

CC mark-up – 29 December 2017

Disclosure Document Relating to Clearing of Securities Transactions

Bank Handlowy w Warszawie S.A.

The information contained in this communication is addressed to clients and prospective clients of Bank Handlowy w Warszawie S.A. where clearing services are provided via KDPW_CCP S.A.

BANK HANDLOWY W WARSZAWIE S.A.

**CLEARING MEMBER DISCLOSURE DOCUMENT RELATING TO CLEARING OF
SECURITIES TRANSACTIONS¹**

Introduction

Throughout this document references to “we”, “our” and “us” are references to the clearing member. References to “you” and “your” are references to the client.

What is the purpose of this document?

To enable us to comply with our obligations as a clearing member under EMIR², which requires that where we are providing services to you that involve us clearing securities transactions through an EU central counterparty (CCP)³, we must:

- offer you a choice of an individual client account or an omnibus client account (as discussed under “*The types of account available*” in Part One B below);
- publicly disclose the levels of protection and costs associated with different levels of segregation; and
- describe the main legal implications of different levels of segregation.

This document also enables us to comply with our obligations as a general clearing member under MiFID II⁴ which requires that we inform our prospective and existing clearing clients of the level of protection and costs associated with the different levels of segregation provided. This information must include a description of the main legal effects of the respective levels of segregation offered, including information on the insolvency law applicable in the relevant jurisdiction.

We have provided the costs associated with the different levels of segregation separately. Details can be found at: http://www.citibank.pl/poland/corporate/polish/files/emir_pricing_disclosure.pdf

Organisation of this document

This document is set out as follows:

- Part One A provides some background to clearing.
- Part One B gives information about the difference between the individual client account and the omnibus client account, explains how this impacts on the clearing of your securities transactions and sets out some of the other factors that might affect the level of protection you receive in respect of assets provided to us as margin.
- Part One C sets out some of the main insolvency considerations.
- Part Two provides an overview of the main variations on the different levels of segregation that the CCPs offer, together with an explanation of the main implications of each, and sets out links to further information provided by the CCPs.

What are you required to do?

You must review the information provided in this document and the relevant CCP disclosures and confirm to us in writing which account type you would like us to maintain with respect to each CCP on which we clear securities transactions for you. We will explain how we would like you to make this confirmation and by when. If you do not confirm within the requested timeframe, we will not be in compliance with our obligations under EMIR, which is not a position we can continue with indefinitely. In the meantime, we will continue to clear your securities transactions using the existing account structure.

Important⁵

Whilst this document will be helpful to you when making this decision, this document does not constitute legal or any other form of advice and must not be relied on as such. This document provides a high level analysis of several complex and/or new areas of law, whose effect will vary depending on the specific facts of any particular case, some of which have not been tested in the courts. It does not provide all the information you may need to make your decision on which account type or level of segregation is suitable for you. It is your responsibility to review and conduct your own due diligence on the relevant rules, legal documentation and any other information provided to you on each of our client account offerings and those of the various CCPs on which we clear securities transactions for you. You may wish to appoint your own professional advisors to assist you with this.

We shall not in any circumstances be liable, whether in contract, tort, breach of statutory duty or otherwise for any losses or damages that may be suffered as a result of using this document. Such losses or damages include (a) any loss of profit or revenue, damage to reputation or loss of any contract or other business opportunity or goodwill and (b) any indirect loss or consequential loss. No responsibility or liability is accepted for any differences of interpretation of legislative provisions and related guidance on which it is based. This paragraph does not extend to an exclusion of liability for, or remedy in respect of, fraudulent misrepresentation or wilful misconduct.

Please note that this disclosure has been prepared on the basis of Polish law save as otherwise stated. However, issues under other laws may be relevant to your due diligence. For example, the law governing the CCP rules or related agreements; the law of the jurisdiction of incorporation of the CCP; and the law of the location of any assets.

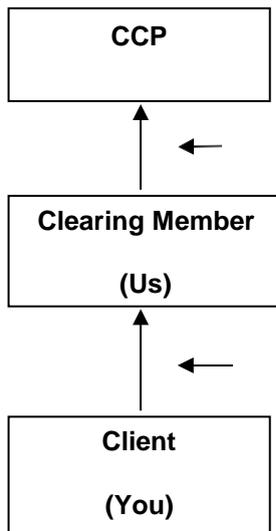
This document is based on our interpretation of the EMIR requirements as at the date stated above. It is possible that further developments in relation to EMIR and also in relation to the account structures offered by the CCPs could change the risks and impacts we have described in this document. Whilst we may choose to update this document from time to time, we will not notify you of any such developments or their impact on the account you have chosen, nor will we specifically notify you of any updates we have made to this document, however the current version of this document will be available on our website.

Part One A: A brief background to clearing

The market distinguishes two main types of clearing models: the “agency” model and the “principal-to-principal” model. Most of the CCPs we use adopt the “principal-to-principal” model, and this document assumes all transactions are cleared according to this model.

The “principal-to-principal” clearing model

When a transaction is accepted for clearing at CCP level, the rights and obligations under such transaction expire and two separate transactions arise by operation of statutory law (clearing novation):



A principal-to-principal transaction with the CCP, where a clearing member becomes entitled or obliged, in accordance with the terms of a transaction accepted to clearing, and the terms of CCP’s rules, toward CCP (the **CCP Transaction**).

A principal-to-principal transaction with a client, where a client become entitled or obliged, in accordance with the terms of a transaction accepted to clearing, and the terms of the client clearing agreement, toward a clearing member (the **Client Transaction**).

