

REPORT ON THE ACTIVITIES OF THE KNF AND THE KNF BOARD IN 2018

Under Article 4(2) of the Act of 21 July 2006 on financial market supervision (Journal of Laws *[Dziennik Ustaw]* 2019, item 298, as amended), in its version in force as of 1 January 2019, the Polish Financial Supervision Authority (PL: *Urząd Komisji Nadzoru Finansowego*–KNF) must submit an annual report on its activities and on the activities of the KNF Board (PL: *Komisja Nadzoru Finansowego*) to the President of the Council of Ministers by 31 July of the following year. In order to comply with the above-mentioned statutory requirement, the KNF Board accepted, within its areas of responsibility, *Report on the activities of the KNF and the KNF Board in 2018* at the 14th meeting of the KNF Board, held on 9 April 2019. On 10 April 2019, the Report was accepted by the Chair of the KNF Board, who manages the activities of the KNF.

The new procedure for adoption of the Report results from the legal status following the entry into force of the Act of 9 November 2018 amending certain laws to strengthen financial market supervision and investor protection (Journal of Laws item 2243) but this Report covers the period in which the KNF Board operated as a public administration authority competent for financial market supervision and the KNF (formerly: KNF Office) operated as its auxiliary 'machinery'. During the period covered by the Report, the operational costs of the KNF and the KNF Board were financed directly from the State budget (Part 70) and the contributions to cover the costs of supervision represented State revenue.

The status of the KNF Board and the KNF as well as the financing rules have changed as of 1 January 2019.

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1. KNF Board

LEGAL BASIS OF ACTIVITIES OF THE KNF BOARD

The Board of the Polish Financial Supervision Authority (hereinafter: 'KNF Board' or 'supervisor') operates under the Act of 21 July 2006 on financial market supervision (Journal of Laws 2019, items 298 and 326), hereinafter referred to as 'Act on financial market supervision'. Under the Act on financial market supervision, the KNF Board exercises supervision of the financial market, which as at 31 December 2018 included: banking supervision, pension supervision, insurance supervision, capital market supervision, supervision of payment institutions, payment service offices, electronic money institutions, branches of foreign electronic money institutions, supervision of rating agencies, supplementary supervision of credit institutions, insurance undertakings, reinsurance undertakings and investment firms in a financial conglomerate, supervision of credit unions and the National Association of Credit Unions (PL: *Krajowa Spółdzielcza Kasa Oszczędnościowo-Kredytowa*) as well as mortgage credit intermediaries and their agents.

The purpose of supervision of the financial market is to ensure its proper functioning, stability, security and transparency, confidence in the financial market, and protection of the interests of market participants.

In 2018, the Act of 9 November 2018 amending certain laws to strengthen financial market supervision and investor protection (Journal of Laws, item 2243) was passed and, in consequence, the former KNF was abolished and the former KNF Office was replaced by the new Polish Financial Supervision Authority as a state legal person responsible for providing support and assistance to the KNF Board and the Chair of the KNF Board. The KNF Board and the Chair of the KNF Board have become the bodies of the newly established KNF. The changes have become effective as of 1 January 2019, which means that until 31 December 2018 the KNF operated in its previous structural form.

Some changes introduced in the Act of 9 November 2018 amending certain laws to strengthen financial market supervision and investor protection became effective already in 2018. As a result of the provisions which entered into force as of 15 December 2018, the composition of the KNF Board has been expanded to include four new members.

The new members of the KNF Board include: representative of the President of the Council of Ministers, representative of the Bank Guarantee Fund (PL: *Bankowy Fundusz Gwarancyjny*–BFG), representative of the President of the Office of Competition and Consumer Protection (PL: *Urząd Ochrony Konkurencji i Konsumentów*–UOKiK), and Minister-Member of the Council of Ministers/Special Services Coordinator. Following the amendments to laws, the KNF is now composed of the Chair, two Deputy Chairs, and nine members. Under the amended laws, the members of the KNF Board who represent: the BFG, the President of the UOKiK and the Minister-Member of the Council of Ministers/Special Services Coordinator, respectively, participate in the meetings of the KNF Board only in the capacity of advisers without voting rights.

COMPOSITION OF THE KNF BOARD

The KNF Board is a collegial body. Under the Act on financial market supervision, the KNF Board is composed of the Chair, two Deputy Chairs, and nine members: the minister competent for financial institutions or his/her representative, the minister competent for economy or his/her representative, the minister competent for social security or his/her representative, the President of the National Bank of Poland (NBP) or member of the Management Board of the NBP delegated by him/her, a representative of the President of the Republic of Poland, a representative of the President of the Council of Ministers, a representative of the Bank Guarantee Fund, a representative of the President of the Office of Competition and Consumer Protection, a representative of the Minister-Member of the Council of Ministers/Special Services Coordinator or, if no such representative has been designated, a representative of the President of the Council of Ministers.

In 2018, the KNF Board was composed of:

Chair of the KNF Board

Jacek Jastrzębski—since 23 November 2018

acting Chair of the KNF Board

Marcin Pachucki—between 14 and 23 November 2018

Marek Chrzanowski—until 14 November 2018

Deputy Chair of the KNF Board

Marcin Pachucki

Deputy Chair of the KNF Board

Andrzej Diakonow

Members of the KNF Board:

Representative of the minister competent for financial institutions

Marcin Obroniecki—since 1 September 2018

Paweł Gruza—between 3 July 2018 and 31 August 2018

Piotr Nowak—until 2 July 2018

Representative of the minister competent for social security

Jan Wojtyła

President of the National Bank of Poland (NBP) or Member of the Management Board of the NBP delegated by the President

Andrzej Kaźmierczak—Member of Management Board of the NBP

Representative of the President of the Republic of Poland

Cezary Kochalski—since 14 December 2018

Zdzisław Sokal—until 14 December 2018

Representative of the minister competent for economy

Mariusz Haładaj—since 24 August 2018

Armen Artwich—until 20 August 2018

Representative of the Bank Guarantee Fund

Zdzisław Sokal—since 15 December 2018

Representative of the President of the Office of Competition and Consumer Protection

Marek Niechciał—since 13 December 2018

Representative of the Minister-Member of the Council of Ministers/Special Services Coordinator

Maciej Wąsik—since 13 December 2018

Composition of the KNF Board as at 31 December 2018

Chair of the KNF Board

Jacek Jastrzębski

Deputy Chair of the KNF Board

Marcin Pachucki

Andrzej Diakonow

Members of the KNF Board as at 31 December 2018

Representative of the minister competent for financial institutions—Marcin Obroniecki

Representative of the minister competent for social security—Jan Wojtyła

Member of the Management Board of the National Bank of Poland—Jan Wojtyła

Representative of the President of the Republic of Poland—Cezary Kochalski

Representative of the minister competent for economy—Mariusz Haładyj

Members of the KNF Board acting in the capacity of advisers as at 31 December 2018

Representative of the Bank Guarantee Fund—Zdzisław Sokal

Representative of the President of the Office of Competition and Consumer Protection—Marek Niechciał

Representative of the Minister-Member of the Council of Ministers/Special Services Coordinator—Maciej Wąsik

MEETINGS AND RESOLUTIONS OF THE KNF BOARD

The KNF Board, within its remit, adopts resolutions, including the issuance of final and interim administrative decisions. The KNF Board adopts resolutions by a simple majority of votes by open vote, in the presence of at least four members, including the Chair or Deputy Chair of the KNF Board. In the case of an equal number of votes, the Chair of the KNF Board decides, and in the event of his absence, the vote of the Deputy Chair authorised to manage the activities of the KNF Board. Following the amendments made to the legislation in December 2018, the members of the KNF Board who represent: the BFG, the President of the UOKiK and the Minister-Member of the Council of Ministers/Special Services Coordinator, respectively, participate in the meetings of the KNF Board but they do not participate in the voting and they are not considered for the purpose of calculation of the quorum.

In 2018, 39 meetings of the KNF Board were held at which a total of 487 resolutions were adopted, of which 404 were in the form of final and interim decisions.

Table 1. Number of resolutions adopted by the KNF Board in the years 2015-2018

| Subject-matter of resolution | Number of adopted resolutions | | | |
|---|-------------------------------|------|------|------|
| | 2015 | 2016 | 2017 | 2018 |
| Matters concerning the banking sector | 71 | 95 | 102 | 116 |
| Matters concerning the credit unions sector | 74 | 93 | 47 | 24 |
| Matters concerning the payment service sector | 312 | 355 | 79 | 23 |

| | | | | |
|---|------------|------------|------------|------------|
| Matters concerning the insurance sector | 46 | 57 | 58 | 57 |
| Matters concerning the pension sector | 53 | 47 | 47 | 27 |
| Matters concerning the capital and commodity markets | 155 | 212 | 284 | 237 |
| Cross-sectoral matters and matters concerning internal organisation of the KNF Board's work | 7 | 5 | 3 | 3 |
| Total | 718 | 864 | 620 | 487 |

Source: KNF's own calculations

Detailed information on the number of adopted resolutions by subject of the case is provided in Table 1.1. in Appendix 1.

INTERIM DECISIONS ISSUED BY THE CHAIR OF THE KNF BOARD

In 2018, the Chair of the KNF Board issued 89 interim decisions to institute *ex officio* proceedings or to extend the scope of proceedings under Article 13 of the Act of 29 July 2005 on capital market supervision (Journal of Laws 2018, item 1417, as amended, hereinafter: 'Act on capital market supervision').

INTERIM AND FINAL ADMINISTRATIVE DECISIONS ISSUED ON THE BASIS OF AN AUTHORISATION GRANTED BY THE KNF BOARD

According to Article 12(1) of the Act on financial market supervision, the KNF Board may authorise the Chair of the KNF Board, Deputy Chairs, and employees of the KNF to act within the remit of the KNF Board, including to issue administrative interim and final decisions.

In 2018, 3 141 interim or final decisions were issued on the basis of an authorisation granted by the KNF Board.

Table 2. Number of interim and final decisions issued on the basis of an authorisation granted by the KNF Board in the years 2015-2018

| Subject-matter of final and interim decisions | Number of final and interim decisions | | | |
|--|---------------------------------------|--------------|--------------|--------------|
| | 2015 | 2016 | 2017 | 2018 |
| Matters concerning the banking sector | 959 | 2 380 | 1 200 | 1 106 |
| Matters concerning the credit unions sector | 214 | 230 | 88 | 16 |
| Matters concerning the payment service sector | 260 | 110 | 291 | 69 |
| Matters concerning the insurance sector | 412 | 390 | 349 | 233 |
| Matters concerning the pension sector | 236 | 342 | 294 | 567 |
| Matters concerning the capital and commodity markets | 885 | 894 | 825 | 751 |
| Matters concerning mortgage credit intermediaries | - | - | 49 | 273 |
| Matters concerning consumer credit intermediaries | - | - | 0 | 27 |
| Matters concerning non-bank lending institutions | - | - | 0 | 7 |
| Matters concerning other areas | 9 | 9 | 3 | 92 |
| Total | 2 975 | 4 355 | 3 099 | 3 141 |

Source: KNF's own calculations

Detailed information on the number of final and interim administrative decisions issued on the basis of an authorisation granted by the KNF Board by subject of the case is presented in Table 1.2. in Appendix 1.

OFFICIAL JOURNAL OF THE BOARD OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

Pursuant to Article 4(3) of the Act on financial market supervision in the wording effective until 31 December 2018, the KNF Board was the body which issued the Official Journal of the Board of the Polish Financial Supervision Authority. In the Official Journal, the KNF Board publishes various acts for which the statutory requirement of publication follows from the legislation. Those include resolutions of the KNF Board which the KNF Board decides to announce, including in particular resolutions regarding the issuance of a recommendation—in 2018, it was a resolution amending the resolution on the publication of *Recommendation T on good practices in risk management for retail credit exposures*, and a resolution on the publication of *Recommendation L on the role of statutory auditors in the supervision of banks and credit unions*. The KNF Board's administrative final decisions to impose sanctions on supervised entities are also published in the Official Journal of the KNF Board on the basis of separate regulations: there were 4 such announcements in 2018. The Official Journal of the KNF Board also contains publications of communications from of the KNF Board and/or Chair of the KNF Board as well as announcements made by examination boards conducting professional examinations for securities brokers and investment advisers—they usually represent the majority of items in the Official Journal of the KNF Board, and that was the case in 2018.

In 2018, a total of 31 items were published in the Official Journal of the KNF Board. The list of items of the Official Journal of the KNF Board in 2018 is included in Appendix 3.

2. FINANCIAL MARKET IN POLAND: OVERVIEW

According to preliminary estimates, Poland's GDP growth throughout 2018 amounted to 5.1%. Thus, the positive trend from previous years was maintained (an increase of 4.8% in 2017¹ and 3% in 2016²), and the growth rate was still high compared with other European countries. Between 2008 and 2017, the average annual growth rate of our economy was 3.35% and it was the second result among the EU countries in that period. The average annual growth over the same period was 0.83% for the entire EU-28 and 0.62% for the euro area. The key factor for growth was the increasing consumer demand, driven by the growing employment and salaries, and a very high consumer sentiment index. Growth was also driven by public investments, co-financed with EU funds. In the second quarter of 2018, GDP was also helped by the positive balance of net exports.

The cumulative balance of the current account from the previous twelve months amounted to PLN -6 billion in December 2018 (compared with PLN -5.7 billion in December 2017). The labour market continued its positive trend from 2013, with the officially recorded unemployment rate declining to 5.8% at the end of 2018 (from 6.6% at the end of 2017). Similarly, the seasonally-adjusted unemployment rate measured according to the BAEL (Polish Labour Force Survey) fell from 4.3% at the end of 2017 to 3.5% at the end of 2018.

¹ <http://stat.gov.pl/obszary-tematyczne/rachunki-narodowe/roczne-rachunki-narodowe/informacja-glownego-urzedu-statystycznego-w-sprawie-skorygowanego-szacunku-produktu-krajowego-brutto-za-2017-rok,9,4.html>

² <http://stat.gov.pl/obszary-tematyczne/rachunki-narodowe/roczne-rachunki-narodowe/rachunki-narodowe-wedlug-sektorow-i-podsektorow-instytucjonalnych-w-latach-2013-2016,4,13.html>

The average annual inflation measured by consumer price index (CPI) in 2018 was 1.65%. No year-on-year deflation was recorded in any of the months of this year. The Monetary Policy Council (MPC) maintained the NBP interest rates at the level of March 2015 (reference rate of 1.5%). According to the MPC, such level of interest rates is conducive to maintaining the Polish economy on a sustainable growth path and allows to maintain macroeconomic balance. In 2018, the currency market saw a depreciation of the exchange rate of the Polish Zloty (PLN) against the main currencies. The depreciation of the Polish currency was particularly severe in April/May. At the end of the year, the average PLN/EUR exchange rate was 4.3 against 4.17 at the beginning of the year, the average PLN/CHF exchange rate was 3.82 (against 3.56) and the average PLN/USD exchange rate was 3.76 (against 3.45). At the end of 2018, the interest rate on 10-year Treasury bonds amounted to 2.81% and was lower than the year before (3.29%). In 2018, the budget deficit was under-implemented (25.1% of the annual plan) and the deficit reached PLN 10.4 billion. The budget revenues were implemented in 107% and amounted to PLN 380.1 billion. The expenses were implemented in 98.3% and amounted to PLN 390.5 billion. Whereas, according to the data as at the end of the third quarter of 2018, the general government gross debt (part of the government finance Maastricht criterion) was PLN 1 024 trillion, i.e. 49.4% of GDP.

The balance sheet total of the banking sector at the end of December 2018 amounted to PLN 1 896.2 billion and was higher than in the previous year by 6.7% (PLN 1 776.8 billion). In the period concerned, banks generated a profit of PLN 14.7 billion, which was approx. 7.5% lower than in the previous year (PLN 13.7 billion).

At the end of the fourth quarter of 2018, the assets of credit unions amounted to over PLN 9.6 billion. According to the reporting data, in 2018 the credit unions sector recorded a net loss of PLN 2.7 million. It should be noted that the credit unions sector—excluding the credit union SKOK Jaworzno, in relation to which proceedings were conducted in respect of the acquisition of the credit union by a domestic bank—would generate a net profit of PLN 30.75 million. As at the end of 2018, the amount of own funds of the unions (calculated in accordance with the Act on credit unions) was PLN 387.18 million. Presented data is preliminary as it has not been audited by a certified auditor, and it may change.

