

KDPW_CCP Annual Report

FOR 2020

www.kdpwccp.pl/en

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1. KEY INFORMATION ABOUT KDPW_CCP

The company KDPW_CCP S.A. (KDPW_CCP, clearing house KDPW_CCP) has its registered address in Warsaw at ul. Książęca 4. KDPW_CCP is a 100 percent subsidiary of Krajowy Depozyt Papierów Wartościowych S.A. (KDPW, The Central Securities Depository of Poland). KDPW and KDPW_CCP are members of the Krajowy Depozyt Papierów Wartościowych S.A. Group (KDPW Group), of which Krajowy Depozyt Papierów Wartościowych is the parent entity.

1.1 Core business

According to the applicable legislation and the KDPW_CCP Statute, the core business of the company in 2020 included:

- to clear transactions concluded in financial instruments;
- to operate a transaction clearing liquidity guarantee system;
- to promote information and perform educational activities concerning the capital market.

Furthermore, under the Statute, the Company may conduct activities involving :

- performance of functions of an exchange clearing house for transactions concluded on commodity markets;
- other forms of lending – cash loans outside of the banking system;
- other financial services not classified elsewhere, excluding insurance and pension funds – other financial intermediation related mainly to distribution of cash other than by lending, concluding hedging transactions.



1. KEY INFORMATION ABOUT KDPW_CCP

1.2 Legal basis of activity

KDPW_CCP operates in accordance with the authorisation to provide clearing services as a CCP issued under the decision of the Polish Financial Supervision Authority (KNF) of 8 April 2014. The authorisation was later extended under the decision of the Polish Financial Supervision Authority of 9 August 2016 and 31 October 2019.

The legal basis of the activity of KDPW_CCP in 2020 included:

1) national legislation:

- Act of 29 July 2005 on Trading in Financial Instruments (Journal of Laws of 2020, item 89, as amended, “Act on Trading in Financial Instruments”);
- Act of 29 July 2005 on Capital Market Supervision (Journal of Laws of 2020, item 1400, as amended “Act on Capital Market Supervision”);
- Act of 24 August 2001 on the finality of settlement in payment systems and securities settlement systems and on the terms of supervision over such systems (Journal of Laws of 2019, item 212, “Act on the finality of settlement”);
- Act of 2 April 2004 on Certain Financial Collateral (Journal of Laws of 2020, item 103, “Act on Certain Financial Collateral”);
- Act of 10 June 2016 on the Bank Guarantee Fund, the Deposit Guarantee Scheme, and Resolution (Journal of Laws of 2020, item 842, “Act on the Bank Guarantee Fund”);
- Act of 15 September 2000 – Commercial Companies Code (Journal of Laws of 2020, item 1526, as amended, “Commercial Companies Code”);



1. KEY INFORMATION ABOUT KDPW_CCP

2) EU legislation:

- 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 (EU Official Journal L 201 of 27.7.2012, p. 1, as amended, “EMIR”), and the regulatory technical standards issued under the Regulation;
- legal acts governing the financial market, including:
- Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2014 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (EU Official Journal L 176 of 27.6.2013, p. 1, as amended, “CRR”);
- Regulation of the European Parliament and of the Council (EU) No 236/2012 of 14 March 2012 on short selling and certain aspects of credit default swaps (EU Official Journal L 86 of 24.03.2012, p. 1, as amended, “Short Selling Regulation”);
- Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (EU Official Journal L 173 of 12.6.2014, p. 84, as amended, “MiFIR”), and the regulatory technical standards issued under the Regulation;
- Commission Regulation (EU) No 1031/2010 of 12 November 2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances pursuant to Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowances trading within the Community (EU Official Journal L 302 of 2010, p. 1, as amended);
- Regulation of the European Parliament and of the Council (EU) No 2015/2365 of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012 (EU Official Journal L 337 of 2015, p. 1, as amended).



1. KEY INFORMATION ABOUT KDPW_CCP

KDPW_CCP carried out its operations in accordance with the following rules:

- Rules of Transaction Clearing (organised trading) and the following rules issued thereunder:
 - Detailed Rules of Transaction Clearing (organised trading);
 - Clearing Fund Rules;
 - GPW BondSpot ATS Guarantee Fund Rules;
- Rules of Transaction Clearing (non-organised trading) and the following rules issued thereunder:
 - Detailed Rules of the OTC Clearing System;
 - Rules of the OTC Guarantee Fund.

Under the authorisation issued by the Polish Financial Supervision Authority on 31 October 2019, KDPW_CCP published the Rules of Clearing and Settlement of EUA/EUAA Sale Transactions with a view to expected launch of such activities.

1. KEY INFORMATION ABOUT KDPW_CCP

1.3 Corporate bodies

The Company's corporate bodies are the General Meeting, the Supervisory Board, and the Management Board.

General Meeting

In 2020, Krajowy Depozyt Papierów Wartościowych was the sole shareholder of the Company.

Supervisory Board

As of 24 June 2020, the Supervisory Board of the fifth term of office was comprised of:

- **dr Marek Dietl** - Chairperson
- **Jacek Fotek** - Deputy Chairperson
- **Paweł Kołkiewicz** - Independent Member
- **Adam Młodkowski** - Independent Member (until 8 September 2020)
- **dr Mirosław Panek** - Independent Member (as of 22 September 2020)
- **Paweł Sobolewski**
- **dr Renata Wojciechowska** - Independent Member



1. KEY INFORMATION ABOUT KDPW_CCP

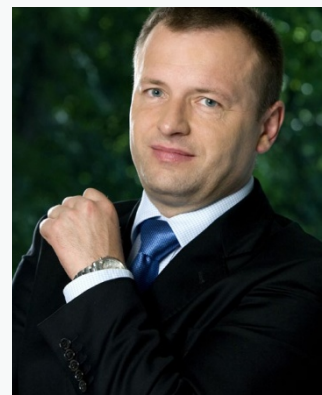
1.3 Corporate bodies

Management Board | In 2020, the Management Board of KDPW_CCP was comprised of:



Maciej
Trybuchowski

President



Sławomir
Panasiuk

Vice-President



Michał
Stępniewski

Vice-President



dr Piotr
Jaworski

Member

2. KDPW_CCP OPERATIONS IN 2020

2.1 Transaction clearing – organised trading

In performing the clearing of transactions in organised trading, KDPW_CCP performs the following functions:

- operating a system of clearing and collateral accounts;
- registering transactions that are to be cleared and transfers of open positions following transactions executed in the derivatives market in the relevant clearing accounts;
- registering in clearing accounts positions arising from transactions that are to be cleared and operations related to such positions,
- calculating the amounts of cash and non-cash payments that parties to transaction clearing or KDPW_CCP are obliged to meet,
- sending to KDPW instructions to settle cleared transactions in securities,
- sending to the National Bank of Poland (NBP) instructions to execute cash payments arising from the clearing of transactions in derivatives;
- submitting derivatives transaction reports to the KDPW trade repository.

2. KDPW_CCP OPERATIONS IN 2020

In 2020, KDPW_CCP cleared transactions on GPW and BondSpot regulated markets and alternative trading systems covered by the clearing guarantee system based on a multi-tiered SPAN risk management system. The table below presents the statistics of transactions cleared in 2019 and 2020:

MARKET	NUMBER OF TRANSACTIONS CLEARED IN 2020	NUMBER OF TRANSACTIONS CLEARED IN 2019	CHANGE (%)
Regulated cash market (GPW and BondSpot)	34,145,945	18,119,896	+88.44
Alternative trading systems (GPW and BondSpot)	5,085,495	861,376	+490.39
Derivatives market (GPW)	4,724,954	2,982,595	+58.42
Total:	43,956,394	21,963,867	+100.13

Turnover and consequently the number of transactions cleared by KDPW_CCP increased massively in 2020 due to the uncertainty and volatility caused by the COVID-19 pandemic on the Polish and global capital markets.

On 5 October 2020, KDPW_CCP started to clear transactions in Treasury bonds in the alternative trading system TBSP operated by BondSpot, which was an additional driver of the value of transactions cleared in 2020, totalling 489 transactions worth PLN 8,541,117 thousand.

The launch of the clearing and guarantees of such transactions by the authorised clearing house KDPW_CCP in collaboration with BondSpot improved the safety of trading and made TBSP even more attractive to local and international entities, which should in the long term enhance the liquidity of the local Treasury bond market, the quality of quotes, and the availability of the market to new counterparties.



2. KDPW_CCP OPERATIONS IN 2020

The turnover volume in derivatives on GPW by class in 2020 was as follows:

	TURNOVER VOLUME IN 2020	TURNOVER VOLUME IN 2019	CHANGE (%)
Futures:	11,115,358	6,728,343	+65.20
index futures	6,206,525	3,950,420	+57.11
single-stock futures	2,466,161	1,444,397	+70.74
FX futures	2,442,672	1,333,516	+83.18
Treasury bond futures	0	2	-100.00
WIBOR futures	0	8	-100.00
Index options:	374,491	251,893	+48.67
Total:	11,489,849	6,980,236	+64.61

¹ Trading in Treasury bond futures on the GPW Main Market was suspended until further notice by resolution of the GPW Management Board.

The number of transactions in futures increased year on year in 2020 for all instruments other than futures on Treasury bonds and WIBOR, suggesting little investor interest in the latter instruments traded on the organised market.

Interest in FX futures was supported throughout 2020 by promotional transaction and clearing fees offered jointly by GPW and KDPW_CCP.



2. KDPW_CCP OPERATIONS IN 2020

2.2 Transaction clearing – OTC trade

In performing the clearing of transactions in OTC trading, KDPW_CCP performs the following functions:

- operating a system of clearing and collateral accounts;
- accepting for clearing transactions concluded or confirmed on relevant electronic platforms;
- registering in clearing accounts positions arising from transactions that are to be cleared and operations related to such positions,
- calculating the amounts of cash and non-cash payments that parties to transaction clearing or KDPW_CCP are obliged to meet,
- sending to KDPW instructions to settle cleared transactions in securities,
- sending to NBP instructions to execute cash payments arising from the clearing of transactions in derivatives;
- submitting derivatives transaction reports to the KDPW trade repository.

In 2020, KDPW_CCP's clearing system was ready to clear OTC transactions in the following PLN and EUR derivatives covered by the clearing guarantee system based on a multi-tiered VaR risk management system:

- Forward Rate Agreement (FRA);
- Interest Rate Swap (IRS);
- Overnight Index Swap (OIS);
- Basis Swap;
- REPO and sell/buy-back (in Polish Treasury bonds).