The terms of each Client Transaction are equivalent to those of the related CCP Transaction, except that (i) under CCP Transaction we, as a clearing member, become entitled and obliged toward CCP, while under Client Transaction you become entitled and obliged toward us as a clearing member, (ii) our mutual rights and obligations, arising in relation to the performance by us a role of CCP’s clearing member, will also be governed by an Electronic Trading Services Agreement, or an Exchange Traded Services Schedule (both of which supplement a Direct Custodial Services Agreement or an equivalent custody agreement) with local annexes for Polish market, hereafter referred to as ‘client clearing agreement’, between you and us.

As the principal to the CCP, we are required to provide assets to the CCP as margin for the CCP Transactions that relate to you and to ensure the CCP has as much margin as it requires at any time. We will therefore ask you for margin and, where you provide it in a form which we cannot transfer to the CCP, we may transform it. If you have provided us with margin assets, you may face what we call “transit risk” - this is the risk that, if we were to default prior to providing such assets to the CCP, the assets that should have been recorded in your account at the CCP will not have been and will not benefit from the protections described below under “*What happens if we are declared to be in default by a CCP?*”.

However, in many cases you may not actually face transit risk because the CCP often call margin from us early in the morning or during the day so we will often use our own funds to satisfy the margin call and then seek to recover such amount from you. In these cases, it is rather that we are exposed to you for the interim period. The arrangements between you and us relating to how the margin calls will be funded will be set out in the client clearing agreement between you and us.

Please see Part One B for an explanation of how this is relevant to the choice of account types.

What if you want to transfer your Client Transactions to another clearing member?

There may be circumstances where you wish to transfer some or all of your Client Transactions to another clearing member on a business as usual basis (i.e. in the absence of us having been declared in default by a CCP). We are not obliged to facilitate this under EMIR but we may be willing to do so subject to our ability to transfer the CCP Transactions to which they relate and the margin provided to the CCP in connection with them (which will depend on the relevant CCP's rules) and any conditions set out in our client clearing agreement. You will also need to find a clearing member that is willing to accept such Client Transactions and the related CCP Transactions and assets. You should note that if a CCP is unable to facilitate such a transfer, then we will not be able to agree to a request from you to transfer your Client Transactions or any margin provided in respect of them.

It may be easier to transfer Client Transactions and CCP Transactions that are recorded in an Individual Client Account than those recorded in an Omnibus Client Account (both types of account being described in more detail in Part One B) for the same reasons as set out below under "*Will the CCP Transactions and assets relating to you be automatically ported to a back-up clearing member?*"

What happens if we are declared to be in default by a CCP?

If we are declared to be in default by a CCP, EMIR provides for two possibilities with respect to the CCP Transactions and assets related to you:

- the CCP will, at your request, if you are non-clearing member of the CCP, try to transfer (**port**) to another clearing member (a **back-up clearing member**), such CCP Transactions and assets; or, if this cannot be achieved,
- the CCP may take all steps permitted by its rules to actively manage its risks in relation to those position, including liquidating the assets and positions held by us as the defaulting clearing member (see "*What happens if porting is not achieved*" below).

CCP may support this structure legally by requiring us to grant a security interest to you over some or all of our related rights against the CCP (the **security interest**) or in other cases where CCPs can rely on EMIR and local legislation, this is not necessary.

However, even though the CCP will have included a porting process in its rules (as this is an EMIR requirement), you should note that it is unlikely that, in practice, a CCP will be able to port the CCP Transactions which relate to the securities transactions between you and us. This is because various operational difficulties relating to the settlement of securities transactions (including the short settlement cycle normally associated with such transactions) may arise as a result of an attempted porting process (the relevant CCP disclosure document may provide further details on this). As such, in the event of our default, it is more likely that the CCP will take other steps permitted by its rules to actively manage its risks.

Alternatively, if at the point of our default there are CCP Transactions which are securities transactions pending settlement, the CCP may allow those securities transactions to settle (if this is possible). We would not expect any CCP Transactions which proceed to settlement to be ported.

Will the CCP Transactions and assets relating to you be automatically ported to a back-up clearing member?

No, as set out above, we expect that porting will not occur in relation to securities transactions. We expect that such securities transactions will either be settled or CCP will take other steps permitted by its rules to actively manage its risks if settlement does not take place, regardless of what type of client account you select.

Even where the CCP is able to facilitate porting in respect of securities transactions, there will be a number of conditions which must be satisfied before the CCP Transactions and assets that relate to you can be ported to a back-up clearing member. These conditions will be set by the CCP and will include obtaining your consent. In all cases you, as a non-clearing member of the CCP, will need to have a back-up clearing member that has agreed to accept the CCP Transactions. You may wish to appoint a back-up clearing member upfront as part of your clearing arrangements but the back-up clearing member is unlikely to be able to confirm that it is willing to accept the CCP Transactions until the default occurs, and even if you have appointed a back-up clearing member the CCP may still not be able to facilitate porting in the event of our default. The back-up clearing member may also have conditions that they require you to meet. You may also be able to agree with the CCP that it may choose a back-up clearing member on your behalf. If you have not appointed a back-up clearing member prior to our default, or agreed with the CCP that it may appoint one on your behalf, then this may mean that porting is less likely to occur.

If porting is achieved, the transfer of your Client Transactions (along with a margin or any excess margin at a defaulting clearing member's level) may require multilateral agreements between the CCP, defaulting clearing member, non-defaulting clearing member and you, however it should be noted that there is no clarity under Polish law as to the formal requirements that must be fulfilled to enable such transfer of the Client Transaction.

The type of account and level of segregation you choose will have an impact on the ability to port CCP Transactions and assets to a back-up clearing member upon our default.

If you choose an Omnibus Client Account (described in more detail in Part One B), in most cases, all of our clients who have CCP Transactions and assets relating to them recorded in the same Omnibus Client Account will have to agree to use the same back-up clearing member, and the back-up clearing member will have to agree to accept all of the CCP Transactions and assets recorded in that Omnibus Client Account. It is therefore likely to be difficult to achieve porting in relation to an Omnibus Client Account.