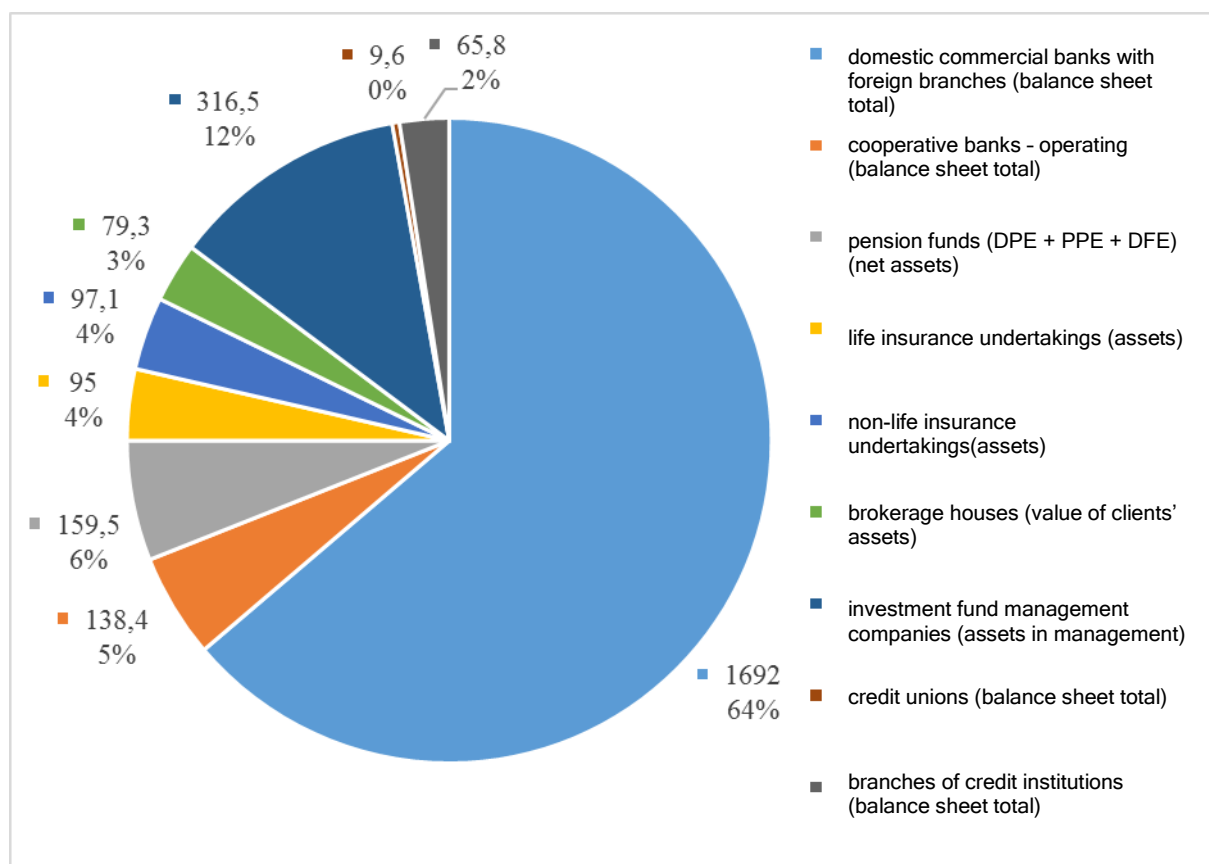
The balance sheet total of the insurance sector decreased by 4.6% during the year and amounted to PLN 192.1 billion at the end of December 2018, of which PLN 95 billion was allocated to life insurance undertakings, and PLN 97.1 billion to non-life insurance undertakings—other personal insurance and property insurance. In the period concerned, insurers generated a profit/loss of PLN 6.6 billion (of which PLN 2.5 billion was attributable to the life insurance sector, and PLN 4.2 billion to the non-life insurance sector) and it was 14.5% higher than in the previous year.

The total value of net assets of open pension funds (PL: *otwarty fundusz emerytalny*—OFE), voluntary pension funds (PL: *dobrowolny fundusz emerytalny*—DFE) and occupational pension funds (PL: *pracowniczy fundusz emerytalny*—PFE) as at 31 December 2018 amounted to PLN 159.5 billion and 12.2% higher than at the end of the previous year (PLN 181.7 billion).

In 2018, the Warsaw Stock Exchange recorded a decrease in indices. During the year, WIG lost 9.5% and WIG20 7.5%. The value of trading in shares amounted to PLN 212 billion and was approx. 20% lower than in the previous year, whereas the value of trading in bonds fell as compared with 2017 and reached PLN 1.3 billion. At the end of the year, the capitalisation of domestic companies amounted to PLN 615 billion (a 8% decrease compared with the previous year), and of foreign companies to PLN 550 billion (a 22% increase). In the period concerned, 7 initial offerings and 20 delistings were recorded; in consequence, the number of listed companies did not increase during the year for the third consecutive year.

The value of assets managed by investment fund management companies at the end of 2018 amounted to PLN 316.5 billion and was about 0.5% lower than at the end of the previous year. The value of customer assets recorded on the accounts in brokerage houses as at the end of 2018 amounted to PLN 79.3 billion and was 13.7% lower than the year before (PLN 91.9 billion).

Diagram 1. Asset structure of the Polish financial sector as at the end of 2018 (in PLN billion)*



Source: KNF's own calculations

*Presented data for 2018 has not been audited.

Table 3. The number of entities supervised by the KNF Board as at 31 December 2018

| Type of entity | Number of entities |
|---|--------------------|
| Commercial banks (including 1 state bank and 2 affiliating banks) | 32 |
| Cooperative banks | 549 |
| Representative offices of foreign banks and credit unions | 12 |
| Institutional Protection System (IPS) | 2 |
| Credit unions, National Association of Credit Unions | 31 |
| Domestic payment institutions | 40 |
| Payment service offices | 1 382 |
| Small payment institutions | 10 |
| Mortgage credit intermediaries | 852 |
| Agents of mortgage credit intermediaries | 5 861 |
| Brokerage houses | 40 |
| Banks providing investment services | 9 |
| Tied agents of investment firms | 285 |
| Custodian banks | 12 |
| Entities of the capital market infrastructure (GPW S.A. w Warszawie, KDPW S.A., KDPW_CCP, BondSpot S.A.)* | 4 |

| | |
|--|-------|
| Issuers whose securities are admitted to trading on regulated markets | 490 |
| Investment funds | 878 |
| Investment fund management companies | 61 |
| Managers of alternative investment companies/partnerships | 80 |
| Other entities operating investment funds or alternative investment funds, including entities entrusted with the performance of duties of an investment fund management company or a manager of an alternative investment company/partnership as defined in the Act on investment funds and management of alternative investment funds (Act on investment funds)** | 204 |
| Entities of the commodity market infrastructure (Towarowa Gielda Energii S.A., Izba Rozliczeniowa Gield Towarowych S.A.) | 2 |
| Commodity brokerage houses | 1 |
| Energy undertakings maintaining accounts or registers of exchange commodities | 56 |
| Open pension funds | 10 |
| General pension societies | 10 |
| Occupational pension funds | 3 |
| Occupational pension societies | 3 |
| Depositaries of pension funds | 6 |
| Transfer agents of pension funds | 6 |
| Voluntary pension funds | 7 |
| Life insurance undertakings | 26 |
| Non-life insurance and reinsurance undertakings (personal and property insurance) | 34 |
| Insurance brokers | 1 374 |
| Reinsurance brokers | 49 |

Source: KNF's own calculations

*Entities listed in Article 5 of the Act on capital market supervision, namely: companies operating a regulated market, Krajowy Depozyt Papierów Wartościowych S.A., companies operating a clearing house, companies operating a settlement house, a company to which Krajowy Depozyt Papierów Wartościowych S.A. has delegated the performance of activities within the scope of tasks referred to in Article 48 (1) points 1-6 and/or Article 48(2) of the Act on trading in financial instruments, the Central Securities Depository as defined in Article 2(1) point 1 of Regulation 909/2014.

**The number includes the number of distributors of units, transfer agents, fund depositaries, external valuers, entities authorised to manage securitised liabilities of a securitisation fund.

Table 4. The number of entities which are not supervised by the KNF Board but have been entered in the relevant registers kept by the KNF Board as at 31 December 2018

| Type of entity | Status of the register |
|---------------------------------------|------------------------|
| Insurance agents | 31 427 |
| Persons who perform agency activities | 237 692 |
| Consumer credit intermediaries | 27 917 |
| Non-bank lending institutions | 421 |

Source: KNF's own calculations

Table 5. The number of entities which notified operation as a branch in Poland as at 31 December 2018

| Type of entity | Number of entities |
|--|--------------------|
| Credit institutions ⁱ | 31 |
| Payment institutions ⁱ | 8 |
| Electronic money institutions ⁱ | 4 |
| Insurance undertakings ⁱⁱ | 29 |
| Reinsurance undertakings ⁱⁱ | 1 |
| Investment firms ⁱ | 15 |
| Management companies ^{i*} | 1 |

Source: KNF's own calculations

ⁱ In principle, supervision of the branches is exercised by the home supervisory authority and, to a limited extent specified in sectoral laws, by the host supervisory authority.

^{i i} Supervision of the branches of insurance and reinsurance undertakings established in a Member State other than the Republic of Poland is exercised by the home supervisory authority.

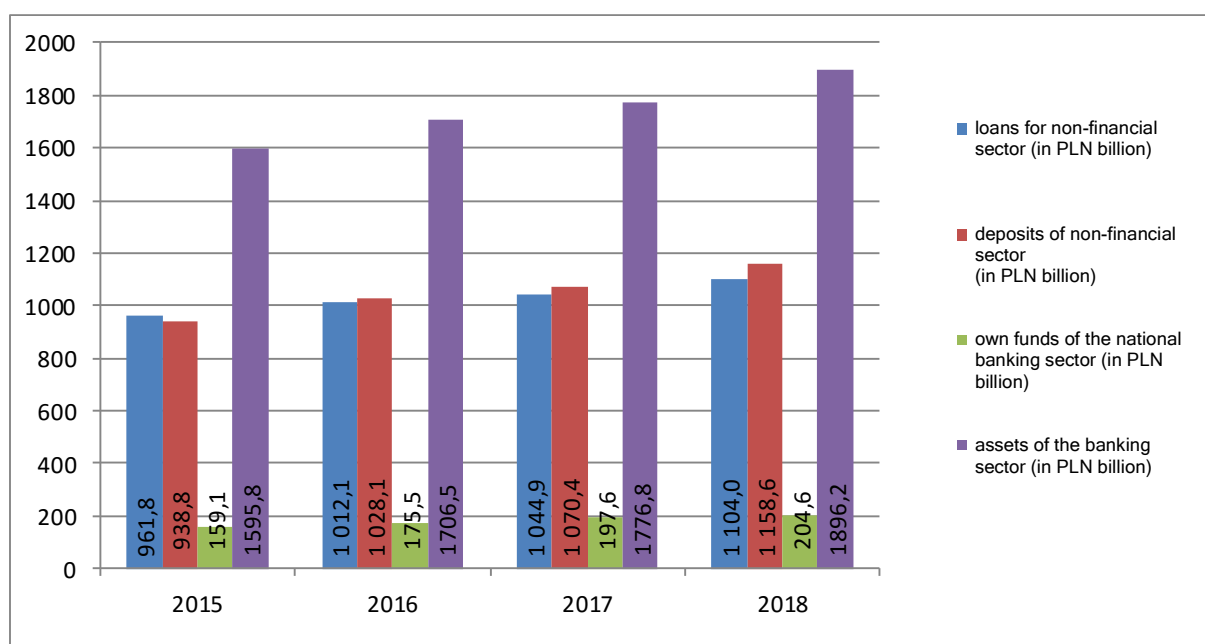
*Entity authorised by a competent authority in a Member State to conduct activities relating to the management of funds operating in accordance with the Community law governing the rules of collective investment in securities.

2.1. BANKING SECTOR

At end of 2018, the KNF Board supervised 32 commercial banks (including 1 state bank and 2 affiliating banks), 2 institutional protection systems, 549 cooperative banks, and 31 branches of credit institutions.

In 2018, the KNF Board approved the merger processes for six cooperative banks.

Diagram 2. Basic data of the banking sector in Poland in the years 2015-2018



Source: KNF's own calculations

Presented data for 2018 comes from the monthly bank reporting for December 2018 and it has not been audited. Data for previous years may differ from data published in previous reports due to corrections made by the banks as well as the subsequent audit process.

The balance sheet total of the Polish banking sector at the end of December 2018 amounted to PLN 1 896.2 billion (an increase of 6.7% as compared with the end of December 2017). Domestic commercial banks (with foreign branches) account for 89.2% of the sector's assets, 3.5% for branches of credit institutions and 7.3% for cooperative banks.

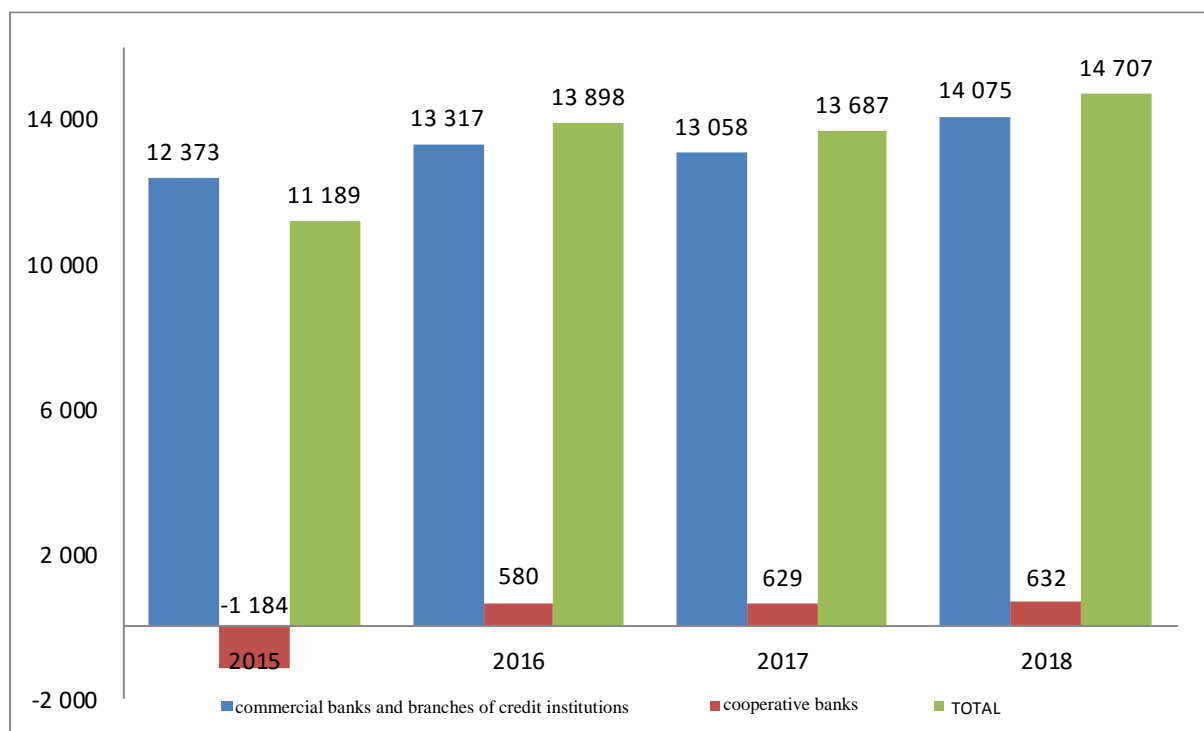
In the structure of assets, 66.9% (PLN 1 268.1 billion) were loans and other receivables, 16.2% (PLN 307.6 billion) were available-for-sale financial assets, 1.4% (PLN 27.4 billion) were held-for-trading financial assets and 7.0% (PLN 131.9 billion) were cash and operations with central banks.

As for liabilities, deposits accounted for 72.4% of total liabilities (PLN 1 373.3 billion), and equity for 10.9% (PLN 206.2 billion). In 2018, gross receivables from the non-financial sector increased by 5.7%, reaching PLN 1 104.0 billion at the end of December.

An important component of the banking sector's assets is housing loans, including loans denominated in Swiss franc (CHF) or indexed to this currency. In 2018, for another year, there was a clear decrease in the volume of loans in CHF; their sum decreased from CHF 30.3 billion at the end of December 2017 to CHF 27.7 billion at the end of December 2018, i.e. a decrease of 8.7% and 31.8% over the next five years (from CHF 40.6 billion at the end of December 2013). At the same time, the quality of housing loans, including those

denominated in CHF, remains good: in 2018 it was at a level similar to 2017, and the share of non-performing loans in the portfolio of housing loans was the lowest of all loan portfolios.

