

KDPW_CCP S.A. CAPITAL REQUIREMENTS**1. Definitions and abbreviations:**

CCP – central counterparty;

KDPW_CCP – KDPW_CCP S.A.;

Regulation (EU) No 152/2013 – Commission Delegated Regulation (EU) No 152/2013 of 19 December 2013 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on capital requirements for central counterparties;

Regulation (EU) No 575/2013 – 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;

Regulation (EU) No 648/2012 – Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories.

2. Rules of calculating capital requirements

KDPW_CCP calculates capital requirements under Regulation (EU) No 152/2013.

According to Article 1 of Regulation (EU) No 152/2013, KDPW_CCP is obliged to hold capital including retained earnings and reserves, that is at least equal to the sum of:

- capital requirements for winding down or restructuring its activities,
- capital requirements for operational and legal risk,
- capital requirements for credit risk not covered by dedicated financial resources referred to Articles 41-44 of Regulation (EU) No 648/2012,
- capital requirements for counterparty credit risk not covered by dedicated financial resources referred to Articles 41-44 of Regulation (EU) No 648/2012,
- capital requirements for market risk not covered by dedicated financial resources referred to Articles 41-44 of Regulation (EU) No 648/2012,
- capital requirements for business risk.

2.1. Capital requirement for winding down or restructuring activities

The capital requirement for winding down or restructuring activities is calculated to ensure that KDPW_CCP has financial resources sufficient to cover operational expenses for a sufficiently long span of time necessary for an orderly winding down or restructuring its activities.

According to Article 2 of Regulation (EU) No 152/2013, the capital requirement for winding down or restructuring activities is equal to the average monthly gross operational expenses multiplied by the time span for winding down or restructuring its activities.

KDPW_CCP estimates the time span for winding down or restructuring its activities, including changing its business strategy, implementing savings programmes, changing the structure of fees, liquidating the cleared portfolio or transferring the activities to another CCP, taking into account among others the liquidity, size and maturity structure of the positions and the type of products cleared. The defined time span for winding down or restructuring its activities is at least 6 months.

2.2. Capital requirement for operational and legal risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

KDPW_CCP calculates the capital requirement for operational risk and legal risk, using the Business Indicator Approach as provided in Article 312-315 of Regulation (EU) No 575/2013.

2.3. Capital requirement for credit risk and counterparty credit risk

Credit risk (including counterparty credit risk) is defined as the risk of loss that will be incurred in the event of default by a counterparty of KDPW_CCP under concluded transactions or agreements.

KDPW_CCP is exposed to credit risk primarily in respect of held debt instruments and receivables under contracted deposits and placements as well as counterparty credit risk under repo transactions.

According to Article 4 of Regulation (EU) No 152/2013, KDPW calculates capital requirements for credit risk and counterparty credit risk as the sum of 8% of its risk-weighted exposure amounts for credit and counterparty credit risk.

To calculate the risk-weighted exposure amounts for credit risk, KDPW_CCP applies the Standardised Approach defined in Title II, Chapter 2 of Regulation (EU) No 575/2013.

To calculate the risk-weighted exposure amounts for counterparty credit risk, KDPW_CCP applies the Financial Collateral Comprehensive Method with volatility adjustments as defined in Articles 223-224 of Regulation (EU) No 575/2013.

2.4. Capital requirement for market risk

Market risk is defined as the risk of losses due to unfavourable changes of market parameters (including interest rates, FX rates, equity prices). Interest rate risk of the investment portfolio is identified in the current activities.

Although KDPW_CCP is not involved in trading activities, it follows the prudential approach and calculates the capital requirement for position risk including:

- capital requirement for general risk of interest rates under the maturity-based method defined in Article 339 of Regulation (EU) No 575/2013;
- capital requirement for specific risk of debt instrument prices under the basic method defined in Article 334-336 of Regulation (EU) No 575/2013.

2.5. Capital requirement for business risk

Business risk is understood as the risk taken by KDPW_CCP due to its capacity and potential changes of general terms and conditions of business which may have an adverse impact on its financial standing due to decrease of revenue or increase of expenses leading to losses which must be covered with its capital.

According to Article 5 of Regulation (EU) No 152/2013, KDPW calculates the capital requirement for business risk based on defined business scenarios of adverse changes in the business and economic environment of KDPW_CCP.

The capital requirement for business risk is equal to the estimate or to the amount of 25 % of the annual gross operational expenses of KDPW_CCP.