It should be easier to achieve porting if you choose an Individual Client Account (described in more detail in Part One B), because you can appoint a back-up clearing member with respect to just your CCP Transactions and the related assets.

What happens if porting is not achieved?

CCP is permitted to specify a period of time after which, if it has not been able to achieve porting, it will be permitted to actively manage its risks in relation to the CCP Transactions. If you want to port your CCP Transactions, you will need to notify the CCP and show that you can satisfy the other conditions within this period.

Otherwise, the CCP will likely terminate any outstanding CCP Transactions or accelerate execution of all obligations and calculate the net sum owing between us and the CCP in respect of them in accordance with the CCP rules. If there is an amount owed by the CCP in respect of the CCP Transactions, to the extent that the CCP knows your identity and how much of that amount relates to you, the CCP may pay such amount directly to you. If the CCP does not know your identity and/or does not know how much of the amount relates to you, the CCP will pay it to us (or our insolvency practitioner) for the account of our clients.

It is more likely that a CCP will be able to pay any such amount directly to you if you select an Individual Client Account (described in more detail in Part One B). This is because your identity will typically be disclosed to the CCP in this case.

If the CCP terminates the CCP Transactions, then the Client Transactions between us are also likely to terminate. The termination calculations in respect of those Client Transactions will be performed in accordance with the client clearing agreement between us and such calculations will likely mirror those performed by the CCP in respect of the CCP Transactions. If you are due a payment from us as a result of the termination calculations in respect of our Client Transactions, the amount due from us to you will be reduced by any amount that you receive (or are deemed to receive) directly from the CCP. As discussed above, it may be the case that the CCP allows some of the CCP Transactions to settle instead of terminating them. In such case, we would not expect those CCP Transactions and the related Client Transactions to be included in any termination calculations.

Please see Part One C for a consideration of the main insolvency considerations.

Part One B: Your choice of account type and the factors to consider

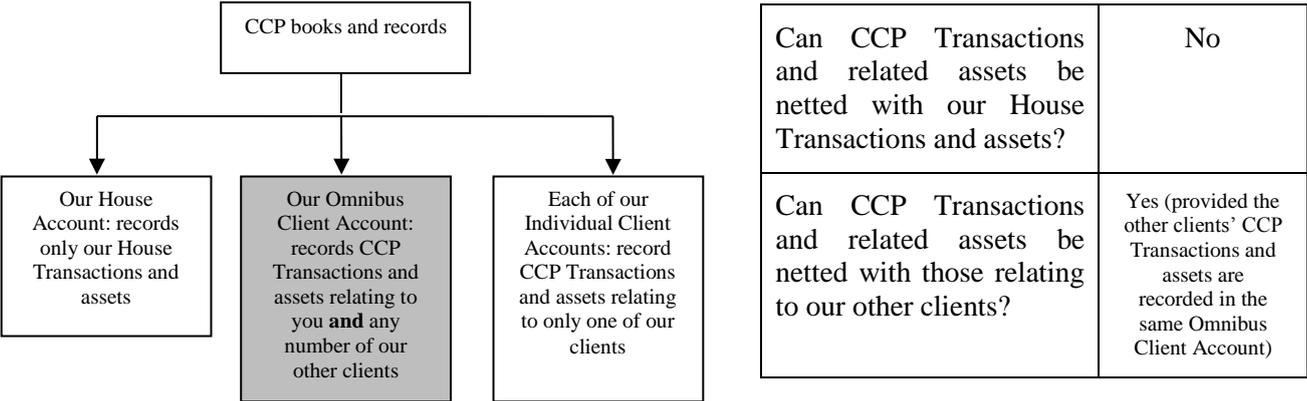
The types of account available

Reference to accounts means the accounts in the books and records of CCP. The CCP uses these accounts to record the CCP Transactions that we enter into in connection with the clearing of your related Client Transactions and the assets that we provide to the CCP in respect of such CCP Transactions.⁶

There are two basic types of client account available – Omnibus Client Accounts and Individual Client Accounts. CCP then offers different levels of segregation within those as described in Part Two of this document.

Omnibus Client Account⁷

Under this account type, the CCP Transactions and assets that relate to them in the CCP’s accounts are segregated from any CCP Transactions we have cleared for our own account (our **House Transactions**) and any assets we have provided as margin for those House Transactions at the CCP. However, the CCP Transactions and assets that relate to you will be commingled with the CCP Transactions and assets relating to any of our other clients that are recorded in the same Omnibus Client Account.



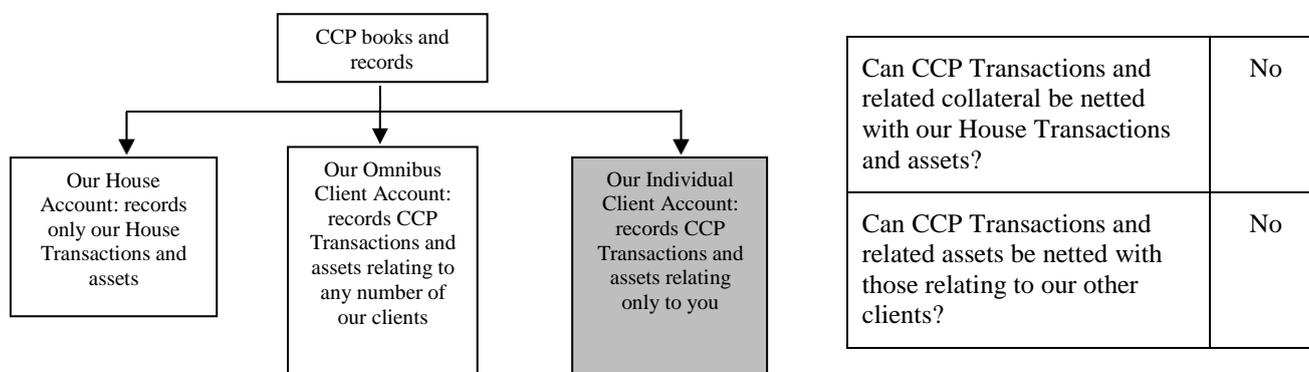
The CCP will agree not to net the CCP Transactions relating to you with our House Transactions or any CCP Transactions not recorded in the same Omnibus Client Account, nor use the assets relating to such CCP Transactions with respect to any House Transaction or CCP Transaction recorded in any other account.