Diagram 3. Net financial result of the banking sector in the years 2015-2018 (in PLN million)

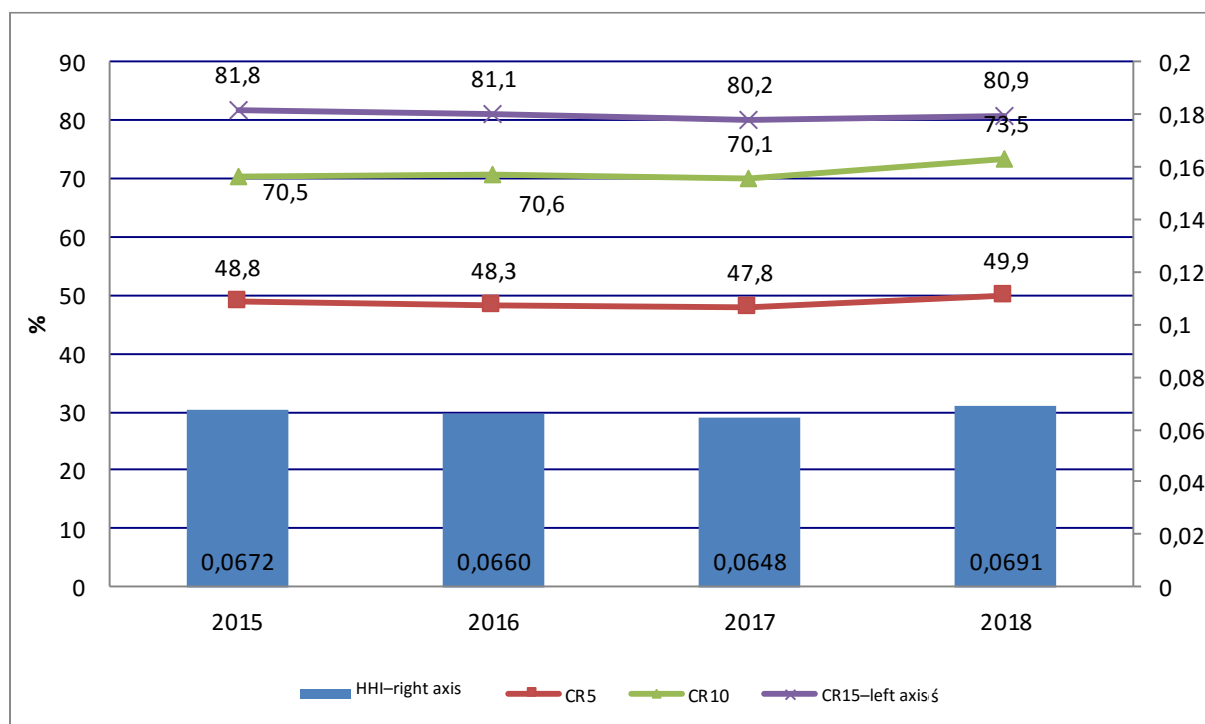


Source: KNF's own calculations

Presented data for 2018 comes from the monthly bank reporting for December 2018 and it has not been audited. Data for previous years may differ from data published in previous reports due to corrections made by the banks as well as the subsequent audit process.

In 2018, the net financial result of the banking sector amounted to PLN 14.7 billion and was 7.5% lower as compared with 2017. In 2018, 20 banks and 4 branches of credit institutions paid a total of PLN 3.8 billion on account of the banking tax. It is by PLN 0.2 billion (4.5%) more than in 2017. The net interest income amounted to PLN 44.9 billion (+5.2% YOY), of which the interest income amounted to PLN 60.5 billion (+4.0% YOY), and interest expenses to PLN 15.7 billion (+0.7%). The commission income remained at PLN 12.3 billion (-10.5% YOY). The result on operating activities increased by 1.8% to PLN 18.8 billion in the period under assessment. Bank's operating expenses were 1.7% higher than in the previous year and amounted to PLN 33.6 billion, and impairment write-downs of financial assets increased by 0.7% YOY to PLN 8.4 billion.

Diagram 4. Concentration of assets in the years 2015-2018



Source: KNF's own calculations

CR5, CR10, CR15 – indicators specifying shares of 5, 10 and 15 largest banks in total banking sector assets. HHI - the Herfindahl-Hirschman index (the sum of squares of banks' shares in the banking sector assets), being a measure of market concentration used to assess the level of competition in a given market. The indicator takes into account not only the number of entities but also their relative size. The HHI at the level of 0.0691 describes a competitive market.

Presented data for 2018 comes from the monthly bank reporting for December 2018 and it has not been audited. Data for previous years may differ from data published in previous reports due to corrections made by the banks as well as the subsequent audit process.

2.2. SECTOR OF CREDIT UNIONS

At the end of 2018, the KNF Board supervised 30 credit unions and the National Association of Credit Unions. In 2018, the KNF Board approved the merger of three credit unions with other credit unions, and in the case of two unions decided on their take-over by domestic banks.

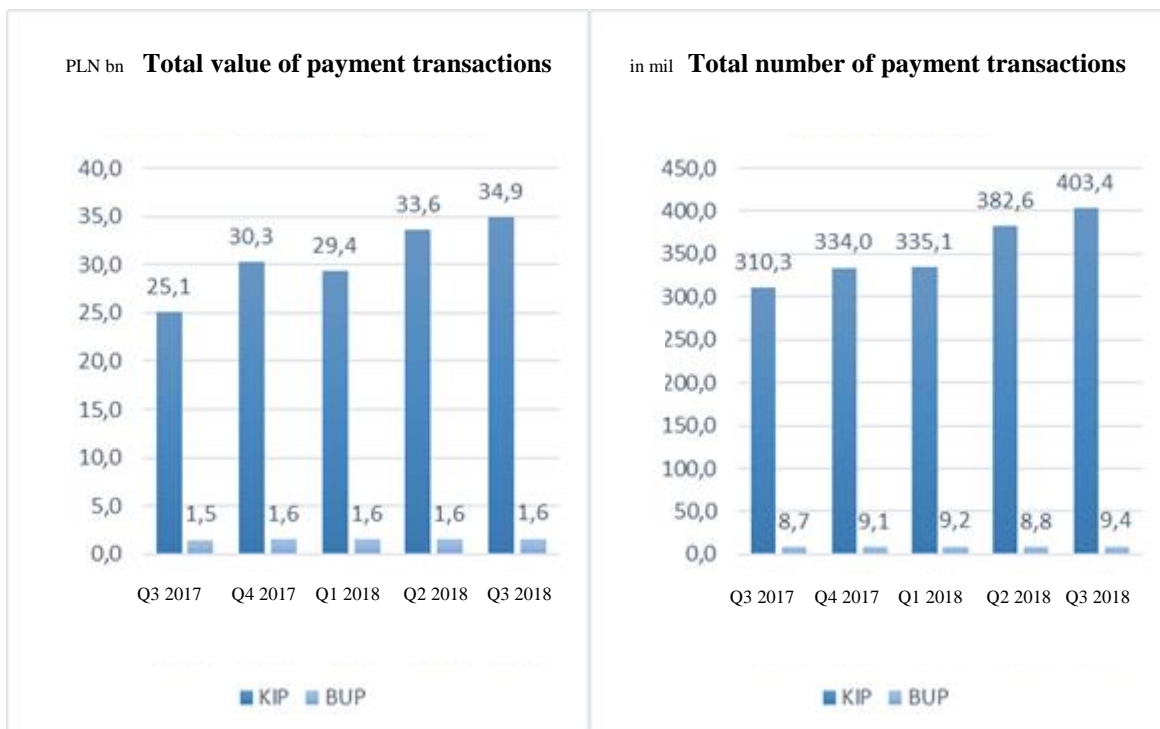
At the end of the fourth quarter of 2018, the assets of credit unions amounted to over PLN 9.6 billion. According to the reporting data, in 2018 the credit unions sector recorded a net loss of PLN 2.7 million. It should be noted that the credit unions sector—excluding the credit union SKOK Jaworzno, in relation to which proceedings were conducted in respect of the acquisition of the credit union by a domestic bank—would generate a net profit of PLN 30.75 million. As at the end of 2018, the amount of own funds of the unions (calculated in accordance with the Act on credit unions) was PLN 387.18 million. Presented data is preliminary as it has not been audited by a certified auditor, and it may change.

2.3. SECTOR OF PAYMENT SERVICES

As at 31 December 2018, 40 domestic payment institutions held authorisations. As at 31 December 2018, 1 382 payment service offices were included in the register of payment service offices. As at 31 December 2018, 10 small payment institutions were included in the register of small payment institutions. Due to the conditions and deadlines set out in the provisions of the Act on payment services for the submission of reporting data by payment service providers, at the end of the period covered by this report, the KNF Board has at its disposal the reporting data of domestic payment institutions (*PL: krajowa instytucja płatnicza – KIP*) and payment service offices (*PL: biuro usług płatniczych – BUP*) for the period covering quarters 1, 2 and 3 of 2018.

The KNF Board’s data shows that as new entities are obtaining authorisations to operate as domestic payment institutions, the disproportion between the total scale of activity of KIP and BUP, measured by the total number and total value of transactions made by these entities, is growing dynamically in subsequent quarters.

Diagram 5. Comparison of the total number and value of payment transactions carried out by BUP and KIP between the third quarter of 2017 and the third quarter of 2018



Source: KNF’s own calculations

2.4. INSURANCE MARKET³

INSURANCE MARKET ENTITIES

As at the end of 2018, 60 domestic insurance undertakings were authorised to conduct the business of insurance in Poland: 26 life insurance undertakings and 34 non-life insurance undertakings, including 1 reinsurance undertaking. In 2018, all authorised insurance undertakings pursued the business of insurance and reinsurance.

On 13 July 2018, the merger of two domestic insurance undertakings was recorded in the National Court Register: Polisa Życie TU SA VIG (the company being acquired) and Compensa TUnŻ SA VIG (the acquiring company) under the name Compensa TUnŻ SA VIG.

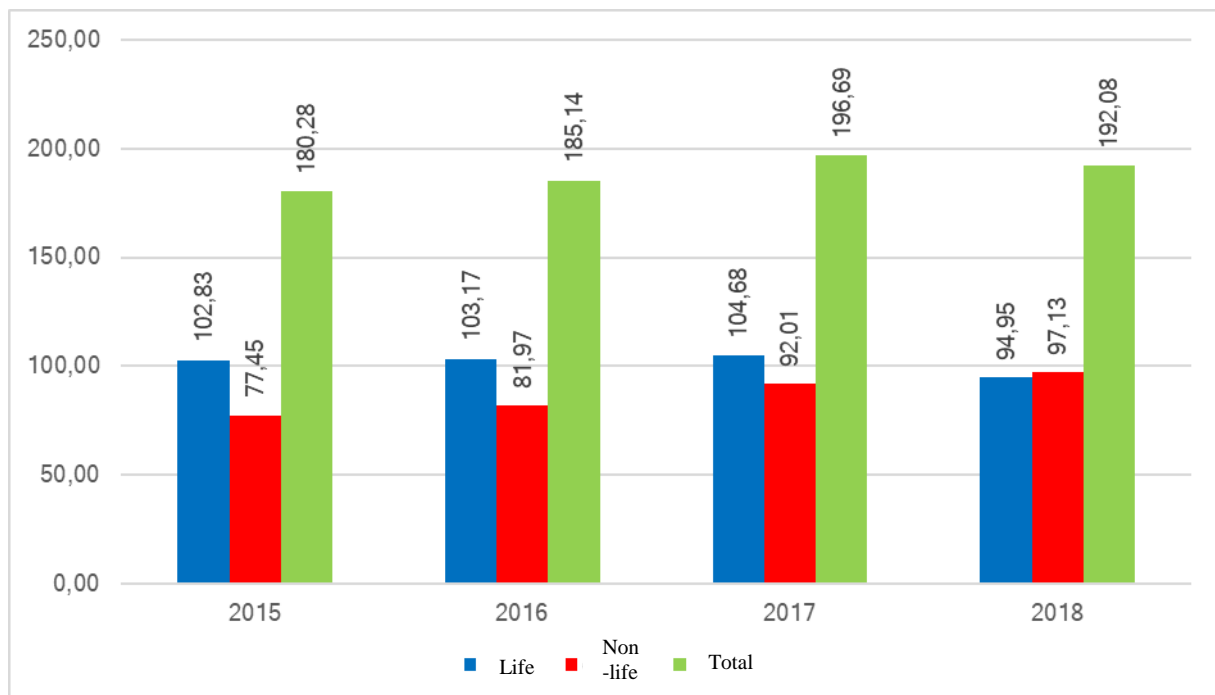
BALANCE SHEET OF INSURANCE UNDERTAKINGS

The value of assets of insurance undertakings in 2018 amounted to PLN 192.08 billion and decreased as compared with the previous year by 2.34%, i.e. by PLN 4.61 billion.

The assets of life insurance undertakings, equal to PLN 94.95 billion, decreased by 9.29% (i.e. by PLN 9.72 billion) in comparison with the previous period.

At non-life insurance undertakings, the value of assets amounted to PLN 97.13 billion, which represented an increase of 5.56%, i.e. PLN 5.12 billion, compared with the corresponding period of the previous year.

Diagram 6. The balance sheet total in the years 2015-2018 (in PLN billion)



Source: KNF's own calculations

³ The data for 2018 comes from the financial statements of insurance and reinsurance undertakings for the fourth quarter of 2018 and it should be treated as preliminary. The data for previous years may differ from the data published in previous reports due to corrections made by undertakings.

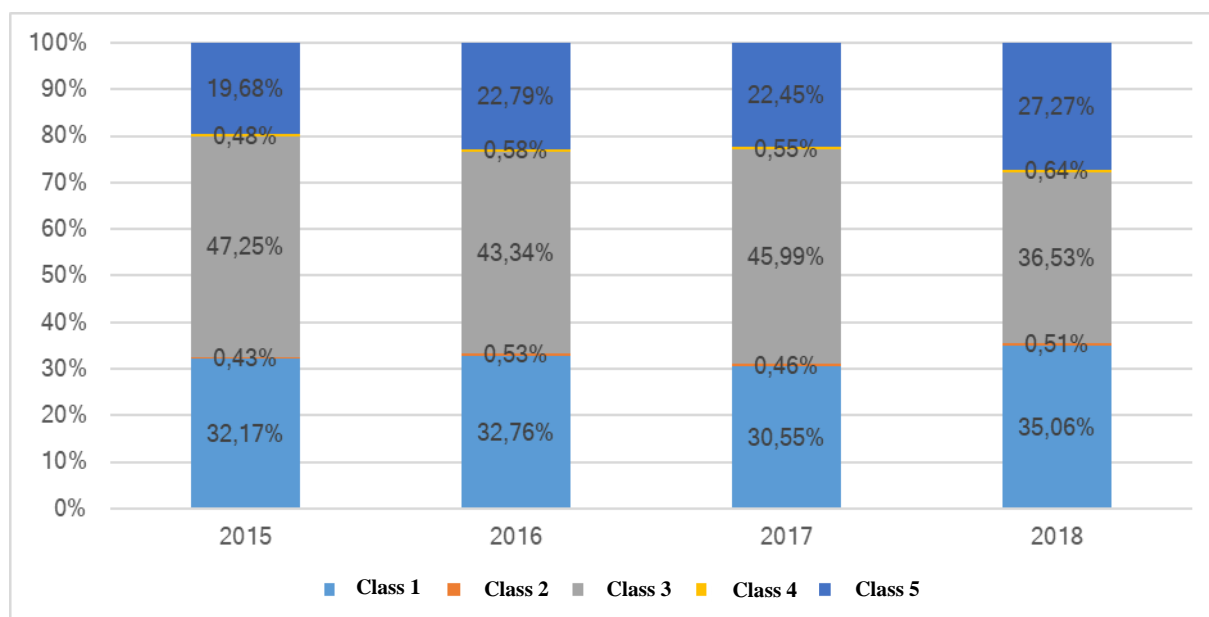
The main item of insurance undertakings is represented by deposits (investments), which represent 60.77% of the balance sheet total, and net assets of life insurance (where the investment risk is borne by the policyholder), whose share in the balance sheet total amounts to 26.43%. The structure of liabilities was dominated by net technical provisions, which accounted for 76.14% of liabilities, and capital and reserves of 19.53%.

REVENUE OF INSURANCE UNDERTAKINGS

In 2018, the gross written premium, being the main source of income of insurance undertakings, amounted to PLN 62.17 billion, which means that the insurance market recorded a decrease of 0.27% compared with 2017. The change was due to a decrease in the gross written premium for life insurance undertakings of PLN 2.86 billion, i.e. 11.63% (the premium reached PLN 21.70 billion) and an increase in non-life insurance undertakings of PLN 2.69 billion, i.e. 7.11% (the premium of PLN 40.46 billion).

The direct insurance portfolio of life sector was dominated by class 3 insurance products (unit-linked life insurance products, and index-linked life insurance products) with a premium of PLN 7.93 billion, and accounted for 36.53% of the total gross written premium from life direct insurance undertakings. The class recorded a decrease of PLN 3.36 billion in the gross written premium. Class 1 insurance (life insurance) with a premium of PLN 7.61 billion (annual increase of PLN 0.11 billion) accounted for 35.06% of direct life insurance.

