Capital adequacy information of Erste Securities Polska S.A.

as at 31 December 2022

Warsaw, June 2023

1. Introduction

Information contained herein is publicly disclosed under:

- The Capital Adequacy Information Policy of Erste Securities Polska S.A. (hereinafter: "***Company***", "***Brokerage House***" or "***ESP***");
- Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 (hereinafter: "**IFR Regulation**" or "**IFR**");
- Directive (EU) 2019/2034 of the European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU (hereinafter: "**IFD Directive**" or "**IFD**");
- Commission Implementing Regulation (EU) 2021/2284 of 10 December 2021 laying down implementing technical standards for the application of Regulation (EU) 2019/2033 of the European Parliament and of the Council with regard to supervisory reporting and disclosures of investment firms (hereinafter: "**Implementing Regulation**");
- 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: "**CRR**");
- Act of 29 July 2005 on Trading in Financial Instruments (hereinafter: the "**Act**");
- Regulation of the Minister of Finance of 8 December 2021 on internal capital and liquid assets, the risk management system, the supervisory review and evaluation, and the remuneration policy of a brokerage house and a small brokerage house (hereinafter: the "**Regulation**");
- Chapter 6 of the "*Corporate Governance Principles for* Supervised *Institutions*" adopted by resolution of the Polish Financial Supervision Authority of 22 July 2014 (hereinafter: "**ZŁK**").

The Company is a subsidiary of Erste Group Bank AG as referred to in Article 4(1)(16) of the CRR.

Information related to capital adequacy is presented on a stand-alone basis.

2. General information

Erste Securities Polska S.A. is a joint-stock company with its registered office in Warsaw at Królewska Street 16, 00-103 Warsaw.

The Company carries out brokerage activities under the supervision of the Polish Financial Supervision Authority in the following areas:

1) acceptance and transfer of orders to acquire or dispose of financial instruments;
2) execution of the orders referred to in point 1 for the account of Clients;
3) investment advisory;
4) offering financial instruments;
5) safekeeping or recording financial instruments, including maintaining securities accounts, derivatives accounts and omnibus accounts, and maintaining cash accounts;
6) advice to undertakings on capital structure, corporate strategy or other issues related to such structure or strategy;
7) advice and other services on mergers, demergers and acquisitions of undertakings;
8) foreign exchange services where these are connected with the brokerage activities indicated in Article 69(2) of the Act;
9) investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments.

The company is entered in the register of entrepreneurs kept by the District Court for the capital city of Warsaw in Warsaw, XII Commercial Division of the National Court Register under number 0000065121.

All information presented in this document has been prepared as at 31 December 2022 and refers to the 12-month period ending 31 December 2022 or comparable periods.

3. Financial information

The Company's financial statements for 2022 including: *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* was approved by the Annual General Meeting of the Company on 14 June 2023 and is available in the Company's registration file at the National Court Register or at *https://ekrs.ms.gov.pl/web/wyszukiwarka-krs/strona-glowna/* by entering the Company's KRS number: 0000065121.

4. Risk management objectives and policies in accordance with Article 47 of the IFR

Investment firm's overall risk profile linked to business strategy

The Company's business strategy is to achieve its business plans and objectives in a controlled manner, including the expected financial results, while delivering the highest quality of service to its clients and ensuring that the risks taken are not excessive in relation to its capital and ensuring an adequate level of liquidity.

In the institutional client segment, the Company's strategic objective is to increase its market position in the Polish and foreign equity and futures markets and to direct the activities of the Research Department towards more tailored market research and the development of new research products. Activities in the futures market involve the appropriate management of the level of clients' security deposits and the safeguarding of the funds entrusted by them.

Due to the business model described above, the main risks to which ESP is exposed are the risk from the safekeeping of client funds and the risk associated with the safeguarding and administration of client assets (both of which fall into the *Risk to Client* category). In addition, due to the execution of significant volumes of transactions on trading venues on behalf of clients, ESP identifies operational risks as material.

The level of acceptable risk that ESP is willing to take is defined in the Risk Appetite Statement, which was prepared by ESP's Management Board and approved by the Company's Supervisory Board.

Brief description of the risk management system

The objective of the Company's risk management system is to continually mitigate risks, to protect resources, systems and processes, and to safeguard against the possible consequences of the materialisation of risks.

The risk management process in ESP includes risk identification, risk assessment and measurement, and monitoring, control and reporting, as well as taking decisions and actions leading to changes in the level and profile of risk and monitoring the effects of those decisions and actions.

The main tasks of the risk management system are:

- identification - providing information on the risk and its profile;
- measurement and assessment - identification and application of quantitative or qualitative methods for determining capital requirements, limits and assessing the materiality of identified risks;
- monitoring the acceptable level of risk - controlling the use of set limits and risk appetite;
- the application of preventive and risk-reduction measures and their effects - the identification and application of measures that reduce the potential negative impact of risks on the Company's operations;
- disclosure and reporting - providing periodic and ongoing information on the risk management system to the Company's Management and Supervisory Boards, supervisory and capital market regulators and other financial market participants.

The ESP's Management Board is responsible for the proper functioning of the brokerage's risk management system.