However, both we and the CCP may net the CCP Transactions that are recorded in the same Omnibus Client Account. The assets provided in relation to the CCP Transaction recorded in the same Omnibus Client Account can be used in relation to any CCP Transaction (whether it relates to you or to any of our other clients) credited to that Omnibus Client Account.

Please see Part Two for an overview of the risks you may face if you choose an Omnibus Client Account and for details of the different levels of segregation that may be available.

Individual Client Account⁸

Under this account type, the CCP Transactions and assets that relate to you in the CCP's accounts are segregated from those relating to our House Transactions and to the CCP Transactions and assets that relate to any of our other clients.



The CCP will agree not to net the CCP Transactions relating to you with our House Transactions, nor use the assets relating to such CCP Transactions in relation to our House Transactions.

Further, and in contrast to an Omnibus Client Account, the CCP will agree not to net the CCP Transactions relating to you that are recorded to an Individual Client Account with those of any other client recorded to *any* other account, nor use the assets related to such CCP Transactions in relation to the CCP Transactions relating to any of our other clients.

Please see Part Two for an overview of the risks you may face if you choose an Individual Client Account and additional features of Individual Client Accounts that may be available at CCP.

Affiliates

If we are offering services to our affiliates, we treat them in the same way as clients when complying with EMIR. This means that affiliates also have a choice between types of account. An affiliate may be part of the same Omnibus Client Account as other clients.

Other factors that may impact on the level of protection you receive in respect of assets that you provide to us as margin for Client Transactions

There are a number of factors that, together, determine the level of protection you will receive in respect of assets that you provide to us as margin for Client Transactions:

- whether you choose an Omnibus Client Account or an Individual Client Account (as discussed under "*The types of account available*" above);
- whether, if you choose an Omnibus Client Account, you would want a gross or net account
- in each case, whether such assets are transferred by way of title transfer or security interest;
- whether we call any excess margin from you or you pay excess margin to us;
- whether you will get back the same type of asset as you provided as margin; and

- the bankruptcy and other laws that govern us and the CCP.

The rest of Part One B sets out further details for each of these variables and their implications under Polish Law.

Would you prefer a gross or net Omnibus Client Account?

While the CCP is only required to offer one type of Omnibus Client Account (and one type of Individual Client Account), it has developed a range of accounts within these two types with features that provide different degrees of segregation. These are discussed in more detail in Part Two. There are two main levels of segregation within Omnibus Client Accounts:

- Net is where the margin called by the CCP in respect of the CCP Transactions is called on the basis of the net CCP Transactions recorded in the Omnibus Client Account.
- Gross is where the margin called by the CCP Transactions is called on the basis of the gross CCP Transactions recorded in the Omnibus Client Account.

It may be easier to port CCP Transactions and their related assets, both in business as usual and default circumstances, if you choose a gross Omnibus Client Account than if you choose a net Omnibus Client Account. This is because the CCP is more likely to have sufficient assets to facilitate the porting of the CCP Transactions that relate to you and those that relate to another client separately if it has called the margin on a gross basis. That said, different CCPs' accounts have been designed in different ways and so you should consider the CCP's information about the specific accounts to understand the exact differences. Please see Part Two for more details on this.

Will you provide cash or non-cash assets as margin for the Client Transactions?

As noted under "*The "principal-to-principal" clearing model*" in Part One A, as a clearing member of the CCP, we are required to transfer assets to the CCP in respect of the CCP Transactions related to your Client Transactions. CCPs only accept certain types of liquid cash and non-cash assets as margin.

As is market practice, we will decide what types of assets to accept from you as margin for your Client Transactions. This will be set out in the client clearing agreement between us. What we will accept from you as margin for the Client Transactions will not necessarily be the same type of assets that we will provide to the CCP, in which case we may provide you with a collateral transformation service under which we transform the assets you provide to those which we can pass onto the CCP.

On what basis do you provide margin to us?

General

As is market practice, we will decide the basis on which we are willing to accept assets from you as margin. This will be set out in the client clearing agreement between us. Two introductory points to bear in mind are:

- Whilst the way in which you provide margin to us may impact the level of protection that you receive in respect of those assets, it should not directly influence your choice of Individual Client Account or Omnibus Client Account.
- If you were to provide securities to meet your margin obligations to us, the ways in which you do so are the same as those already available in your existing relationship with us. These options do not materially change because we offer you clearing services or because of EMIR requirements.

Cash Margin

Where the client clearing agreement provides for the transfer of assets by way of title transfer, when you transfer assets (**Transferred Assets**) to us, we become the *full owner* of such assets and you lose all rights in such assets. We will record in our books and records that we have received such Transferred Assets from you with respect to the applicable Client Transaction. We will be obliged to deliver to you equivalent assets to such Transferred Assets (**Equivalent Assets**) in the circumstances set out in the client clearing agreement.

We may either transfer such Transferred Assets on to the CCP with respect to the CCP Transaction related to the Client Transaction, or we may transfer other assets to the CCP with respect to such CCP Transaction.