Diagram 7. Structure of the life insurance portfolio in the years 2015-2018



Source: KNF's own calculations

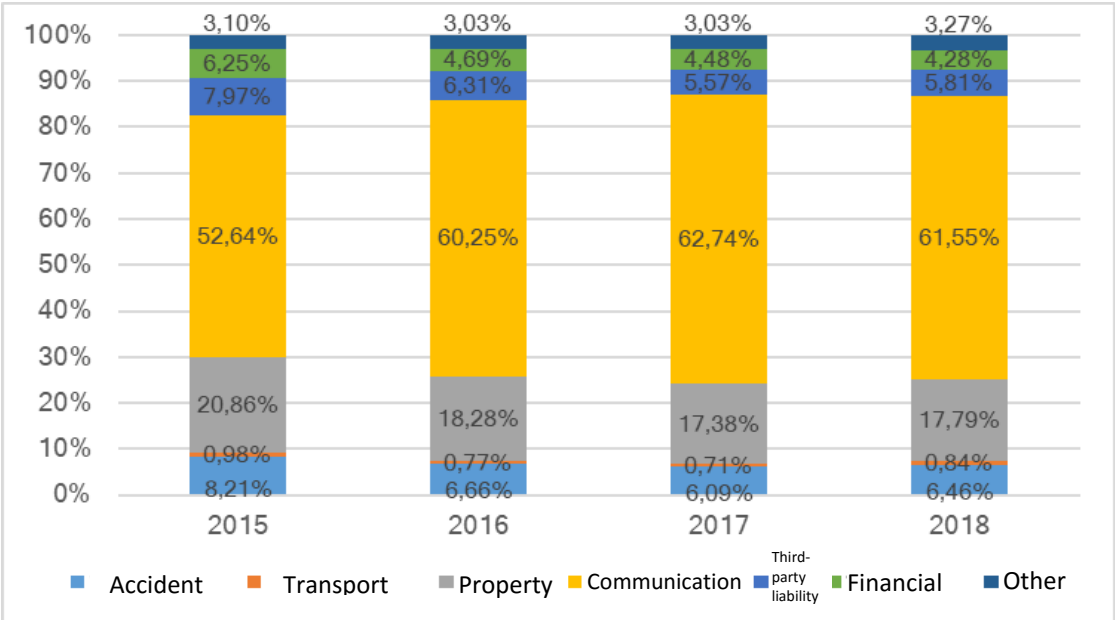
For non-life insurance undertakings, the largest increase in the gross written premium was reported in class 3 (accident and theft insurance), of PLN 0.65 billion to PLN 8.30 billion (8.49% YOY) and in class 9 (insurance against other material damage, not included in classes 3-7, but caused by natural forces other those in class 8), of PLN 0.45 billion to PLN 3.49 billion (14.63% YOY). There has been an increase in motor insurance, i.e. in class 10 (motor third party liability insurance), of PLN 0.37 billion to PLN 15.18 billion (2.51% YOY), in class 2 (sickness insurance) of PLN 0.23 billion to PLN 0.92 billion (33.95% YOY), in class 13 (general third party liability not included in classes 10-12) of PLN 0.22 billion to PLN 2.17 billion (11.31% YOY), in class 18 (insurance concerning the provision of assistance for

persons who faced difficulties while travelling or while away from their habitual residence) of PLN 0.16 billion to PLN 1.15 billion (16.32% YOY) and in class 8 (insurance against damage caused by natural forces, including damage to or loss of property not included in classes 3-7), of PLN 0.12 billion to PLN 3.30 billion (3.85% YOY). 9 of the other 11 classes of non-life insurance also reported an increase in the premium (classes: 1, 4, 5, 6, 7, 11, 14, 15, 17), among which in class 4, i.e. accident and theft insurance of railway rolling stock, including damage to railway rolling stock, the premium was 60.26% higher compared with the previous year (an increase of PLN 0.02 billion) and amounted to PLN 0.06 billion.

Among 18 classes of non-life insurance, a decrease in the premium occurred in 2 classes (12 and 16) in the total amount of PLN 0.02 billion, of which in class 16 (insurance against various financial risks) a major decrease was reported, i.e. a decrease in the premium by PLN 0.01 billion (by 1.95%) to PLN 0.75 billion.

The structure of non-life insurance is still dominated by motor vehicle insurance (MTPL, and accident and theft insurance), which accounts for 61.55% of the direct insurance portfolio.

Diagram 8. Structure of the non-life insurance portfolio in the years 2015-2018



Source: KNF's own calculations

RESULTS OF INSURANCE UNDERTAKINGS

Overall, the insurance market recorded a technical profit of PLN 6.03 billion (18.04% higher than in 2017) and a financial profit of PLN 6.60 billion (14.54% higher than in the previous year).

The life insurance sector generated a technical profit of PLN 3.08 billion (1.26% higher than in the corresponding period of the previous year) and a financial profit of PLN 2.45 billion (7.51% higher than in the corresponding period of the previous year). In terms of results of individual insurance classes, the improvement of the technical profit was mainly due to the improvement of the technical result in class 3 (unit-linked life insurance products and index-linked insurance products)—by PLN 0.10 billion (23.50%) and in class 5 (accident and sickness insurance, as long as it supplements insurance listed in classes 1-4)—by PLN 0.10 billion (5.55%).

Other personal and property insurance products (the non-life insurance sector) generated a technical profit of PLN 2.95 billion (42.71% higher than in the corresponding period of the previous year) and a net financial profit of PLN 4.15 billion (19.13% higher than in the

corresponding period of the previous year). In terms of results in individual classes of insurance, the increase of the technical profit over the year was mainly due to the improvement of the result in class 3 (accident and theft insurance)—the largest increase in Division II by PLN 0.36 billion and in class 8 (insurance against damage caused by natural forces, including damage to or loss of property not included in classes 3-7)—an increase of PLN 0.24 billion compared with the previous year. The technical result also improved significantly in class 9 (insurance against other material damage, not included in classes 3-7, but caused by natural forces other than those in class 8)—by PLN 0.19 billion over the course of the year.

Table 6. Basic figures characterising the activities of life insurance undertakings in the years 2015-2018 (financial data in PLN billion)

| Detailed list | 2015 | 2016 | 2017 | 2018 |
|---|--------|--------|--------|-------|
| Selected balance sheet items | | | | |
| Deposits (item B) | 41.78 | 40.84 | 40.67 | 39.77 |
| Net assets of life insurance where the investment risk is borne by the policyholder | 55.44 | 56.99 | 59.13 | 50.76 |
| Equity capital | 12.43 | 12.22 | 11.93 | 11.54 |
| Gross technical provisions | 86.52 | 87.36 | 88.84 | 80.26 |
| Balance sheet total | 102.83 | 103.17 | 104.68 | 94.95 |
| Selected items of profit and loss accounts | | | | |
| Gross written premiums | 27.53 | 23.85 | 24.56 | 21.70 |
| Gross claims incurred | 19.36 | 18.28 | 20.35 | 21.49 |
| Costs of insurance activities | 6.25 | 5.42 | 5.34 | 5.13 |
| Acquisition costs | 4.72 | 3.93 | 3.87 | 3.61 |
| Administrative costs | 1.76 | 1.71 | 1.65 | 1.65 |
| Technical result | 2.84 | 2.94 | 3.04 | 3.08 |
| Net profit (loss) | 3.05 | 2.17 | 2.28 | 2.45 |

Source: KNF's own calculations

Table 7. Basic figures characterising the activities of non-life insurance undertakings in the years 2015-2018 (financial data in PLN billion)

| Detailed list | 2015 | 2016 | 2017 | 2018 |
|---|-------|-------|-------|-------|
| Selected balance sheet items | | | | |
| Deposits (item B) | 61.93 | 63.13 | 72.16 | 76.97 |
| Equity capital | 21.65 | 21.98 | 24.65 | 25.97 |
| Gross technical provisions | 50.65 | 55.29 | 60.91 | 65.99 |
| Balance sheet total | 77.45 | 81.97 | 92.01 | 97.13 |
| Selected items of profit and loss accounts | | | | |
| Gross written premiums | 27.29 | 32.10 | 37.78 | 40.46 |
| Gross claims incurred | 15.49 | 18.39 | 19.49 | 20.19 |
| Costs of insurance activities | 7.63 | 7.95 | 8.39 | 9.15 |
| Acquisition costs | 6.50 | 7.11 | 7.94 | 8.97 |
| Administrative costs | 1.86 | 1.99 | 2.04 | 2.03 |
| Technical result | 0.25 | 0.37 | 2.07 | 2.95 |
| Net profit (loss) | 2.57 | 1.93 | 3.49 | 4.15 |

Source: KNF's own calculations

2.5. PENSION SECTOR

OPEN PENSION FUNDS AND GENERAL PENSION SOCIETIES

As at the end of 2018, 10 open pension funds (PL: OFE) and the same number of general pension societies (PL: PTE) managing them held authorisations to operate. On 24 April 2018, the KNF Board authorised Powszechnie Towarzystwo Emerytalne PZU S.A. to take over the

management of Pekao Otwarty Fundusz Emerytalny. The actual take-over by PZU S.A. PTE of Pekao OFE took place on 19 May 2018, and the liquidation of Pekao OFE was completed on 12 October 2018. Following the take-over, the number of open pension funds decreased from 11 to 10.

Substantial legal changes to the pension system which entered into force in 2014 permanently affected the functioning of entities. Among other things, the contribution rate was set at 2.92% and a solution was adopted whereby contributions to OFEs are only paid for the persons who submitted a relevant declaration and for the persons who became subject to social insurance and joined the OFEs on their own.

Table 8. Value of net assets of open pension funds (OFEs) at the end of the period 2015-2018

| Open pension fund | Net value of assets (PLN million) | | | | Market structure (%) |
|---------------------------|--------------------------------------|------------------|------------------|------------------|----------------------------|
| | 2015 | 2016 | 2017 | 2018 | |
| Aegon OFE | 5 812.5 | 6 312.0 | 15 479.4 | 13 620.0 | 8.7 |
| Allianz Polska OFE | 6 343.8 | 6 964.6 | 8 090.6 | 7 152.3 | 4.6 |
| Aviva OFE Aviva Santander | 30 935.6 | 33 682.2 | 39 468.9 | 34 493.3 | 21.9 |
| AXA OFE | 9 072.0 | 9 867.1 | 11 555.5 | 10 126.9 | 6.4 |
| Generali OFE | 6 905.2 | 7 483.0 | 8 803.8 | 7 825.8 | 5.0 |
| MetLife OFE | 11 228.2 | 12 326.6 | 14 256.7 | 12 391.7 | 7.9 |
| Nationale-Nederlanden OFE | 34 265.8 | 37 556.3 | 44 576.6 | 39 748.0 | 25.3 |
| Nordea OFE | 6 435.2 | 7 154.3 | - | - | - |
| Pekao OFE | 2 046.5 | 2 262.6 | 2 655.2 | - | - |
| PKO BP Bankowy OFE | 6 344.5 | 7 015.0 | 8 074.9 | 7 046.0 | 4.5 |
| OFE Pocztylion | 2 605.1 | 2 831.5 | 3 234.2 | 2 809.9 | 1.8 |
| OFE PZU „Złota Jesień” | 18 501.7 | 19 979.3 | 23 333.5 | 22 120.1 | 14.1 |
| Total: | 140 496.1 | 153 434.5 | 179 529.5 | 157 333.9 | 100.0 |

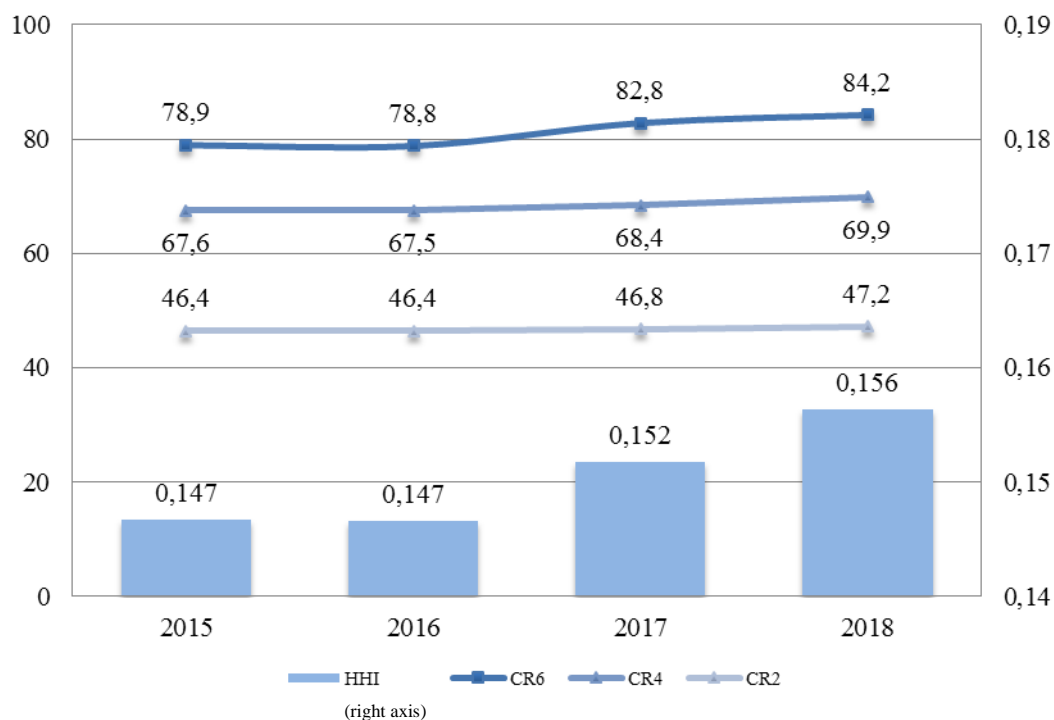
Source: KNF's own calculations based on daily reports of OFEs

At the end of 2018, net assets of open pension funds reached PLN 157.3 billion and were PLN 22.2 billion (12.4%) lower than a year before.

The key drivers of the decrease in the value of net assets of OFEs in 2018 included the negative financial result of OFEs (PLN -17.3 billion) and the negative balance of settlements between OFEs and the Polish Social Insurance Institution (ZUS). In 2018, OFEs transferred PLN 8 billion to ZUS under the safety slider, that is a regime of ongoing transfer of funds from the account of members who would reach the pensionable age in less than 10 years. In the same period, ZUS transferred PLN 3.3 billion of premiums to OFEs.

The liquidation of Pekao OFE, which was the smallest market player in 2017, and the transfer of its assets to OFE PZU „Złota Jesień” (the third largest market player in terms of value of assets), resulted in a slight increase in the concentration of assets. The market share of the four largest pension funds measured by the value of assets in 2018 increased by less than 1.5 percentage point (to 69.9%). The liquidation of the smallest entity resulted, to a similar extent, in an increase in the CR6 index, which increased by 1.4 percentage points. Whereas the HHI index reached 0.156.

Diagram 9. Concentration of net assets of open pension funds in the years 2015-2018



Source: KNF's own calculations

CR2, CR4, CR6—indicators specifying shares of 2, 4 and 6 largest OFEs in total assets.

HHI—the Herfindahl-Hirschmann index: a measure of market concentration that determines the estimated level of concentration in a given industry, calculated as the sum of the square of market shares of individual entities (e.g. the sum of squares of shares of individual OFEs in total assets of OFE).

At the end of 2018, OFEs had 15.9 million members. Over the year as a whole, there was another fall in the number of members. The number of members of funds who retired was 200 thousand higher than the number of individuals who joined an open pension fund for the first time. Only OFE PZU „Złota Jesień” increased the number of its members by 286 thousand (13.4%) but that resulted from the take-over of Pekao OFE and did not change the position of OFE PZU in the ranking of major entities in terms of number of members. The total market share of the 3 largest funds increased by nearly 2 percentage points and reached nearly half of the entire market.

Table 9. The number of members of open pension funds at the end of the period 2015-2018

| Open pension fund | Number of members (in thousand) | | | | Market structure (%) |
|---------------------------|---------------------------------|-----------------|-----------------|-----------------|----------------------|
| | 2015 | 2016 | 2017 | 2018 | |
| Aegon OFE | 921.4 | 913.9 | 1 829.7 | 1 804.0 | 11.3 |
| Allianz Polska OFE | 1 077.0 | 1 072.2 | 1 059.6 | 1 050.7 | 6.6 |
| Aviva OFE Aviva Santander | 2 649.3 | 2 631.0 | 2 577.2 | 2 539.4 | 16.0 |
| AXA OFE | 1 152.2 | 1 146.7 | 1 130.8 | 1 119.4 | 7.0 |
| Generali OFE | 1 000.5 | 995.0 | 980.4 | 970.4 | 6.1 |
| MetLife OFE | 1 591.6 | 1 581.4 | 1 554.2 | 1 536.2 | 9.7 |
| Nationale-Nederlanden OFE | 3 077.8 | 3 061.7 | 3 013.5 | 2 981.6 | 18.8 |
| Nordea OFE | 989.9 | 982.2 | - | - | - |
| Pekao OFE | 335.5 | 332.9 | 327.0 | - | - |
| PKO BP Bankowy OFE | 943.2 | 937.4 | 922.9 | 912.6 | 5.7 |
| OFE Pocztylion | 585.5 | 582.3 | 573.4 | 567.6 | 3.6 |
| OFE PZU „Złota Jesień” | 2 208.4 | 2 188.1 | 2 133.9 | 2 420.0 | 15.2 |
| Total | 16 532.1 | 16 424.8 | 16 102.6 | 15 901.9 | 100.0 |

Source: The Polish Social Insurance Institution (ZUS)

After two years of high rates of return generated by open pension funds, in 2018 their average rate of return was negative and was -9.6%, the lowest after 2008. Entities reached their rates of return between -10.7% and -8.8%. A high volatility of investment performance results from a strong involvement of funds in domestic equity instruments (which is an effect of the 2014 transfer of Treasury bonds held by OFEs to ZUS and the introduction of a ban on investing the assets of OFEs in securities issued by the State Treasury, with an insufficient level of development of the financial market of other debt instruments), and in consequence strong reliance of performance on the situation in the stock market.