The Management Board of the Company in particular:

- defines the Brokerage House’s strategic objectives;
- defines the Brokerage House’s risk management strategy, ensures its implementation and conducts periodic reviews of that strategy;
- provides adequate resources necessary for the proper functioning of the risk management system;
- ensures the integrity of the accounting and financial reporting systems and their compliance with the law and applicable standards;
- sets out the mechanisms for overseeing the Brokerage House's compliance with the law, internal control and internal audit, including internal and accounting procedures;
- sets out the Brokerage House's remuneration policy, which is consistent with and promotes sound and effective risk management.

The Supervisory Board of the Brokerage House supervises the fulfilment by the Management Board of the ESP of its obligations referred to above and assesses the adequacy and effectiveness of the solutions adopted, including approval of the acceptable overall level of risk of the Brokerage House.

As part of the risk management system, there is a dedicated Risk Manager function, whose responsibilities include:

- the development of a complete catalogue of risks to which the ESP is or may be exposed or which it poses or may pose to others;
- identifying, measuring or estimating, monitoring and controlling, and reporting on significant risks to ESP’s bodies and organisational units and positions within the ESP;
- supporting the Management Board in risk management by actively participating in the development of the risk management strategy and participating in all decisions related to the management of significant risks;
- performing activities related to the internal capital and liquid assets estimation process;
- providing written reports on the functioning of the risk management system to the ESP bodies at least once a year, which shall in particular indicate the actions taken in terms of risk management.

The Risk Manager shall be employed after consultation with the ESP’s Supervisory Board and may not be removed from this function without prior consultation with the Supervisory Board and presentation of the reasons for the removal.

The Risk Manager is part of the senior management team and reports directly to the ESP Board Member. The Risk Manager is independent of the units performing operational tasks, has sufficient authority and resources and is able to report directly to the Management Board and the Supervisory Board. The Risk Manager, irrespective of his or her duties to the Management Board, is entitled to report directly to the Supervisory Board, including notifying the Supervisory Board of alarming signals and sounding the alarm if changes in risks materially affect or may affect ESP.

A Risk Committee has been established at ESP. The Committee consists of three persons elected from among the members of the Supervisory Board. The members of the Risk Committee have the appropriate knowledge, skills and experience to fully understand, manage and monitor the investment firm's risk management strategy and compliance of the business with the Risk Appetite Statement and to be able to:

- provide sound advice to the Management Board on the Company's overall current and future risk appetite and strategy; and
- help the Management Board to oversee the implementation of this strategy by senior management.

Both the Management Board and the Risk Committee must have access to all relevant information on the risks to which the investment firm is or may be exposed. This will enable the Risk Committee to support the Management Board in implementing its risk management strategy.

The Risk Committee is tasked with:

- preparing a draft Risk Appetite Statement;
- giving its opinion on the risk management strategy developed by the Management Board in the ESP;
- supporting the Supervisory Board in overseeing management's implementation of ESP's risk management strategy;
- reviewing the remuneration policy and its implementation rules in terms of aligning the remuneration system with the risks faced by the ESP, its capital, liquidity and the likelihood and timing of profit.

The risk management process involves all the Brokerage House's organisational units, to the extent defined in the internal procedures governing the risk management system, and the Internal Auditor, who examines and assesses the adequacy and effectiveness of the risk management system implemented.

Strategy and processes for managing individual risks

ESP, in line with IFR terminology, distinguishes between basic risk categories, which include *Risk to* Client, *Risk to Market*, *Risk to Firm*, Concentration Risk and Liquidity Risk. The Company discloses below its management objectives and strategies for each of the above categories.

Risks to Client

In ESP's operations, Risk to Client mainly occurs in the safekeeping of client funds and in connection with the safeguarding and administration of client assets. The strategy for managing these risks, due to the value of funds and assets deposited with ESP and the legal environment, is to accept and monitor them. As part of its management of this risk, ESP monitors the credit quality of the banks with which funds have been deposited and applies the principles of segregation of client assets. The purpose of implementing a limit on the minimum credit quality of banks with which cash is deposited is to select banks with high credit ratings awarded by international rating agencies. On the other hand, the purpose of segregation of client assets is to ensure that client assets are adequately segregated from the Brokerage House's own assets and those of other clients.

The ESP monitors both the credit quality of the banks and compliance with client asset segregation rules. Clients' funds are used exclusively for the settlement of transactions concluded through the ESP.

Risks to Market

ESP is not in the business of dealing on own account and therefore ESP's activities do not currently generate Risks to Market.

Risks to Firm

ESP is not in the business of dealing on own account, hence in this respect it does not generate Risk to Firm. On the other hand, the value of ESP's daily transaction flows is at a level that does not generate significant Risk to Firm. Nevertheless, ESP has implemented a number of technological solutions and safeguards aimed at identifying, measuring, monitoring and mitigating the risks associated with the execution and transmission of client orders.

Concentration risk

Concentration Risk under the IFR is not limited to the trading book only, but requires the investment firm to consider concentration risk in the following areas:

- depositing client funds;
- depositing of client assets (securities);
- depositing of the Brokerage House's own funds; and
- the Brokerage House's sources of profit.

