



Disclosure report of information relating to the capital adequacy at X-Trade Brokers Dom Maklerski S.A. Capital Group as on 31 December 2012

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I. Introduction

This Report results from the provisions of the Regulations of Minister of Finance on 26 November 2009 in the matter of disclosing information concerning capital adequacy (Journal of Law, 2009, No. 210, item 1615 with later amendments). Detailed scope and terms of announcing the above-mentioned information is defined in the "Information Policy at X-Trade Brokers Dom Maklerski S.A.", which has been published on the www.xtb.com website. The Report contains the information as on 31 December 2012.

Capital Group of X-Trade Brokers DM S.A. (hereinafter "X-Trade Brokers", the "Group") is a subject to the principles of the total capital requirement calculation set forth in the Regulation of Minister of Finance on 18 November 2009 concerning scope and detailed principles of determining total capital requirement, including capital requirements for brokerage houses and defining maximum amount of credits, loans and issued debt security related to the capitals (Journal of Law, 2009, No. 204, item 1571), with later amendment hereinafter "the Regulation on Capital Requirements".

X-Trade Brokers publishes the information based on the consolidated data, because as on 31 December 2012 the X-Trade Brokers was obliged to fulfil the norms of capital adequacy both in an individual as well as in a consolidated form.

Following data concerning the financial information have been published on [the www.xtb.com](http://www.xtb.com) website:

- 1) Annual financial report;
- 2) Introduction to the financial report constituting part of the supplementary information;
- 3) Balance;
- 4) Profit and loss statement;
- 5) Statement of changes in equity;
- 6) Cash flow statement for the financial year and
- 7) Opinion of the chartered auditor.

II. Business entities description

X-Trade Brokers Dom Maklerski Spółka Akcyjna with the registered office in Warsaw, at 58 Ogrodowa St, postal code 00-876 Warsaw has been entered into the Register of Entrepreneurs of the National Court Register (KRS) under No. 0000217580.

Individual financial report covers all the foreign branches:

1. X-Trade Brokers Dom Maklerski S.A., organizační složka – branch in the Czech Republic;
2. X-Trade Brokers Dom Maklerski S.A., Sucursal en Espana – branch in Spain;
3. X-Trade Brokers Dom Maklerski S.A., organizačná zložka – branch in Slovakia;
4. X-Trade Brokers Dom Maklerski S.A. Sucursala Bucuresti Romania – branch in Romania;
5. X-Trade Brokers Dom Maklerski S.A., German Branch – branch in Germany;
6. X-Trade Brokers Dom Maklerski S.A., Magyarországi Fióktelepe – branch in Hungary;
7. X-Trade Brokers Dom Maklerski S.A. – branch in France;
8. X-Trade Brokers Dom Maklerski S.A., Sucursal Portuguesa – branch in Portugal and
9. X-Trade Brokers Dom Maklerski S.A., Succursale in Italia – branch in Italy.

The consolidated financial report covered all the subsidiaries:

1. X Financial Solutions Ltd, with registered office in the United Kingdom;
2. X-Trade Brokers Asesores Bursatiles S.A., with registered office in Mexico and
3. xStore Ltd. with registered office on Cyprus.

The subsidiaries do not decrease the supervised capitals.

III. Supervised capitals

The current capital structure of X-Trade Brokers consists in 100% of equity generated within the business and contributed by the Shareholders.

As on 31 December 2012 X-Trade Brokers had large scale of business activity, thus level of the supervised capitals was the sum of called up share capitals, 2nd category supplementary capitals, 3rd category supplementary capitals and positions correcting the consolidated regulatory capital levels.

X-Trade Brokers takes into account 2nd category supplementary capitals in the supervised capitals in the amount not exceeding the total called up share capital decreased by the items specified in Art. 2, section 2 of the appendix No. 12 to the Regulation on Capital Requirements.

