erste Securities Polska S.A." (hereinafter "**Policy**").

The aforementioned Policy replaced the Policy of variable remuneration components functioning in the Company, which was implemented in connection with the Regulation of the Minister of Finance of 2 December 2011 on the rules for determining the policy of variable remuneration components for persons in managerial positions by a brokerage house.

The remuneration policy is aimed at:

- correct and effective risk management and prevention of risk taking beyond the risk appetite approved by the Supervisory Board,
- achieving the Company's strategic goals,
- preventing the occurrence of a conflict of interest.

The remuneration policy includes persons who meet the criteria referred to in art. 3 or art. 4 Commission Delegated Regulation (EU) No. 604/2014 of 4 March 2014 supplementing Directive 2013/36 / EU of the European Parliament and of the Council as regards regulatory technical standards with regard to qualitative criteria and appropriate quantitative criteria for determining categories of employees whose activities professional has a significant impact on the risk profile of the institution (Official Journal of the European Union L 167 of 6 June 2014, page 30, as amended).

Information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year method of drafting, approving, implementing and updating the Policy of variable remuneration components

The policy of variable components of the remuneration of the senior management of the Erste Securities Polska S.A. Brokerage House (hereinafter: "**the Policy**") has been drafted and introduced by the Company's Management Board and approved by the Supervisory Board.

The Policy is reviewed at least annually. A report of the review of the functioning of the Policy is submitted to the Company's Supervisory Board and the General Meeting once a year.

The Management Board of Erste Securities Polska S.A. is responsible for updating the Policy. Each change of the Policy is subject to approval by the Company's Supervisory Board.

In the process of updating the Policy for 2019, Erste Securities Polska S.A. was not assisted by the external consultants.

The main body overseeing the remuneration is the Management Board of the Company and in relation to the Management Board – the Supervisory Board (entrusted with the tasks of the Remuneration Committee). In 2019, 4 meetings of the Supervisory Board were held, some of which were devoted, among others, to matters relating to remuneration.

The list of employees whose professional activities have a significant impact on the Company's risk profile is submitted by the Management Board to the Supervisory Board for their opinion. It is subject to verification as needed, at least once a year.

Information on link between pay and performance and on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based

The variable remuneration is a discretionary payment and its connection with the performance is not parameterized. Additional information on determining and paying variable remuneration is provided below.

The most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria and the main parameters and rationale for any variable component scheme and any other non-cash benefits

The amount of the variable remuneration components is shaped so as to make a flexible remuneration policy possible, which includes a reduction or suspension of payment of the remuneration if the Company reports a permanent balance sheet loss. The amount of variable remuneration components awarded does not limit the Company's ability to increase its capital base.

The basis for determination of the variable remuneration is appraisal of the effects of work of the specific member of the Brokerage House's senior management in relation to the Company's general results.

When appraising a person's work, both financial and non-financial criteria of the last three business years are taken into account, as is also the risk of activity and the business cycle.

With respect to persons holding managerial positions in risk management, internal control and compliance, used as the basis for determining variable remuneration is the appraisal of achievement of the objectives of such persons' specific functions irrespective of any of the Company's financial criteria.

In the case of persons covered by the Policy, who are not members of the Management Board, decisions as to specific remuneration components and other parameters, those defined by the Policy included, are taken by the Management Board.

In the case of persons covered by the Policy, who are members of the Management Board, decisions as to specific remuneration components and other parameters defined by the Policy are taken by the Supervisory Board.

The variable remuneration is linked to sustainability and does not promote excessive risk-taking. A variable remuneration shall only be paid out to the extent the ratio between the fixed and variable component of total remuneration remains reasonable; the ratio variable/fix pay is capped at 100% of the fix pay for those categories of staff whose professional activities have a material impact on its risk profile.

On the basis of §31 Sec. 2 of the Ordinance of the Ministry of Finance dated on 25 of April 2017 concerning internal capital, rules governing risk management system, supervisory assessment programme, analysis and supervisory assessment as well the remuneration policy in the investment house, in case the variable remuneration including granted bonus does not exceed 50% of the fixed remuneration the variable remuneration does not have to be deferred and can be paid out in one cash payment. The Management Board, upon consultation with the remuneration committee may decide to apply a lower minimum threshold, as well as it may decide to apply a deferral period or that the part of the payment has to be paid in instruments. In addition, this Section does not apply if variable remuneration is equal or higher than gross amount of 60.000 EUR. For the avoidance of doubts it means that variable remuneration which is equal or higher than gross amount of 60.000 EUR should be deferred and effected partly in instruments even if it does not exceed 50% of the fixed remuneration.