2. KDPW_CCP OPERATIONS IN 2020

The number of transactions presented by domestic banks for clearing in KDPW_CCP increased year on year in 2020. The table below presents the number of OTC transactions cleared by KDPW_CCP in 2019 and 2020:

	NUMBER OF TRANSACTIONS IN 2020	NUMBER OF TRANSACTIONS IN 2019	CHANGE (%)
Number of cleared transactions	2,273	1,989	+14.28
Transactions by instrument:			
Number of FRAs	143	56	+155.36
Number of IRS and Basis Swaps	2,124	1,933	+9.88
Number of OIS	0	0	0

The value of OTC transactions accepted for clearing by KDPW_CCP in 2020 was as follows:

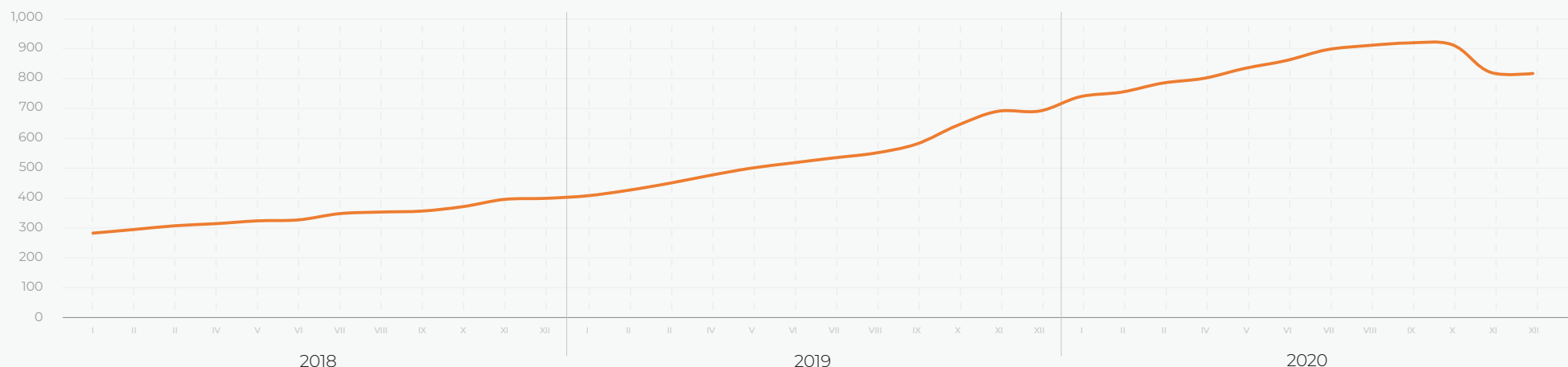
	VALUE OF TRANSACTIONS IN 2020 (PLN'000)	VALUE OF TRANSACTIONS IN 2019 (PLN'000)	CHANGE (%)
Value of cleared transactions	271,023,458	227,121,300	+19.33
Transactions by instrument:			
Value of FRAs	35,742,000	27,100,000	+31.89
Value of IRS and Basis Swaps	235,056,733	200,021,300	+17.52
Value of OIS	0	0	0



2. KDPW_CCP OPERATIONS IN 2020

As the number of transactions accepted for clearing increased in 2020, so did the value of OTC transactions accepted for clearing:

VALUE OF TRANSACTIONS IN CLEARING [PLN]



First transactions in EUR were presented for clearing in KDPW_CCP in 2020. Banks which are OTC clearing members jointly presented 6 transactions for clearing in KDPW_CCP in a total amount of EUR 48,696,710.

KDPW_CCP accepted 15 OTC trades in the client clearing service in a total amount of PLN 372,500,000.00 in 2020. By comparison, KDPW_CCP accepted the first two transactions in the client clearing service in a total amount of PLN 200,000 in 2019.

Central clearing of client transactions in OTC derivatives represents the majority of international CCPs' clearing volumes.

Polish counterparties trading in OTC derivatives, other than banks, are largely cleared by international investment banks in foreign CCPs.

Promotional and educational efforts covering KDPW_CCP's client clearing service aim to boost the interest of banks' clients in central clearing and incentivise the banks to offer the service to local and international clients.



2. KDPW_CCP OPERATIONS IN 2020

2.3 Transaction clearing liquidity guarantee system

In the transaction clearing liquidity guarantee system, KDPW_CCP performs the following functions:

- collecting and managing assets that form the clearing fund and the relevant guarantee fund;
- organising the automatic securities lending and borrowing system and the negotiated securities lending and borrowing system in co-operation with KDPW;
- collecting and managing assets that form margins.

The table below presents the amount of resources of the funds as at 31 December 2020.

FUND	NUMBER OF CLEARING MEMBERS, 2020 YE	NUMBER OF CLEARING MEMBERS, 2019 YE	VALUE OF CONTRIBUTIONS, 2020 YE (PLN'000)	VALUE OF CONTRIBUTIONS, 2019 YE (PLN'000)	CHANGE (%)
Clearing Fund (regulated market GPW and BondSpot)	26	26	412,428.33	174,598.80	+136.21
GPW BondSpot ATS Guarantee Fund	27	24	69,886.63	2,496.14	+2,699.79 ²
On-demand Securities Lending Guarantee Fund	0	0	0.00	0.00	0
OTC Guarantee Fund	12	12	290,699.04	420,000.94	-30.79
Total:			773,014.00	597,095.88	+29.46

² Increase driven by the clearing of transactions in TBSP ATS operated by BondSpot opened as of 5 October 2020.



2. KDPW_CCP OPERATIONS IN 2020

The table below presents the value of margins deposited by clearing members as at 31 December 2019 and as at 31 December 2020. The increase is a reflection of the conditions on the capital market in 2020.

MARGIN	VALUE OF PARTICIPANTS' MARGINS, 2020 YE (PLN'000)	VALUE OF PARTICIPANTS' MARGINS, 2019 YE (PLN'000)	CHANGE (%)
Initial deposit	1,080,867.44	470,487.69	+129.73
Initial margin	606,866.47	435,142.61	+39.46
OTC initial deposit	87,067.63	70,580.06	+23.36
OTC initial margin	338,384.88	317,311.75	+6.64
Total:	2,113,186.42	1,293,522.10	+63.37



2. KDPW_CCP OPERATIONS IN 2020

2.4 Participation in legislative initiatives

National legislation – participation in legislative initiatives

In 2020, KDPW_CCP (within the KDPW Group) participated in a number of legislative initiatives relevant to the capital market in Poland including the work on:

- a draft Act amending the Act on Trading in Financial Instruments;
- a draft Act amending the Commercial Companies Code and certain other Acts;
- a draft Act amending the Act on the Bank Guarantee Fund;
- a draft Act amending the Act on the Tax on Certain Financial Institutions;
- a draft Act amending the Act on the National Cybersecurity System.

Furthermore, KDPW_CCP (within the KDPW Group) participated in work on implementing regulations relevant to the capital market in Poland. These included in particular:

- a draft Regulation of the Minister of Finance concerning the admission of financial instruments other than securities to trading on the regulated market;
- amendments to the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Law, and certain other Acts.

2. KDPW_CCP OPERATIONS IN 2020

European legislation – consultations and opinions

To ensure KDPW_CCP's compliance and prepare for harmonisation, we analysed draft European legislation in 2020. Furthermore, KDPW_CCP participated in the drafting of European legislation governing the financial market, including as a participant in the issuance of opinions on draft legislation and a participant in consultations opened in the drafting process, in collaboration with industry organisations, the national administration and supervisory authorities. These included in particular:

- the proposal for a Regulation of the European Parliament and of the Council on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, and (EU) 2015/2365) (**CCP Recovery and Resolution**);
- the draft Commission Delegated Regulation supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to the minimum elements to be assessed by ESMA when assessing third-country CCPs' requests for comparable compliance and the modalities and conditions of that assessment;
- the proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 648/2012 as regards the clearing obligation, the suspension of the clearing obligation, the reporting requirements, the risk-mitigation techniques for OTC derivatives contracts not cleared by a central counterparty, the registration and supervision of trade repositories and the requirements for trade repositories (**EMIR REFIT**);
- the proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority) and amending Regulation (EU) No 648/2012 as regards the procedures and authorities involved for the authorisation of CCPs and requirements for the recognition of third-country CCPs (**CCP Supervision**);
- the proposal for a Commission Delegated Regulation supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to fees charged by the European Securities and Markets Authority to central counterparties established in third countries;
- the proposal for a Commission Delegated Regulation supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to the criteria that ESMA should take into account to determine whether a central counterparty established in a third country is systemically important or likely to become systemically important for the financial stability of the Union or of one or more of its Member States.



3. PARTICIPATION IN THE WORK OF INTERNATIONAL ORGANISATIONS

Representatives of KDPW_CCP are members of international organisations and associations and their working groups which discuss and issue opinions on draft legislation, recommendations and proposed modifications to clearing practice and standards proposed on European and global markets.

3.1 EACH (European Association of Central Counterparty Clearing Houses)

EACH is the European association of CCPs and supports co-operation and the exchange of information among clearing institutions.

In 2020, EACH followed new initiatives, draft laws and standards in the area of clearing and issued opinions concerning a number of consultation papers. In 2020, EACH presented its position on the CSDR settlement discipline framework and a position in support of the political agreement on CCP Recovery and Resolution which may help to improve financial stability and taxpayer protection.

EACH drafted positions in the consultations opened by the European Commission on the EU framework for markets in crypto-assets, the ESMA consultations on the Technical standards on reporting, data quality, data access and registration of Trade Repositories under EMIR REFIT, the ESMA EU-wide CCP Stress Test 2019, the FSB consultations on the Guidance on financial resources to support CCP resolution and on the treatment of CCP equity in resolution, the ESMA consultations on the Draft Guidelines on Outsourcing to Cloud Service Providers,

the International Organization of Securities Commissions (IOSCO) consultations on the Principles on Outsourcing, the ESMA consultations on the technical standards of the extension of CCP authorisation to include additional services not covered by the prior authorisation and the conditions under which changes to the models and parameters are significant under EMIR, and the Commission Regulation Digital Operational Resilience Act (DORA).

EACH prepared a joint position of EACH, the European Central Securities Depositories Association (ECSDA) and the Federation of European Securities Exchanges (FESE) addressed to the Organisation for Economic Cooperation and Development (OECD) regarding consultations of the Pillar 1 Blueprint, maintaining the position presented in prior consultations and emphasising that trading venues, central counterparties and central securities depositories should be exempted from market jurisdiction taxation on participation in residual profit calculated at group (or segment) level of multinational corporations.



