
Sequence of Activating Resources of the Clearing Guarantee System

PRESS RELEASE

The National Depository has transferred to KDPW_CCP all functions related to the clearing of transactions executed on the regulated market and in the alternative trading system and the operation of the clearing guarantee system as of 1 July 2011. KDPW remains responsible for transaction settlement and central securities depository functions. The process implements world-class standards at KDPW and enhances the competitiveness of the Polish capital market. The spin-off of the clearing house from KDPW's structure derives from the National Depository Strategy 2010-2013 adopted in late 2009 and consistently pursued among others to develop a new business model of KDPW.

Concurrent with the establishment of the clearing house KDPW_CCP, a new risk management model was implemented, resulting in changes to the clearing guarantee system and the amount of resources available in the guarantee system. The capital of the clearing house was increased from EUR 15 million (PLN 60 million) available to the Clearing Guarantor to EUR 25 million (PLN 100 million) at the disposal of KDPW_CCP.

The new clearing guarantee system is based on two main tiers: individual margins with a mark-to-market mechanism and a solidary clearing fund. The model will be complemented by the capital of the KDPW_CCP clearing house. Another difference compared to the existing solution is the introduction of margins for cash transactions.

The change of the structure of contributions to the clearing guarantee fund, effective to the clearing members from its effective date, involves in particular a shift of the main burden from solidary funds to individual margins, which will not be used in case of another member's default. The main benefit of the change, available from the effective date of the new model, is that the margins will be protected.

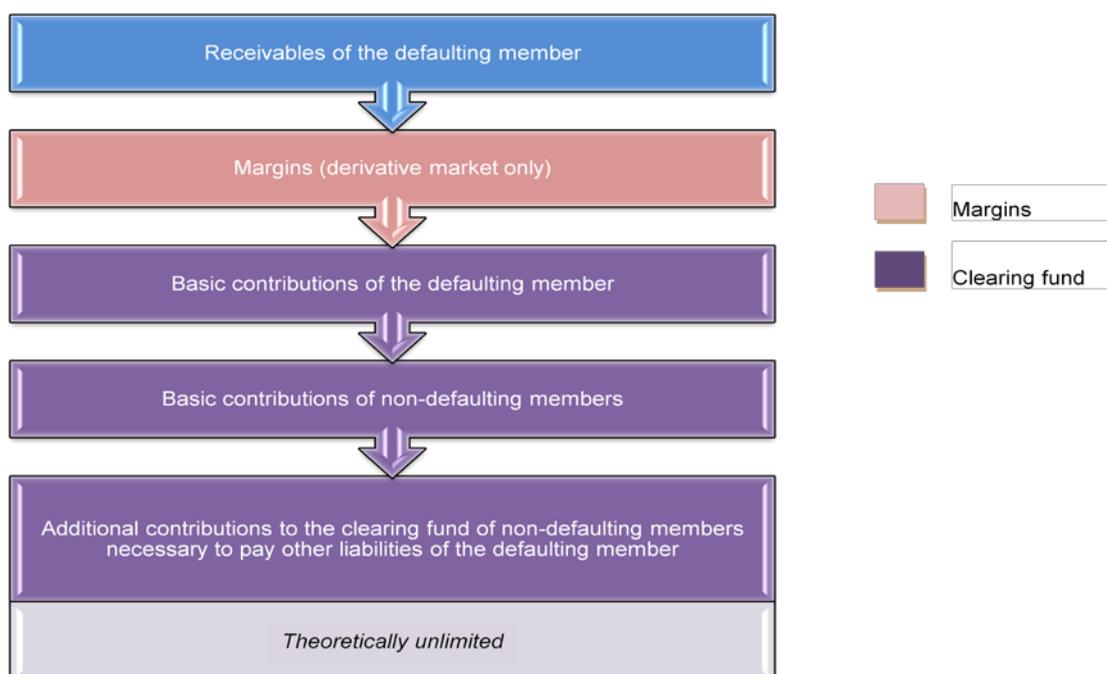
The clearing guarantee system and the sequence of activating resources in case of a member's default have evolved over the past years according to the pursued KDPW Strategy 2010-2013 in order to match the best solutions broadly used on the biggest financial markets of the world. They are consistent with the recommendations of international organisations including CPSS-IOSCO as well as draft European Union regulations. This will strengthen the role and the perception of the Polish capital market, especially by global investors.

Before the Clearing Guarantor

Before the establishment of the Clearing Guarantor (which capped the maximum level of additional contributions to the clearing fund and added the Guarantor's capital to the guarantee system), the clearing guarantee system was based on margins (only for the derivative market) and the clearing fund.

The concern about the existing solution was that in case of a KDPW member's default, it would be difficult to evaluate potential contributions of the other members to the clearing fund necessary to cover all liabilities of the defaulting member. The model had an adverse impact on the risk profile of banks and brokers (KDPW members) used among others in ratings of financial institutions.