ERSTE Securities Polska S.A. is a small entrepreneur within the meaning of the Law of freedom of the business activity dated on 2 July 2004 and in relation to persons who perform functions in the bodies of the brokerage house or who are senior management, an adequate size of variable remuneration components should be financial instruments whose value is related to the amount of own funds of the brokerage house, or shares whose value is related to the amount of own funds of the brokerage house. The payment of variable remuneration components should be deferred in a timely manner so as not to encourage people covered by the remuneration policy to excessive risk and achieve short-term goals at the expense of pursuing the long-term strategic goals of the brokerage house.

In case ESP is no longer a small entrepreneur and the variable remuneration exceeds 50% of the fixed remuneration or is equal or higher than gross amount of EUR 60.000, the following rules apply:

- i. 60% of the variable remuneration can be paid out/allocated in the year following the Performance Period as an upfront payment/allocation;
- ii. 40% of the variable remuneration is deferred in equal instalments during the deferral period. The Deferral Period is 3 years. The Management Board, upon consultation with the remuneration committee may decide to apply longer Deferral Period up to 5 years.
- iii. 50% of both upfront payment and deferral payments have to be instruments. The Company chooses the phantom stock plan as an instrument. These components – upfront and deferred instruments – have to be held for a retention period.

In each case when a bonus amount exceeds EUR 150 000 a ratio of 40% upfront payment and 60% deferral is applied. Still, 50% of all such payments have to be effected in instruments. The Management Board, upon consultation with the remuneration committee may recommend to apply a lower minimum threshold.

The ratio of fixed components of remuneration to variable components determined in accordance with art. 94 par. 1 lit. g) of Directive 36 / 2013

Fixed components of remuneration should constitute a sufficiently large part of total remuneration in order to be able to pursue a flexible policy regarding variable remuneration components, including reducing or not paying any of them. The above rule is taken into account when determining the amount of remuneration in the Company; however parameters regarding fixed remuneration in relation to variable remuneration have not been specified.

The ratio of variable remuneration components to fixed remuneration components may not exceed 100% for each person. The company may apply a higher maximum ratio of variable remuneration components to fixed components of remuneration, however, not higher than 200%, which is strengthened by the consent of the General Meeting.

Aggregated quantitative information on remuneration, broken down into the company's areas of activity

Erste Securities Polska S.A. under I Pillar, calculates the capital requirement for operational risk using the Basic Indicator Approach, not the Standardised Approach, therefore it does not disseminate aggregate quantitative information on the amount of remuneration broken down into business lines designated in accordance with art. 317 of the CRR Regulation.

Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of ERSTE Securities Polska S.A.:

Table No. 11. The amount of remuneration for 2019, split into fixed and variable remuneration, and the number of beneficiaries.

Group	No. of persons	Gross remuneration for 2019 (in PLN)		
		Total remuneration	Fixed remuneration components	Variable remuneration components
Management Board members	2	1 018 982	1 018 982	-
Persons in the senior management positions	13	4 019 453	4 019 453	-
Other persons whose actions have a material impact on the risk profile	-	-	-	-
TOTAL	15	5 038 435	5 038 435	-

Table No. 12. The amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types.

Group	Variable remuneration components	Cash	Financial instruments
Management Board members	-	-	-
Persons in the senior management positions	-	-	-
Other persons whose actions have a material impact on the risk profile	-	-	-
TOTAL (in PLN)	-	-	-

Table No. 13. The amounts of outstanding deferred remuneration split into vested and unvested portions.

Group	Deferred remuneration	Vested	Unvested
Management Board members	-	-	-
Persons in the senior management positions	241 250	126 250	115 000
Other persons whose actions have a material impact on the risk profile	-	-	-
TOTAL (in PLN)	241 250	126 250	115 000

Table No. 14. The amounts of deferred remuneration, paid out and reduced through performance adjustments during the financial year 2019.

