

# PILLAR 3 DISCLOSURES 2020

## General information

European Brokerage House /hereinafter referred to as EBH/ is a company entered in the register of investment firms, led by the Financial Supervision Commission (hereinafter 'FSC' or 'The Commission'), with the number RG-03-197/01.07.2020, operating as an investment firm.

Regulation 575/2013/EU defines the public disclosure requirements to present the main risk indicators and their management methods. The requirements for public disclosure of regulatory data help improve market discipline, focusing on credit, market, and operational risk measurement requirements and other disclosures of additional information to help identify risks early.

## Disclosures pursuant to Art. 67, para. 1 of Ordinance No 50 on the capital adequacy of investment firms in relation to Part Eight of Regulation 575/2013

### Information under Art. 435(1) of Regulation 575/2013

The process of identifying, managing, and monitoring risks aims to reduce the impact of external and internal risk factors on EBH's activities, including risks arising from the macroeconomic environment.

The procedures for assessing and managing individual types of risk include:

- the identification of the individual external and internal data, facts and events influencing the activities of EBH;
- the identification and measurement of risk;
- the specific methods for managing each type of risk and basic assumptions and baselines for the application of the chosen method;
- monitoring, risk assessment and control;
- risk reporting.

The risk assessment shall be based on an analysis of the following components:

- the significant activities of EBH;
- the type and level/extent/ of the risks inherent in the company;
- the adequacy of the risk management control systems in place;
- a general risk assessment;
- a risk assessment based on external analyses, including a credit rating, where applicable.

The risk factors that affect the activity of the company are:

- **market risk** – the likelihood of losses or absence of profit being made under the influence of adverse changes in the prices of financial instruments, market interest rates, exchange rates, etc.;
- **settlement risk, credit risk of the counterparty** – the probability of default of the counterparty;
- **operational risk** – the likelihood of losses being incurred because of inappropriate or incorrect internal procedures, errors of officials at the investment firm, including in offices or internal events;
- **legal risk** – the likelihood of incurred losses because of violations or non-compliance with laws and regulations or internal company documents;
- **reputational risk** – the possibility of negative publications and statements in the mass media, electronic media, etc. concerning the investment firm, true or false, leading to a decrease in the client base, revenues, or litigation;
- **business risk** – the possibility under the influence of various factors from the external environment – macroeconomic, political, etc., as well as from the conditions of employment in this environment to cause negative consequences in the activity of the investment firm,
- **positional risk (general and specific)** – the risk of changing the price of an instrument because of factors related to the issuer or in the case of a derivative instrument related to the issuer of the underlying, as well as the risk of a change in the price of the instrument due to a change in the level of interest rates;
- **commodity risk** – the risk of positions in exchange-traded commodities or commodity derivative instruments in the investment and trading portfolio of the investment firm;
- **concentration risk** – the risk of mismatching maturities between exposures and their credit protection, as well as the risk that arises when applying credit risk reduction techniques and large indirect credit exposures;
- **liquidity risk** – the possibility that the investment firm does not have sufficient resources to meet its obligations when they become due and the inability to realise its assets at an appropriate price and within reasonable time limits;
- **currency risk** – the risk of changes in the exchange rate of BGN against foreign currencies;
- **interest rate risk** – the risk of fluctuations in interest rates, insofar as interest-bearing assets and interest liabilities mature or undergo changes in interest rates at different times and to varying degrees.

### Information under Art. 435(2)(c) of Regulation 575/2013

The policy for ensuring diversity in selecting employees and management bodies complies with the applicable regulatory requirements and those of Art. 13 and Art. 14 of MFIA.

The selection of members in the management body of the investment firm shall ensure diversity, considering the following criteria:

- the education of the applicant;
- the professional field and professional experience;
- the psychological, intellectual, and wilful qualities;
- the social knowledge and skills;
- the organisational skills and motivation.

As a criterion for assessing the suitability of managers, the experience includes both the theoretical experience gained through education and training and the practical experience gained while holding previous posts.

The knowledge, skills and professional experience of applicants must be consistent with the specificities of the activities carried out by the investment firm and the main risks to which it is or may be exposed.

The selection of candidates shall also assess the reputation of the person. The person must enjoy a good reputation and not jeopardise the management of the investment firm. A good reputation exists where there is no evidence to the contrary, and the conduct of the person does not give rise to any doubts as to his ability to ensure sound and prudent management of the investment firm.

The selection of managers shall also assess other criteria relevant to the functioning of the firm's management body, including a potential conflict of interest, the possibility of devoting sufficient time to ensure the proper performance of the tasks assigned, the necessary collective knowledge and expertise and the ability of members to perform their duties impartially and without undue influence from others.