3. PARTICIPATION IN THE WORK OF INTERNATIONAL ORGANISATIONS

EACH worked with The Global Association of Central Counterparties (CCP12), the Futures Industry Association (FIA) and the International Swaps and Derivatives Association (ISDA) to develop best practice of auctions and use of auctions by CCPs in the event of participant default in order to mitigate the contagion effect where other participants of the CCP would be affected by such default.

KDPW_CCP representatives participate in the work of EACH and its four committees:

The EACH Policy Committee is responsible for reviewing legal issues and standards of CCP clearing, CCP interoperability, as well as the exchange of information among CCPs. In 2020, the Committee focused on Recovery and Resolution of CCPs and the treatment of CCP equity in resolution. CCP Recovery and Resolution was the theme of many conferences, workshops and meetings with supervisory authorities of EU Member States. The Committee discussed the ESMA RTS concerning CCP colleges, the ESMA consultations on PTRRS (post-trade risk reduction services) under EMIR, central clearing of pension systems (amendments under the EMIR Refit), and the EU regulatory framework on cryptoassets.

Due to the COVID-19 pandemic and global restrictions, the Committee monitored member CCPs' activities, drafted a position of EACH on the impact of COVID-19 on clearing, and consulted the ESMA position on measures aiming to mitigate the impact of COVID-19 on the EU financial markets by means of external support within the meaning of the Money Market Fund Regulation.

The EACH Risk Committee is responsible for the development of risk management systems and tools, including margins and clearing funds, participation requirements, default procedures, legal aspects of clearing by the central counterparty (mainly, risk management). In 2020, the Committee focused on issuance of opinions on legal regulations and recommendations concerning risk management. The Committee discussed current developments related to the COVID-19 pandemic and the ESMA stress test consultations.

The EACH Legal Committee is mainly responsible for the exchange of views and opinions, and for legal aspects of clearing in the European context and beyond Europe, where necessary. In 2020, the Committee focused on Recovery and Resolution of CCPs, the CSDR CCP penalty system, the COVID-19 pandemic and its impact on CCP activity, and reactivation of bank guarantees as collateral.



3. PARTICIPATION IN THE WORK OF INTERNATIONAL ORGANISATIONS

The EACH Working Group on EMIR Trade Reporting by CCPs is a temporary working group established to specify the conditions of trade reporting, develop the standards of reporting to trade repositories, and harmonise measures related to the fulfilment of obligations by CCPs, their clearing members and members' clients.

In 2020, the Working Group focused on the new UTI position reporting system, the reporting of new zero positions, the ESMA Guidelines concerning changes to reconciliation, buy-in, and the ESMA consultations concerning the technical standards on reporting, data quality, data access and registers operated by trade repositories, completeness and quality of reporting under the recommendations of the European Systemic Risk Board (ESRB) in the context of reporting to the European Central Bank (ECB), a Futures Industry Association (FIA) query concerning different types of prices reported and defined in MiFID II, and the drafting of the EACH position on the fitness check of supervisory reporting requirements in EU financial services legislation.

3. PARTICIPATION IN THE WORK OF INTERNATIONAL ORGANISATIONS

3.2 CCP12 (The Global Association of Central Counterparties)

CCP12 is an international organisation with a membership encompassing clearing houses from all over the world aiming to exchange information and experience in the clearing of financial instruments. In 2020, CCP12 focused on the Financial Stability Board (FSB) guidelines on financial resources to support CCP recovery and resolution and on the treatment of CCP equity in recovery and resolution; participated in the *CCP Information Disclosures Working Group* appointed by the Securities Industry and Financial Markets Association (SIFMA) to standardise, improve the quality of and unify qualitative and quantitative data published by CCPs; and published *the CCP12 Primer on Credit Stress Testing* which presented the context and CCPs' approach to stress testing.

KDPW_CCP representatives participated in meetings of CCP12 and its Committees held as videocalls.

The CCP12 Risk Working Committee is responsible for CCP risk management, in particular stress test programmes. In 2020, the Committee focused on drafting *the CCP12 Primer on Credit Stress Testing*, which presented the role, objective, independent review, and validation of stress tests.

The CCP12 Policy Working Committee is responsible for discussions and drafting of CCP12's positions, and provides a platform of exchange of information on current issuers relevant to CCPs, including CCP recovery and resolution. In 2020, the Committee focused on drafting CCP12's position on the Financial Stability Board (FSB) consultation paper on financial resources to support CCP recovery and resolution and on the treatment of CCP equity in recovery and resolution

The CCP12 Operations Working Committee is responsible for current issues relevant to CCP operations and technologies, including CPMI-IOSCO/FSB technical standards regarding UTI, fintechs, cyber security. In 2020, the Committee focused on the supervisory authorities' approach relating to Outsourcing and Third-Party Relationships; drafted the Clearing Member Resolution Information Template; and discussed the variation margin in the context of the FIA document.



4. IMPLEMENTATION OF KDPW_CCP'S ACTIVITY PLAN IN 2020

4.1 Extension of KDPW_CCP's authorisation under EMIR to include new types of instruments (commodity market, financial market)

A project aiming to extend KDPW_CCP's authorisation under EMIR to include new types of instruments continued in 2020 and covered two areas: clearing of CO2 allowances auctions and clearing of conditional transactions on TBSP.

In the first area, KDPW_CCP's procedures and regulations were fully aligned in 2019 as necessary to clear and settle EUA/EUAA transactions at auctions on an auction platform. As a result, the Polish Financial Supervision Authority (KNF) decided on 31 October 2019 to extend the authorisation of KDPW_CCP S.A. to provide CCP clearing services accordingly. Efforts continued in 2020 to launch KDPW_CCP's EUA/EUAA clearing service. Consultations were held with competent institutions, including the Ministry of Climate; however, the consultations were not finalised due to the impact of the COVID-19 pandemic. According to the plan, the implementation of system modifications necessary to start KDPW_CCP's new service will be initiated following the finalisation of institutional consultations as required to offer the EUA/EUAA clearing service.

As regards the preparation of KDPW_CCP for the clearing of conditional transactions on Treasury BondSpot Poland, the development of the clearing and guarantee model and system modifications was initiated in 2020. An annual meeting with KDPW_CCP participants held in October 2020 to present the planned modifications to KDPW and KDPW_CCP IT systems in 2021 outlined the functional scope and the framework of the project as agreed with the stakeholders, including BondSpot and participants, in consultations carried out in mid-2020, published the project implementation timeline, announced the presentation of details of the new service to participants in August 2021 and the opening of the test environment in October 2021.

Efforts were initiated in H2 2020 to amend the Rules of Transaction Clearing (Organised Trading) and the Detailed Rules of Transaction Clearing (Organised Trading) and to define a detailed specification of requirements including all functionalities defined in the project.



4. IMPLEMENTATION OF KDPW_CCP'S ACTIVITY PLAN IN 2020

Project and programming work was planned for all functions, including the valuation of transactions, the recording of transactions in accounts, margins, auctions, the payment of coupons, the fee module, the liquidity calculation module, reporting to KNF, ESMA and IOSCO. According to the timeline, the application for extension of KDPW_CCP's authorisation to provide CCP clearing services to include repo clearing will be submitted to the Polish Financial Supervision Authority in early April 2021.

The clearing of such transactions is scheduled to start on 3 January 2022 (however, the definitive start date of the new service is subject to authorisations to be issued by KNF).

4. IMPLEMENTATION OF KDPW_CCP'S ACTIVITY PLAN IN 2020

4.2 Extension of systemic processing of clearing and monitoring of transactions in alternative trading systems

KDPW_CCP in partnership with BondSpot started to clear transactions of participants of the cash segment of the alternative trading system TBSP as of 5 October 2020. The mechanism ensures complete anonymity of market transactions and helps to largely mitigate the risk of transaction clearing and to eliminate counterparty risk limits.

TBSP transactions are covered by the existing fund securing the clearing of transactions concluded in alternative trading systems organised by the Warsaw Stock Exchange (GPW) and BondSpot S.A. Such transactions are covered by KDPW_CCP's risk management mechanisms applied as a standard in organised trading.

KDPW_CCP worked in 2020 to separate the monitoring of transaction limits and margin pools for ATS, including new communication of margins as necessary to effectively react to change of the value of collateral required by KDPW_CCP. Details concerning modifications to kdpw_stream messages which present the value of margin requirements and margin payments, including message structures published on the website, were presented to participants in September 2020 along with details of planned modifications to the margining model involving the introduction of additional margins (add-ons).

System messages were added to the test environment in early November 2020 as required by the new monitoring of transaction limits including the new add-ons (liquidity and concentration add-on and wrong way risk add-on) and testing with participants was initiated. According to the timeline presented to participants, the separate monitoring will be rolled out in the 2021 spring implementation window on 17-18 April 2021.



4. IMPLEMENTATION OF KDPW_CCP'S ACTIVITY PLAN IN 2020

4.3 Preparation of KDPW_CCP for the processing of settlement discipline requirements under CSDR

A project carried out from the beginning of 2020 to align the KDPW Group with the requirements of CSDR and the technical standards concerning settlement discipline, published on 13 September 2018, focused on the preparation of documentation for KDPW_CCP and KDPW participants concerning the new system of cash penalties, taking into account the published technical standards on settlement discipline and a supporting document (ECSDA SETTLEMENT FAILS PENALTIES FRAMEWORK). A task force comprised of market participants (Chamber of Brokerage Houses, Council of Custodian Banks, KDPW_CCP and KDPW) discussed settlement discipline under CSDR and developed solutions to be implemented in kdpw_stream. XML messages were developed as necessary to report daily and monthly details of cash penalties under the CSDR settlement discipline requirements (working versions of the messages were published in the KDPW domain on MyStandards).

On 8 May 2020, the European Commission approved amendments to Commission Regulation 2018/1229 published on 13 September 2018 which provides technical standards on settlement discipline, postponing the date of entry into force of those provisions from 14 September 2020 to 1 February 2021. Irrespective of the modifications, ECSDA took steps to postpone further the implementation date of the new regulations due to the COVID-19 pandemic.

On 23 October 2020, the European Commission approved amendments which further postponed the date of entry into force of Commission Regulation 2018/1229 from 1 February 2021 to 1 February 2022.

As a result, the settlement discipline project was split into two stages in co-ordination with KDPW_CCP and KDPW participants. The first step on 17-18 April 2021 (2021 spring implementation window) will implement functionalities supporting settlement discipline: modifications to the tolerance level functionality, modifications to the cancellation of settlement instructions, modifications to the partial settlement functionality, and modifications to the processing of the settlement instruction field 'Place of clearing'. The second step on 1 February 2022 will implement modifications to settlement fail cash penalties, buy-in, and hold-release functionalities.