X-Trade Brokers takes into account 3rd category supplementary capitals in the regulatory capitals in the amount not exceeding the capital requirements related to:

- market risk
- settlement risk, delivery risk and counterparty credit risk
- exceeding the exposure limit and large exposure limit related to the trading portfolio.

The overall sum of supervised capitals as on 31 December 2012, defined in accordance with the Appendix 12 to the Regulation on Capital Requirements, came to PLN 271 191399 in total. All the constituents are shown in the following table.

Table 1 Supervised capitals.

Item	SUPERVISED CAPITALS	Amount in PLN
1.	Called up capitals	220 656 068
1.1.	Core capitals	232 713 542
1.1.1.	Share capital	5 869 182
1.1.2.	Supplementary capital	1 850 000
1.1.3.	Other reserve capitals	224 994 360
1.2.	Additional items in core capitals	0
1.2.1.	Net profit in current reporting period	0

1.3.	Items decreasing core capital	12 057 474
1.3.1	Other intangible and legal assets	9 337 155
1.3.2.	Accumulated loss from previous years	2 720 319
2.	2nd category supplementary capitals, including:	-536 610
2.1.	Revaluation reserve	-536 610
3.1.	Profit on the market	152 889 881
3.2.	3rd category capital taken into account in the supervised capitals	50 835 341
4.	Positions correcting the consolidated regulatory capital levels	236 600
4.1	Exchange rate differences owing to the reckoning	236 356
4.2	Minority capitals	244
1. +2. +3.	Total	271 191 399

IV. Capital requirements

X-Trade Brokers calculates total capital requirement (regulatory capital) in accordance with the Regulation on Capital Requirements.

In accordance with Art. 3, section 1 of the Regulation on Capital Requirements, X-Trade Brokers calculates and monitors the regulatory capital related to:

- 1) Market risk including:
 - a) Total requirement due to item risk calculated as defined in the Appendix No. 3 to the Regulation on Capital Requirements, including the total capital requirement related to:
 - i. equity instruments prices risk;
 - ii. commodities prices risk;
 - iii. debt instruments prices risk;
 - iv. general risk connected with the interest rates related to the trading portfolio;
 - v. participation entitlements in collective investment schemes prices risk;
 - b) Total capital requirement due to the currency risk – calculated as defined in the Appendix No. 4 to the Regulation on Capital Requirements.
- 2) Settlement risk – calculated as defined in the Appendix No. 5 to the Regulation on Capital Requirements.
- 3) Counterparty credit risk – calculated as defined in the Appendix No. 5 to the Regulation on Capital Requirements.
- 4) Credit risk – calculated as defined in the Appendix No. 6 to No. 9 to the Regulation on Capital Requirements.
- 5) Operational risk – calculated as defined in the Appendix No. 11 to the Regulation on Capital Requirements.
- 6) Excess of the exposure limit and large exposure limit – calculated as defined in the Appendix No. 10 to the

Regulation on Capital Requirements.

X-Trade Brokers calculates the capital for covering the 1st Pillar risks applying the following methods:

- risk on the market:
 - Equity instruments prices specific risk– basic method;
 - Equity instruments prices general risk– basic method;
 - Commodities prices risk– maturity date method;
 - General interest rate risk – maturity date method;
 - currency risk – basic method;
- credit risk – standard method;
- Counterparty credit risk – standard method of determining risk-weighted exposures, method of comprehensive covering of financial securities applying supervisory volatility adjustments;
- operational risk – basic rate method.

Capital requirements connected with each type of risk

Total capital requirement as on 31 December 2012 was PLN 96 187 390.

