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Order of actions using the assets of the transaction settlement guarantee system including the assets of the settlement guarantor

PRESS RELEASE

The creation of a settlement guarantor will reduce the risk of participation in the KDPW transaction settlement guarantee system as KDPW regulations will cap additional contributions to the guarantee fund which KDPW may call once the core resources of the guarantee system have been exhausted. In the event of insolvency of a system participant, the guarantor (the company KDPW_CLEARPOOL) will be in a position to use its assets to pay liabilities arising from cleared transactions concluded on the regulated market and covered by the guarantee fund.

The guarantor will not be bound by an agreement with KDPW participants. Under an agreement executed with KDPW, the guarantor will provide the service of supporting the liquidity of the settlement of transactions concluded on the regulated market. In the event of insolvency of a clearing member, KDPW will decide to use the guarantor's assets.

If transactions are settled with assets of the guarantor, the guarantor will get the benefits received from the transaction counterparty in order to replenish its assets for later payments in case of insolvency.

The section below presents the order of actions using assets in the KDPW settlement guarantee system to pay the liabilities of a participant incapable of settling liabilities under transactions concluded on the regulated market (insolvent participant), including the assets of the guarantor.

1. In the first place, liabilities of the insolvent participant will be paid with the **receivables of the insolvent participant** available in the KDPW system.

If the receivables of the insolvent participant are insufficient to pay all liabilities, the assets of the KDPW settlement guarantee system (**basic contributions**) will be used in the following order:

2. Maintenance margins contributed by the insolvent participant (currently only used to close open positions on the derivative instruments market).
3. Contributions of the insolvent participant to the relevant separate part of the guarantee fund.
4. Contributions of the insolvent participant to other separate parts of the guarantee fund, provided however that liabilities covered by these parts of the guarantee fund have been fully paid.
5. Basic contributions of other clearing members to the relevant separate part of the guarantee fund.

If the assets available so far in the system have been insufficient to close all settlement liabilities of the insolvent participant, the KDPW Management Board will call other participants who make contributions to the relevant part of the guarantee fund to make **additional contributions** to that part of the guarantee fund and, if so required by the amount of liabilities still outstanding, decide to use assets of the settlement guarantor as follows:

1. In the first place, we will use additional contributions of clearing members to the relevant part of the fund paid as the first tranche of contributions up to **50% of the capped additional contributions** (the additional contribution of a participant is capped at **110% of the participant's basic contribution**).
2. If these additional contributions are insufficient to pay all settlement liabilities of the insolvent participant, the remaining liabilities up to **PLN 20 million** will be paid from assets provided to KDPW by the settlement guarantor under the agreement between KDPW and the settlement guarantor.
3. Next, we will use assets from the second tranche of additional contributions of clearing members to the relevant part of the fund up to 50% of the capped additional contributions and/or (depending on the KDPW Management Board decision), **additional assets provided to KDPW by the settlement guarantor**.

At this stage, decisions to use additional contributions and assets of the guarantor will be made by the KDPW Management Board following an analysis of the market situation. The analysis will consider among others the current and expected amount of open liabilities in the settlement guarantee system, in particular the amount of liabilities not covered, the number of insolvent participants and participants at risk of insolvency, taking into consideration the regulatory obligation of the participants to make "recovery contributions" to the guarantee fund.