Details concerning the first phase of alignment were presented in communications distributed to KDPW_CCP and KDPW participants on 29 September 2020 and discussed at a meeting with participants on 29 October 2020. The project and programming work initiated in September 2020 according to the timeline developed necessary modifications to the IT systems.



4. IMPLEMENTATION OF KDPW_CCP'S ACTIVITY PLAN IN 2020

Tests of the functionalities covered by the first phase of the settlement discipline project were carried out with KDPW_CCP and KDPW participants on 18 December 2020. Amendments of the KDPW Rules were drafted, consulted with the Advisory Group/Users Committee, approved by the KDPW Supervisory Board, and tabled to the Polish Financial Supervision Authority for its approval which is pending.

Tests in the second phase of the CSDR settlement discipline project are scheduled in September/October 2021 as necessary to test all planned modifications with KDPW_CCP and KDPW participants and roll out the required modifications on 1 February 2022.

KDPW successfully completed ISO20022 registration of messages used to report buy-ins under CSDR in the CSD (sese.041.001.01- *Buy In Regulatory Advice* and sese.042.001.01 – *Buy In Regulatory Advice Response*).

KDPW was for the first time ever the main proponent responsible for the development of new ISO20022 messages from scratch. The ISO20022 registration involved a complex process of proposing, justifying, documenting, gathering support for, and negotiating with international institutions and organisations, including SWIFT, SMPG, Keler, Euroclear, National Bank of Belgium, VP Securities; ISO20022 Registration Management Group, ISO20022 Registration Authority - quality review, ISO20022 CSDR Evaluation Team, ISO20022 Standards Evaluation Group. The messages will be available in the SWIFT network as of the next Standard Release in November 2021.



4. IMPLEMENTATION OF KDPW_CCP'S ACTIVITY PLAN IN 2020

4.4 Alignment of KDPW_CCP S.A. regulations and procedures with the requirements of recovery and resolution for CCPs and for credit institutions and investment firms (BRRD)

KDPW_CCP continued in 2020 to align its regulations and procedures with the requirements of recovery and resolution for CCPs. As a result, amendments to the rules of transaction clearing came into force on 1 December 2020 and cover among others the use of a surplus in the processing of default of a clearing member of more than one clearing system organised by KDPW_CCP. As part of the project, KDPW_CCP representatives took part in national consultations of the proposal for a Regulation of the European Parliament and of the Council on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012 and (EU) 2015/2365 (CCP RR).

In view of protracted efforts of EU authorities to draft CCP recovery and resolution legislation, which should come into force in early 2021, and given that the majority of the provisions will be effective 18 months after coming into force, the project is expected to be finalised in late 2022.

4. IMPLEMENTATION OF KDPW_CCP'S ACTIVITY PLAN IN 2020

4.5 Extension of KDPW_CCP services available to clearing members via GUI to include financial instrument auctions

KDPW_CCP started to develop a new functionality in 2020 to be made available in the KDPW Group Service Portal (GUI): KDPW_CCP's financial instrument auction service for clearing members. KDPW_CCP defined the framework and functions of the new module which will present offers issued by KDPW_CCP, allow users to accept offers in whole or in part, provide auction results, and allow users to download and view messages generated throughout the process.

As KDPW_CCP operates three guarantee funds, the auction module will be divided into three categories: regulated market, ATS, OTC. A dedicated functionality will process default procedure tests in the test environment for all clearing members as a part of mandatory and optional tests or on request of the participant.

The new solution will allow clearing members to participate in auctions via two procedures: the legacy procedure available in the system by exchanging messages, and via the GUI. Importantly, GUI access will ensure efficient and swift closing of clearing positions of defaulting clearing members as well as efficient testing of clearing member default as required to determine the impact across different business areas. The new functionality is expected to be rolled out in late 2021.



4. IMPLEMENTATION OF KDPW_CCP'S ACTIVITY PLAN IN 2020

4.6 Upgrading the clearing risk management system in connection with the execution of validation orders

A project introducing additional components to the risk management system continued in 2020 in order to further improve KDPW_CCP's standards in compliance with the EMIR requirements and the recommendations of an independent validator issued in the 2019 validation of the risk management system.

The project focused on the development of new programmes, new calculation algorithms, and modifications to user interfaces necessary to calculate new margin components (LCR add-on, WWR add-on), the test programme, and the calculation of risk parameters.

A specification of requirements was defined. Software was produced to calculate liquidity and concentration risk (LCR) add-ons and wrong way risk (WWR) add-ons in the EOD (End Of Day) process.

Its configuration and testing was initiated. The method and scope of downloading WYC/WYCA files, which include spread data necessary to calculate add-ons, were agreed with GPW. The add-on calculation software was implemented in the production system (following verification in the test system) according to the project timeline in late October 2020.

The process is transparent for KDPW_CCP clearing members (the members are not notified of the add-on requirements or required to post add-ons until KNF/ESMA validate the modifications to the margining model and the amendments to the Rules of Transaction Clearing (Organised Trading) come into force).

Software calculating add-ons in the monitoring of transaction limits during trading sessions on the exchange was produced and delivered for testing.

Details of the planned modifications to the margining model involving the introduction of add-ons were distributed to KDPW_CCP participants in September 2020. The scope of modifications was discussed at the annual meeting with KDPW_CCP participants held on 29 October 2020 to present planned modifications to KDPW and KDPW_CCP IT systems in 2021.

Given the identified unequal increase of the burden of margin requirements of clearing members and their clients following the launch of the new add-on calculation solution, in response to proposed suggestions, KDPW_CCP decided to provide an additional system message to participants presenting the parameters used to calculate the new margin requirements as a condition of automation of margin calculations in relation to orders submitted by clients. It was decided in regulatory work that amendments to the Rules of Transaction Clearing concerning the calculation of initial margins will be implemented in a separate process (as a significant change).



4. IMPLEMENTATION OF KDPW_CCP'S ACTIVITY PLAN IN 2020

Importantly, the modified risk management model received a positive assessment of an independent validator in late December 2020. As a result, an application to KNF/ESMA for the modification of the margining model was drafted. The Risk Committee was requested on 29 December 2020 to issue an opinion on the amendments to KDPW_CCP regulations and procedures introducing the calculation of the new margin components.

The request included applications to KNF and ESMA regarding the validation of the modifications to the margining model under Article 49 EMIR (a single procedure will cover applications for the introduction of the new components of margin requirements (organised trading) and modifications to the margining methodology replacing HVaR with Expected Shortfall (OTC)).

The Risk Committee passed a resolution in mid-January 2021. The Committee raised no comments to the proposed modifications but suggested to draft a plan for communicating the modifications to the margining model involving the introduction of add-ons to participants. The application was presented to KNF/ESMA following a meeting of the KDPW_CCP Supervisory Board on 17 February 2021.

The upgraded clearing risk management system will be available to KDPW_CCP participants as of the first day of the quarter following the issuance of the authorisations required in the event of a significant change of the risk model under Article 49 of the amended EMIR (the target date in the project timeline is 1 October 2021).



4. IMPLEMENTATION OF KDPW_CCP'S ACTIVITY PLAN IN 2020

4.7 Alignment of the calculation of hypothetical capital with amendments of EU legislation

A project initiated in September 2020 aims to implement the modified methodology of calculating hypothetical capital required under Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012.

Following an analysis of the Regulation amending the methodology of calculating hypothetical capital and the Basel standards, KDPW_CCP prepared a specification of requirements, including among others the calculation of collateral, the calculation of cash transaction exposures, and the reporting of results.

The major modification of the existing mechanism replaces the market valuation method (CEM) used to determine CCP exposures to derivatives with the standardised approach for counterparty credit risk (SA-CCR) and eliminates the concentration coefficient.

The modifications to the methodology of calculating hypothetical capital will be rolled out within the time limit set in the Regulation, i.e., by 28 June 2021.

4. IMPLEMENTATION OF KDPW_CCP'S ACTIVITY PLAN IN 2020

4.8 Development of the kdpw_stream clearing system for OTC transactions

In 2020, as a part of the development of the kdpw_stream clearing system in areas necessary for comprehensive processing of the clearing and reporting of transaction in non-organised trading, KDPW_CCP continued its efforts to offer FpML message exchange to participants.

Further to the communication of 30 September 2020 regarding modifications to KDPW and KDPW_CCP IT systems planned in 2021, details of the roll-out scheduled in H2 2022 were distributed to KDPW_CCP participants (OTC trading) in late December 2020 along with documentation describing FpML data exchange for OTC derivatives.

The key modification introduces FpML message standards in communications with clearing members replacing legacy native messages including: OTC market notification, OTC market processing instruction, OTC market processing instruction execution status (the FpML message standards are already used by KDPW_CCP and clearing members in OTC clearing including communications with the Markit confirmation platform).

According to the timeline, details of potential further modifications to communications with the OTC derivatives clearing system will be presented to KDPW_CCP participants in Q2 2021 and the test environment will be opened for testing of the exchange of FpML messages with participants' IT systems as of early 2022.

4. IMPLEMENTATION OF KDPW_CCP'S ACTIVITY PLAN IN 2020

4.9 Development of the OTC risk management system

In 2020, as a part of efforts to develop the OTC risk management system, KDPW_CCP completed the specification of requirements concerning the margining method and the valuation of derivatives, repo and sale transactions, including in particular the MtM valuation of transactions in IRS, FRA, OIS.

Programming work was finalised and in-depth testing of the software was carried out, including curves, valuation, and margins. The project defined a preliminary specification of requirements for the calculation of clearing components, collateral limits, fund contributions, back testing, stress testing, sensitivity testing, reporting, and valuation of instruments with a calculator. An internal GUI was developed, including components of the specification of requirements and software for OTC risk, such as curve configuration, valuation, and margins.

According to the project timeline, the specification of requirements will be finalised in 2021, including the calculation of clearing components, the calculation of OTC guarantee funds contributions, test programme calculations, portfolio risk hedging calculations, the processing of clearing member default – auction calculation functions, as well as the development of the internal GUI, the project and programming work, and testing of solutions. The expected completion date of the project is Q3 2022.



5. RELATIONS WITH MARKET PARTICIPANTS

5.1 Relations with the KDPW_CCP Risk Committee

According to Article 28 of EMIR and Article 16 of the KDPW_CCP Statute, the Risk Committee provides opinions and advice to KDPW_CCP on all matters which may impact risk management, including significant changes of the risk model, the clearing member default procedures, the criteria of granting clearing member status, the clearing of new classes of derivatives, outsourcing. The Risk Committee issues opinions on the rules of transaction clearing and the detailed transaction clearing rules.