You bear our credit risk with respect to our obligation to deliver Equivalent Assets to you. This means that if we were to fail, unless we are declared to be in default by the CCP, you will have no right of recourse to the CCP or to any assets that we transfer to the CCP and you will instead have a claim against our estate for a return of the assets along with all our other general creditors. Even if we are declared to be in default by the CCP, the extent of your rights in relation to the CCP, if any, will depend on the CCP.

Securities Margin

Bank Handlowy does not currently accept securities as margin collateral.

Security Interest

Where you give us a security interest under the client clearing agreement, you give us security over:

- If cash – your right to receive back equivalent cash (amount and currency) from us;
- If securities, the rights that you have against a Bank Handlowy custodian in respect of those securities and (if sufficiently segregated) your rights to the securities themselves.

In the ordinary course, those rights still belong to you even though you give us a security interest over them. However, we may enforce the security interest if you default in your obligations to us.

Depending on the exact terms of our client clearing agreement, we may either sell the assets; take the assets; and/or reduce the amount of cash that we owe back to you to satisfy the amounts that you owe to us.

The client clearing agreement may also give us a right to use such assets even before your default (e.g. to post margin with the CCP). Once we exercise that right of use, you cease to have any rights in the assets and will bear credit risk on us returning Equivalent Assets. The circumstances and purpose of any right of use will be set out in our client clearing agreement.

Is the cash you transfer to us treated as client money?

This question is different from the question of what level of segregation you want. We do not hold your cash transferred to us as trustee or as client money. Cash transferred to us as margin will be held by way of title transfer as described in Part One B: Cash Margin. Any other cash which is not provided as margin and which is held by Bank Handlowy for you in an account will be held as banker and not as trustee. This means that we will only have a contractual obligation to repay that cash deposit to you. If we were to become insolvent, you would rank as an unsecured creditor in respect of your cash held by us.

How will any excess margin we call from you be treated?⁹

We are required to treat excess margin in a particular way in relation to an Individual Client Account. Excess margin is any amount of assets we require from you or you provide to us in respect of a Client Transaction that is over and above the amount of assets the CCP requires from us in respect of the related CCP Transaction.

If you choose an Individual Client Account we are required to pass all excess margin on to a CCP. If we clear your Client Transactions through an Individual Client Account at more than one CCP, we may need to agree on the allocation of any excess margin between those CCPs. If you provide us with assets which are not related to your individually segregated clearing activities at a particular CCP and such assets are not dedicated to cover your current positions with that CCP, then we do not need to post such assets on to that CCP. The details of this will be set out in the client clearing agreement between you and us.

Also, if the excess margin you provide to us is not in the form of assets which are eligible to be posted to the CCP (in accordance with the CCP's rules), unless we agree otherwise, we have no obligation to transform such assets into assets that would be eligible to be posted to the CCP. If you provide us with collateral in the form of a bank guarantee in our favour, we are not required to post on to the CCP an amount of assets equal to the value of the portion of the bank guarantee which exceeds the amount of margin we have called from you in respect of the relevant Client Transaction(s).

If you choose an Omnibus Client Account, we are not required to pass any excess margin on to the CCP. Depending on the terms on which we hold excess margin, you may take credit risk on us in respect of it.

Will you get back the same type of asset as you originally provided to us as margin for a Client Transaction?

In a business as usual situation, whether we will deliver the same type of asset to you that you originally provided to us will be governed by the client clearing agreement between us.

In the event of our default, if you are due a payment, you may not receive back the same type of asset that you originally provided to us. This is because the CCP is likely to have wide discretion to liquidate and value assets and make payments in various forms, and also because the CCP may not know what form of asset you originally provided to us as margin for the Client Transaction and as a result of any asset transformation services we may provide. This risk is present regardless of what type of client account you select.

Please see Part One C for a consideration of the main insolvency considerations.

Part One C: What are the main insolvency considerations?

General insolvency risks

If we enter into insolvency proceedings, you may not receive all of your assets back or retain the benefit of your positions and there are likely to be time delays and costs (e.g. funding costs and legal fees) connected with recovering those assets. These risks arise in relation to both Individual Client Accounts and Omnibus Client Accounts because:

- except for CCP-specific porting solutions described earlier and the comments below under “*Margin rights*”, you will not have any rights directly against the CCP; and you will only have contractual claims against us (i.e. rather than being able to recover particular assets as owner);
- our insolvency proceedings are most likely to be restructuring proceedings or bankruptcy proceedings (although it is possible for us to enter into liquidation proceedings). In such proceedings, subject to several exceptions, we will not be able to perform our obligations to you and your claims against us will be satisfied pursuant to the terms of the proceedings (which can be a time-consuming process with an uncertain outcome); and
- any stage of a cleared transaction (e.g. Client Transactions, CCP Transactions and porting) may be challenged by our insolvency official if, broadly speaking, it was not on arm's length terms. If successful, the court has broad powers to unwind or vary all of those stages.

Please also note that:

- insolvency law may override the terms of contractual agreements, so you should consider the legal framework as well as the terms of disclosures and legal agreements;
- a large part of your protection comes from CCP arrangements and the legal regimes surrounding them. Therefore, you should understand these in order to evaluate the level of protection that you have on our default. It is important that you review the relevant disclosures by the CCP in this respect.