Table 2 Total capital requirement structure

Item	Risk type	Capital requirement in PLN	% of the total Regulatory Capital
I.	Total capital requirement	96 187 390	100.00%
1.	Risk on the market	50 015 944	52.00%
1.1.	Prices risk of equity instruments	9 609 900	9.99%
1.1.1.	Equity instruments prices general risk	8 476 154	8.81 %
1.1.2.	Equity instruments prices risk	1 133 745	1.18 %
1.2.	Commodities prices risk	8 663 885	9.01%
1.3.	General interest rate risk	452 618	0.47 %
1.4.	Currency risk	31 289 541	32.53%
2.	Credit risk	18 091 680	18.81%
3.	Counterparty credit risk	630 272	0.65%
4.	Settlement risk	189 125	0.20%

5.	Excess of the exposure limit and large exposure limit	0	0
6.	Operational risk	27 260 369	28.34%

Credit risk

In order to calculate the capital requirement the X-Trade Brokers Company distinguishes exposure classes according to Art. 20, section 1 of the Appendix No. 6 to the Regulation on Capital Requirements.

As on 31 December 2012 X-Trade Brokers had the following exposures:

Table 3 Exposure list in PLN as on 31 December 2012.

Item	Exposure class	Exposure value	8% of the risk-weighted exposure	Average exposure in 2012
1.	To entities from the public finance sector and to entities, which do not carry out business activity	3 799 315	60 789	2 216 810
2.	Short-term to institutions and entrepreneurs having short-term credit worthiness	251 028 638	10 773 680	264 823 270
3.	To institutions	149 389 837	2 644 735	156 414 206
4.	To entrepreneurs	2 768 070	222 886	8 930
5.	Retail	1 413 166	84 790	1 857 259
6.	Overdue	293 640	35 237	857 502
7.	Other exposures	53 396 121	4 269 563	43 517 656
	Total	462 106 787	18 091 680	469 695 633

In order to determine scale of risks for short-term exposures to institutions and entrepreneurs X-Trade Brokers uses creditworthiness ratings provided by the following external creditworthiness rating institutions: Fitch Ratings, Moody's Investors Service and Standard and Poor's Ratings Services. Credit quality steps based on the creditworthiness are assigned in accordance with Resolution No. 391/2009 of Polish Financial Supervision Authority as on 21 December 2009.

The following table shows the payment date structure for assets constituting the credit exposures divided by exposure classes.

Table 4 Exposure structure by maturity dates divided by exposure classes as for December 31st, 2012.

Item	Exposure class	Maturity date			Not applicable
		Up to 3 months	Above 3 months up to 1 year	Above 1 year up to 5 years	
1.	To entities from the public finance sector and to entities, which do not carry out business activity	3 799 315	-	-	-
2.	Short-term to institutions and entrepreneurs having short-term credit worthiness	251 028 638	-	-	-
3	To institutions	142 480 779	6 909 058	-	-
4.	To entrepreneurs	2 786 070	-	-	-
5	Retail	186 341	-	1 226 825	-
6	Overdue	293 640	-	-	-
7	Other exposures	3 542 316	28 355 462	-	21 498 343
	Total	404 117 099	35 264 520	1 226 825	21 498 343

The total amount of receivables as on 31 December 2012 was PLN 46 573 940:

The exposures are considered overdue, if 90 days have passed since the maturity date and the exposure is at least:

- 1) PLN 500 for retail customers;
- 2) PLN 3 000 for other exposure classes.

Exposure with identified permanent loss of value are receivables, for which write-offs have been made due to loss of value. Permanent loss of value arises, when there is much probability that the asset constituent controlled by the entity will not bring in the future the expected economic benefits in a significant part or in a whole.

The policy in the scope of making write-offs and reserves related to loss of value of assets to the counterparty credit risk was described in the introduction to the financial statement , which is part of the additional information.

Table 5 Structure of overdue exposures divided by exposure classes as for December 31st, 2012

Counterparty	With identified permanent loss of value	Overdue exposures (not written off)
Retail	443 988	293 640

Table 6 The change of state of corrections of value and reserves due to exposure with identified loss of value.

write-downs of receivables at the beginning of the reporting period	(308 339)
making write-offs	(140 777)
usage	5 128
write-downs of receivables at the end of the reporting period	(443 988)

X-Trade Brokers does not have any exposures related to securitisation of assets and does not use any advanced method of calculating the capital amount.