According to the Rules of the Risk Committee, the Committee is comprised of independent members of the KDPW_CCP Supervisory Board, delegates of representative associations and organisations of clearing members, and delegates of representative associations and organisations of non-members whose transactions are cleared by KDPW_CCP.

Until 28 July 2020, the Risk Committee was comprised of:

- **Norbert Jeziolowicz (Chairperson)** – Independent Member of the KDPW_CCP Supervisory Board,
- **Agnieszka Rostkowska (Deputy Chairperson)** – representative of the Chamber of Brokerage Houses,
- **Renata Wojciechowska** - Independent Member of the KDPW_CCP Supervisory Board,
- **Janusz Łaski** - representative of the Council of Custodian Banks,
- **Bartłomiej Wieczorek** - representative of the Polish Bank Association,
- **Jarosław Dzierżanowski** - representative of the Association of Individual Investors,
- **Maciej Łoziński** - representative of the Chamber of Fund and Asset Management,
- **Małgorzata Rusewicz** - representative of the Chamber of Pension Fund Companies,
- **Paweł Kołkiewicz** - Independent Member of the KDPW_CCP Supervisory Board,
- **Adam Młodkowski** - Independent Member of the KDPW_CCP Supervisory Board – as of 14 January 2020

5. RELATIONS WITH MARKET PARTICIPANTS

Following the expiration of the term of office, on 28 July 2020, the KDPW_CCP Supervisory Board appointed a Risk Committee comprised of:

- **Adam Młodkowski (Chairperson)** - Independent Member of the KDPW_CCP Supervisory Board (resigned as of 8 September 2020),
- **Norbert Jeziolowicz (Deputy Chairperson)** - representative of the Polish Bank Association,
- **Renata Wojciechowska** - Independent Member of the KDPW_CCP Supervisory Board,
- **Paweł Kołkiewicz** - Independent Member of the KDPW_CCP Supervisory Board,
- **Piotr Kozłowski** - representative of the Chamber of Brokerage Houses,
- **Janusz Łaski** - representative of the Council of Custodian Banks,
- **Jarosław Dominiak** - representative of the Association of Individual Investors,
- **Maciej Łoziński** - representative of the Chamber of Fund and Asset Management,
- **Ewa Radkowska-Świętoń** - representative of the Chamber of Pension Fund Companies,
- **Mirosław Panek** – Independent Member of the KDPW_CCP Supervisory Board (as of 9 October 2020).

In 2020, the Risk Committee issued opinions on amendments to the Rules of Transaction Clearing (organised trading), the Rules of Transaction Clearing (non-organised trading), the Detailed Rules of Transaction Clearing (organised trading), the Detailed Rules of the OTC Clearing System, as well as the draft application for validation presented to the Polish Financial Supervision Authority (KNF) and the European Securities and Markets Authority (ESMA).

The Committee issued opinions on amendments to regulations including the KDPW_CCP S.A. Procedure in the event of cancellation or limitation of the authorisation to provide CCP clearing services, the OTC Margining Rules, the Investment Policy, the Procedure of Sourcing and Verifying Market Data, the procedures of the Test Programme (OTC) and the Test Programme (Organised Trading), the procedure for Financial Instrument Valuation Models, the Cash Market SPAN Methodology, etc.

The Committee was requested to assess amendments to the Agreement concerning the operation of the guarantee fund securing the clearing of transactions concluded in the ATS organised by GPW and the ATS organised by BondSpot, and the Agreement concerning cash flows and asset management with the intermediation of KDPW.

The Committee discussed and approved the risk management system validation report (covering models, the model methodology, and the review of parameters) provided by an independent third party, a report of an internal review of the risk management models, methodologies and procedures, and a report on KDPW_CCP's business continuity during the COVID-19 pandemic in Poland.



5. RELATIONS WITH MARKET PARTICIPANTS

5.2 Relations with KDPW_CCP participants

The KDPW Group companies in their operations and development actively consult the member community on an on-going basis on matters concerning their business operations.

In 2020, KDPW_CCP held a number of meetings with departments of financial institutions and other competent departments of banks which are KDPW_CCP's existing and prospective participants.

KDPW_CCP developed relations with financial market participants during regular meetings, including meetings with custodian banks and meetings held to promote specific services and functionalities of KDPW_CCP.

As a follow-up, KDPW_CCP carried out a review in order to identify areas of development of KDPW_CCP's potential services of interest to participants. In particular, the scope of KDPW_CCP's clearing service was defined for transactions of participants of the cash segment of the alternative trading system TBSP, as well as the preparation of KDPW_CCP for the clearing of conditional transactions on TBSP.

A working group appointed together with KDPW with the participation of market representatives (Council of Custodian Banks, Chamber of Brokerage Houses) discussed CSDR settlement discipline and developed systemic solutions.

In connection with the planned modifications to the margining model, including the introduction of add-ons (in accordance with recommendations following a third-party validation of the risk model), KDPW_CCP distributed information materials, held consultations in the form of bilateral meetings, and proposed additional tools necessary to calculate the new add-ons.

Details of the development plans for 2021, the scope of modifications to participants' IT systems expected in 2021, and the 2021 implementation windows were communicated to participants in October 2020. The details were discussed at an annual meeting with KDPW_CCP participants held on 29 October 2020 to present the planned modifications to KDPW and KDPW_CCP IT systems in 2021.

The meeting focused on the priority development projects, including modifications to the margining model involving the introduction of add-ons, the implementation of the new monitoring of transaction limits for clearing members dedicated the ATS, and the preparation of KDPW_CCP for the clearing of conditional transactions in the ATS market segment in organised trading.



6. PROMOTIONAL AND INFORMATION ACTIVITIES

Information, promotional and educational activities in 2020 focused mainly on strengthening the position of KDPW_CCP as the key provider of clearing services for the regulated and OTC markets.

KDPW_CCP was a partner of the WallStreet 2020 conference. A representative of the KDPW_CCP Management Board took part in the debate “Individual investors as a strength of the Polish market. How to use this opportunity?”. Many events and conferences typically attended by KDPW_CCP representatives were cancelled in 2020 due to the pandemic.

KDPW_CCP contributed towards the fight with the consequences of the COVID-19 pandemic in 2020 by offering a donation to the Central Clinical Hospital of the Łódź Medical University.

Services offered by KDPW and KDPW_CCP were presented and advertised in partnership with organisers of conferences, seminars and other market events.

Information about the activity and services of KDPW_CCP was published on the KDPW_CCP website and in the KDPW Group social media channels.



7. DEVELOPMENT PLANS FOR 2021

The KDPW Group Strategy for 2020-2024 defines the Group's vision and strategic goals. The vision of the KDPW Group is: To provide integrated services to financial market participants in the post-trade value chain in various asset classes based on innovative technology. The common vision of the KDPW Group will be pursued according to a number of strategic goals defined for its four distinctive business lines.

As a clearing house for organised trading, KDPW_CCP pursues the following strategic objective: To enhance the competitive edge and complementarity of services provided by KDPW_CCP and to maintain their high quality including the clearing of diverse classes of assets, as well as the following strategic goals:

- Goal 1: To expand the scale of cleared financial instruments and to extend the scope of clearing to new classes of assets.
- Goal 2: To improve the accessibility and competitive edge of KDPW_CCP for Polish and foreign clearing members.
- Goal 3: To prepare KDPW_CCP for the provision of services on European organised markets.

As a clearing house for OTC trading, KDPW_CCP pursues the following strategic objective: To expand the scale of KDPW_CCP OTC derivatives clearing and services combined with effective risk management aiming to mitigate systemic risk, as well as the following strategic goals:

- Goal 1: To implement an IT system in KDPW_CCP, developed in-house by the KDPW Group, for OTC derivatives clearing and services.
- Goal 2: To increase KDPW_CCP's share of OTC derivatives clearing and to diversify revenue by clearing bilateral trade in PLN and EUR on the Polish market.
- Goal 3: To enhance the importance of KDPW_CCP as a provider of PLN and EUR clearing services to foreign entities.

A fourth strategic goal, which is common to all business lines, integrates them all in the development of know-how, competences, and technologies.

- Goal 4: To leverage and strengthen synergies and to maintain high quality of IT infrastructure in the KDPW Group aiming to improve effective operation of the business lines faced with technological challenges while protecting the profile of an infrastructure institution.



7. DEVELOPMENT PLANS FOR 2021

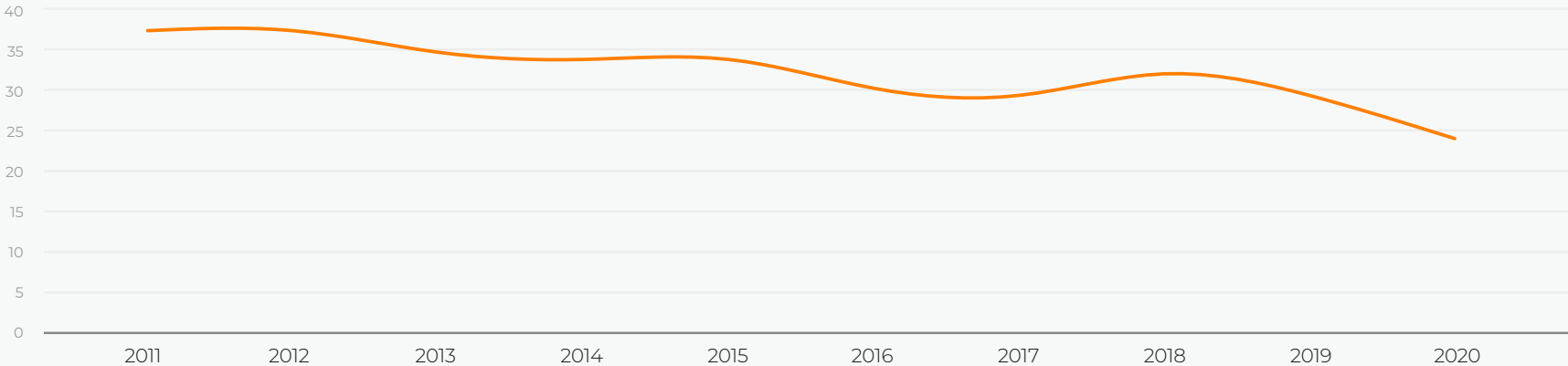
The format and scope of services provided by KDPW_CCP and its organisation and technical infrastructure will continue to develop in 2021 in line with the strategic objectives and goals defined in the KDPW Group's Strategy for 2020-2024 to the extent applicable to KDPW_CCP, including the implementation of projects defined in the KDPW_CCP Action Plan 2021.