Table 10. Rates of return of open pension funds in the years 2015-2018 (in %)

| Open pension fund | 2015 | 2016 | 2017 | 2018 |
|---------------------------|--------------|--------------|--------------|--------------|
| Aegon OFE | -6.3% | 10.0% | 16.4% | -9.3% |
| Allianz Polska OFE | -4.2% | 9.9% | 17.8% | -9.5% |
| Aviva OFE Aviva Santander | -5.8% | 9.7% | 19.8% | -9.4% |
| AXA OFE | -3.5% | 9.1% | 18.8% | -9.9% |
| Generali OFE | -7.2% | 8.4% | 19.4% | -8.8% |
| MetLife OFE | -2.9% | 11.5% | 19.4% | -9.3% |
| Nationale-Nederlanden OFE | -4.7% | 8.9% | 19.6% | -9.4% |
| Nordea OFE | -5.8% | 11.7% | - | - |
| Pekao OFE | -6.4% | 11.3% | 19.6% | - |
| PKO BP Bankowy OFE | -3.2% | 11.4% | 17.5% | -10.0% |
| OFE Pocztylion | -3.9% | 10.7% | 17.8% | -9.3% |
| OFE PZU „Złota Jesień” | -2.9% | 10.2% | 20.9% | -10.7% |
| Average | -4.7% | 10.2% | 18.8% | -9.6% |

Source: KNF's own calculations based on daily reports of OFEs

In 2018, the dominant categories in the account of the general pension societies were revenues and expenses relating to the management of pension funds (OFE and DFE), including:

- revenue from management fee of OFE (75.9 % of revenues),
- revenue from contributions to OFE (4.9 % of revenues),
- revenue from the use of the reserve account – additional remuneration of PTE for good investment results (4.7 % of revenues),

and expenses of:

- general management of PTE (38.4 % of expenses),
- a transfer agent of OFE and DFE (25.8 % of expenses),
- acquisition services for OFE and DFE (8.5 % of expenses).

OCCUPATIONAL PENSION FUNDS AND SOCIETIES

As at 31 December 2018, 3 occupational pension societies managed 3 occupational pension funds (PL: PFE). In 2018, the shareholders of Pracownicze Towarzystwo Emerytalne UNILEVER POLSKA S.A., managing the occupational pension fund UNILEVER POLSKA, passed a resolution to dissolve the Company. Considering that the management of PFE UNILEVER POLSKA is expected to be taken over by another occupational pension society, the fund will be liquidated.

At the end of 2018, occupational pension funds had 33.3 thousand members. This represents a 4.7% decrease compared with the 2017. In the reporting period, basic and additional contributions in the amount of PLN 105.3 million were transferred to the accounts of PFE members. The value of net assets accumulated in occupational pension funds amounted to PLN 1.8 billion at the end of 2018. Compared with 2017, the value of net assets of PFE fell by PLN 62.8 million, i.e. by 3.4%. A decrease in the aggregate value of assets was recorded in both occupational pension funds operating at the end of the year: of PLN 60.4 million at PFE „Nowy Świat”, and of PLN 1.8 million at PFE Orange Polska (mainly due to transfer payments and disbursements to authorised persons following liquidation of one of the PPEs).

Table 11. Net assets of occupational pension funds in the years 2015-2018 (as at 31 December)

| Occupational pension fund | Net assets (PLN million) | | | | Market share (in %) |
|---------------------------|-----------------------------|----------------|----------------|----------------|------------------------|
| | 2015 | 2016 | 2017 | 2018 | |
| PFE Nestle Polska | 55.4 | 0 | - | - | - |
| PFE Nowy Świat | 408.9 | 426.1 | 466.4 | 406.0 | 22.6 |
| PFE Orange Polska | 1 262.8 | 1 268.2 | 1 396.0 | 1 394.2 | 77.4 |
| PFE Unilever Polska | 67.3 | 77.2 | 0.6 | 0 | 0 |
| Total | 1 794.5 | 1 771.5 | 1 863.0 | 1 800.2 | 100.0 |

Source: occupational pension funds

In 2018, occupational pension funds achieved negative rates of return:

- PFE Orange Polska: -1.1%,
- PFE Nowy Świat: -2.7%.

Table 12. Rates of return of occupational pension funds in the years 2015-2018 (in %)

| Occupational pension fund | 2015 | 2016 | 2017 | 2018 |
|---------------------------|------|------|------|------|
| PFE Nestle Polska | -1.2 | - | - | - |
| PFE Nowy Świat | -1.3 | 3.9 | 8.9 | -2.7 |
| PFE Orange Polska | -2.7 | 3.2 | 8.2 | -1.1 |
| PFE Unilever Polska | -1.0 | 4.9 | - | - |

Source: occupational pension funds

VOLUNTARY PENSION FUNDS

As at 31 December 2018, 7 voluntary pension funds (DFE), managed by general pension societies, were authorised to pursue business. All operating DFEs collected funds within individual retirement protection accounts (PL: IKZE), and additionally members of five of them (Allianz DFE, MetLife DFE, Nationale-Nederlanden DFE, PKO DFE, and Generali DFE) had funds within individual retirement accounts (PL: IKE).

At the end of 2018, voluntary pension funds had 105.5 thousand members (an increase of 7.7% compared with the previous year), who accumulated savings in the form of IKZE or IKE.

The value of the aggregate net assets accumulated in DFE amounted to PLN 381.8 million, which represented an increase of over 27% compared with 2017 (driven mainly by an inflow of contributions to the funds).

In 2018, PTE PZU SA, which managed DFE PZU, took over DFE Pekao and so on 28 September 2018 liquidation of DFE Pekao took place. So the significant increase in the assets of DFE PZU (in addition to payments made by savers) was also driven by the fact that more than half of members of the former DFE Pekao entered into contracts for the management of IKZE accounts with DFE PZU. As part of the transfer payment, 97.2% of funds were transferred to DFE PZU and the other funds accumulated at DFE Pekao was transferred according to other instructions given by members of the former DFE Pekao (refund, disbursement) or await instructions from beneficiaries of any deceased member of DFE Pekao.

Table 13. Net assets of DFEs in the years 2015-2018 (in PLN million)

| Voluntary pension fund | 2015 | 2016 | 2017 | 2018 |
|---------------------------|--------------|--------------|--------------|--------------|
| Allianz Polska DFE | 5.5 | 8.0 | 11.7 | 13.5 |
| Generali DFE | 0.1 | 0.2 | 0.3 | 0.5 |
| MetLife DFE | 23.8 | 28.1 | 33.4 | 30.5 |
| Nationale-Nederlanden DFE | 12.9 | 33.6 | 69.5 | 98.7 |
| Nordea DFE | 2.8 | - | - | - |
| DFE Pekao | 27.9 | 51.2 | 82.0 | - |
| PKO DFE | 15.7 | 34.0 | 55.0 | 67.8 |
| DFE Pocztylion Plus | 0.8 | 1.1 | 1.4 | 2.4 |
| DFE PZU | 14.3 | 26.4 | 45.6 | 168.4 |
| Total | 103.8 | 182.6 | 298.9 | 381.8 |

Source: voluntary pension funds

In 2018, all voluntary pension funds achieved negative rates of return. They ranged from -16.6% to -4.8%. Large diversification of investment results of DFEs was largely the consequence of different investment strategies used by managers. The funds varied both in terms of allocation of each asset class, the choice of individual financial instruments, and the pace of changes in the portfolio structure.

Table 14. Rates of return of DFEs in the years 2015-2018 (in %)

| Voluntary pension fund | 2015 | 2016 | 2017 | 2018 |
|---------------------------|--------|--------|--------|--------|
| Allianz Polska DFE | * 1.6 | * 7.8 | * 11.5 | * -6.6 |
| Generali DFE | 3.4 | 18.3 | 6.4 | -10.4 |
| MetLife DFE | -1.9 | 3.8 | 6.6 | -16.6 |
| Nationale-Nederlanden DFE | * 16.2 | * 13.3 | * 9.0 | * -8.6 |
| Nordea DFE | -2.5 | - | - | - |
| DFE Pekao | 3.3 | 4.9 | 6.8 | - |
| PKO DFE | -0.9 | 5.7 | 8.6 | -6.7 |
| DFE Pocztylion Plus | 2.6 | 3.6 | -1.0 | -4.8 |
| DFE PZU | 9.1 | 16.2 | 14.7 | -9.9 |

Source: voluntary pension funds

* the rate of return calculated on the basis of the type A unit of account

OCCUPATIONAL PENSION SCHEMES, INDIVIDUAL RETIREMENT ACCOUNTS AND INDIVIDUAL RETIREMENT PROTECTION ACCOUNTS

Occupational pension schemes (PPE), individual retirement accounts (IKE) and individual retirement protection accounts (IKZE), the participation in which is voluntary, are—unlike other forms of voluntary accumulation of savings for pension purposes—of an institutional nature, and funds are collected on them according to the rules laid down by law.

The development of the third pillar of the pension system is strengthened by incentives in the form of tax exemptions and the possibility to benefit from a reduction on social security contributions.

The PPE market has existed since 1999. The development of the PPE market in the years 2015-2018 is presented in Table 15.

Table 15. Development of occupational pension schemes (PPEs) in the years 2015-2018

| Detailed list | 2015 | 2016 | 2017 | 2018 |
|--|--------|--------|--------|--------|
| Number of PPEs | 1 054 | 1 036 | 1 054 | 1 232 |
| Number of participants (in thousand) | 393 | 396 | 396 | 425 |
| Value of accumulated assets (in PLN million) | 10 623 | 11 394 | 12 643 | 12 735 |

Source: KNF's own calculations—institutions managing the funds of occupational pension schemes

1 230 occupational pension schemes were operating as at 31 December 2018, including:

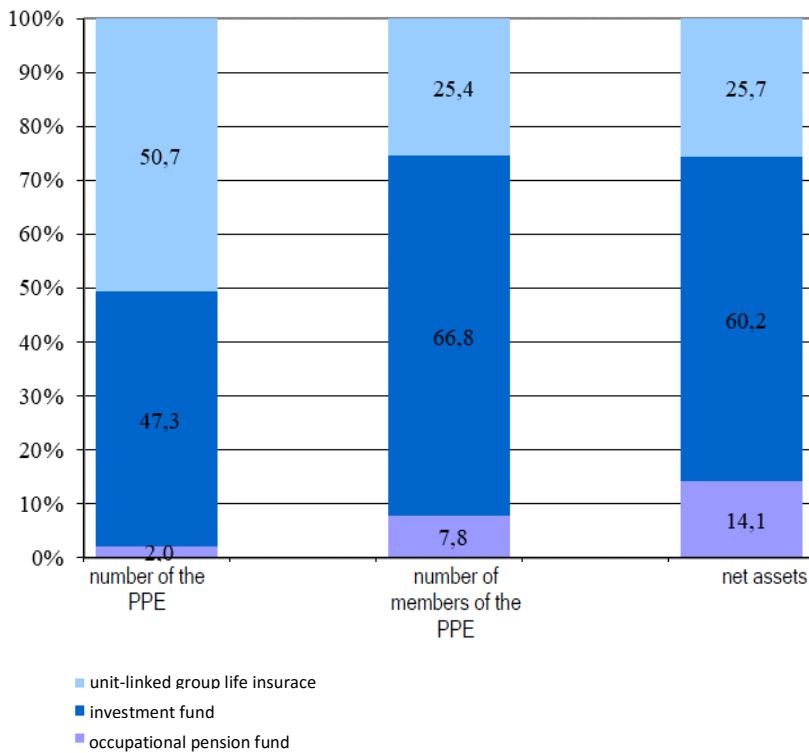
- 623 in the form of a unit-linked group life insurance contract,
- 582 in the form of an agreement on the payment by the employer of employees' contributions to the investment fund,
- 25 in the form of an occupational pension fund.

In 2018, 206 new occupational pension schemes were entered in the register of occupational pension schemes. Additionally, in the reporting period, 64 employers joined an inter-company scheme entered in the PPE register.

At the end of 2018, PPEs had 425 thousand participants, and the value of collected assets amounted to PLN 12 735 million, which means that the value of assets collected on accounts of PPE participants increased by PLN 92 million compared with 2017 (by approx. 1%).

The share of individual forms in the PPE market is shown in Diagram 10.

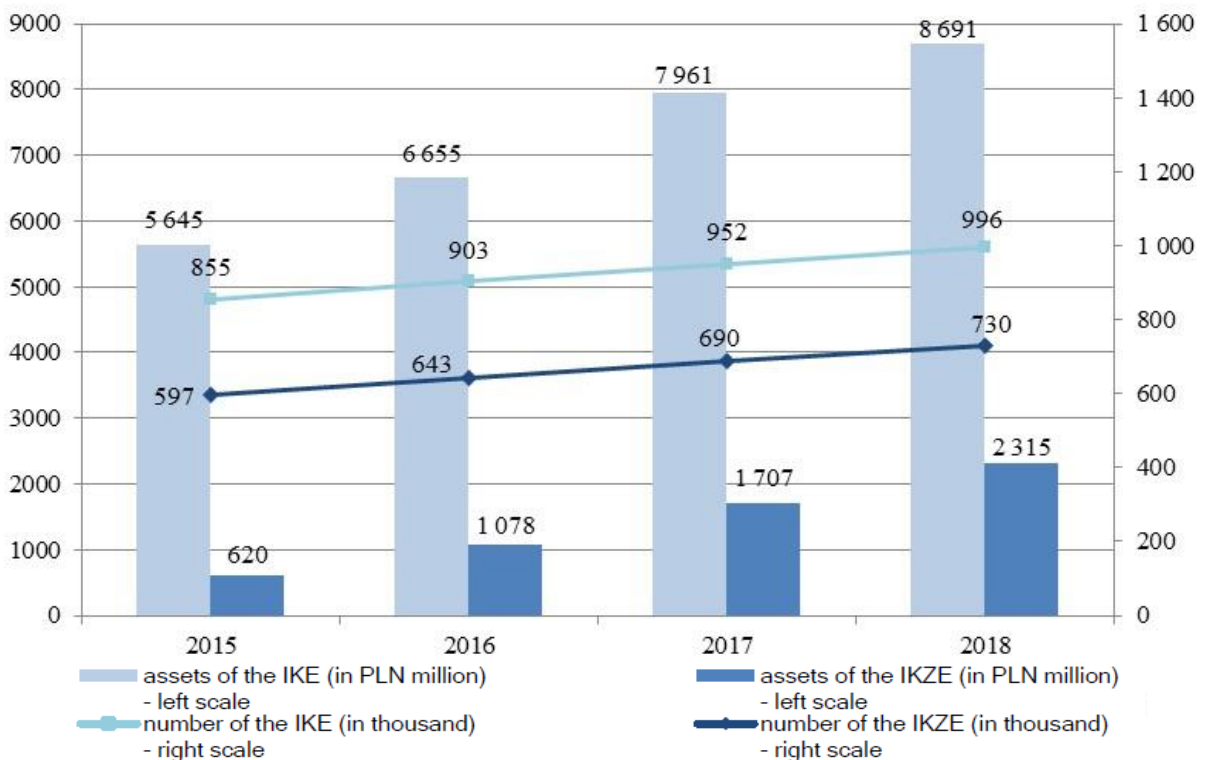
Diagram 10. Structure of the PPE market in 2018 (in %)



Source: own calculations of the KNF, institutions managing the funds of occupational pension schemes

The report 'Occupational pension schemes in 2017' was presented at the KNF's meeting.

Diagram 11. The value of assets and the number of IKE and IKZE accounts in the years 2015-2018



Source: KNF's own calculations—institutions managing the funds of occupational pension schemes

Individual retirement accounts (IKE) and individual retirement protection accounts (IKZE) are voluntary individual forms of saving for pension purposes. The periods of their functioning vary: IKEs have been operating since 2004 and IKZEs since 2012. As at the end of 2018, entities authorised to operate IKEs or IKZEs handled 995.6 thousand IKEs and 730.4 thousand IKZEs, which generated assets of PLN 8 691.1 million and PLN 2 314.9 million, respectively.

Table 16. The number of accounts and the value of assets of IKE and IKZE accounts broken down by maintaining institution, as at 31 December 2018

| Entities maintaining IKE or IKZE accounts | Number of accounts | | | | Value of assets | | | |
|---|--------------------|------------|--------------|------------|-----------------|------------|----------------|------------|
| | IKE | | IKZE | | IKE | | IKZE | |
| | thou. | % | thou. | % | PLN million | % | million | % |
| Insurance undertakings | 562.5 | 56.5 | 447.3 | 61.2 | 2 582.7 | 29.7 | 635.1 | 27.4 |
| Investment funds | 317.0 | 31.8 | 150.2 | 20.6 | 2 724.6 | 31.3 | 1 083.5 | 46.8 |
| Entities conducting brokerage activities | 32.6 | 3.3 | 11.2 | 1.5 | 1 434.7 | 16.5 | 119.4 | 5.2 |
| Banks | 78.3 | 7.9 | 20.3 | 2.8 | 1 886.4 | 21.7 | 156.2 | 6.7 |
| Voluntary pension funds | 5.3 | 0.5 | 101.4 | 13.9 | 62.7 | 0.7 | 320.8 | 13.9 |
| Total | 995.6 | 100 | 730.4 | 100 | 8 691.1 | 100 | 2 314.9 | 100 |

Source: KNF's own calculations—institutions managing the funds of occupational pension schemes

2.6. CAPITAL AND COMMODITY MARKETS

The capital and commodity markets supervised by the KNF Board are formed by entities operating in the securities market and the market of other financial instruments, collective investment institutions, and entities operating in the commodity market.