There is no candidate selection committee set up in the investment firm because, in terms of size, the internal organisation, nature, scope and complexity of its business, the company does not meet the criteria for a significant investment firm.

### **Information on scope and methods of consolidation under Art. 436 of Regulation 575/2013**

European Brokerage House prepares its financial statements on an unconsolidated basis.

### **Information concerning equity under Art. 437 of Regulation 575/2013**

The structure of the capital of the company is presented in the attached table:

	C 01.00 - OWN FUNDS	VALUE IN BGN
1.1	TIER 1 CAPITAL	1 644 191
1.1.1	COMMON EQUITY TIER 1 CAPITAL	1 644 191
1.1.1.1	Equity instruments eligible as Common Equity Tier 1 capital	2 805 000

1.1.1.1.1	Equity instruments paid up	2 805 000
1.1.1.2	Retained earnings	(1 086 713)
1.1.1.2.1	Retained earnings from previous years	(783 676)
1.1.1.2.2	Acceptable profit or loss	(303 037)
1.1.1.2.2.1	Profit or loss at which the owners of the parent company are treated	(303 037)
1.1.1.4	Other reserves	44 500
1.1.1.11	Other intangible assets	-
1.1.1.11.1	Other intangible assets before deduction of deferred tax liabilities	-
1.1.1.12	Deferred tax assets that are based on future profitability and do not arise from temporary differences, not including related tax liabilities	-
1.1.1.23	(-) Deductible deferred tax assets that are based on future profitability and arise from temporary differences	(118 596)

## ANNEX II

Template for the main features of equity instruments

Template for the main characteristics of equity instruments		
1	Issuer	Europe Brokerage House OOD
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg private placement identifier)	
3	Applicable law (or rights) to the instrument	The legislation of the Republic of Bulgaria
	Regulation	Common Equity Tier 1 capital
4	CRR transitional rules	Common Equity Tier 1 capital
5	CRR rules for the post-transition period	Common Equity Tier 1 capital
6	Eligible on an individual/(sub-)consolidated/individual & (sub-) consolidated basis	Individual
7	Type of instrument (species determined by each jurisdiction)	Partitions

8	The amount recognised in the required capital ( <b>in thousands of currency units</b> at the last reporting date)	2 805
9	Nominal value of the instrument	1
9a	Issue price	1
96	Redemption price	Not applicable
10	Accounting classification	Equity
11	Initial date of issue	2001
12	Open-ended or date-by-date	Indefinite
13	Initial maturity	Not applicable
14	The possibility of prior redemption by the issuer shall be subject to prior approval by the supervisory authorities	Not applicable
15	Possible date of pre-redemption, contingent dates, and amount	Not applicable
16	Subsequent dates of pre-redemption, if applicable	Not applicable
	Coupons/dividends	Not applicable
17	Fixed or floating dividend/coupon	Not applicable
18	Coupon rate and related indices	Not applicable
19	Existence of a mechanism for suspending the payment of a dividend	No
20a	Completely or somewhat at its discretion, or mandatory (in terms of timing)	Not applicable
206	Completely or somewhat at its discretion or mandatory (in terms of size)	Not applicable
21	Existence of an increased price or other incentive to buy back	No
22	Non-cumulative or non-cumulative	Not applicable
23	Convertible or non-convertible	Not applicable
24	If it is convertible, factor(s) triggering the conversion	Not applicable
25	If it is convertible, in whole or in part	Not applicable
26	If it is convertible, conversion ratio	Not applicable

27	If it is convertible, mandatory, or optional conversion	Not applicable
28	If it is convertible, indicate the type of tool in which the instrument can be converted	Not applicable
29	If it is convertible, indicate the issuer of the instrument to which the instrument is converted	Not applicable
30	Characteristics of asset revaluation	No
31	If revalued, indicate the revaluation triggers	Not applicable
32	If reassessed, in whole or in part	Not applicable
33	If reassessed, by permanent force or temporary	Not applicable
34	If the revaluation is temporary, a description of the revaluation mechanism	Not applicable
35	Position of the instrument in the liquidation hierarchy (indicate the type of immediately more privileged instrument)	Not applicable
36	Actual characteristics for which non-compliance has been found	No
37	If yes, indicate the characteristics for which non-compliance has been found	Not applicable

### Information on capital adequacy ratios and capital amounts under Art. 438 of Regulation 575/2013

When calculating capital adequacy, the company strictly complies with the requirements of Ordinance № 50 of the FSC and Regulation (EU) № 575/2013.