The priority projects defined in the Action Plan 2021 include:

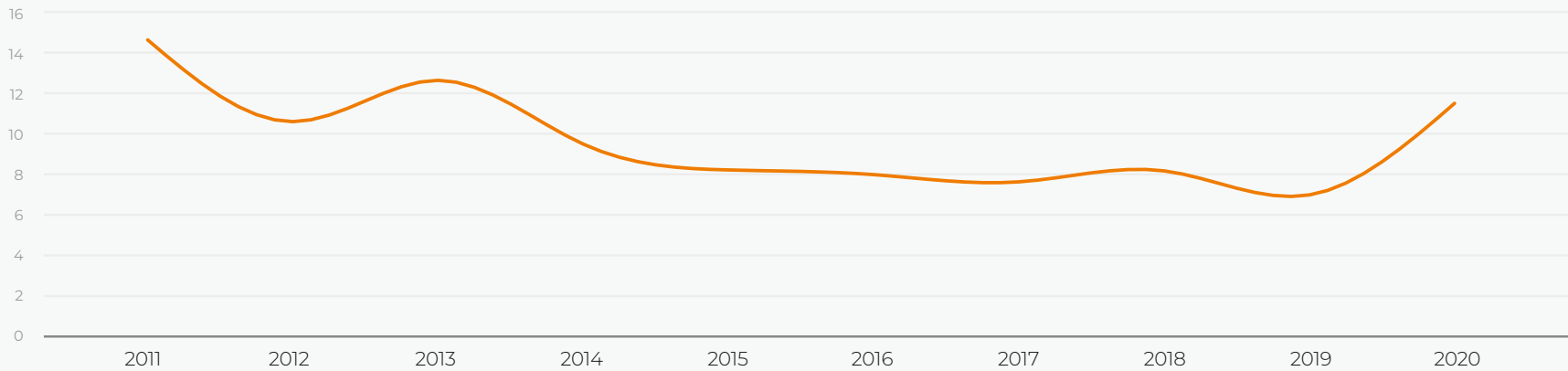
- Preparation of KDPW_CCP for the clearing of conditional transactions in the ATS market segment of organised trading;
- Preparation of KDPW_CCP for compliance with the CSDR settlement discipline requirements;
- Upgrade of the clearing risk management system in connection with the implementation of validation recommendations;
- Development of the OTC clearing system;
- Development of the OTC risk management system.

8. KEY STATISTICS OF KDPW_CCP

Number of KDPW_CCP clearing members (regulated trade)

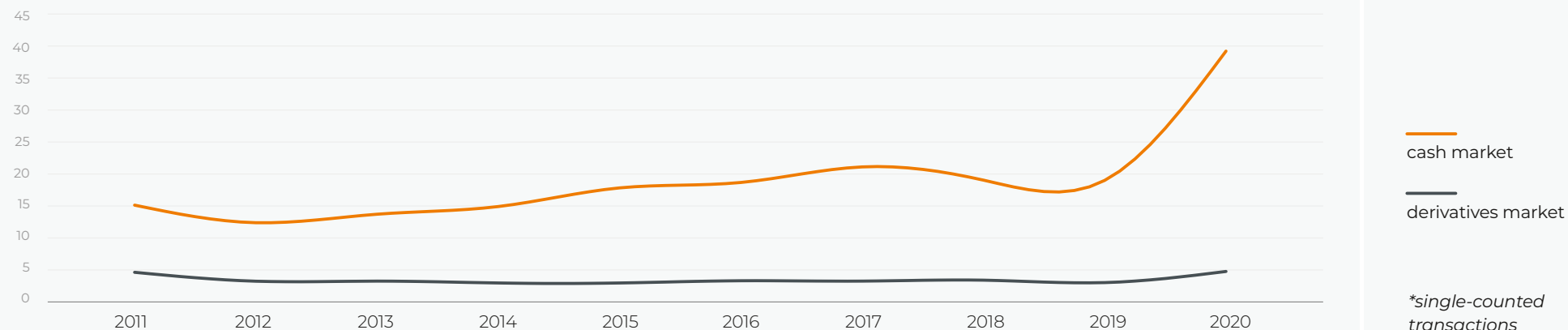


Volume of derivatives cleared on the derivatives market by KDPW_CCP

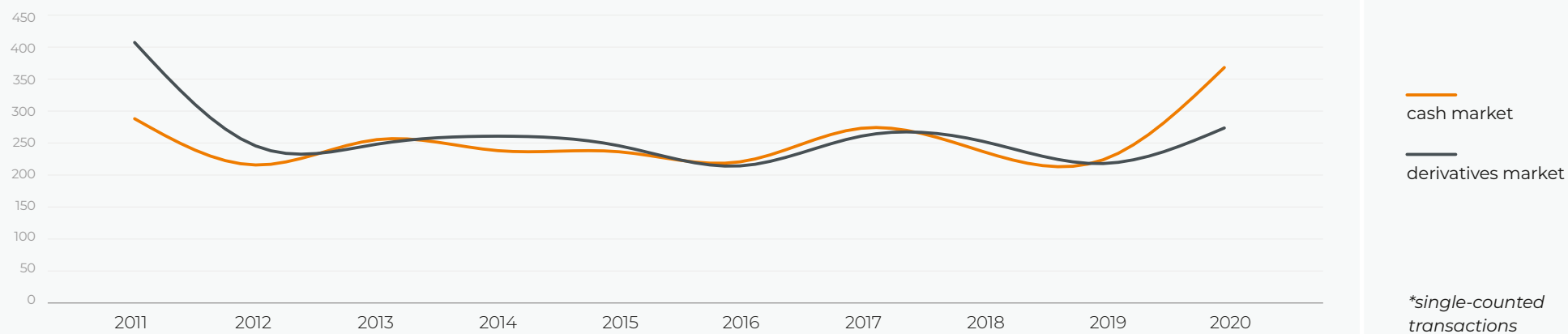


8. KEY STATISTICS OF KDPW_CCP

Number of guaranteed transactions cleared on the secondary market by KDPW_CCP (organised trading)* - mn

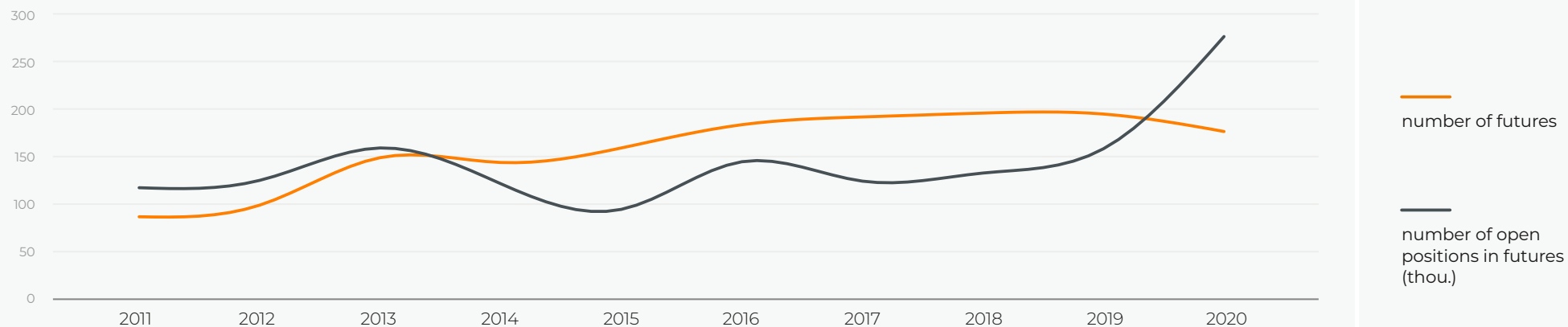


Value of guaranteed transactions cleared on the secondary market by KDPW_CCP (organised trading)* - PLN bn

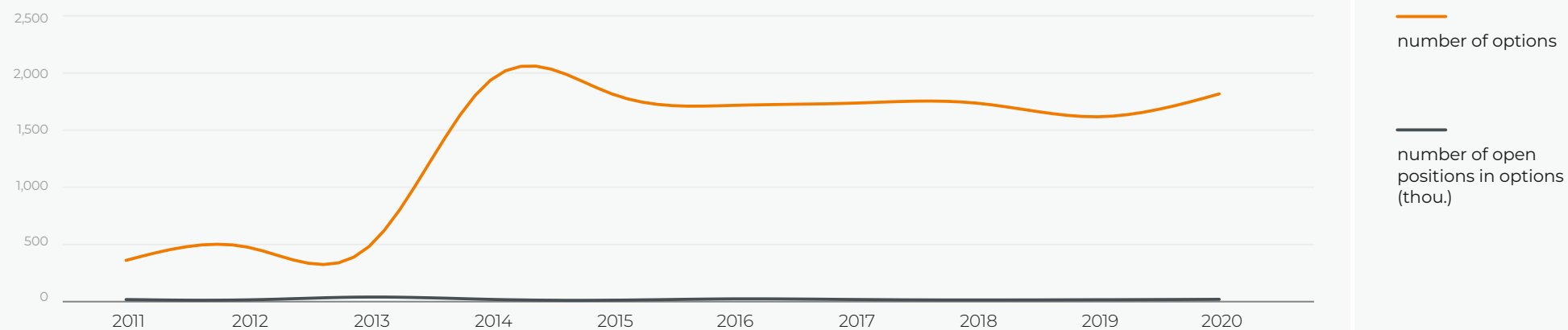


8. KEY STATISTICS OF KDPW_CCP

Number of futures (ISIN codes) and number of open positions in futures (organised trading)

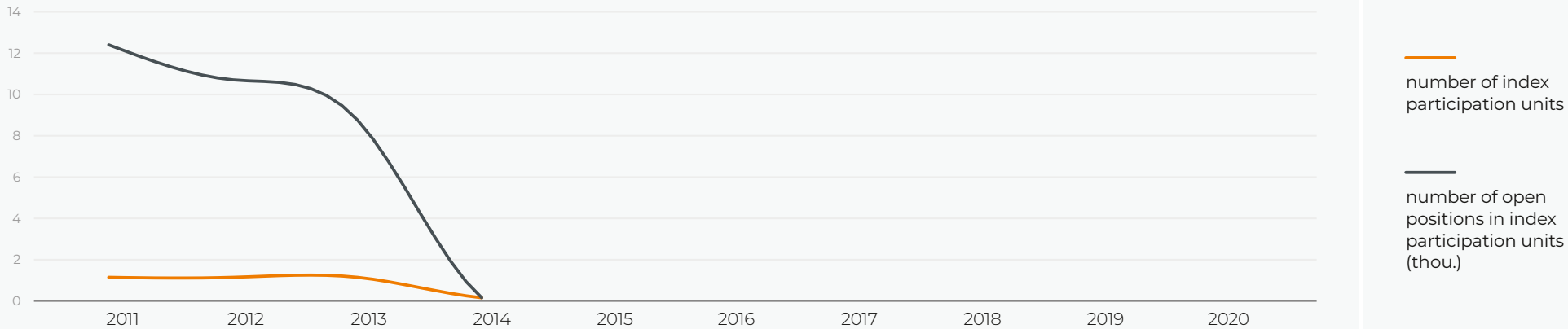


Number of options (ISIN codes) and number of open positions in options (organised trading)