Accordingly, ESP limits concentration risk by applying the limits set by the ESP Management Board. ESP monitors concentration risk against the limits for concentration risk. The exception is concentration risk arising from ESP's exposures to the central counterparty (CCP) and ESP's payer bank, which ESP accepts and monitors, including by monitoring the credit quality of the bank acting as ESP's payer bank.

Liquidity risk

ESP holds liquid funds in an amount several times the liquidity requirements under the IFR Regulation, which may be subject to certain fluctuations due to the need to ensure an adequate level of margin required by the central counterparty. In order to avoid breaching liquidity requirements as a result of settling transactions with the central counterparty, ESP maintains cash in a segregated bank account in excess of the liquidity requirements under the IFR Regulation. In addition, ESP maintains credit facilities that provide an additional liquidity support for the settlement of concluded transactions. The above mechanisms support the ongoing monitoring of the Company's liquidity position. This approach to liquidity management means that ESP is not forced to take sudden corrective action or activate an emergency liquidity plan.

5. Information on internal governance arrangements in accordance with Article 48 of the IFR

Number of directorships held by members of the management body

In 2022, one member of the ESP governing body held the position of Chief Financial Officer and the other held the position of Director of Business Development.

Policy on diversity with regard to the selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which those objectives and targets have been achieved

ESP has implemented a Diversity Policy, adopted by a resolution of the Management Board and approved by a resolution of the Supervisory Board. In accordance with its provisions, when selecting the members of the Company's Management Board, the Supervisory Board is guided by the merits of the evaluation criteria and the competence of the candidates regardless of their age, gender or place of origin.

In assessing candidates for Management Board Members, the Supervisory Board takes into account the suitability criteria contained in the Company's Suitability Policy, including the pursuit of international/cultural and gender diversity.

On the occasion of recent changes to the composition of the Management Board, the objectives of the above-mentioned policies on international/cultural and gender diversity could not be fully achieved due to the profile of the candidates who ran for the position of Management Board Member.

Establishment of a Risk Committee by the investment firm, number of committee meetings held during the year

As mentioned above, a Risk Committee has been established in the ESP. Two meetings of the Risk Committee were held in 2022.

6. Own funds in accordance with Article 49 of the IFR

ESP holds capital of the highest quality. Own funds consist solely of Common Equity Tier 1 capital. Common Equity Tier 1 capital consists of, *inter alia*, equity instruments and related share premium, retained earnings, accumulated other comprehensive income and reserves less required adjustments, deductions and exclusions. ESP's own funds consist of contributions made in exchange for ESP shares, share premium and reserves.

The structure of own funds at 31 December 2022 is presented in the table below, which follows the format resulting from the Implementing Regulation - EU IF CC1.01.

Table No. 1. Structure of the Company's regulatory own funds (EU IF CC1.01) as at 31 December 2022 (in PLN):

		(a)	(b)
	Composition of regulatory own funds	**Amounts in PLN**	**Source based on reference numbers/letters of the balance sheet in the audited financial statements (Template EU ICC2)**
1	**OWN FUNDS**	**31 533 508,75**	
2	**TIER 1 CAPITAL**	**31 533 508,75**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**31 533 508,75**	
4	Fully paid up capital instruments	15 500 000,00	Own (Funds) Equity, item 1
5	Share premium	12 992 742,01	Own (Funds) Equity, item 2a
6	Retained earnings	-	
7	Accumulated other comprehensive income	-	
8	Other reserves	4 428 552,34	Own (Funds) Equity, item 2c
9	Minority interest given recognition in CET1 capital	-	
10	Adjustments to CET1 due to prudential filters	-	
11	Other funds	-	
12	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	-1 387 785,60	
13	(-) Own CET1 instruments	-	
14	(-) Direct holdings of CET1 instruments	-	
15	(-) Indirect holdings of CET1 instruments	-	
16	(-) Synthetic holdings of CET1 instruments	-	
17	(-) Losses for the current financial year	-	
18	(-) Goodwill	-	
19	(-) Other intangible assets	-441 296,60	Intangible assets, item 2
20	(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-946 489,00	Long-term prepayments, item 1
21	(-) Qualifying holding outside the financial sector which exceeds 15% of own funds	-	
22	(-) Total qualifying holdings in undertaking other than financial sector entities which exceeds 60% of its own funds	-	
23	(-) CET1 instruments of financial sector entities where the institution does not have a significant investment	-	
24	(-) CET1 instruments of financial sector entities where the institution has a significant investment	-	
25	(-) Defined benefit pension fund assets	-	
26	(-) Other deductions	-	
27	CET1: Other capital elements, deductions and adjustments	-	
28	**ADDITIONAL TIER 1 CAPITAL**	**-**	
29	Fully paid up, directly issued capital instruments	-	
30	Share premium	-	
31	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-	
32	(-) Own AT1 instruments	-	
33	(-) Direct holdings of AT1 instruments	-	
34	(-) Indirect holdings of AT1 instruments	-	
35	(-) Synthetic holdings of AT1 instruments	-	
36	(-) AT1 instruments of financial sector entities where the institution does not have a significant investment	-	
37	(-) AT1 instruments of financial sector entities where the institution has a significant investment	-	
38	(-) Other deductions	-	
39	Additional Tier 1: Other capital elements, deductions and adjustments	-	
40	**TIER 2 CAPITAL**	**-**	
41	Fully paid up, directly issued capital instruments	-	
42	Share premium	-	
43	(-) TOTAL DEDUCTIONS FROM TIER 2 CAPITAL	-	
44	(-) Own T2 instruments	-	
45	(-) Direct holdings of T2 instruments	-	
46	(-) Indirect holdings of T2 instruments	-	
47	(-) Synthetic holdings of T2 instruments	-	
48	(-) T2 instruments of financial sector entities where the institution does not have a significant investment	-	
49	(-) T2 instruments of financial sector entities where the institution has a significant investment	-	
50	Tier 2: Other capital elements, deductions and adjustments	-	