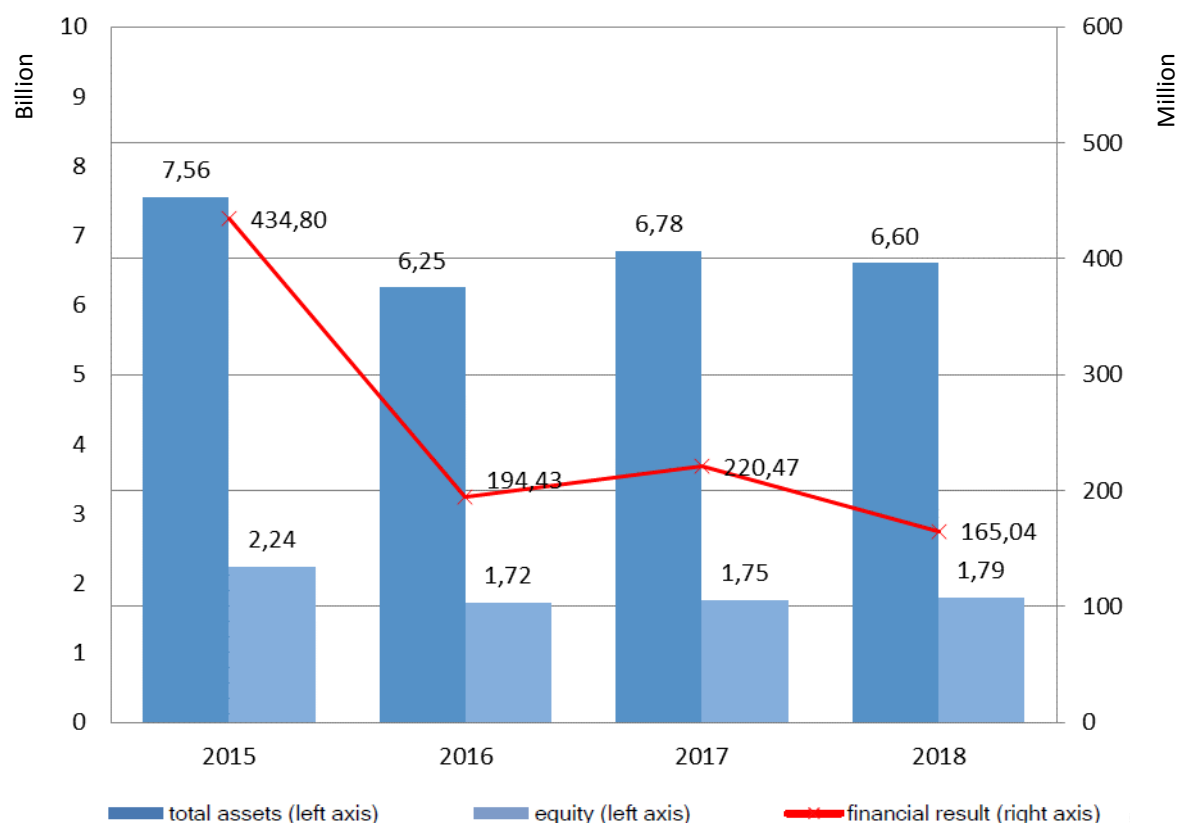
ENTITIES PROVIDING INVESTMENT AND FIDUCIARY SERVICES

Table 17. The number of entities providing investment and fiduciary services in the years 2015-2018

| Type of entity | 2015 | 2016 | 2017 | 2018 |
|-------------------------------------|-----------|-----------|-----------|-----------|
| Brokerage houses | 52 | 46 | 44 | 40 |
| Commodity brokerage houses | 1 | 1 | 1 | 1 |
| Banks providing investment services | 12 | 11 | 11 | 9 |
| Custodian banks | 13 | 13 | 13 | 12 |
| Total | 78 | 71 | 69 | 62 |

Source: KNF's own calculations

Diagram 12. Basic data of the sector of brokerage houses in the years 2015-2018



Source: KNF's own calculations

Data for 2015-2017 comes from the audited financial statements, data for 2018 is derived from monthly MRF reports as at 31 December 2018.

Data does not include data of one brokerage house whose financial year does not coincide with the calendar year. That data take into account the changing number of brokerage houses operating in the years 2015-2018.

Table 18. Data on the number of client accounts of brokerage firms in the years 2015-2018

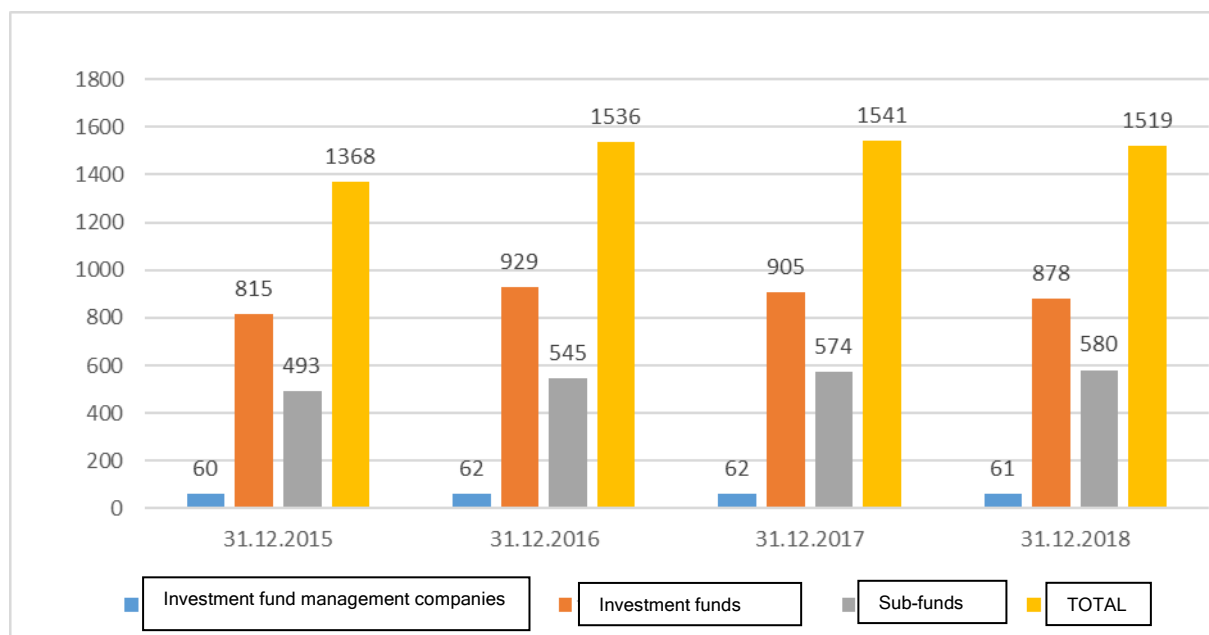
| Detailed list | Number of client accounts | | | | Share in total value (in %) |
|-------------------------------------|---------------------------|------------------|------------------|------------------|-----------------------------|
| | 2015 | 2016 | 2017 | 2018 | 2018 |
| Brokerage houses | 1 129 648 | 838 793 | 744 399 | 714 957 | 39.11% |
| Banks providing investment services | 793 733 | 1 187 939 | 1 192 413 | 1 113 066 | 60.89% |
| Total | 1 923 381 | 2 026 732 | 1 936 812 | 1 828 023 | 100% |

Source: KNF's own calculations

INVESTMENT FUND MANAGEMENT COMPANIES AND INVESTMENT FUNDS

2018 saw a decrease in the number of supervised domestic entities in the investment fund sector, as shown in Diagram 13 (cumulatively).

Diagram 13. Total number of supervised investment fund management companies, and investment funds and sub-funds at the end of the years 2015-2018 (cumulatively, by type)



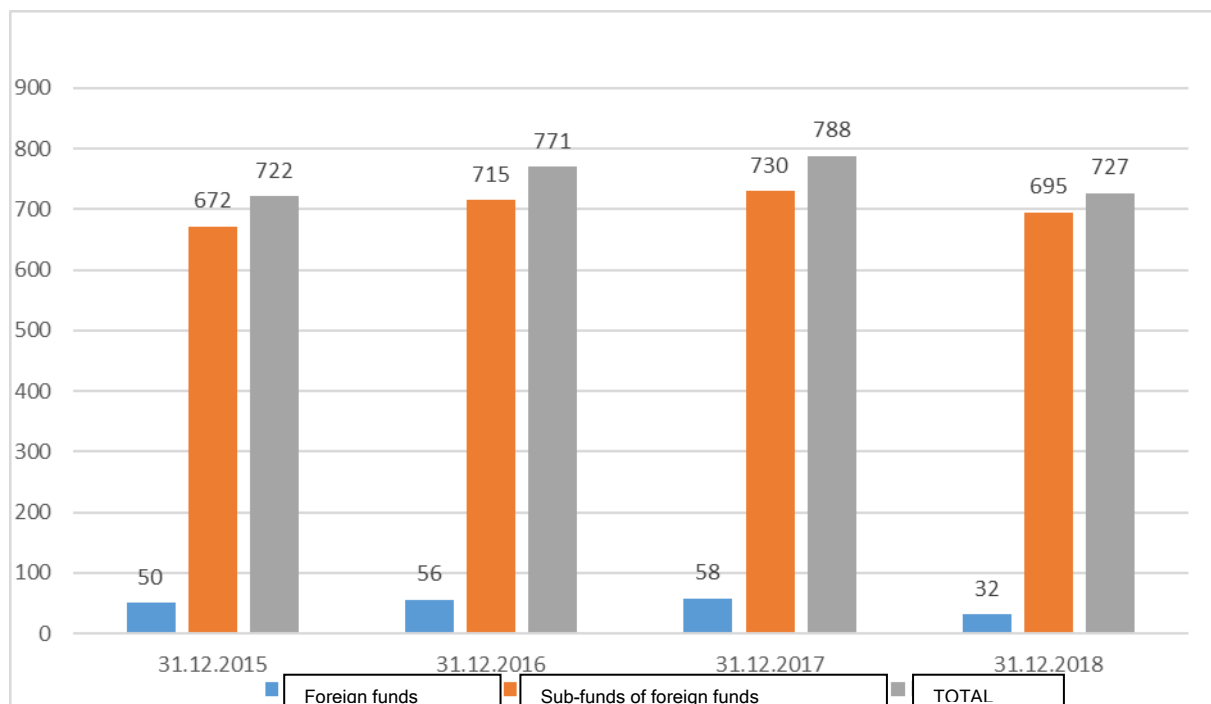
Source: KNF's own calculations

As at 31 December 2018, 61 investment fund management companies, managing a total of 878 investment funds, held authorisations from the KNF Board, including: 47 open-end investment funds, 52 specialist open-end investment funds, and 779 closed-end investment funds.

The KNF Board supervises the sale in the territory of the Republic of Poland of participation units issued by foreign funds.

As the Raiffeisen group and KBC reduced their operations in Poland, a significant fall in the number of such entities was recorded in 2018.

Diagram 14. Total number of supervised foreign investment funds (UCITS type) and sub-funds included in foreign investment funds (UCITS) at the end of the years 2015-2018 (cumulative, by type)

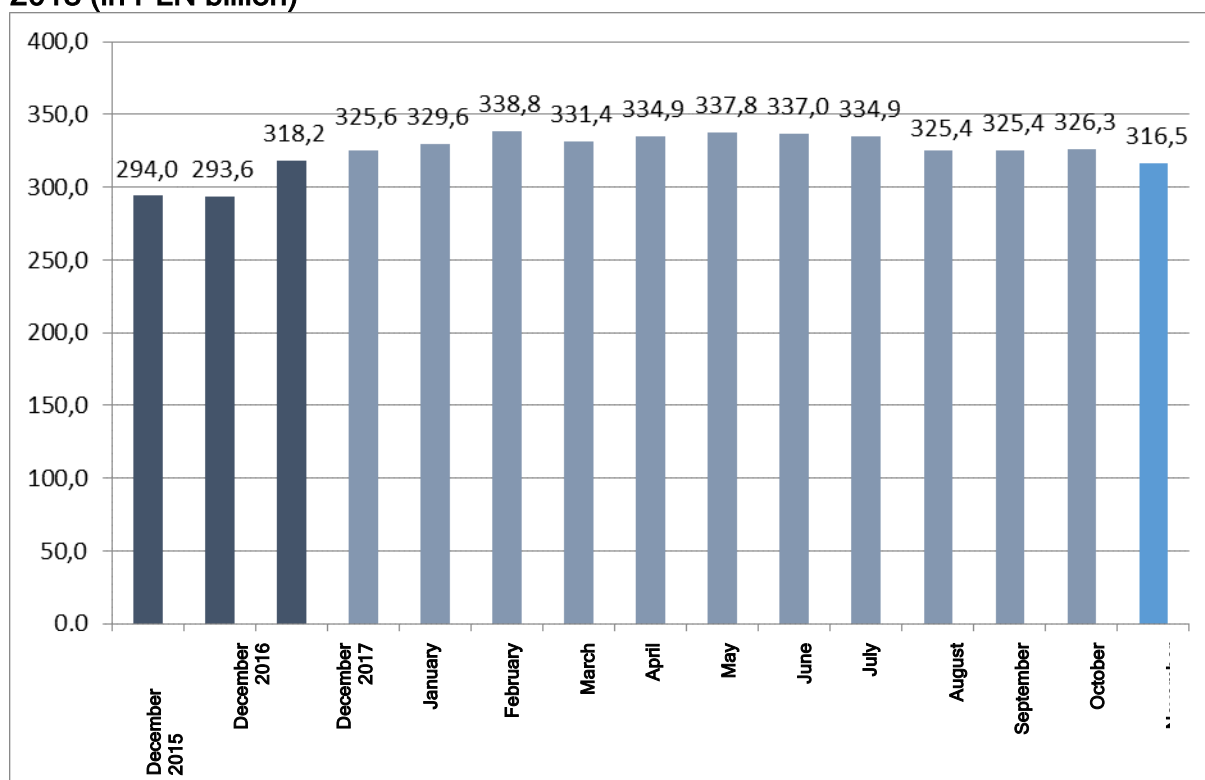


Source: KNF's own calculations

While in general in 2018 the value of assets of investment funds remained higher than in any specific month of 2018, the value decreased by PLN 9.8 billion at the end of December 2018 compared with the end of November 2018. In consequence, the value of assets of the funds as at 31 December 2018 was PLN 1.7 billion lower compared with December 2017 and was PLN 316.5 billion.

Diagram 15 shows the value of assets of investment funds managed by TFIs at the end of the years 2015-2017 and in each month of 2018.

Diagram 15. Assets of investment funds at the end of the years 2015-2017 and in 2018 (in PLN billion)⁴



Source: KNF's own calculations

Diagram 15 shows that an upward trend was maintained in relation to the value of assets of investment funds in the first six months of 2018, except for April, whereas between July and September 2018 falls in the value of the funds' asset could be seen. In the first months of the last quarter of 2018, the value of the funds' assets increased slightly and then decreased to PLN 316.5 billion as at 31 December 2018. At the end of 2018, the value of the funds' assets was PLN 1.7 billion (i.e. 0.53%) lower than at the end of 2017. The largest increases in the value of assets of investment funds were recorded in January and March, and the major decrease occurred in September and December.

Due to the slowdown of the upward trend from the first months of 2018 in relation to the value of assets of investment funds and their decreases in the second half of 2018, TFIs in 2018 generated revenue similar to the revenue in the previous year. The total revenue for 2018 was PLN 56 million, i.e. 1.4%, higher than in 2017 and amounted to PLN 3 940 million. On the other hand, total costs was lower by PLN 220 million (7.2%) and amounted to PLN 2 816 million. The decrease in costs resulted in an increase in the aggregate financial results of TFIs for 2018, which amounted to PLN 911 million and was PLN 365 million (66.8%) higher than in the previous year⁵.

⁴ Based on monthly reports provided by investment fund management companies. Monthly reports are not audited or reviewed by a statutory auditor so information included therein may be subject to subsequent corrections.

⁵ Based on monthly reports provided by investment fund management companies. Monthly reports are not audited or reviewed by a statutory auditor so information included therein may be subject to subsequent corrections.

Table 19. Aggregate costs, revenues and net financial result of investment fund management companies in the years 2015-2018 (in PLN million)⁶

| Detailed list | 2015 | 2016 | 2017 | 2018 | |
|--------------------------------|-------|-------|-------|-------|---------|
| Total revenues | 3 234 | 3 241 | 3 884 | 3 940 | - |
| Total costs, including: | 2 551 | 2 610 | 3 036 | 2 794 | 100.00% |
| - overhead costs | 1 747 | 986 | 1 158 | 1 243 | 44.49% |
| - variable costs, including: | 1 751 | 1 624 | 1 878 | 1 551 | 55.51% |
| - variable distribution costs* | 1 306 | 1 213 | 1 398 | 936 | 33.50% |
| Net financial result | 550 | 498 | 546 | 911 | - |

* Costs directly relating to the receipt and execution of orders of sale, repurchase or conversion of units, or the receipt of subscriptions for investment certificates and their allocation, as remuneration for distributors or incurred for the promotion or marketing of the fund.