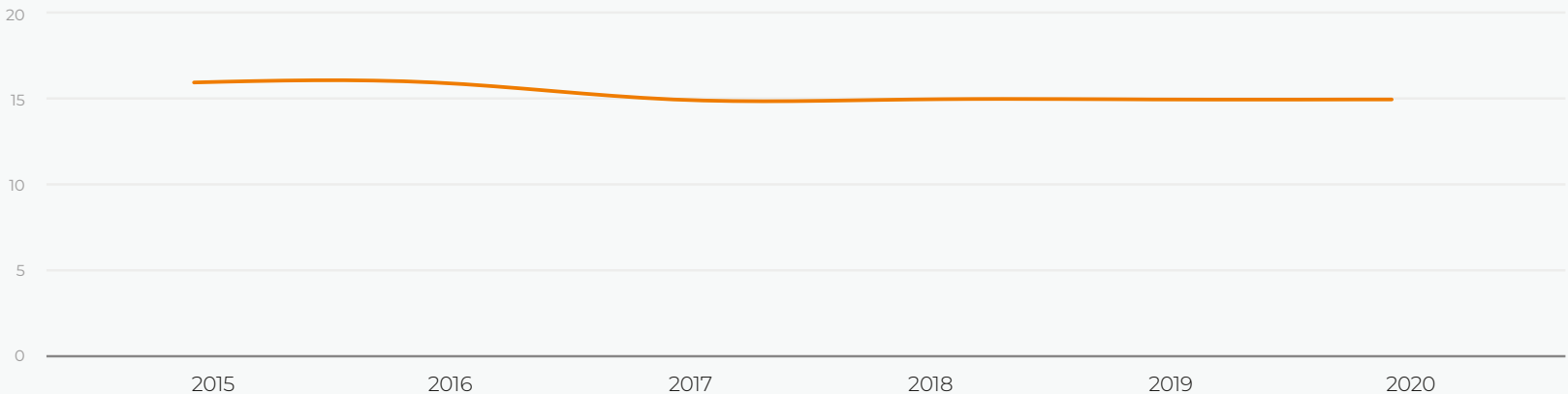


8. KEY STATISTICS OF KDPW_CCP

Number of index participation units (ISIN codes) and number of open positions in index participation units (organised trading)

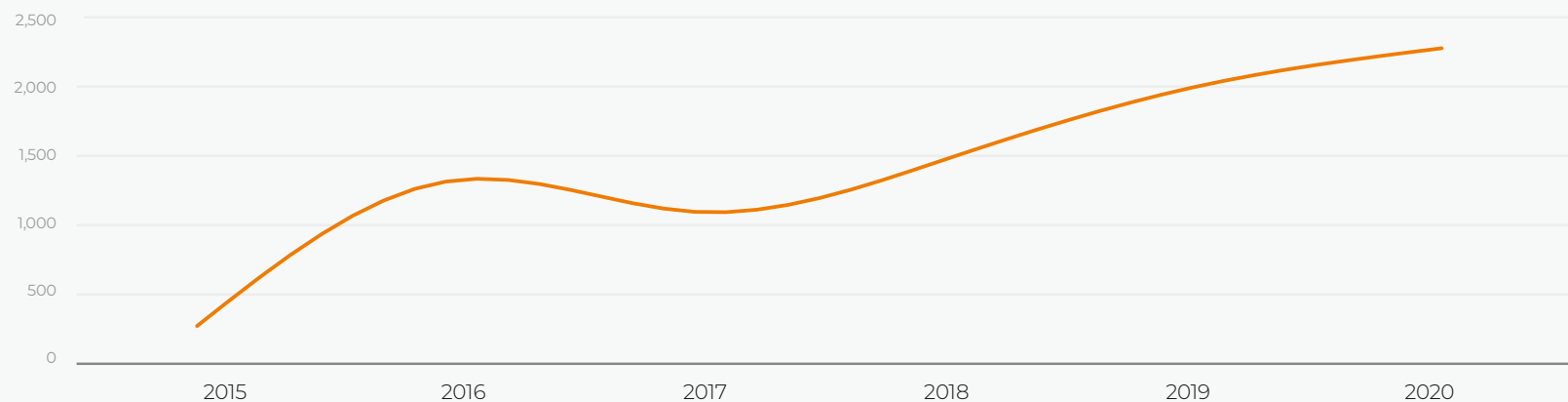


Number of clearing members (OTC trading)

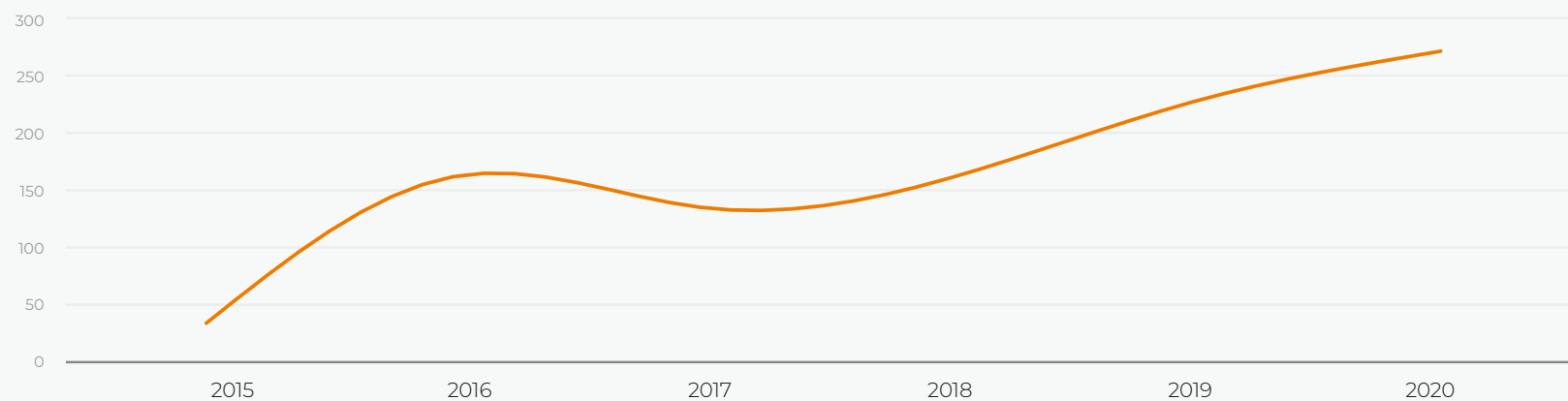


8. KEY STATISTICS OF KDPW_CCP

Number of transactions accepted for clearing (OTC trading - derivatives)



Nominal value of transactions accepted for clearing (OTC trading - derivatives) - PLN mn



9. BALANCE SHEET AS AT 31 DECEMBER 2020

ASSETS	AS AT 31.12.2020	AS AT 31.12.2019
Non-current assets	124,405,472.24	75,714,625.04
Intangible assets	3,434,854.99	5,772,144.13
Other intangible assets	3,434,854.99	5,772,144.13
Property, plant and equipment	142,374.91	21,548.62
property, plant and equipment in use	142,374.91	21,463.75
buildings, premises, civil and water engineering structures	10,829.34	11,589.63
technical equipment and machines	2,255.77	2,811.44
vehicles	123,420.02	0.00
other property, plant and equipment	5,869.78	7,062.68
Property, plant and equipment under construction	0.00	84.87



9. BALANCE SHEET AS AT 31 DECEMBER 2020

ASSETS

AS AT 31.12.2020

AS AT 31.12.2019

Non-current investments

119,854,607.50

68,748,972.50

Non-current financial assets

119,854,607.50

68,748,972.50

in other entities

119,854,607.50

68,748,972.50

- other securities

119,854,607.50

68,748,972.50

Non-current prepayments

973,634.84

1,171,959.79

Deferred tax asset

737,971.16

655,251.74

Other prepayments

235,663.68

516,708.05

Current assets

138,425,118.83

176,972,580.88

Current receivables

77,703,953.46

122,172,375.96

Receivables from other entities

77,703,953.46

122,172,375.96

trade receivables, maturing:

5,714,294.07

4,113,349.96

- up to 12 months

5,714,294.07

4,113,349.96

tax, subsidy, customs, social security, health insurance and other benefits

32,532.73

14,569.92

other

71,957,126.66

118,044,456.08



9. BALANCE SHEET AS AT 31 DECEMBER 2020

ASSETS	AS AT 31.12.2020	AS AT 31.12.2019
Current investments	60,030,424.88	54,081,759.00
current financial assets	60,030,424.88	54,081,759.00
in related parties	0.00	38,706,913.57
- other current financial assets	0.00	38,706,913.57
in other entities	8,350,320.00	15,115,950.00
- other securities	8,350,320.00	15,115,950.00
cash and other monetary assets	51,680,104.88	258,895.43
- cash in hand and at bank	51,680,104.88	258,895.43
Current prepayments	690,740.49	718,445.92
Other assets	2,508,954,926.68	1,714,142,864.90
Total assets	2,771,785,517.75	1,966,830,070.82



9. BALANCE SHEET AS AT 31 DECEMBER 2020

EQUITY AND LIABILITIES

AS AT 31.12.2020

AS AT 31.12.2019

Equity	247,169,490.12	240,041,898.76
Share capital	190,000,000.00	190,000,000.00
Supplementary capital	4,061,074.70	3,789,419.85
Revaluation reserve	2,858,340.60	1,998,254.93
Other reserves	30,747,659.54	27,753,628.80
Reserve capital to cover losses caused by participant default under transactions accepted for clearing by the Company (dedicated resources) including:	13,104,909.59	13,104,909.59
- part of dedicated resources proportionate to the size of the clearing fund	6,991,899.21	3,832,064.59
- part of dedicated resources proportionate to the size of ATS guarantee fund	1,184,788.33	54,784.76
- part of dedicated resources proportionate to the size of OTC guarantee fund	4,928,222.05	9,218,060.24
Previous years' profit (loss)	0.00	0.00
Net profit (loss)	6,397,505.69	3,395,685.59