The following table presents a reconciliation of regulatory own funds to the balance sheet included in the Company's audited financial statements for the year ended 31 December 2022. The presentation follows the Template EU ICC2 included in the Implementing Regulation. Due to the fulfilment of the obligations contained in Part Six of the IFR on an individual basis, ESP does not present data corresponding to prudential consolidation in the table below.

Table No. 2 Own funds: reconciliation of regulatory own funds to the balance sheet (EU IF CC2) as at 31 December 2021 (in PLN):

		(a)	(c)
		Balance sheet as in published/audited financial statements	**Cross reference to EU IF CC1**
		As at period end	
	Assets - *Breakdown by asset classes according to the balance sheet in the published/audited financial statements*		
1	Cash and other pecuniary assets	105 726 872,52	
2	Short-term receivables	326 419 017,64	
3	Financial instruments held for trading	-	
4	Short-term prepayments	750 189,32	
4a	Short-term loans granted	-	
5	Financial instruments held to maturity	-	
6	Financial instruments available for sale	-	
7	Long-term receivables	362 777,00	
8	Long-term loans granted	-	
9	Intangible assets	441 296,60	Item 19
10	Tangible fixed assets	869 664,84	
11	Long-term prepayments	946 489,00	Item 20
12	Called up share capital	-	
13	Own shares	-	
	Total assets	**435 516 306,92**	
	Liabilities - *Breakdown by liability classes according to the balance sheet in the published/auditied financial statements*		
1	Short-term liabilities	393 062 512,46	
2	Long-term liabilities	-	
3	Accruals and deferred income	6 412 086,72	
4	Provisions for liabilities	-	
5	Subordinated liabilities	-	
	Total liabilities	**399 474 599,18**	
	Own (Funds) Equity		
1	Share capital	15 500 000,00	Item 4
2	Supplementary capital	17 421 294,35	
	a. from sales of shares above face value	*12 992 742,01*	Item 5
	b. statutory created	-	
	c. created in accordance with the Statute	*4 428 552,34*	Item 8
3	Revaluation reserve	-	
4	Other reserve capitals	-	
5	Previous year profit (loss)	-	
6	Net profit (loss)	3 120 413,39	
7	Write-offs on net profit during the financial year (negative value)	-	
	Total equity	**36 041 707,74**	

The following table presents the main features of Common Equity Tier 1 instruments issued by the ESP in accordance with Article 49(1b) of the IFR. The presentation follows the EU I CCA template in the Implementing Regulation.

Table No. 3 Main features of own instruments issued by the firm (EU I CAA):

Main features of equity instruments					
L.p.	**Designation of share series**	**A**	**B**	**C**	**D**
1	Issuer	Erste Securities Polska S.A.			
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	no			
3	Public or private placement	private placement			
4	Governing law(s) of the instrument	Polish law			
5	Instrument type (types to be specified by each jurisdiction)	ordinary registered shares			
6	Amount recognised in regulatory capital (currency in PLN million, as of most recent reporting date)	7 500 000	5 000 000	1 500 000	1 500 000
7	Nominal amount of instrument (PLN)	1 000	1 000	1 000	1 000
8	Issue price (PLN)	1 000	1 000	1 000	1 000
9	Redemption price	not applicable			
10	Accounting classification	share capital			
11	Original date of issuance	1995-06-20	1996-06-21	1999-12-07	2000-02-24
12	Perpetual or dated	perpetual			
13	Original maturity date	not applicable			
14	Issuer call subject to prior supervisory approval	no			
15	Optional call date, contingent call dates and redemption amount	not applicable			
16	Subsequent call dates, if applicable	not applicable			
Coupons/dividends					
17	Fixed or floating dividend/coupon	variable dividend			
18	Coupon rate and any related index	not applicable			
19	Existence of a dividend stopper	no			
20	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partly discretionary due to the impact of the Polish Financial Supervision Authority's dividend policy and possible other legal restrictions			
21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partly discretionary due to the impact of the Polish Financial Supervision Authority's dividend policy and possible other legal restrictions			
22	Existence of step up or other incentive to redeem	not applicable			
23	Noncumulative or cumulative	noncumulative			
24	Convertible or non-convertible	non-convertible			
25	If convertible, conversion trigger(s)	not applicable			
26	If convertible, fully or partially	not applicable			
27	If convertible, conversion rate	not applicable			
28	If convertible, mandatory or optional conversion	not applicable			
29	If convertible, specify instrument type convertible into	not applicable			
30	If convertible, specify issuer of instrument it converts into	not applicable			
31	Write-down features	no			
32	If write-down, write-down trigger(s)	not applicable			
33	If write-down, full or partial	not applicable			
34	If write-down, permanent or temporary	not applicable			
35	If temporary write-down, description of write-up mechanism	not applicable			
36	Non-compliant transitioned features	not applicable			
37	If yes, specify non-compliant features	not applicable			
38	Link to the full term and conditions of the instrument (signposting)	no			