Counterparty credit risk

Table 7 Exposures secured by an approved financial security after applied volatility adjustment as on 31December 2012.

Item	Exposure class	Exposure value adjusted by volatility factor
1	To institutions	1 839 284
2	To entrepreneurs	4 494 356
3	Retail	4 021 584
	Total	10 355 224

There is no risk of disadvantageous change to the security amount, because the security consists of financial means of Customers deposited on the account of X-Trade Brokers.

Interest rate risk related to the non-trading portfolio

In general, change in the market interest rates does not have a significant impact on the financial condition of the brokerage house. The occurrence of adverse for X-Trade Brokers mismatch of interest rates is minimal, therefore the interest rate risk related to the non-trading portfolio has been recognised as insignificant.

V. Capital adequacy

Trading in Financial Instruments Act imposes on the brokerage houses an obligation to keep supervised capital in the amount not lower than the higher of the following values:

- a) total capital requirement defined by the brokerage house under the relevant regulations (regulatory capital),
- b) amount assessed by the brokerage house pursuant to the relevant regulations, required to cover all the significant identified types of risks existing within the activity carried out by the brokerage house and other significant types of risk, which may arise within the course of this activity in the future, called the internal capital.

As on 31 December 2012 ratio of the supervised capital to total capital requirement was 2.82 (capital rate), whereas capital adequacy ratio was 22.56 %. The capital adequacy ratio is calculated as quotient of the capital rate by 12.5 cofactor.

The amount of supervised capital calculated regardless of the scale of the business activity carried out was over 80 times higher than the minimum amount of equity for carrying out the brokerage activity. The requirements provided by the external regulations have been fulfilled.

VI. Evaluation of the internal capital and information on the risk management policy

X-Trade Brokers DM S.A. is exposed to a range of risks connected with the operating activity. Aim of the risk management is to ensure that X-Trade Brokers accepts a risk in a conscious and controlled manner. The risk management policies are prepared in order to identify and measure the accepted risks, and to determine appropriate limits limiting the scale of exposure of X-Trade Brokers to those risks on the regular basis.

The management board is responsible for defining and monitoring the risk management policy at the strategic level. Each type of risk is monitored and controlled in relation to the nature of the business activity carried out and amount of the capital required to ensure safe operation in terms of capital requirements.

In the dominant entity Risk Management Committee has been appointed, which primarily fulfils control, consultation and advisory functions for the statutory organs of the Group in the domain of capital management strategy, risk management policy, method of risk calculation, capital plans and the assessment of the capital adequacy of the Group. In particular, supports Risk Control Department in the process of identification of significant risks in the Group

and in building the catalogue of risks, approves policies and procedures for managing each risk type and ICAAP process, verifies and approves analysis made by owners of each risk and Risk Control Department within the risk management system and ICAAP process in the Group.

The Risk Control Department assists the Management Board in shaping, reviewing and updating the ICAAP principles, if new types of risk arise, major changes to the strategy and plans of action in the external environment, in which the Company operates, monitors adequacy and efficiency of the employed risk management system, identifies, monitors and controls the market risk for the own investments of the Company, determines total capital requirement and assesses internal capital.

Within the internal procedures, among others, the limits minimising the market risk connected with keeping open position on the financial instruments. The Risk Control Department checks the use of limits and relevance of possible securing transactions on the regular basis.

The credit risks applicable to financial means is minimised by selecting banks with high credit rating provided by international rating services and by diversification of banks, where the accounts are opened.

In accordance with the ICAAP (Internal Capital Adequacy Assessment Process and assessment of capital adequacy) X-Trade Brokers calculates its internal capital in order to determine total capital requirement for covering all significant types of risk and in order to perform its quality assessment. The Internal Capital Adequacy Assessment Process takes into account the strategy of the brokerage house, the risk management policy and the capital plans of the brokerage house. This process forms an integral part of the risk management system, it is on a current basis adapted to changes in the business activity carried out by X-Trade Brokers, including in particular the situations, when new types of risks, major changes in the strategy and plans of action appear.