1. Sequence of Activating Resources of the Clearing Guarantee System before Clearing Guarantor



After the launch of the Clearing Guarantor (KDPW_CLEARPOOL¹)

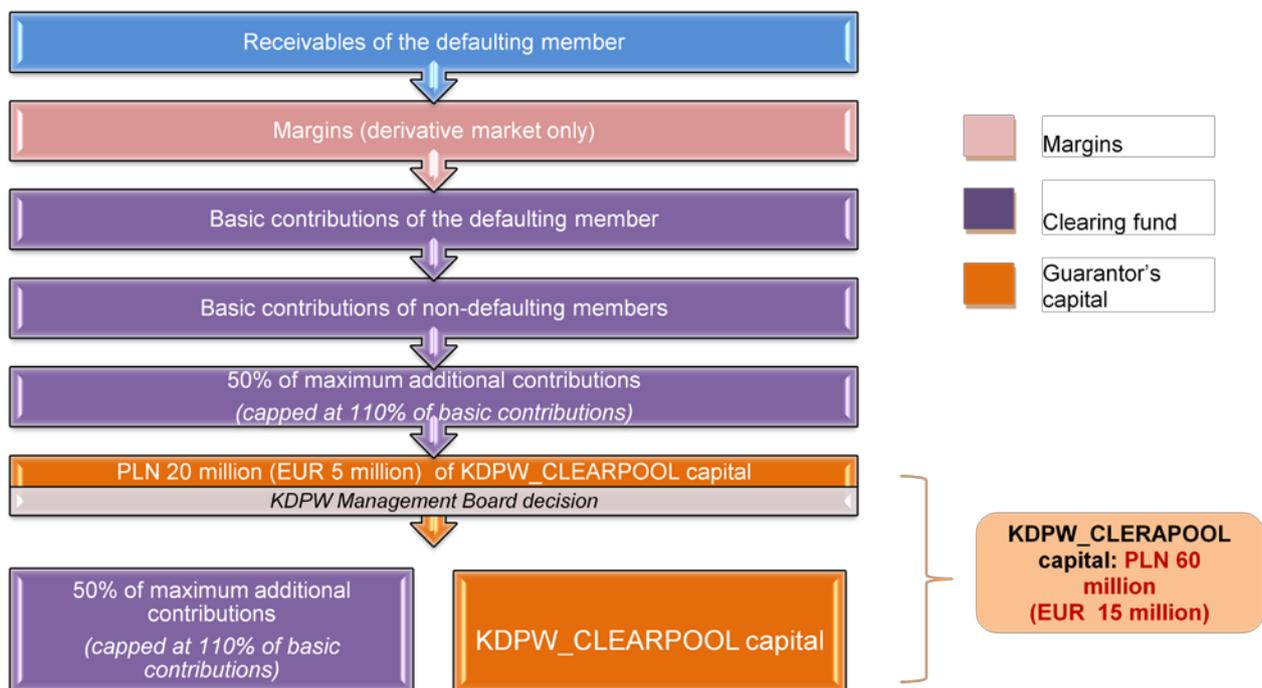
The launch of the Clearing Guarantor KDPW_CLEARPOOL in May 2010 was the first step towards a fully-fledged CCP according to the KDPW Strategy 2010-2013. Even before the CCP was established, the Clearing Guarantor ensured an function of the KDPW settlement guarantee system of key importance to members: a **cap of members' additional contributions to the clearing fund**. The cap was set at **110 percent of the member's basic contribution**.

¹ KDPW_CLEARPOOL was renamed KDPW_CCP in February 2011.

The cap allowed members to assess the risks of participation in the clearing guarantee system. Previously, the risk was difficult to assess because members' potential additional contributions to the guarantee fund were not capped.

It was also important to market members that the system was equipped with additional tiers including the Guarantor's capital. KDPW_CLEARPOOL was equipped with a **capital of EUR 15 million** (PLN 60 million), which could be used as part of the clearing guarantee system resources in case of a KDPW member's default.

2. Sequence of Activating Resources of the Clearing Guarantee System after the launch of the Clearing Guarantor



The target model: KDPW_CCP

The clearing guarantee system changed with the launch of the KDPW_CCP clearing house. The structure of the new system and the sequence of activating resources in case of a member's default are as follows:

- ❖ receivables of the defaulting member;
- ❖ margins contributed by the defaulting member;
- ❖ basic contributions of the defaulting member to the clearing fund;
- ❖ basic contributions of other members to the clearing fund;

- ❖ 50% of maximum additional contributions of other members (total additional contributions are capped at 110% of the basic contributions);
- ❖ EUR 5 million (PLN 20 million) of KDPW_CCP capital;

(further steps by decision of KDPW_CCP Management Board)

- ❖ 50% of maximum additional contributions of other members;
- ❖ remaining capital of KDPW_CCP (up to the portion of capital dedicated to the guarantee system).

3. Sequence of Activating Resources of the Clearing Guarantee System after the launch of the KDPW_CCP