7. Own funds requirements under Article 50 of the IFR

Summary of the ESP's approach to assessing the adequacy of its internal capital to support current and future activities

The Company has implemented a methodology for calculating internal capital.

Internal capital is defined as the amount estimated by the Brokerage House necessary to cover all identified material risks in its operations and changes in the economic environment, taking into account the expected level of risk.

An assessment of the materiality of risks is made by analysing the risks present in the ESP's operations and environment and aims to identify risks that are material to its operations and which will then be further analysed in the subsequent stages of the ICARA Process. The Brokerage House implements processes to manage the risks deemed material and sets aside internal capital to cover these risks.

The Brokerage House, when calculating internal capital, applies a solution based on an estimate of what additional capital may be required to cover those risks that are not covered or not fully covered by the minimum regulatory own funds requirement under Pillar I and applies an appropriate mark-up for this.

A summary of the risks analysed by ESP, together with the approach to measuring each risk, is presented in the table below.

Table No. 4 Specification of risks in the Company's operations:

Type of risk	Definition of risk	Risk management strategy	Method of calculating capital requirements and estimating internal capital
Operational	The possibility of loss due to inadequate or unreliable internal processes, human error or systems, or due to external events, also covering legal and IT risks.	- reporting of operational risk events - maintaining a register of operational events that could expose the Company to risk losses - application of a system of internal limits - periodic stress testing of the ICARA review	Pillar I: no calculation Pillar II: capital charge estimated on an expert basis
Credit and counterparty	The risk of creditors defaulting on their obligations and creating negative financial consequences. Risk of default by the counterparty to a transaction before the final settlement of the cash flows associated with that transaction.	- daily monitoring of credit risk volumes - monitoring of unsettled transactions - definition of rules for the granting of transaction limits and OTP (deferred payment) limits - periodic stress testing of the ICARA review	Pillar I: Part Three, Title II, Chapter 2 of the CRR (Standardised Approach) Pillar II: capital charge estimated on an expert basis
Focus and large exposures	Risk arising from the default of a single entity, equity or organisational related parties in a situation of overexposure to a single entity or related parties.	- periodic setting of a limit for large exposures - monitoring the use of the large exposure limit - in situations where there are risks of exceeding the Company's large exposure limits, preventive measures are applied	Pillar I: no calculation Pillar II: capital charge estimated on an expert basis
Macroeconomic	Risk understood as adverse changes in macroeconomic conditions affecting the Company's operations.	- periodic review of risks due to changes in macroeconomic conditions - periodic stress testing of the ICARA review	Pillar I: no calculation Pillar II: capital charge estimated on an expert basis
Market	The risk of incurring losses from adverse changes in the value of financial instruments, interest rates, exchange rates or commodity prices. The risk includes currency risk and interest rate risk.	- daily monitoring of the size of the foreign exchange position and the foreign exchange risk - periodic stress testing of the ICARA review	Pillar I: Part Three, Title IV of the CRR Pillar II: capital charge estimated on an expert basis
Liquidity	Risk of losing the ability to finance assets and meet payment obligations in a timely manner.	- ongoing monitoring of cash flow structure - periodic calculation of liquidity gap - periodic stress testing of the ICARA review	Pillar I: no calculation Pillar II: capital charge estimated on an expert basis
Hard-to-measure	Material risks for which there are no quantitative methods of measurement. The Company considers reputational and strategic risks as hard-to-measure risks.	- daily media monitoring - periodic evaluation of the effectiveness and efficiency of business decisions taken - periodic stress testing of the ICARA review	Pillar I: no calculation Pillar II: capital charge estimated on an expert basis

The internal capital estimation process is subject to regular review and, if necessary, modification. The verification of the internal capital estimation process includes:

– an overview of the risks in the Company's operations;
– an overview of approaches to assessing the materiality of individual risks;
– an overview of approaches to measuring material risks.

A review of the internal capital estimation process is carried out at least once a year. In addition, a review is carried out in the event of the emergence of new risks, significant changes in strategy and action plans, changes in legislation and the external environment in which the Brokerage House operates, and other factors affecting the proper functioning of the process.

K-factor requirements calculated, in accordance with Article 15 of the IFR, in aggregate form for RtM, RtF, and RtC, based on the sum of the applicable K-factors

Under Pillar I, the ESP is required to estimate its own funds and capital requirements in accordance with IFR regulations.