The company does not use a methodology to calculate its capital liquidity ratio other than that specified in the regulatory documents.

#### Own funds requirements by exposure class

Credit risk (according to the standardised approach)

	CAPITAL REQUIREMENTS	VALUE IN BGN
1.1	TOTAL RISK EXPOSURE	804 104
1.1	RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	605 928
1.1.1	Standardised approach /SA/	605 928

1.1.1.1	Exposure classes in the standardised approach excluding securitisation positions	605 928
1.1.1.1.15	Exposures in equity instruments	1 641
1.3	TOTAL RISK EXPOSURE	191 804
1.3.1	Risk exposure for positional, currency and commodity risk in standardised approaches (SA)	191 804
1.3.1.1	Traded debt instruments	-
1.3.1.2	Exposures in equity instruments	-
1.3.1.3	Foreign exchange transactions	191 804
1.4	COMMON OPERATIONAL RISK POSITION /OpR/	6 372
1.4.1	Operational risk indicator (BIA) approach /OpR/	6 372

#### Capital adequacy ratios and capital ratios

	CAPITAL REQUIREMENTS	Value
1	Common Equity Tier 1 capital ratio	204
2	Surplus (+)/Common Equity Tier 1 shortfall (-)	1 608 006
3	Tier 1 capital ratio	204
4	Surplus (+)/Shortfall (-) of Tier 1 capital	1 595 945
5	Total capital adequacy ratio	204
6	Surplus (+)/Shortfall (-) in total capital value	1 579 863

#### Information on the counterparty's credit risk under Art. 439 of Regulation 575/2013

##### Own funds requirements by exposure class

Credit risk (according to the standardised approach)

	Parameters	VALUE IN BGN
1.1.1.1	Classes of positions in the standardised approach except for securitisation positions	605 928



1.1.1.1.07	Undertakings	439 376
1.1.1.1.11	High-risk exposures	164 911
1.1.1.1.15	Exposures in equity instruments	1 641

### Information on capital buffers under Art. 440 of Regulation 575/2013

Pursuant to Art. 77 of Ordinance № 50, European Brokerage House maintains capital buffers:

	Capital buffers	VALUE IN BGN
740	Combined buffer requirement	20 964
750	Buffer with a view to preserving capital	20 103
770	Institution-specific countercyclical capital buffer	861

### Information on indicators of global systemic importance under Art. 441 of Regulation 575/2013

The company is not designated as a global systemically important institution pursuant to Art. 131 of Directive 2013/36/EU.

### Information on credit risk adjustments under Art. 442 of Regulation 575/2013

Receivables without a fixed maturity are initially recognised at acquisition cost. The company's balance sheet shall indicate them at a price deducted a possible impairment loss due to risk of collectability. An impairment loss shall be recorded if there is objective evidence that the company will not be able to recover all amounts due under the initial terms in respect of the claim concerned due to significant financial difficulties of the debtor, likelihood of bankruptcy and liquidation, financial restructuring, or inability to repay the debt (more than 360 days). The carrying amount of the assets is reduced by using a corrective impairment account and the loss amount is reflected in the income statement as impairment costs.

In 2020, European Brokerage House did not perform impairment for accounting purposes and adjustments for credit risk.

### Information on encumbrance-free assets under Art. 443 of Regulation 575/2013

European Brokerage House does not have encumbered assets.

### Information on the ECAs used in applying the standardised approach to credit risk under Art. 444 of Regulation 575/2013

No ECAI is used.

### Information on exposure to market risk under Art. 445 of Regulation 575/2013

European Brokerage House does not calculate capital requirements under Art. 92(3)(b) and (c) of Regulation № 575/2013, has no securitisation positions and is not exposed to specific interest rate risk on them.

### Information on the calculation of capital requirements for operational risk under Art. 446 of Regulation 575/2013

The company uses the basic indicator approach (BIA) in calculating the capital requirements for operational risk. The operational risk capital requirement shall be calculated as 15% of the average of the sum of the company's net income for the last three years, not including the result of the sale of positions in the investment portfolio, extraordinary income and insurance benefits received.

Gross income (BGN)			Capital Requirement (BGN)	Total exposure size operational risk (BGN)
2017	2018	2019		
-	10 195	-	510	6 372

### Information on exposures in equity instruments not included in a trading book under Art. 447 of Regulation 575/2013

According to its license, EBH does not maintain trading book positions.