Since 17 June 2010, that is, since the obligation of applying the ICAAP process by the brokerage houses has been imposed, the dominant entity each day determines and monitors the amount of internal capital. The internal capital is maintained at a lower level than the regulatory capital, thus it does not determine the amount of total capital requirement directly.

The dominant entity calculates internal capital applying the method of capital charges on 1st Pillar capital requirements on each risk.

The subsidiaries calculate the internal capital in accordance with internal rules taking into account specific local regulations. The results of the ICAAP process are sent on a regular basis and at request to the dominant entity.

Consolidated internal capital is a sum of internal capital calculated by particular entities.

The ICAAP process at X-Trade Brokers consists of the following:

- identification of the relevant risks;

- assessment and allocation of the internal capital;
- aggregation of the capital for covering the risks;
- tests under stress conditions;
- monitoring of supervised capital as compared to the assessed capital requirement.

The Internal Capital Adequacy Assessment Process (ICAAP) is a subject to regular annual reviews.

The Management Board of X-Trade Brokers is in charge of the entire internal capital management process, capital assessing and keeping process, including the processes connected with assessment of adequacy of this capital in various economic conditions and assessment of results of tests in stress conditions and their influence on amount of the internal capital.

The Supervisory Board of X-Trade Brokers performs supervision over the internal capital assessment process.

VII. Information on the variable pay components

X-Trade Brokers introduced the policy related to variable pay components for employees holding managing positions, including the pension benefits non defined upfront, executed by the brokerage house, hereinafter the "Policy".

Preparing, approving, implementing and updating the Policy

1. The Management Board of X-Trade Brokers is responsible for preparing, implementing and updating the Policy.
2. The Policy is a supplement to the risk management system relevant in the brokerage house, strategy adopted by X-Trade Brokers and system of preventing conflicts of interests.
3. The Supervisory Board of X-Trade Brokers, acting also as a Remuneration Committee approves the Policy and supervises its execution.
4. The Policy is also a subject to opinion of the Supervisory Board acting as Remuneration Committee.
5. Policy execution is the subject of a review at least once a year. A review is made by person performing a task in the scope of risk management in X-Trade Brokers.
6. Based on the review mentioned in the section 5, the entity, who makes a review, prepares a written report defining status of Policy execution. The report is submitted to the Remuneration Committee.

Members and duties of the Remuneration Committee

1. There is the Remuneration Committee in X-Trade Brokers, which duties are entrusted to the Supervisory Board. The Supervisory Board consists of 5 members appointed by the General Meeting of the Company Shareholders of X-Trade Brokers.
2. The Remuneration Committee at least once a year:
 - a) gives its opinion on variable pay component policy, including the amount and the constituents of the remuneration;
 - b) gives its opinion on the variable pay components policy;

- c) gives its opinion and monitors payment of variable pay components to employees holding management positions connected with risk management, internal control and analysing compliance of brokerage house operation with the regulations of law;
- d) defines a list of employees holding management positions at X-Trade Brokers;
- e) in the beginning of each financial year it approves the planned amount and variable pay components of employees holding management positions for this financial year, taking into account the rules defined in the Policy.