According to Article 11 of the IFR, the ESP shall at all times have own funds equal to at least the highest of the following:

– investment firm’s fixed overheads requirement calculated in accordance with Article 13 of the IFR;
– investment firm's permanent minimum capital requirement in accordance with Article 14 of the IFR;
– the investment firm’s K-factor requirement calculated in accordance with Article 15 of the IFR.

Table No. 5. K-factor based requirements (with indication of permanent minimum capital requirement):

L.p.	Type of requirement	Amount of requirement (in PLN)
1.	**Permanent minimum requirement**	**703 485,00**
2.	**Total requirement based on K-factor, including:**	**854 768,75**
2.1	**Requirement for Risk to Client (RtC), including:**	**695 796,71**
2.1.1	K-AUM	-
2.1.2	K-CMH	322 093,48
2.1.3	K-ASA	199 453,75
2.1.4	K-COH	174 249,48
2.2	**Requirement for Risk to Market (RtM), including:**	**-**
2.2.1	K-NPR	-
2.2.2	K-CMG	-
2.3	**Requirement for Risk to Firm (RtF), including:**	**158 972,04**
2.3.1	K-TCD	-
2.3.2	K-DTF	158 972,04
2.3.3	K-CON	-

Fixed overheads requirement determined in accordance with Article 13 of the IFR

Fixed overheads requirement at 31 December 2022 amounted to PLN **6,130,071.66**.

Capital adequacy

As at 31 December 2022, the ratio of own funds to the highest of the values referred to in Article 11 of the IFR was **514**%.

8. Remuneration policy

In relation to the remuneration for 2022, the Company's "*Remuneration Policy at Erste Securities Polska S.A.*" ("the ***Policy***"), based on the provisions on remuneration rules for brokerage houses as set out in the Act and the Regulation. An updated version of the Policy adapted to the provisions of the IFR, the Act and the Regulation was adopted by the Management Board and the Supervisory Board of ESP in December 2022 and will apply to remuneration for 2022 and subsequent years.

The policy aims to:

- proper and effective risk management and prevention of risk taking beyond the risk appetite approved by the Supervisory Board;
- achieving the Company's strategic objectives;
- preventing the occurrence of conflicts of interest.

The policy covers persons meeting the criteria referred to in Article 3 or Article 4 of Commission Delegated Regulation (EU) 2021/2154 of 13 August 2021 supplementing Directive (EU) 2019/2034 of the European Parliament and of the Council with regard to regulatory technical standards specifying appropriate criteria to identify categories of staff whose professional activities have a material impact on the risk profile of an investment firm or of the assets that it manages.

The most important design characteristics of the remuneration system, including the level of variable remuneration and criteria for awarding variable remuneration, payout in instruments policy, deferral policy and vesting criteria

The policy was developed and introduced by the Company's Management Board and approved by the Supervisory Board.

The Policy is reviewed at least once a year. A report on the review of the functioning of the Policy is presented to the Supervisory Board and the General Meeting of the Company once a year.

The Management Board of ESP is responsible for updating the Policy. Any amendment to the Policy is subject to the approval of the Company's Supervisory Board.

The Company did not use external consultants in the process of updating the 2022 Policy.

The governing body that oversees remuneration is the Company's Management Board and, in respect of the Management Board, the Supervisory Board. A Remuneration Committee has been established in the Company. There were 2 meetings of the Remuneration Committee in 2022.

A list of employees whose professional activities have a material impact on the risk profile of the Company or of the assets that the Company manages is submitted by the Management Board to the Supervisory Board for its opinion. It is subject to review as and when required, at least once a year.

Variable remuneration is discretionary and its link to performance is not parameterised. Additional information on the determination and payment of variable remuneration is provided below.

The amount of variable remuneration components is shaped in a way that allows for a flexible remuneration policy, including their reduction or withholding when the Company shows a permanent balance sheet loss. The amount of variable remuneration awarded does not limit the Company's ability to strengthen its capital base and liquidity.

The basis for determining the variable remuneration is the evaluation of the performance of the executive in the Brokerage House in relation to the overall performance of the Company.

When assessing an individual's performance, both financial and non-financial criteria from the last three financial years are taken into account and take into account the risks of the business as well as the business cycle.

With regard to individuals in the areas of risk management, internal control and Company's compliance, the basis for determining the variable remuneration is the assessment of the achievement of the objectives arising from their functions, without reference to any financial criteria achieved by the Company.

In the case of persons covered by the Policy who are not members of the Management Board, decisions on individual remuneration components and other parameters, including those set out in the Policy, are taken by the Management Board.

In the case of persons covered by the Policy who are members of the Management Board, decisions on individual remuneration components and other parameters set out in the Policy are taken by the Supervisory Board.

Variable remuneration is linked to continuity and does not provide an incentive for excessive risk-taking. Variable remuneration shall only be paid where there is a reasonable ratio of fixed to variable remuneration; the ceiling for the ratio of variable to fixed remuneration is 100% of fixed remuneration for those whose professional activities have a material impact on the risk profile.

The ESP benefits from the exemption referred to in §30 (2) and (3) of the Regulation. According to the wording of the said legislation, ESP does not have to apply:

- payment of variable remuneration in financial instruments;
- application of the deferral period to variable remuneration.