Insolvency of CCPs and others

Except as set out in this section “*Insolvency of CCPs and others*”, this disclosure deals only with our insolvency. You may also not receive all of your assets back or retain the benefit of your positions if other parties in the clearing structure default – e.g. the CCP itself. In addition, please note the following:

- we expect that an insolvency official will be appointed to manage the CCP. Our rights against the CCP will depend on the relevant insolvency law and/or that official;
- it will be difficult or impossible to port CCP Transactions and related margin, so it would be reasonable to expect that they will be terminated at CCP level. The steps, timing, level of control and risks relating to that process will depend on the CCP rules and the relevant insolvency law. However, it is likely that there will be material delay and uncertainty around when and how much assets or cash we will receive back from the CCP. Subject to the bullet points below, it is likely that we will only receive back a percentage of assets available depending on the overall assets and liabilities of the CCP;
- it is unlikely that you will have a direct claim against the CCP because of the principal-to-principal model described in Part One A;
- if the CCP Transactions are terminated due to the CCP insolvency, then the Client Transactions between us are also likely to terminate under the client clearing agreement. This will result in a net sum owing between you and us. However, your claims against us are limited recourse so that you will only receive amounts from us in relation to Client Transactions if we receive equivalent amounts from the CCP in relation to relevant CCP Transactions;
- if recovery of margin in this scenario is important, then you should explore “bankruptcy remote” or “physical segregation” structures offered by some CCPs. These tend to be offered only in relation to Individual Client Accounts and generally involve either:
 - you or us retaining assets in your/our name and only giving a security interest over that margin to the CCP (i.e. it allows the CCP to apply margin if we default but should keep the assets out of the CCP's insolvency if it defaults); or
 - the CCP holding the assets in a blocked or controlled margin account and giving a security interest (or similar legal right) over the margin back to us, to you and/or to a trustee on our behalf.

It is beyond the scope of this disclosure to analyse such options but your due diligence on them should include analysis of matters such as whether other creditors of the type described in “*Porting – preferential creditors*” below will have priority claims to margin; whether margin or positions on one account could be applied against margin or positions on another account (notwithstanding the contractual agreement in the CCP’s rules); the likely time needed to recover margin; whether the margin will be recovered as assets or cash equivalent; and any likely challenges to the legal effectiveness of the structure (especially as a result of the CCP’s insolvency).

Margin rights

Your rights on our insolvency will depend on the type of asset provided as margin:

- Cash – you will be an unsecured creditor in relation to any unused cash that you transferred to us in relation to the client clearing agreement.

The actual result in either case will be highly fact specific and will depend on, amongst other things, the exact terms of our legal arrangements; how we have operated accounts; and claims that other intermediaries (e.g. custodians; sub-custodians and settlement systems) have to those assets.

However, for EMIR purposes, we do not expect the above analysis to change materially if you have an Individual Client Account or an Omnibus Client Account.

Our default

If we, as a member of a payment system and/or a securities settlement system in the meaning of the Polish Settlement Finality Act¹⁰, are declared bankrupt, under Article 80 of the Polish Bankruptcy Law¹¹ this will not preclude the right to use money and financial instruments kept and registered in our clearing account not encumbered with a right in rem for the benefit of third persons, and financial instruments registered in our clearing account as security for a loan granted under the payment system or securities settlement system, if that loan may be made available under the existing loan agreement, in order to pay our debts arising from settlement orders registered in the system at the latest on the system's business day commencing on the day bankruptcy is declared. Pursuant to Article 66 of the Polish Bankruptcy Law, if we are declared bankrupt, our bankruptcy estate will not include the assets referred to above or any other assets as may be necessary to perform our obligations as a member of the system incurred before the declaration of bankruptcy. The assets that remain after the performance of our obligations as a member of the system will form part of our bankruptcy estate. Under Article 67 of the Polish Bankruptcy Law, subject to certain exceptions, the collateral provided by us for the benefit of the system will not be part of our bankruptcy estate, either.

Pursuant to Article 136 of the Polish Bankruptcy Law, if we are declared bankrupt, the legal effect of entering a settlement order in the system and the results of netting are indisputable and binding on third parties if the order was entered in the system before the declaration of bankruptcy. If the settlement order is entered in the system after the declaration of bankruptcy and is executed on a business day of the system beginning on the date bankruptcy is declared, under Article 137 the legal effect of entering that order in such system is indisputable and binding on third parties only if the entity managing the system proves that at the time when, in accordance with the rules of the functioning of the system, the order became irrevocable, the entity was unaware or could not have been aware of that bankruptcy had been declared.

The rules described above apply accordingly if a decision is made with regard to liquidating, suspending or limiting our activity or if other legal action is taken against us resulting in the suspension or limitation of the performance of the transfer orders in the system.

With respect to the system governed by Polish law, based on Article 45e of the Polish Act on Trading in Financial Instruments¹², instigation of a bankruptcy proceedings, recovery proceedings (including suspension of our activity) or any other proceedings against us, or opening of our liquidation, which would result in a limitation or cessation of the performance by us of our obligations or in a limitation of our ability to freely dispose by us of our assets will have no legal effects on the assets on our depositary account, omnibus account, securities account, cash account or bank account that are necessary to clear transactions to the extent in which the assets are dedicated to carry out the settlement of transactions in the settlement entity, even if such proceedings or liquidation were instigated before carrying out the settlement of transactions. The above-mentioned proceedings or liquidation have no legal effect also with respect to the beneficiary of the collateral with respect to the collateral established by us for the benefit of other clearing member or the clearing entity on the terms set out in the rules of the clearing entity. Pursuant to Article 67 of the Polish Act on Trading in Financial Instruments, those rules apply accordingly to the assets of the default fund (the assets are the joint property of the clearing members).

To the extent the CCP can port the CCP Transactions and collateral to a back-up clearing member under the CCP rules in the event of insolvency proceedings being opened against us, the effectiveness of the porting will be determined by the law governing the CCP. If the CCP is governed by Polish law,

there is no clarity as to whether porting under the CCP rules will be effective if we are declared bankrupt and this would require that detailed legal analysis be conducted by your professional advisers.