Group	Variable remuneration components (deferred) *	Paid out	Not paid out	Reduced
Management Board members	-	-	-	-
Persons in the senior management positions	241 250	126 250	115 000	-
Other persons whose actions have a material impact on the risk profile	-	-	-	-
TOTAL (in PLN)	241 250	126 250	115 000	-

*) deferred remuneration for the years 2017-2018: (i) granted in 2018 amounted to PLN 126 250 (paid in 2019), (ii) granted in 2019 amounted to PLN 115 000 (to be paid in 2020).

Table No. 15. The amounts of new sign-on and severance payments made during the financial year 2019, the number of beneficiaries of such payments and the highest award to a single person.

Group	No. of persons	Paid out	The highest single award
Management Board members	-	-	-
Persons in the senior management positions	-	-	-
Other persons whose actions have a material impact on the risk profile	-	-	-
TOTAL (in PLN)	-	-	-

The number of persons who received the remuneration of at least EUR 1 million in the business year

In 2019, Erste Securities Polska S.A. did not pay a total remuneration exceeding EUR 1 million to any of its employees.

19. Leverage

Leverage ratio

The Brokerage House calculates the leverage ratio pursuant to Article 429 of Part Seven of the CRR Regulation as the Tier I capital measure divided by total exposure measure and stated as percentage.

Table No. 16. The value of the leverage ratio as at 31 December 2019

Total exposure measure	Amount (% or PLN)
Securities financing trade exposure pursuant to CRR 220	-
Securities financing trade exposure pursuant to CRR 222	-
Derivatives: Market value	-
Derivatives: Add-on valuation method at market value	-
Derivatives: Initial exposure valuation method	-
Undrawn credit facilities which may be cancelled unconditionally at any time without notice	-
Medium/low risk off-balance sheet items related to trade financing	-
Medium risk off-balance sheet items related to trade financing and officially supported off-balance sheet items related to exports financing	-
Other off-balance sheet items	-
Other assets	437 950 667,17
Equity	
Tier I capital	31 998 395,29
Leverage ratio	-
Leverage ratio as at 31 December 2019	7,31%
Leverage ratio calculated as the arithmetic mean of monthly leverage ratios during the 4 th quarter of 2019	6,01%

Source: COREP Report (Form C 45.00) as at 31 December 2019

Erste Securities Polska S.A. does not apply the derogations referred to in Article 499 clauses 2 and 3 of the CRR Regulation.

Leverage risk management

Erste Securities Polska S.A. defines the leverage risk as the risk resulting from the institution's vulnerability due to leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets.

20. Use of the IRB approach with respect to credit risk

In 2019, Erste Securities Polska S.A. did not use the internal ratings based approach to calculate risk-weighted exposure for credit risk.

21. Use of the credit risk mitigation techniques

In 2019, Erste Securities Polska S.A. did not use the credit risk mitigation techniques.

22. Use of the advanced measurement approaches with respect to operational risk

In 2019, Erste Securities Polska S.A. did not use the advanced measurement approaches with respect to operational risk.

23. Use of the internal market risk measurement models

In 2019, Erste Securities Polska S.A. did not use the internal market risk measurement models.

24. Supplementary information

Information referred to in art. 110w par. 1 point 1 of the Act on Trading

In 2019, Erste Securities Polska S.A. did not have subsidiaries in the Member States and in third countries, as referred to in Art. 110w par. 1 point 1 of the Act on Trading.

Information referred to in art. 110w par. 1 point 2 of the Act on Trading

Information on the rate of return on assets is included in the report on the Company's operations.

In the 2019 financial year, Erste Securities Polska S.A. achieved a rate of return on assets, calculated as net profit divided by total assets, in the amount of 0.02%.

Information referred to in art. 110w par. 4 of the Act on Trading

Description of the risk management system

The information is contained in part 4 of this document.

Description of the Remuneration Policy

The information is contained in part 18 of this document.

Information on the appointment of the Remuneration Committee as referred to in art. 110v par. 8 of the Act on Trading

The information is contained in part 18 of this document.