This is due to the fact that:

- ESP does not belong to one of the three largest brokerage houses in terms of asset size, as determined on the basis of audited annual financial statements drawn up as at the end of the financial year preceding the year for which the variable remuneration components are awarded - an announcement to this effect is made publicly by the Polish Financial Supervision Authority by 30 September of the relevant calendar year, by way of a communication published in the Official Journal of the Polish Financial Supervision Authority;
- ESP is not a brokerage house carrying out brokerage activities in the area:
  - dealing on own account;
  - underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis;
  - conducting the OTF;
- the value of ESP's on-balance sheet and off-balance sheet assets is on average equal to or lower than the PLN equivalent of EUR 300,000,000, determined according to the average EUR exchange rate published by the National Bank of Poland as at the balance sheet date on which the annual financial statements are prepared, during the four-year period immediately preceding the financial year in question.

This exemption means that all variable remuneration may be paid in cash. However, the Management Board of ESP may decide to pay the variable remuneration in financial instruments, provided that the employee concerned does not object to such payment. In such a case, the value of the financial instruments allocated will be the equivalent of the gross variable remuneration at the date of its award by the Executive Board or the

Supervisory Board. In the event that the financial instrument is valued in EUR, the value of the instrument shall be converted into PLN based on the average EUR exchange rate announced by the National Bank of Poland applicable on the date of the instrument's allocation.

The above exemption also means that ESP is not obliged to apply a retention period. The application of the retention period is at the discretion of the Management Board and Supervisory Board of ESP.

The ESP continuously examines the fulfilment of the conditions indicated above. If any of them would not be fulfilled - the ESP will start to apply the rules regarding the payment of variable remuneration in financial instruments and the deferral period.

Ratios between fixed and variable remuneration set in accordance with Article 30(2) of the IFD

The fixed components of remuneration should constitute a sufficiently large proportion of total remuneration to allow for a flexible policy regarding variable components of remuneration, including the possibility to reduce or not pay such components. This principle is taken into account when determining the Company's remuneration.

The ratio of variable to fixed components of remuneration may not exceed 100% for each person.

Aggregated quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the investment firm:

Table No. 6. Amounts of remuneration awarded in 2022 (in PLN), split into fixed remuneration, including a description of the fixed components, and variable remuneration, and the number of beneficiaries:

Category of persons with a significant impact on the risk profile	Number of people	Gross salaries awarded for 2022 (in PLN)		
		Total remuneration	Fixed remuneration components	Variable components of remuneration
Members of the Management Board and senior executives	16	7 508 196	5 856 196	1 652 000
Other persons whose activities have a significant impact on the risk profile	-	-	-	-
TOTAL (PLN)	**16**	**7 508 196**	**5 856 196**	**1 652 000**

The fixed components of remuneration include only the basic remuneration, as defined with the person concerned in the framework of the employment contract or other contract of similar nature.

Table No. 7. Amounts and forms of awarded variable remuneration for 2022 (in PLN), split into cash, shares, share-linked instruments and other types separately for the part paid upfront and for the deferred part:

Category of persons with a significant impact on the risk profile	Variable components of remuneration for 2022	Amount of remuneration due for the financial year (payment in advance)	Amount of remuneration to be paid in subsequent financial years (deferred portion)
Management Board members and senior executives, including:	1 652 000	1 502 000	150 000
(a) cash benefits	*1 652 000*	*1 502 000*	*150 000*
(b) shares and share-linked instruments and other types of remuneration	-	-	-
Other persons whose activities have a significant impact on the risk profile, including:	-	-	-
(a) cash benefits	-	-	-
(b) shares and share-linked instruments and other types of remuneration	-	-	-
TOTAL (PLN)	**1 652 000**	**1 502 000**	**150 000**

Table No. 8. Amounts of deferred remuneration awarded for previous performance periods, split into the amount due to vest in the financial year and the amount due to vest in subsequent years and the amount of deferred remuneration due to vest in the financial year that is paid out during the financial year, and that is reduced through performance adjustments:

	Amount of deferred remuneration awarded for previous performance periods (in PLN)		
Category of persons with a significant impact on the risk profile	Including the amount of remuneration due to vest in the financial year	Including the amount of remuneration due to vest in subsequent years	Amount of performance adjustment made during the financial year
Management Board members and senior executives	-	133 750	-
(a) cash benefits	-	*133 750*	-
(b) shares and share-linked instruments and other types of remuneration	-	-	-
Other persons whose activities have a significant impact on the risk profile	-	-	-
(a) cash benefits	-	-	-
(b) shares and share-linked instruments and other types of remuneration	-	-	-
TOTAL (PLN)	**-**	**133 750**	**-**

Guaranteed variable remuneration awards during the financial year and the number of beneficiaries of those awards

Did not occur.

Severance payments awarded in previous periods, that have been paid out during the financial year

Did not occur.

The amounts of severance payments awarded during the financial year, split into paid upfront and deferred, the number of beneficiaries of those payments and the highest payment that has been awarded to a single person

Did not occur.