The following exposures are long-term investments in non-public companies /investment portfolio/:

No	Issuer	Number of shares	Reporting value (BGN)	Market value (BGN)
1	Bukovetsles JSC	220	1 641	1 641
2	Universal Properties REIC	Universal Properties RESIC is deleted from the Commercial Register on 23.07.2019		

### Information on exposure to interest rate risk in respect of positions included in the investment portfolio under Art. 448 of Regulation 575/2013

Given the nature and structure of the positions, exposure to interest rate risk is negligible. The instru-

ments included in the portfolio themselves are not interest-bearing, and any nominal income from them is not linked to global and sectoral interest rates. Only real returns after closing these positions could be negatively affected by rising interest rates and inflation.

### Information on exposures under securitisation positions under Art. 449 of Regulation 575/2013

The company does not use securitisation, so does not report such positions.

### Information concerning the remuneration policy under Art. 450 of Regulation 575/2013 and Art. 75, para. 1 of Ordinance № 50 on the Capital Adequacy of Investment Firms

Excerpt pursuant to Art. 75, para. 1 of Ordinance № 50 on the capital adequacy and liquidity of investment firms from the information under Art. 450 of Regulation 575/2013, to be disclosed.

#### Art. 450(G) Aggregate quantitative information on remuneration in the investment firm, distinguished by type of activity

Staff	Number of employees	Amount of BGN
Directors	2	140 322
Professionals	4	125 065
<b>Total</b>	<b>6</b>	<b>265 387</b>

#### Art. 450(H) Aggregated quantitative information on remuneration, distinguished separately for senior management and for employees whose activities have a material impact on the risk profile of the investment firm.

Remuneration for 2020 divided into a permanent and variable element and number of recipients:

Staff	Permanent salary element in BGN	Variable remuneration element in BGN	Number of recipients
Senior management	140 322	-	2
<b>Total</b>	<b>140 322</b>	<b>-</b>	<b>2</b>

Amount and type of variable elements of remuneration divided into cash, shares related to equities instruments, etc.:

Staff	Variable element of remuneration in cash in BGN	Variable element of remuneration in shares in BGN	Variable salary element in others in BGN
Senior management	-	-	-
Employees	-	-	-
<b>Total</b>	-	-	-

Amount of outstanding deferred remuneration divided into already received and to those to be received:

- Outstanding deferred remuneration received: none.
- Outstanding deferred remuneration to be received: none.
- Amount of deferred remuneration awarded in 2020 paid and reduced by means of performance-based adjustments: none.

Employment remuneration and dismissal benefits paid in 2020 and the number of recipients of such payments:

- Employment wages paid in 2020: none.

Dismissal benefits paid in 2020:

- Number of recipients: 3

The amounts of relief benefits granted in 2020, the number of recipients of such benefits and the highest amount of such benefit awarded to an individual:

- Amount of relief benefits granted in 2020: BGN 1 659
- Number of recipients: 3
- Highest amount of such compensation awarded to an individual: BGN 1 089

#### **Art. 450, letter "I" and Art. 75, para. 1, item 2 of Ordinance No 50**

The number of individuals receiving remuneration of EUR 1 million or more for 2020 for remuneration from EUR 1 million to EUR 5 million – allocated at intervals of EUR 500 000 and for remuneration of EUR 5 million or more – allocated at intervals of EUR 1 million – no such remuneration has been paid for 2020.

The number of persons receiving remuneration equal to at least BGN 100 000 for 2020, including their professional obligations, sphere of activity, the main elements of total remuneration, premiums, long-term benefits, and pension contributions – no such remuneration has been paid for 2020.

All remuneration shall be paid within the amount and time limits provided for in the relevant employment or civil contracts, as well as in the management and control contracts.

Disclosures pursuant to Art. 68, para. 1 of Ordinance № 50 on the capital adequacy of investment firms regarding compliance with the requirements of the provisions of Art. 64, para. 2 of MFIA

The managing body of European Brokerage House:

- is responsible for the effective and reliable management of the investment firm in accordance with the regulatory requirements, including the appropriate allocation of obligations and responsibilities in determining the organisational structure, for the adoption of the rules under Art. 65 of MFIA and for monitoring their implementation, as well as for the prevention of conflicts of interest;
- approves and supervises the implementation of the strategic objectives of the investment firm and of the risk and internal management strategy;
- ensures the integrity and the continuous functioning of accounting and financial reporting systems, including financial and operational controls, and compliance of the activity with the regulatory requirements and applicable standards;
- manages and supervises the compliance of the requirements under MFIA regarding the disclosure and provision of information;
- is responsible for exercising effective control over senior management staff;
- Controls and periodically assesses the effectiveness of the investment firm's management systems and, if necessary, takes the necessary measures to remedy the discrepancies found.