In fulfillment of the obligation to publish on its website the description of the remuneration policy and information on the appointment of the remuneration committee as referred to in art. 110v par. 8 of the Act on Trading, Erste Securities Polska S.A. indicates that the Remuneration Policy was developed and introduced by the Management Board and approved by the Supervisory Board. The tasks of the Remuneration Committee were entrusted to the Supervisory Board of Erste Securities Polska S.A.

Information on compliance by members of the Brokerage House authorities with the requirements set out in art. 103 par. 1-1h of the Act on Trading

- 1) Members of the Management Board and Members of the Supervisory Board of Erste Securities Polska S.A. meet the requirements set out in Article 103 par. 1-1h of the Act on Trading.
- 2) The Management Board of the Erste Securities Polska S.A. consists of persons of a respectable reputation in relation to the functions performed, possessing the required knowledge, competencies and experience necessary for the effective, proper and prudent management of a brokerage house, including risk management, taking into account the scope, scale and complexity of the business. Erste Securities Polska S.A. ensures that members of its governing bodies maintain and improve their level of knowledge and competences necessary for the proper performance of the entrusted duties.
- 3) Erste Securities Polska S.A. governing bodies do not include persons who have been found guilty of a fiscal crimes, crimes against the credibility of documents or against property, business transactions, money and securities trading, crimes specified in art. 305, art. 307 or art. 308 of the Act of 30 June 2000 - Industrial Property Law (Journal of Laws of 2017, item 776, as amended), crimes specified in the acts referred to in art. 1 point 2 of the Act of 21 July 2006 on supervision of the financial market (Journal of Laws of 2019, item 298, as amended), and crimes constituting an infringement of equivalent provisions in force in other Member States.
- 4) With reference to art. 103 par. 1h, in connection with art. 103 par. 1d of the Act on Trading, Erste Securities Polska S.A. fulfills the following conditions:
 - a) Erste Securities Polska S.A. share in the assets of the brokerage houses sector is not less than 2%,
 - b) Erste Securities Polska S.A. share in the own funds of the brokerage houses sector is not less than 2%.

Information referred to in art. 110zy of the Act on Trading

Until the publication date of this disclosure, Erste Securities Polska S.A. was not a party to an agreement referred to in art. 110zy of the Act on Trading.

25. Additional information

Apart from information disclosed herein and in the annual financial statements for 2019, Erste Securities Polska S.A. does not disclose any other capital adequacy information pertaining to the Company, which is due to the fact that such information contains elements that at the present stage constitute business secret and are legally protected. In the opinion of the Brokerage House, information presented herein and contained in the annual financial statements for 2019 is sufficient for appraisal of the Company's capital adequacy.

Statement of the Management Board of Erste Securities Polska S.A.

Pursuant to Article 435 clause 1 letter e) of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176 of 27 June 2013 as amended),

the Management Board of Erste Securities S.A. declares that the Company's risk management arrangement presented in the *Capital adequacy information of Erste Securities Polska S.A. as at 31 December 2019* are adequate, and the risk management system employed is suitable from the viewpoint of the profile and strategy of Erste Securities Polska S.A.

Management Board of Erste Securities Polska S.A.

***Statement of the Management Board of Erste Securities Polska S.A.
pertaining to the risk profile associated with the strategy of operation of Erste Securities Polska S.A.***

Pursuant to Article 435 clause 1 letter f) of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176 of 27 June 2013 as amended),

the Management Board of Erste Securities Polska S.A. declares that the *Capital adequacy information of Erste Securities Polska S.A. as at 31 December 2019* constitutes full information about the general risk profile associated with the strategy of operations of Erste Securities Polska S.A. This information contains the key ratios and figures that provide external stakeholders with a comprehensive picture of risk management by Erste Securities Polska S.A. and interactions between the institution's risk profile and risk tolerance.

As at 31 December 2019, the levels of adequacy ratios did not trigger the capital adequacy early warning system at the Brokerage House, where:

- the total capital ratio was 27.86%;
- own funds amounted to PLN 31,998,395.29;
- total risk exposure amounted to PLN 114,868,433.36.

The Management Board of Erste Securities Polska S.A. declares that it is involved in the ongoing management of individual risk types. The Brokerage House's risk management system is used within ongoing making of decisions pertaining to the Company.

Management Board of Erste Securities Polska S.A.