9. BALANCE SHEET AS AT 31 DECEMBER 2020

EQUITY AND LIABILITIES

AS AT 31.12.2020

AS AT 31.12.2019

Liabilities and provisions for liabilities	15,661,100.95	12,645,307.16
Provisions for liabilities	6,476,276.19	2,891,186.19
Deferred tax liability	936,984.27	748,571.01
Provision for retirement and similar benefits	2,863,911.50	2,096,661.78
- non-current	1,586,450.00	1,323,027.00
- current	1,277,461.50	773,634.78
Other provisions	2,675,380.42	45,953.40
- current	2,675,380.42	45,953.40
Non-current liabilities	1,576,645.82	3,925,023.02
To related parties	1,576,645.82	3,925,023.02
other financial liabilities	1,576,645.82	3,925,023.02



9. BALANCE SHEET AS AT 31 DECEMBER 2020

EQUITY AND LIABILITIES	AS AT 31.12.2020	AS AT 31.12.2019
Current liabilities	7,608,178.94	5,829,097.95
To related parties	5,171,033.39	4,893,385.49
trade liabilities, maturing:	2,822,656.19	2,159,920.84
- up to 12 months	2,822,656.19	2,159,920.84
other financial liabilities	2,348,377.20	2,733,464.65
To other entities	1,909,154.53	482,113.06
trade liabilities, maturing:	194,186.41	180,506.20
- up to 12 months	194,186.41	180,506.20
- up to 12 months	1,707,451.32	299,924.61
tax, customs, insurance and other liabilities	0.00	0.00
other	7,516.80	1,682.25
Special funds	527,991.02	453,599.40
Accruals	0.00	0.00
Other liabilities	2,508,954,926.68	1,714,142,864.90
Total equity and liabilities	2,771,785,517.75	1,714,142,864.90



10. PROFIT AND LOSS ACCOUNT FOR THE PERIOD 01.01.2020 - 31.12.2020

ITEM	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Net revenues from sales and equivalent, including revenues:	42,147,377.50	30,768,622.84
- from related parties	0.00	0.00
Net revenues from sales of products	42,147,377.50	30,768,622.84
Operating expenses	33,162,637.78	30,626,825.01
Amortisation and depreciation	2,395,892.89	2,348,918.58
Consumption of materials and energy	58,545.81	30,379.55
External services	20,525,315.56	19,624,404.25
Taxes and charges	2,152,198.34	1,276,085.73
Payroll	5,858,828.90	5,157,157.74
Social security and other benefits, including:	1,571,031.35	1,479,983.37
- pension benefits	702,140.71	605,354.03
Other costs by type	600,824.93	709,895.79
Profit on sales	8,984,739.72	141,797.83



10. PROFIT AND LOSS ACCOUNT FOR THE PERIOD 01.01.2020 - 31.12.2020

ITEM	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Other operating revenues	45,806.28	275,100.01
Gains on disposal of current non-financial assets	3,439.00	300.00
Other operating revenues	42,367.28	274,800.01
Other operating expenses	302,195.00	9,527.07
Other operating expenses	302,195.00	9,527.07
Operating profit	8,728,351.00	407,370.77
Financial revenues	3,011,439.68	4,740,534.05
Interest, including:	3,011,401.43	4,740,530.71
- from related parties	0.00	0.00
Other	38.25	3.34



10. PROFIT AND LOSS ACCOUNT FOR THE PERIOD 01.01.2020 - 31.12.2020

ITEM	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Financial expenses	429,383.64	397,841.09
Interest, including:	408,369.54	364,158.90
- to related parties	235,581.14	364,132.90
Other	21,014.10	33,682.19
Gross profit	11,310,407.04	4,750,063.73
Income tax	4,912,901.35	1,354,378.14
Net profit	6,397,505.69	3,395,685.59



11. INDEPENDENT AUDITOR'S REPORT



BDO spółka z ograniczoną odpowiedzialnością sp.k.
ul. Postępu 12
02-676 Warszawa
Polska

tel.: +48 22 543 16 00
fax: +48 22 543 16 01
e-mail: office@bdo.pl
www.bdo.pl

*This document is a translation.
The Polish original should be referred to in matters of interpretation.*

Independent Auditor's Report to the General Meeting and Supervisory Board of KDPW_CCP S.A.

Report on the Audit of the Year-end Financial Statements

Opinion

We have audited the year-end financial statements of KDPW_CCP S.A. ("the Company"), which comprise the balance sheet as at 31 December 2020, the profit and loss account, the statement of changes in equity and the statement of cash flows for the period from 1 January to 31 December 2020, as well as additional information and explanations ("the financial statements").

In our opinion, the accompanying financial statements:

- give a true and fair view of the Company's financial position as at 31 December 2020, as well as of its financial result and cash flows for the financial year then ended, in accordance with the applicable provisions of the Accounting Act of 29 September 1994 ("the Accounting Act" - 2021 Journal of Laws, item 217) and the adopted accounting methods (policies);
- are consistent, in content and in form, with the applicable laws and regulations and with the Company's Statute;
- have been prepared on the basis of properly kept books of account in accordance with Chapter 2 of the Accounting Act.

Basis for Opinion

We conducted our audit in accordance with National Standards on Auditing in the wording of International Standards on Auditing adopted by resolution of the National Council of Certified Auditors ("NSA") and in compliance with the Act of 11 May 2017 on Certified Auditors, Audit Firms and on Public Oversight ("the Certified Auditors Act" - 2020 Journal of Laws, item 1415). Our responsibilities under those standards are further described in the *Responsibilities of the Auditor for the Audit of the Financial Statements* section of this report.

BDO spółka z ograniczoną odpowiedzialnością sp.k., Sąd Rejonowy dla m. st. Warszawy, XIII Wydział Gospodarczy, KRS: 0000729684, REGON: 141222257, NIP: 108-000-42-12, Biura BDO w Polsce: Katowice 40-007, ul. Uniwersytecka 13, tel.: +48 32 661 06 00, katowice@bdo.pl; Kraków 31-548, al. Pokoju 1, tel.: +48 12 378 69 00, krakow@bdo.pl; Poznań 60-650, ul. Piłkowska 165, tel.: +48 61 622 57 00, poznan@bdo.pl; Wrocław 53-332, ul. Powstańców Śląskich 7a, tel.: +48 71 734 28 00, wroclaw@bdo.pl

BDO spółka z ograniczoną odpowiedzialnością sp.k. jest członkiem BDO International Limited, brytyjskiej spółki i częścią międzynarodowej sieci BDO, złożonej z niezależnych spółek członkowskich



We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Standards of Independence) of the International Ethics Standards Board for Accountants ("IESBA Code") adopted by resolution of the National Council of Certified Auditors, as well as with other ethical requirements relevant to the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. During the audit, the auditor in charge and the audit firm remained independent of the Company in accordance with the independence requirements laid down in the Certified Auditors Act.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Company's Management and Supervisory Board for the Financial Statements

The Company's Management is responsible for the preparation, based on properly kept books of account, of the financial statements that give a true and fair view of the Company's financial position and financial result in accordance with the provisions of the Accounting Act, the adopted accounting methods (policies), the applicable binding regulations and the Company's Statute. The Company's Management is also responsible for such internal controls as it considers necessary to ensure that the financial statements are free from material misstatements resulting from fraud or error.

In preparing the financial statements the Company's Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, any matters related to going concern and using the going concern basis of accounting, except in situations where the Management intends to either liquidate the Company or discontinue its operations, or has no realistic alternative but to do so.

The Company's Management and members of its Supervisory Board are required to ensure that the financial statements meet the requirements of the Accounting Act.

Members of the Supervisory Board are responsible for overseeing the Company's financial reporting process.

Responsibilities of the Auditor for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with NSA will always detect an existing material misstatement. Misstatements can arise from fraud or error and are considered material if it could be reasonably expected that they, individually or in the aggregate, could influence the economic decisions of users made on the basis of these financial statements.

The scope of the audit does not include an assurance regarding the Company's future profitability, or regarding the Management's effectiveness in the handling of the Company's affairs now or in the future.

11. INDEPENDENT AUDITOR'S REPORT



Throughout an audit in accordance with NSA, we exercise professional judgement and maintain professional skepticism, as well as:

- identify and assess the risks of a material misstatement of the financial statements resulting from fraud or error, design and perform audit procedures in response to such risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, because fraud may involve collusion, forgery, deliberate omission, misrepresentation or override of internal controls;
- obtain an understanding of the internal controls relevant to the audit in order to plan our audit procedures, but not to express an opinion on the effectiveness of the Company's internal controls;
- evaluate the appropriateness of the accounting policies used and the reasonableness of the estimates and related disclosures made by the Company's Management;
- conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We provide the Supervisory Board with information about, among others, the planned scope and timing of the audit and significant audit findings, including any significant weaknesses of internal controls that we identify during our audit.

Other Information, Including Report on Activities

Other information comprises a report on the Company's activities for the financial year ended 31 December 2020 ("Report on Activities").

Responsibilities of the Company's Management and Supervisory Board

The Company's Management is responsible for the preparation of the Report on Activities in accordance with binding regulations.

The Company's Management and members of its Supervisory Board are required to ensure that the Report on Activities meets the requirements of the Accounting Act.



Responsibilities of the Auditor

Our opinion on the financial statements does not cover the Report on Activities. In connection with our audit of the financial statements, our responsibility is to read the Report on Activities and, in doing so, consider whether it is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. If based on the work we have performed, we find a material misstatement of the Report on Activities, we are required to state this fact in our auditor's report. In accordance with the requirements of the Certified Auditors Act, it is also our responsibility to issue an opinion whether the Report on Activities has been prepared in accordance with binding regulations, and whether it is consistent with the information presented in the financial statements.

Opinion on the Report on Activities

Based on the work we have performed during the audit, in our opinion the Report on Activities:

- has been prepared in accordance with Article 49 of the Accounting Act;
- is consistent with the information presented in the financial statements.

Furthermore, based on our knowledge obtained during the audit about the Company and its environment we have identified no material misstatements in the Report on Activities.

The auditor in charge of the audit resulting in this independent auditor's report is Dr. Anna Bernaziuk.

BDO spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Warsaw
entered on the list of audit firms in number 3355

represented by the auditor in charge

Dr. Anna Bernaziuk
Certified Auditor No. 173

Warsaw, 23 March 2021