Termination netting

If we default and the CCP cannot port the CCP Transactions and collateral then we would expect it to terminate and net our outstanding CCP Transactions and apply related assets.

You and we would want this to work differently from normal bilateral termination netting that would apply to all positions and assets between us and the CCP – e.g. EMIR requires that assets on an Individual Client Account relating to you should not be netted with our house or another client account at the CCP (which would be the case in a normal bilateral termination netting scenario).

Please also note more generally that your freedom to terminate Client Transactions may be more limited under the client clearing agreement than in other arrangements that you may be used to. For example, under our client clearing agreement termination may only be possible if the CCP has declared us to be in default under the CCP's rules, this would be in order to match the treatment of CCP Transactions and Client Transactions as much as possible. However, this may mean that – unless the CCP declares a default under its rules - you cannot terminate Client Transactions for common reasons such as a payment default on our part.

Porting - prohibition

As mentioned above, a CCP only owes us (not you) obligations in relation to CCP Transactions and related assets.

As a result, when these contracts and assets are transferred to a back-up clearing member, there is a risk of insolvency challenge because our rights have effectively been taken from us on or around the time of our insolvency. Applicable laws may not permit this and there is a risk that the courts may therefore not permit, or may unwind, any porting and related Client Transactions with your back-up clearing member.

Porting - preferential creditors

As mentioned under “*What happens if we are declared to be in default by a CCP?*” in Part One A, a CCP’s porting structure may be based on or supported by a security interest. This can take different forms but generally involves us creating security over our rights against the CCP in relation to an Individual Client Account or Omnibus Client account in your favour or in favour of another person (e.g. an independent trustee) to hold the security on your behalf. Broadly speaking, the security interest should support the argument that these assets are not part of our insolvency estate (i.e. are not to be shared with our other creditors).

However, depending on the exact structure, insolvency law gives certain statutory creditors priority over secured creditors. This means that some creditors may have a claim on client account assets ahead of you. Statutory creditors are likely to include, amongst others, our insolvency official (e.g. in respect of its costs and expenses), a relatively small amount of unsecured creditors, some employee salaries and pension contributions.

Mismatch of CCP/Client Transactions and assets

It could be that our net assets in relation to CCP Transactions do not match our net obligations to each other in relation to the matching Client Transactions. This can slow down or make porting impossible either operationally or legally.

For example, it may occur at CCP level as a result of Fellow Client Risk (see the explanation of this term in Part Two of this document) in an Omnibus Client Account, with the result that there are insufficient assets available for porting to satisfy our obligations to you in relation to the Client Transactions.

Banking Law

The Banking Law¹³ applies because we are a Polish bank regulated by that law. As a result, in serious circumstances, we may be transferred to a third party. In such a case, your counterparty and/or your counterparty risk may change. It is unlikely that you will be able to stop such transfer or to enforce any early termination rights against us as a result of such transfer.

Part Two: CCP client account structures

As noted in Part One B, CCP may offer at least one Omnibus Client Account and/or at least one Individual Client Account by changing some of the features. This Part Two contains an overview of the main levels of segregation within each account type of which we are aware that the CCPs offer, together with an overview of the main protections afforded by and the main legal implications of each.

The descriptions given in this Part Two are very high level and consider the typical features of these account types and levels of segregation. However, the particular characteristics of the accounts will affect the exact levels of protection they offer and the legal implications so you must review the information provided by the CCP to fully understand the risks of the specific account we maintain in relation to you at CCP. CCP is required to publish information about the account structures it offers and we have provided a link to the relevant part of the website of CCP we use. You may also need to seek professional advice to understand the differences in detail. However, we hope that the questions raised and factors described in both parts of this document will help you to know which questions to ask and to understand the impact of the answers you receive.

The descriptions have been prepared on the basis of publicly available disclosure documents made available by CCP. We are not responsible for, and do not accept any liability whatsoever, for any content or omissions or inaccuracies contained in the information produced by CCP.

The Annex seeks to compare the main account types and levels of segregation against the following risks:

Risks used to compare each account type and level of segregation	Explanation of risk
Transit Risk	Whether you are exposed to us at any point in the process of providing or receiving margin in respect of Client Transactions.
Fellow Client Risk	Whether assets provided to the CCP in respect of CCP Transactions related to you could be used to cover losses in CCP Transactions relating to another client.
Liquidation Risk	Whether, if the CCP Transactions and assets relating to them were to be terminated or ported, there is a risk that any non-cash assets would be liquidated into cash. If this were to happen, the value given to such assets by the CCP may differ from what you perceive to be the full value of the assets.
Haircut Risk	Whether the value of the assets that relate to CCP Transactions might be reduced or not increase by as much as you expect because the CCP applied a haircut that did not properly reflect the value of the asset.

Risks used to compare each account type and level of segregation	Explanation of risk
Valuation Mutualisation Risk	Whether the value of the assets that relate to CCP Transactions could be reduced or not increase by as much as you expect because the assets posted in relation to other clients' CCP Transactions have decreased in value.
CCP Insolvency Risk	Whether you are exposed to the insolvency or other failure of the CCP.