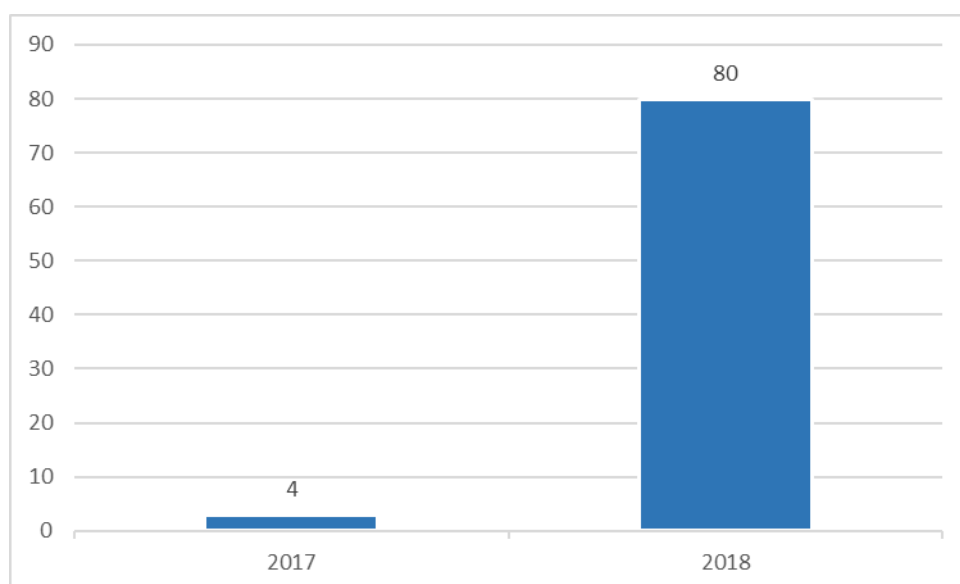
Source: KNF's own calculations

ALTERNATIVE INVESTMENT COMPANIES/PARTNERSHIPS (AICs) AND ALTERNATIVE INVESTMENT COMPANY/PARTNERSHIP MANAGERS (AICMs)

In 2018, the activities focused on the formal and substantive review of requests for entry in the register of AICMs, both from entities who applied in 2017 under Article 54(1) of the Act of 31 March 2016 amending the Act on investment funds and certain other acts (Journal of Laws 2016, item 615, hereinafter: 'the amending Act') and under the applicable provisions of the Act. The previous year also saw a significant increase in the number of entities entered in the register of AICMs. That increase was driven by factors relating to the expansion of the team of staff responsible for reviewing requests for entry in the register of AICMs and to the significant inflow of new requests from entities which have not started their operations, especially entities which intended to operate under programmes implemented by the National Centre for Research and the Polish Development Fund.

⁶ Based on monthly reports provided by investment fund management companies. Monthly reports are not audited or reviewed by a statutory auditor so information included therein may be subject to subsequent corrections.

Diagram 16. Total number of AICMs listed in the register of AICMs in the years 2017-2018



Source: KNF's own calculations

In 2008, special attention was also paid to identifying and resolving legal and factual issues of the functioning of AICs and AICMs.

All KNF-supervised entities operating as AICMs were entered in the register of AICMs in the years 2017-2018. No such entity operated in the Polish financial market in 2016 or in previous years, although the regulations governing such activities entered into force on 4 June 2016.

ORGANISED SECURITIES MARKETS

Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange)

Regulated market

The core activity of the Warsaw Stock Exchange is to operate the regulated market. The regulated market is a permanent organised trading system for financial instruments which provides investors with equal and universal access to market information, associating offers of acquisition and disposal of financial instruments, and uniform terms and conditions for the acquisition and disposal of such instruments. The regulated market operates according to the Warsaw Stock Exchange Rules, amendments to which are approved by the KNF Board, and the Detailed Exchange Trading Rules specifying the provisions of that document.

The main financial instruments traded on the Warsaw Stock Exchange are securities: shares, bonds, subscription rights, rights to shares, investment certificates, and derivatives: futures, options, index participation units.

Table 20. Rates of returns on the WSE indices in the years 2015-2018 (in %)

| Detailed list | 2015 | 2016 | 2017 | 2018 |
|---------------|--------|-------|-------|--------|
| WIG | -9.62 | 11.38 | 23.17 | -9.50 |
| WIG20 | -19.72 | 4.77 | 26.35 | -7.50 |
| mWIG40 | 2.40 | 18.18 | 14.99 | -19.35 |
| sWIG80 | 9.11 | 7.93 | 2.36 | -27.57 |

Source: <https://www.gpw.pl/podstawowe-statystyki-gpw>

Table 21. The number of instruments listed on the WSE in the years 2015-2018

| Detailed list | 2015 | 2016 | 2017 | 2018 |
|------------------------|------|------|------|------|
| Companies | 487 | 487 | 482 | 465 |
| - including foreign | 54 | 53 | 50 | 51 |
| Number of new listings | 30 | 19 | 15 | 7 |
| Number of delistings | 13 | 20 | 20 | 25 |
| Bonds | 122 | 153 | 178 | 195 |
| - including foreign | 1 | 4 | 4 | 6 |
| Futures | 144 | 166 | 174 | 178 |
| Options | 266 | 228 | 218 | 232 |

Source: <https://www.gpw.pl/podstawowe-statystyki-gpw>

Table 22. Capitalisation of the WSE at the end of the years 2015-2018 (in PLN million)

| Detailed list | 2015 | 2016 | 2017 | 2018 |
|--------------------|------------------|------------------|------------------|------------------|
| Domestic companies | 516 785 | 557 124 | 710 336 | 615 517 |
| Foreign companies | 566 077 | 558 596 | 708 882 | 549 559 |
| Polish bonds | 583 185 | 617 985 | 652 524 | 687 223 |
| Foreign bonds | 98 | 3 122 | 8 207 | 15 010 |
| Total | 1 666 145 | 1 736 827 | 2 079 949 | 1 869 327 |

Source: http://www.gpw.pl/analizy_i_statystyki

Table 23. Value of trading on the WSE in the years 2015-2018 (in PLN million)

| Detailed list | 2015 | 2016 | 2017 | 2018 |
|---------------|---------|---------|---------|---------|
| Shares | 225 287 | 202 293 | 260 979 | 211 850 |
| Bonds | 904 | 1 426 | 1 447 | 1 331 |
| Futures | 216 746 | 188 439 | 230 203 | 223 168 |
| Options | 9 679 | 6 833 | 7 072 | 6 731 |

Source: <https://www.gpw.pl/podstawowe-statystyki-gpw>

Alternative trading system of the Warsaw Stock Exchange (NewConnect)

Apart from the regulated market, the Warsaw Stock Exchange also operates the organised market of financial instruments, according to the formula of the alternative trading system called NewConnect. As assumed by the organisers, the market is dedicated to young emerging companies with a relatively small capitalisation expected. In comparison to the regulated market, the formalities relating to admitting financial instruments to trading are simplified and the costs of entering the market are lower. The information requirements for issuers are less stringent.

Table 24. Data on the NewConnect alternative trading system in the years 2015-2018

| Detailed list | 2015 | 2016 | 2017 | 2018 |
|--|----------|--------|--------|--------|
| Value of the NCIndex at the end of the year | 278.37 | 306.50 | 278.22 | 198.72 |
| Rate of return of the NCIndex in the current year (%) | -4.13 | 10.11 | -9.23 | -28.57 |
| Capitalisation of companies at the end of the year (PLN million) | 8 416.54 | 9 799 | 9 408 | 7 386 |
| Number of companies at the end of the year | 418 | 414 | 401 | 381 |
| Number of new listings | 19 | 16 | 19 | 15 |
| Number of sessions | 251 | 251 | 250 | 247 |
| Trading volume (in PLN million) | 1 722 | 1 360 | 1 322 | 1 574 |
| Number of transactions per session | 4 381 | 3 417 | 3 401 | 3 058 |
| Average trading value per session (PLN million) | 6.86 | 5.41 | 5.28 | 6.37 |

Source: <https://newconnect.pl/podstawowe-statystyki-newconnect>

BondSpot S.A.

Regulated market

The regulated market in Poland is also operated by BondSpot S.A., a company supervised by the KNF Board. The main financial instruments traded on the market operated by BondSpot S.A. are treasury bonds, corporate bonds, cooperative bonds and other debt securities listed under the Catalyst system⁷.

Alternative trading system of BondSpot S.A.

In addition to the regulated market, BondSpot S.A. also organises trading in debt instruments under the alternative trading system (ATS). The market is also one of the segments of the Catalyst system. Similarly to the regulated market organised by BondSpot S.A., dematerialised bonds, mortgage bonds and other debt instruments incorporating property rights corresponding to the rights resulting from debt incurred may be quoted in the alternative trading system.

Table 25. Data on the regulated market and the ATS in the years 2015-2018

| Detailed list | 2015 | 2016 | 2017 | 2018 |
|---|-------|-------|------|-------|
| Regulated OTC Market of BondSpot | | | | |
| Session trading volume (PLN million) | 58.77 | 12.36 | 0.52 | 20.75 |

⁷ Catalyst is a functional combination of authorisation, approval and quotation of debt instruments in four debt markets (i.e. two regulated markets and two alternative trading systems). Out of four functionally connected markets, two are organised by the WSE and two by BondSpot S.A. (each company organises one regulated market and one alternative trading system). According to the division made by the companies, the markets organised by the WSE GPW constitute the so-called retail segment of the Catalyst "platform," while wholesale trade is carried out in the markets organised by the BondSpot S.A., while wholesale trade is carried out in the markets organised by BondSpot S.A.

| | | | | |
|--------------------------------------|--------|--------|--------|-------|
| Number of session transactions | 26 | 12 | 3 | 12 |
| Number of instruments | 115 | 130 | 144 | 149 |
| ATS BondSpot | | | | |
| Session trading volume (PLN million) | 404.61 | 122.33 | 175.36 | 81.77 |
| Number of session transactions | 404 | 371 | 341 | 166 |
| Number of instruments | 189 | 214 | 237 | 209 |

Source: https://gpwcatalyst.pl/pub/CATALYST/statystyki/statystyki_roczne/2018_CAT.pdf

Treasury BondSpot Poland

Following the entry into force of the Act of 1 March 2018 amending the Act on trading in financial instruments and certain other acts (hereinafter: 'the amending Act'), BondSpot S.A. operates the second alternative trading system, i.e. Treasury BondSpot Poland (TBSP). Pursuant to Article 21(1) of the amending Act, the electronic market of treasury securities organised, on the entry into force of the amending Act, by a company operating a regulated market under an agreement with the ministry competent for the budget as part of the performance of tasks relating to the management of the debt of the State Treasury, was recognised, as of the date of entry into force of the amending Act, as an alternative trading system (subject to Paragraph 2 of that Article which stipulates that the company must adapt itself to the new legislation within 12 months, i.e. by 21 April 2019).

CLEARING AND DEPOSIT SYSTEM

KRAJOWY DEPOZYT PAPIERÓW WARTOŚCIOWYCH S.A. (hereinafter: 'National Depository for Securities' or 'KDPW') is the central institution (the only institution in Poland) responsible for maintaining and supervising the deposit and settlement system for trading in financial instruments. The owners of KDPW are in equal parts the WSE, the State Treasury, and the National Bank of Poland. The basic tasks of the National Depository for Securities include registration and maintenance of a securities depository, settlement of transactions, supervision over the compliance of the issue volume with the number of securities traded, handling of corporate events, fulfilment of issuers' obligations, as well as operation of a mandatory compensation scheme.

The tasks of the National Depository also include running a numbering agency, responsible for assigning ISIN, FISN, CFI numbers to securities and LEI codes, which constitute a unique identifier for legal entities dealing with the trading in financial instruments. In addition, the National Depository operates a trading repository in accordance with EMIR.

In 2008, Krajowy Depozyt Papierów Wartościowych S.A. was authorised by the KNF Board to provide the Approved Reporting Mechanism (ARM) service.

The service was established in the EU legislation and incorporated into the Polish legal order as part of implementation of MiFID II. The provision of the ARM service consists in acting as an intermediary for the purpose of reporting to the supervisor details of transactions in financial instruments on behalf of the entities required to report such transactions under Article 26 of MiFIR (transaction reporting). An entity acting as an ARM is authorised to provide the agency service for the purpose of transaction reporting throughout the European Union.

Under Article 69(2) of Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 (OJ L 257 of 28 August 2014, p. 1; 'CSD Regulation'), each

CSD (Central Securities Depository) was required to submit to its competent authority an application for authorisation necessary for the purposes of that Regulation by 30 September 2017. Therefore, on 29 September 2017, the KNF Board received an application from KDPW S.A. for authorisation to operate as a central securities depository pursuant to Article 69(2) in conjunction with Article 16 of the CSD Regulation. In 2018, the application in question was reviewed.

KDPW_CCP S.A. is a clearing house in which KDPW holds a 100% share in the share capital. Since 8 April 2014, KDPW_CCP S.A. has operated as a central counterparty (CCP) pursuant to Article 14 in conjunction with Article 17 of 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 (OJ L 201 of 2012, p. 1). KDPW_CCP S.A. takes over the obligations of parties to the cleared transactions and becomes the buyer for each seller and the seller for each buyer while securing the cleared transactions with own assets.

KDPW_CCP S.A. clears transactions entered into in organised trading, i.e. in the regulated spot and futures markets (GPW S.A. and BondSpot S.A.) and in the alternative trading systems (ATS GPW S.A. and ATS BondSpot S.A.), as well as settles derivative transactions entered into outside the organised trading and repos. KDPW_CCP S.A. organises the system for securing liquidity of settlements accepted to clear transactions. KDPW_CCP S.A. clears transactions in PLN and EUR.

In July 2018, the KNF Board, as the competent supervisory authority for KDPW_CCP S.A., completed the supervisory questionnaire drawn up and submitted by ESMA–2018 EMIR Peer Review on CCPs' collateral and funding arrangements. The document provided ESMA with details regarding the supervision exercised by the KNF Board over KDPW_CCP S.A. with respect to compliance by KDPW_CCP S.A. with the requirements concerning security payments made by members of KDPW_CCP S.A. and the requirements governing the access of CCPs to liquidity (credit lines, readily marketable financial instruments).

PUBLIC OFFERING OF FINANCIAL INSTRUMENTS OTHER THAN INVESTMENT CERTIFICATES

In 2018, there was a decrease in the value of public offerings compared with the previous year. The total value of public offerings amounted to more than PLN 6.8 billion, which represents a decrease of more than 60% compared with the record year 2017.

The decrease in the value of offerings was evident in all segments of the market. In the most important segment of raising capital through public offering of shares (the so-called primary market), the number of subscriptions fell from 71 to 46, and their value more than halved.

The number of public offerings of shares in 2018 was the lowest in recent years, and their value decreased by 95% compared with 2017.

The number of initial public offerings of shares fell from 48 in 2017 to 28 in 2018, and their value fell by 95% compared with the previous year.

The largest segment of the public offer market in terms of value was the public bond offering market, which also recorded a decrease in value (of more than 40%), to PLN 4.4 billion.

In total, in 2018 issuers conducted 163 public offerings, the structure of which is presented in Table 26.

Table 26. Characteristics of public offerings carried out in 2018

| 163 public offerings, including: | | | |
|--|--|---|----------------------|
| 161 cash offerings | | | 2 non-cash offerings |
| 66 public offerings of shares | 60 public offerings of structured products | 35 public offerings of bonds | |
| <i>including:</i> 47 offerings carried out without the need for drawing up and approving the prospectus 34 offerings carried out by a foreign issuer | | <i>including:</i> 11 offerings carried out without the need for drawing up and approving the prospectus 3 offerings carried out by a foreign issuer | |
| 20 public offerings of shares | 46 public subscriptions | | |

Source: KNF's own calculations

The total value of public cash offerings in 2018 amounted to PLN 6 805.83 million, including the value of share subscriptions of PLN 1 047.71 million, the value of public offerings of shares of PLN 331.27 million, the value of offerings of bonds of PLN 4 396.25 million, and the value of offerings of structured products of PLN 1 030.60 million.

Table 27. The value and the number of public cash offerings in the years 2015-2018

| Year | 2015 | | 2016 | | 2017 | | 2018 | |
|---|-----------------------|------------------------|------------------------|------------------------|-------------------------|------------------------|--------------------------|------------------------|
| Detailed list | Number of offerings * | Value (in PLN million) | Number of offerings ** | Value (in PLN million) | Number of offerings *** | Value (in PLN million) | Number of offerings **** | Value (in PLN million) |
| Public issue of shares | 55 | 2 363.61 | 64 | 3 564.04 | 71 | 2 184.62 | 46 | 1 047.71 |
| Public offerings of bonds | 63 | 6 462.24 | 74 | 6 820.93 | 72 | 7 759.08 | 35 | 4 396.25 |
| Public offerings of shares | 33 | 785.26 | 38 | 579.80 | 51 | 7 047.82 | 20 | 331.27 |
| Public offerings of structured products | 1 | 12.79 | 0 | | 43 | 490.07 | 60 | 1 030.60 |
| Total public offerings | 152 | 9 623.9 | 176 | 10 964.77 | 237 | 17 481.59 | 161 | 6 805.83 |
| <i>including:</i> | | | | | | | | |
| Initial public offerings | 57 | 2 590.3 | 46 | 1 322.5 | 48 | 7 776.8 | 28 | 342.5 |

Source: KNF's own calculations

** in 2015, 2 non-cash public offerings were also carried out
*** in 2016, 1 non-cash public offering was also carried out
**** in 2017, 2 non-cash public offerings were also carried out
**** in 2018, 2 non-cash public offerings were also carried out

EXCHANGE COMMODITY MARKET

Towarowa Gielda Energii S.A.

Commodity exchange

In Poland, beside the capital market there is also the exchange commodity market, including the market for electricity and natural gas operated by the Polish Power Exchange (Towarowa Gielda Energii S.A., hereinafter: 'TGE S.A.'). In 2018, TGE S.A. operated nine markets, whose subjects of trade could be electricity, property rights, CO2 emission allowances and natural gas, and the commodity forward instruments market with physical delivery for property rights, electricity and natural gas. Regardless of the above-mentioned markets, TGE S.A. has also organised energy auctions, and since 2013 also natural gas auctions. Parties to transactions carried out on the exchange may only be entities which entered into a membership agreement with the Exchange and are authorised to operate on the exchange. TGE S.A. is part of the GPW S.A. Group.