## Disclosures in connection with Art. 68, para. 1 of Ordinance № 50 on the capital adequacy of investment firms regarding compliance with the requirements of the provisions of Art. 134 of MFIA

**Name and location** – European Brokerage House is a limited liability company registered in Bulgaria and entered in the Registry Agency's Commercial Register. It is headquartered in Sofia. The address of management is in Sofia, 33 Shar Planina street, floor 2, office 8.

**Business activity** – Carrying out within the European Union and the European Economic Area, as well as in third countries, the following services, and activities: acceptance and transmission of orders relating to one or more financial instruments, execution of orders on behalf of clients, its own-account transactions in financial instruments, portfolio management, investment advice, underwriting financial instruments and/or offering financial instruments under an unconditional and irrevocable obligation to enrol/acquire financial instruments on its own account, offering for initial sale of financial instruments without an unconditional and irrevocable obligation to acquire financial instruments on its own account (disposal of financial instruments). Additional services: storage and administration of financial instruments on behalf of clients, including custody (holding of financial instruments and client money in a depositary institution) and related services such as cash and collateral management, excluding centralised holding of securities accounts pursuant to Section A(2) of the Annex to Regulation (EU) № 909/2014, providing loans to investors to carry out transactions in one or more financial instruments, provided that the intermediary providing the loan is involved in the transaction, advice to undertakings on capital structure, industrial strategy and related matters, as well as advice and services related to the transformation and acquisition of enterprises, provision of services relating to foreign means of payment in so far as they relate to the investment services provided, investment studies and financial analyses or other forms of general recommendations relating to transactions in financial instruments, underwriting services, investment services and activities under para 2 and item 1 to 6 in connection with the underlying instruments of derivative financial instruments under Art. 4, item 5, 6, 7 and 10, when related to the provision of investment and additional services.

**Amount of turnover** – for the calendar year 2020 the company has realised:

- Financial income – BGN 766 000.

**Number of full-time employees /equivalent base/** – the headcount for 2020 is 4 full-time employees, and 2 persons on a management and control contract.

**Financial result of the activity before tax** – for 2020 the company has realised a negative financial result in the amount of BGN 336 177.

**There are no taxes charged on the financial performance of the activity** – after-tax conversion and deduction of tax loss from past years. There is a change in deferred tax assets to the amount of BGN 33 140.

**State subsidies received** – in 2020 the company did not receive state subsidies.

**Asset yield** – the company did not consider the profitability of the assets for 2020.

## **Disclosures pursuant to Art. 68, para. 1 of Ordinance № 50 on the capital adequacy of investment firms regarding compliance with the requirements of the provisions of Art. 18-32 of Ordinance № 50 on the Capital Adequacy of Investment Firms**

The managers of European Brokerage House have adopted the Remuneration Policy in accordance with the requirements of Art. 18-32 of Ordinance № 50 on the capital adequacy of investment firms.

The remuneration policy has been drawn up, and the following basic principles are considered in its implementation:

- ensuring reliable and effective risk management;
- non-promotion of risk-taking exceeding the levels acceptable to the company;
- ensuring compliance of the policy with the company's strategy, objectives, values and long-term interests;
- measures to avoid conflicts of interest arising from the way remuneration is formed.

The remuneration policy covers all forms of remuneration sent by the company, including:

- salaries
- financial incentives
- material incentives

The company sets a level of pay for the employees, which allows it to hire qualified and experienced staff in the respective positions.

The remuneration of the company's staff includes all forms of payments or incentives made directly by the company or indirectly (made by shareholders or other persons associated with the company) for the activities carried out by the staff.

The remuneration structure shall be constructed in such a way as not to give rise to a conflict of interest.

Remuneration shall be formed in such a way as not to prejudice the independence of employees and shall not be placed in a situation where the approval of a transaction, decision-making or advice on matters affecting risk and financial control are directly linked to the increase in remuneration.

Remuneration shall be formed in such a way that there is no direct link between the remuneration of persons carrying out mainly one activity and the remuneration of persons carrying out mainly another activity for the investment firm or the income generated by the latter.

The company strictly and consistently applies the provisions laid down in the policy.

The investment firm has not been identified as significant in terms of size, internal organisation and nature, scope, and complexity of its activities. Therefore no Remuneration Committee has been set up.

European Brokerage House strictly applies the requirements of Regulation (EU) 575/2013 according to the size, internal organisation, nature, scale, and complexity of its activities.



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