Typical client account characteristics

	Net Omnibus Client Account	Gross Omnibus Client Account	Individual Client Account
Who will the CCP Transactions recorded in the account relate to?	Net Omnibus Client Accounts record both assets and CCP Transactions that relate to you and the assets and CCP Transactions that relate to one or more of our other clients.	Gross Omnibus Client Accounts record assets and CCP Transactions that relate to you and the assets and CCP Transactions that relate to one or more of our other clients.	Only assets and CCP Transactions that relate to you should be recorded in an Individual Client Account.
Which losses can assets recorded in the account be used for?	Assets that are provided to the CCP as margin for a CCP Transaction recorded in a Net Omnibus Client Account may be used to cover any losses in that account, whether such losses relate to the CCP Transactions relating to you or CCP Transactions relating to another client.	Assets that are provided to the CCP as margin for the CCP Transactions recorded in a Gross Omnibus Client Account may be used to cover any losses in that account, whether such losses relate to the CCP Transactions relating to you or CCP Transactions relating to another client.	Assets that are provided to the CCP as margin for CCP Transactions recorded in an Individual Client Account may only be used to cover losses in that account.
Will the CCP know which CCP Transactions and Types of assets relate to you?	The CCP may not know which CCP Transactions and assets recorded in a Net Omnibus Client Account relate to you.	The CCP may not know which CCP Transactions and assets recorded in a Gross Omnibus Client Account relate to you.	Yes
Will the CCP record the assets provided by value	The CCP may identify in its records the type of asset provided as margin for the Net Omnibus Client Account but will not	The CCP may identify in its records the type of asset provided as margin for the Gross Omnibus Client Account but is unlikely to be able to identify anything	The CCP should identify in its records the type of asset provided as margin for an Individual Client Account.

	Net Omnibus Client Account	Gross Omnibus Client Account	Individual Client Account
Only or Will it identify the type of asset provided?	which type of assets relate to any client's CCP Transactions within that Net Omnibus Client Account.	other than the value of the assets provided in respect of any client's CCP Transactions within that Gross Omnibus Client Account.	
Will the CCP Transactions recorded in the account be netted?	It is likely that the CCP Transactions recorded in the account will be netted. This means that CCP Transactions that relate to you may be netted with CCP Transactions that relate to our other clients whose CCP Transactions are recorded in the same Net Omnibus Client Account.	No	CCP Transactions are likely to be netted, but should not be netted against the CCP Transactions relating to any of our other clients.
Will the margin be calculated on a gross or net basis?	The margin will be calculated on a net basis.	The margin will be calculated on a gross basis.	The margin requirement for an Individual Client Account will typically be calculated on a net basis.
Will you Have to enter into any documentation or operational arrangements directly with the CCP?	You may have to enter into legal documentation to which the CCP is party. It is unlikely that you will have to set up any operational arrangements with the CCP directly.	You may have to enter into legal documentation to which the CCP is a party. It is possible but unlikely that you will have to set up operational arrangements with the CCP directly.	You may have to enter into legal documentation to which the CCP is a party. It is also possible that you will have to set up some operational arrangements with the CCP directly.
Transit Risk	Yes	Yes	Yes

	Net Omnibus Client Account	Gross Omnibus Client Account	Individual Client Account
Fellow Client Risk	Yes	Yes	No
Liquidation Risk	Yes (unless the CCP is able to port the assets recorded in the account or is able to transfer the assets to you without needing to liquidate some or all of them first).	Yes (unless the CCP is able to port the assets recorded in the account or is able to transfer the assets to you without needing to liquidate some or all of them first).	Yes (unless the CCP is able to port the assets recorded in the account or is able to transfer the assets to you without needing to liquidate some or all of them first).
Haircut Risk	Yes	Yes	Yes
Valuation Mutualisation Risk	Yes	Yes	No
CCP Insolvency Risk	Yes	Yes	Yes
How likely it is that porting will be achieved if we default?	There is a significant risk that porting will not be achieved in respect of positions and assets recorded in a Net Omnibus Client account.	There is a significant risk that porting will not be achieved in respect of positions and assets recorded in a Gross Omnibus Client account.	If you have satisfied all of the CCP's and back-up clearing member's conditions, porting is more readily facilitated in the event of our default. However, you should note that porting is unlikely to happen in respect of securities transactions pending settlement.

Links to CCP disclosure documents

1. Please note that these links have been included for convenience only. In the event that any of them do not work, you should contact the relevant CCP directly.

KDPW_CCP:

<http://www.kdpwccp.pl/en/Members/Pages/Bankruptcy.aspx>

¹ The Guidance Notes included in this annotated version of the Clearing Member Disclosure Document are for general information only and do not constitute legal advice. If in doubt, users of the Disclosure Document should seek legal advice. This document has been drafted to assist firms to implement a requirements under Article 39(7) EMIR and Article 17(6) MiFID II (as supplemented by Article 27(2) of Commission Delegated Regulation 2017/589). The explanations included in the document are high level summaries and analyses of several complex and/or new areas of law and regulation and arrangements put in place by a series of CCPs, many of which are not yet finalised or fully explained in the public domain. The document as drafted may not be sufficient to enable any particular firm to comply with Article 39(7) EMIR and Article 17(6) MiFID II and may need tailoring to reflect its needs and those of its clients.

² Regulation (EU) No 648/2012 on OTC derivatives, central counterparties and trade repositories.

³ The ESMA Questions and Answers on EMIR dated November 2013 confirm that EU clearing members of non-EU CCPs are not required to comply with Article 39 when offering client clearing on non-EU CCPs.

⁴ Directive 2014/65/EU on markets in financial instruments (see Article 17(6) MiFID II, as supplemented by Article 27(2) of Commission Delegated Regulation 2017/589).

⁵ See footnote 1 above.

⁶ This meaning is derived from Article 39(9) EMIR.

⁷ This description is based on Articles 39(2) and 39(9) EMIR.

⁸ This description is based on Articles 39(3) and 39(9) EMIR.

⁹ This section refers to excess margin as described in Article 39(6) EMIR and the ESMA Questions and Answers on EMIR dated 20 March 2014.

¹⁰ Act of 24 August 2001 on Settlement Finality in Payment and Securities Settlement Systems and the Rules of Oversight of these Systems

¹¹ Act of 28 February 2003 on Bankruptcy

¹² Act of 29 July 2005 on Trading in Financial Instruments.

¹³ Act of 19 August 1997 Banking Law.