Criteria and manner of shaping the variable pay components policy

1. When paying or granting the variable pay components, the Management Board takes into account size of X-Trade Brokers, risk connected with its business activity, internal organisation, scope and degree of complexity of the business activity carried out by the brokerage house.
2. The Management Board in the beginning of each financial year submits to the Supervisory Board the planned amount and pay components of employees holding management positions for this financial year, taking into account the rules defined in the Policy.
3. Each time after approving the budget for the subsequent financial year, the Supervisory Board approves the amount of bonuses to the management board and to key employees covered with the Variable Pay Component Policy for the subsequent year.
4. The amount and payout of the variable pay components paid to the members of the management board of the brokerage house depend on the percentage of the budget execution of X-Trade Brokers for the given period. The distribution of the variable pay components must be approved by the Supervisory Board on the request of President of the Management Board.
5. The assessment of results is based on the data from at least three recent financial years, and for people employed for a shorter period than three years – on the data from the moment of commencement of the employment relationship, so that the actual payment of pay components depending on the performance of the brokerage house that is distributed for the period taking into account the economic fluctuations and the risk connected with the business activity carried out by the brokerage house.
6. The basis for determining the total amount of the remuneration is the assessment of performance of each person and the data related to the organisational unit in relation to the general performance of the brokerage house – assessment of individual performance takes into account financial and non-financial criteria.
7. The Variable Pay Components paid to the employees performing duties related to the process of supervision over compliance with the relevant regulations of law as well as related to risk management that are defined by the President of the X-Trade Brokers Management Board and depend on fulfilment of tasks entrusted to them, based on the internal organisation regulations of the departments they lead.
8. The guaranteed Variable Pay Components, which are not a subject to the regulations of the decision, are of extraordinary nature, may be granted only at the moment of entering into employment relationship and are limited to the first year of employment.
9. If the remuneration is divided into constant and variable components – the constant ones should constitute a

sufficiently high proportion of total remuneration in order that it is possible to carry out a flexible policy concerning variable pay components, including reducing the amount of these components or not paying them at all.

10. Amount of the granted variable pay components cannot limit ability of X-Trade Brokers to increase its capital base.
11. Due to early termination of the Agreement the severance pay should reflect the amount of work, its efficiency and quality for the period of at least three last years of holding the management position at the brokerage house, and for employees holding the management position for the period shorter than three years – for the period of accepting this position; the terms related to those payments should be defined in such a way that they prevent rewarding poor performance, in the same time taking into account the grounds and the criteria defined in the section 4.
12. At least 50% of the variable pay components will be granted in shares in X-Trade Brokers or in financial instruments, which value is associated with the financial condition of the brokerage house.
13. At least 40% of the variable pay components will depend on the performance of a given employee and will take into account the risk of business activity of X-Trade Brokers.
14. Part of the variable pay component described in the section 13 will be settled and paid within the period of three to five years, whereas this period will be defined considering economic fluctuations, nature and risk of the activity carried out and duties of this employee. If the amount of the total remuneration to this employee in the previous financial year exceeded the equivalence of EUR 1 000 000 in PLN defined according to the average exchange rate announced by the National Bank of Poland (NBP) for the last day of the previous year, this applies to 60% variable pay components.
15. The variable pay components should be granted or paid, if they reflect the financial condition of the brokerage house and are justified by the performance of this brokerage house, the performance of the organisational unit, which an employee worked for and performance of this employee. Amount of the variable pay components may be reduced, and their payment suspended, if the brokerage house shows a permanent balance loss.
16. The employees being subject to the Policy are obliged not to use their personal hedging strategy and insurance related to the remuneration and liability for the purpose of undermining the effects of taking into account the risk in the remuneration system they are subject to.
17. The financial result of the brokerage house assumed in order to determine variable pay components, should take into account the incurred risk, cost of capital and limitations of liquidity.

Total quantitative information on remuneration of persons holding management positions in X-Trade Brokers for the year ended on 31 December 2012.

Category	Amount in PLN
Constant pay components	2 145 124
Variable pay components	0
Total	2 145 124

In the year 2012 none of the employees holding management positions obtained shares of the brokerage house neither derivatives rights on these shares nor other instruments giving the right to purchase or subscribe for shares of the brokerage house as well as other financial instruments, which value is associated with the financial condition of the brokerage house.

Revealing more precise information on the variable pay components policy, in the opinion of the Board could result an unfavourable influence on X-Trade Brokers market position.