Information on whether the investment firm benefits from a derogation laid down in Article 32(4) of the IFD

The ESP benefits from the derogation, as described in the section: ***The most important design characteristics of the remuneration system, including the level of variable remuneration and criteria for awarding variable remuneration, payout in instruments policy, deferral policy and vesting criteria***. The derogation applies to the case referred to in Article 32(4)(a) of the IFD, i.e. the case where the value of the on and off-balance sheet assets of the investment firm is on average equal to or less than EUR 100 million over the four-year period immediately preceding the given financial year. This derogation applies to all employees of the ESP whose professional activities have a material impact on the risk profile of an investment firm or of the assets that it manages. Data on the remuneration of these individuals, broken down into fixed and variable remuneration, are presented in Table No. 6.

9. Investment policy in accordance with Article 52 of the IFR

ESP is not in the business of dealing on own account and therefore did not hold shares in any public company admitted to trading on a regulated market and to whose shares voting rights would be attributed that would give more than 5% of the total votes of the shares issued by the company.

10. Environmental, social and governance risks

ESP aims to indicate in its risk management strategy, business strategy and internal regulations, to take into account environmental, social and governance aspects. In this sense, the Company aims to achieve positive results in the long term, taking into account the aforementioned aspects.

In the environmental area, the Company's activities contribute to saving the environment through the following initiatives:

- reducing electricity consumption at the premises where the Company's activities are carried out;
- digitalisation, understood as a gradual shift from correspondence, printouts and archiving in paper form to electronic form, while respecting the principles of confidentiality and secure archiving;
- shift from traditional paper press subscriptions to electronic subscriptions.

In the social area, ESP aims to:

- ensure safe and healthy working conditions for employees;
- compliance with workers' rights, including health and safety rules;
- ensure the ongoing participation of employees in decisions, including the shaping of labour regulations (including remote working);
- striving for the continuous participation of staff in specialised training courses aimed at consolidating and improving professional skills.

ESP conducts its business by being open and transparent in its communication with all stakeholders (shareholders, clients, employees and contractors). To engage stakeholders, ESP uses various forms of communication, including workshops, conferences and training.

In the area of governance, the Company's activities are directed towards responsible and transparent corporate management. This is expressed through:

- the creation of a clear and transparent organisational structure, with clear reporting and reporting lines to individual employees or units;
- making disclosures and reporting to the competent authorities in a timely, complete and accurate manner;
- implementing procedures to ensure the fair and ethical conduct of all employees, in particular in relation to clients;
- ensuring appropriate sales practices that put the clients' interests ahead of the Company's own interests and those of its employees; this is expressed, above all, in providing clients with all the necessary and legally required information material and staying in touch with them to clarify any questions or doubts.

11. Additional information

Information on compliance by members of the Brokerage House's governing bodies with the requirements set out in Article 103(1)-1h of the Act

1) The members of the Management Board and the members of the Supervisory Board of the Company meet the requirements set out in Article 103 (1) to (1h) of the Act;
2) The Brokerage's Management Board is comprised of individuals who are in good standing in relation to the functions they perform, and who possess the knowledge, competencies and experience necessary for the efficient, correct and prudent management of the Brokerage House, including risk management, taking into account the scope, scale and complexity of the activities carried out. The Company shall ensure that the members of the Brokerage House’s bodies maintain and perfect the knowledge and competence necessary for the proper performance of the duties entrusted to them;
3) The Brokerage House's governing bodies do not include persons who have been found guilty by a final court ruling of a fiscal offence, an offence against document reliability, property, economic turnover, money and securities trading, an offence referred to in Article 305, Article 307 or Article 308 of the Act of 30 June 2000 - Industrial Property Law, an offence referred to in the laws referred to in Article 1(2) of the Act of 21 July 2006 on Financial Market Supervision, and an offence constituting an infringement of equivalent provisions in force in other Member States;
4) With regard to Article 103(1h), in conjunction with Article 103(1d) of the Act, the Brokerage House shall comply with the following conditions:
   a) the Brokerage House's share in the assets of the brokerage sector is no less than 2%;
   b) the Brokerage House's share of the brokerage sector's own funds is not less than 2%.

Information on the appointment of the Remuneration Committee referred to in Article 110v(8) of the Act

A Remuneration Committee was established in the Company in 2022. Previously, the tasks of this committee were performed by the Company's Supervisory Board.

Information referred to in Article 110zy of the Act

Up to the date of this disclosure, the Brokerage House was not a party to the agreement referred to in section 110zy of the Act.

Other than the information disclosed in this document and in the annual financial statement for 2022, the Company does not disseminate other information relating to the Company's capital adequacy, due to the fact that it contains elements that at this stage constitute company secrets and are protected by law. In the opinion of the Brokerage House, the information presented in this document and in the annual financial statement for 2022 is sufficient to assess the capital adequacy of the Company.

Statement by the Management Board

The Management Board of Erste Securities Polska S.A. declares that the risk management arrangements of the Company are adequate and that the risk management system in place is appropriate to the profile and strategy of Erste Securities Polska S.A. as at 31 December 2022, as contained in The Capital Adequacy Information Policy of Erste Securities Polska S.A. as at 31 December 2022.

Management Board of Erste Securities Polska S.A.