77 companies operated as participants in the exchange commodity market as at the end of December 2018. As at 31 December 2018, 3 705 entities were included in the Register of Certificates of Origin, kept by TGE S.A. 438 entities were members of the Register of Certificates of Origin.

Regulated market

The regulated market is operated by Towarowa Gielda Energii S.A. under the name 'Financial Instruments Market.' Only financial instruments other than securities whose underlying instrument is an exchange commodity admitted to trading on the commodity exchange may be traded on this market. The regulated market operates in accordance with the Trading Regulations of the Financial Instruments Market of TGE S.A., amendments to which are approved by the KNF Board, and the Detailed Trading Rules of the Financial Instruments Market of TGE S.A. specifying the provisions of that document. So far, a futures financial instrument, for which the underlying instrument is the TGe24 index of electricity prices determined on the Day-Ahead Market of TGE S.A., has been admitted to trading. On 20 December 2018, TGE S.A. filed Poland's first request for authorisation to operate an organised trading facility (OTF), pursuant to Article 25(b) of the Act on trading in financial instruments. In contrast to the current Polish trading systems for financial instruments, the trading facility in question is to be characterised by discretion in matching buying and selling interests.

Electricity

In 2018, the electricity trading volume on the Polish Power Exchange (TGE) amounted to 226 052 409 MWh, which corresponds to an increase of 102.5% in relation to 2017. It is also the best result in the history of trading on the TGE, both in cumulatively and separately for the spot and forward markets.

The volume on the spot market increased by 9.8%, to 27 714 704 MWh. The volume on the Day-Ahead Market amounted to 27 637 223 MWh (an increase of 9.9%) and on the Intraday Market to 77 481 MWh (a decrease of 14.5%). On the Commodity Derivatives Market (RTT), the trading volume increased by 129.5%, to 198 337 705 MWh.

In December 2018, the total electricity trading volume amounted to 15 443 219 MWh (15.9% more than in December 2017). The trading on the Commodity Derivatives Market comprised 12 735 089 MWh (an increase of 18.0% YOY), and on the spot market 2 708 130 MWh (an increase of 7.0% YOY).

In 2018, the weighted average price of the BASE contract on the Day-Ahead Market was PLN 224.71 /MWh, going up by PLN 66.75/MWh above the level in 2017. The respective price for December was PLN 218.01/MWh, which corresponds to a month-on-month decrease of PLN 36.89/MWh.

Whereas on the Commodity Derivatives Market, the weighted average price of the annual contract with base load delivery in 2019 (BASE_Y-19) amounted in the whole 2018 to PLN 242.40/MWh, which corresponds to an increase of PLN 74.90/MWh in relation to the price from the quotations of the BASE_Y-18 contract in 2017. In December, the respective price of the BASE_Y-19 contract fell in relation to November by PLN 5.44/MWh, to PLN 281.17/MWh.

Natural gas

The total trading volume on natural gas markets in 2018 amounted to 143 305 606 MWh, which corresponds to a YOY increase of 3.4% and represents the best result in the history of quotations on the Exchange Commodity Market. On the Day-Ahead and Intraday Markets for gas, the trading volume was 23 672 199 MWh (a decrease of 1.3% in relation to 2017). On the Day-Ahead Market for gas, the trading volume amounted to 17 599 948 MWh (a decrease of 8.6%) and on the Intraday Market for gas to 6 072 251 MWh (an increase of 28.5%). The trading volume on the Commodity Derivatives Market increased by 4.3% in relation to the record year 2017, up to 119 633 407 MWh.

In December 2018, the total gas trading volume amounted to 11 499 247 MWh (52.1% more than in December 2017). The trading on the Commodity Derivatives Market comprised 8 945

⁸ At national level, the monitoring of the energy market is regulated in the Act of 10 April 1997—the Energy Law, amended on 11 September 2015 due to the need to adapt national regulations to the requirements laid down in the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT). In consequence, the President of the Energy Regulatory Office (PL: *Urząd Regulacji Energetyki*—URE) is responsible for:

- a) monitoring the wholesale energy market,
- b) cooperation with the Agency for the Cooperation of Energy Regulators (ACER), regulators in EU Member States, UOKiK and the KNF Board, to the extent necessary for the performance of obligations under REMIT,
- c) reporting suspected market manipulation to ACER,
- d) keeping the register of wholesale energy market participants,
- e) conducting inspection and investigation proceedings in respect of market manipulation or attempted market manipulation and misuse of inside information in the energy market,
- f) imposing financial penalties, if necessary.

In view of the foregoing, the supervision of TGE S.A. with respect to the Intraday Market for electricity, Intraday Market for gas, the Day-Ahead Market for electricity, the Day-Ahead Market for gas, Commodity Derivatives Market for electricity and Commodity Derivatives Market for gas is the responsibility of the President of URE, and with respect to the Property Rights Market, the Emission Allowance Market and the Commodity Derivatives Market (for financial instruments)—the responsibility of the KNF Board.

087 MWh (an increase of 65.0% YOY), and on the spot market 2 554 160 MWh (an increase of 19.2% YOY).

In 2018, the weighted average price on the Day-Ahead and Intraday Markets for gas was PLN 106.02/MWh, i.e. PLN 22.36/MWh more than in 2017. The respective price in December fell month on month by PLN 0.82/MWh, down to PLN 111.65/MWh. Whereas on the Commodity Derivatives Market, the weighted average price of the contract with delivery in 2019 (GAS_BASE_Y-19) amounted in 2018 to PLN 106.28/MWh, i.e. PLN 24.49/MWh more in relation to the respective price from the quotations of the GAS_BASE_Y-18 contract in 2017. In December 2018, the respective price of the GAS_BASE_Y-19 contract amounted to PLN 106.37/MWh, i.e. PLN 1.07/MWh less than in November 2018.

Property rights

In 2018, the total volume of trading in property rights for electricity amounted to 59 302 830 MWh. That corresponds to an increase of 0.4% compared with 2017. In December 2018, the volume amounted to 3 683 204 MWh (29.0% less than in December 2017). In 2018, the volume of trading in green certificates (instruments PMOZE and PMOZE_A on the Property Rights Market) amounted to 30 051 917 MWh, which is 4 024 MWh (0.01%) less than in 2017.

The weighted average price during sessions on the Property Rights Market in 2018 for the PMOZE_A instrument was PLN 103.82/MWh, that is PLN 64.99/MWh more compared with 2017. In December 2018, the price fell compared with November 2018 by PLN 3.21/MWh, to PLN 153.07/MWh.

The volume of trading in property rights for energy efficiency in 2018 was 330 017 tonnes of oil equivalent (toe), which corresponds to a year-on-year decrease of 17.5%. In December 2018, the trading volume decreased year-on-year by 45.2%, to 30 530 toe. The volume of trading in the same PMEF instrument in December 2018 was 20 145 toe, with the weighted average session of PLN 321.91/toe (a decrease of PLN 76.06/toe in relation to November 2018).

Register of Certificates of Origin

Throughout 2018, transactions with a volume of 16 848 979 MWh were entered in the Register of Certificates of Origin, which is the best result in the history of the Register and more than six-fold increase year-on-year.

In December 2018, the trading volume amounted to 4 188 501 MWh, and the weighted average price to PLN 0.51/MWh.

Izba Rozliczeniowa Giełd Towarowych S.A.

Izba Rozliczeniowa Giełd Towarowych S.A. The Commodity Clearing House (PL: Izba Rozliczeniowa Giełd Towarowych S.A.–IRGiT S.A.) is authorised to run the Settlement House and the Clearing House, which is one of the preconditions for clearing and settling of financial instruments in the regulated market. On 4 November 2015, IRGiT S.A. began to settle financial instruments in the above-mentioned area upon the commencement of quotation on the Financial Instruments Market of Towarowa Giełda Energii S.A. (hereinafter: TGE S.A.) According to Article 68a(14) of the Act on trading in financial instruments, the Clearing House and the Settlement House may act as the Exchange Clearing House as defined in the Act on commodity exchanges. Since June 2010, the Exchange Clearing House run by IRGiT S.A. has been settling transactions carried out on all markets of TGE S.A., including the gas market. The Exchange Clearing House is a partner of TGE S.A. in cross-border energy trading within a market coupling project. In addition, IRGiT S.A. is an entity owned in 100% by TGE S.A. and forming part of the GPW S.A. Group.

3. BANKING SUPERVISION

3.1. BANKS AND CREDIT INSTITUTIONS

3.1.1. LICENSING

ESTABLISHING A BANK AND COMMENCING OPERATIONS

In 2018, the KNF Board adopted a resolution to authorise the establishment of a bank in the form of a joint-stock company styled 'ING Bank Hipoteczny Spółka Akcyjna', and approved the company's articles of association and the first composition of its management board.

The KNF Board refused to grant authorisation to establish a bank in the form of a joint-stock company. The KNF Board also refused to grant authorisation to commence the activities of a bank established on the basis of an authorisation granted in 2017.

As more than 3 years had passed from suspension of proceedings in respect of authorisation to establish a mortgage bank, the proceedings were discontinued.

TASKS RELATING TO CHANGES IN THE GOVERNING BODIES OF BANKS

In 2018, the KNF Board adopted 45 final decisions in the form of resolutions on approval of the appointment of members of management boards, including presidents, including:

- 8 final decisions on approval of the appointment of presidents of management boards of banks operating as joint-stock companies, including 1 refusal decision,
- 29 final decisions on approval of the appointment of presidents of management boards of cooperative banks, including 3 refusal decisions,
- 5 final decisions on approval of the appointment of members of management boards of banks operating as joint-stock companies,
- 1 final decision on approval of the appointment of a member of management board responsible for material risk at a cooperative bank,
- 2 final decisions on upholding a final decision to refuse to approve the appointment of the president of management board of a cooperative bank.

In the above-mentioned cases, 9 final decisions to discontinue proceedings were issued. In 2018, a final decision was also issued to discontinue proceedings in respect of approval of the appointment of a member of management board of a manager of an institutional protection scheme.

TASKS RELATING TO CHANGES IN THE SHAREHOLDERS' STRUCTURE OF BANKS OPERATING AS JOINT-STOCK COMPANIES

In 2018, the KNF Board adopted 4 final decisions in the form of resolutions declaring that there were no grounds for objecting to the planned acquisition of a bank's shares or becoming a parent undertaking of a domestic bank.

In 2018, the KNF Board issued 3 final decisions on a merger and 2 final decisions to approve division on banks operating as joint-stock companies.

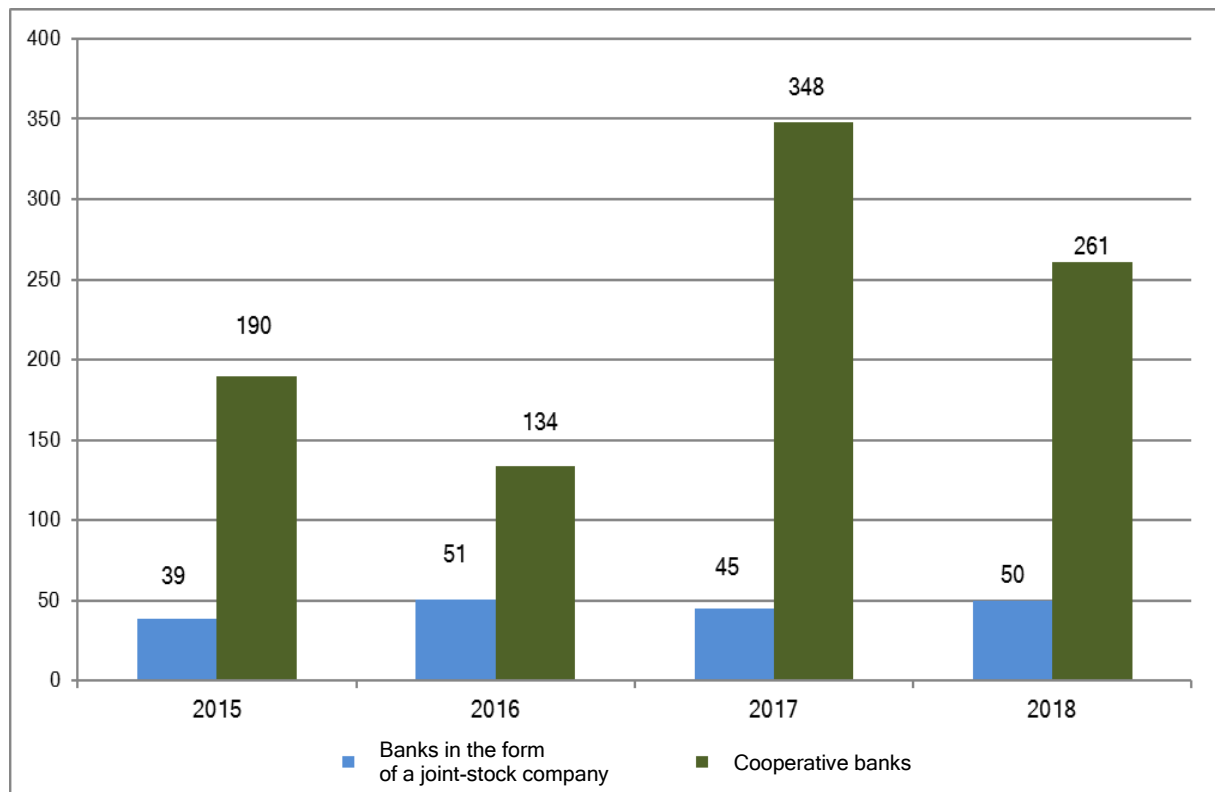
AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF BANKS

In 2018, following examination of applications for amendments to the articles of association of banks, the KNF Board issued 311 final decisions, including :

- 50 final decisions on the authorisation to make amendments to the articles of association of banks operating as joint-stock companies, including 1 final decision to discontinue proceedings,
- 261 final decisions on the authorisation to make amendments to the articles of association of cooperative banks.

In 2018, the KNF Board issued 1 final decision on approval of the extension of the area of activity of a cooperative bank.

Diagram 17. The number of final decisions to approve amendments to the articles of association of commercial banks and cooperative banks in the years 2015-2018



Source: KNF's own calculations

OPERATING AS PART OF CROSS-BORDER ACTIVITY

In 2018, the KNF Board accepted:

- 3 notifications from credit institutions on the taking-up of activity in the territory of the Republic of Poland through a branch,
- 9 notifications of changes in the notification of credit institutions concerning activities carried out in the territory of the Republic of Poland through a branch,
- 13 notifications from credit institutions on their intention to pursue cross-border activity in the territory of the Republic of Poland,
- 14 notifications of changes in notifications concerning cross-border activities of credit institutions in the territory of the Republic of Poland,
- 1 notification from a Polish financial institution of its intention to pursue cross-border activity in the territories of 27 member states of the European Economic Area,
- 4 notifications of changes in the notification of domestic banks operating in the European Economic Area through a branch,
- 2 notifications from a domestic bank of an intention to pursue cross-border activity in the territory of a member state of the European Economic Area,

- 1 notification from a domestic bank of a change in the notification concerning cross-border activity in the territory of a member state of the European Economic Area.

The KNF Board issued 3 final decisions on indication of conditions to be met by a branch of a credit institution in the interest of the general good when operating in the territory of the Republic of Poland.

3.1.2. SUPERVISORY ACTIVITIES

PRUDENTIAL SUPERVISION OF DOMESTIC BANKS

The supervisory activities undertaken by the KNF in 2018 consisted in day-to-day monitoring and quarterly review of the economic and financial standing of banks (assessment for the fourth quarter of 2017 and three quarters of 2018). On that basis, quarterly bank ratings were assigned in the KOBRA system. In 2018, all commercial banks were assessed. 133 quarterly analyses of commercial banks were drawn up. In 2018, the process of cyclical review and supervisory assessment of cooperative and affiliating banks continued. 2 205 quarterly analyses of cooperative banks and 8 quarterly analyses of affiliating banks were drawn up.

In addition to the quarterly assessment, banks are subject to a review as part of the SREP, i.e. the Supervisory Review and Evaluation Process. Detailed information on the SREP in the banking sector is provided in the section 'Supervisory Review and Evaluation Process (SREP)'.

The consolidated financial statements of banks, the economic and financial situation of holding companies and parent undertakings of banks were analysed as part of the consolidated supervision. As part of day-to-day analytical supervision, banks were selected for comprehensive and targeted inspections, and then relevant information was passed to the organisational units of the KNF responsible for inspection activities. Data for bank inspections was prepared.

Comparative analyses of the classification of receivables from the same borrower by different banks as well as the presentation of the shareholding of some of the significant bank clients were carried out – in the event of discrepancies, suitable activities consisting in appropriate notices to the supervised entities were taken. The review also covered the geographic and industry-related structure of receivables of domestic banks and branches of credit unions.

Supervisory activities were carried out, among others, in the following areas:

- strengthening the capital base, including guidance for dividend pay-out,
- transformation processes,
- administrative proceedings, including applications to classify subordinated debt as funds, interim profits, establishment of compulsory administration,
- liquidity,
- verifying banks' resilience to possible negative changes in the macroeconomic environment (stress tests),
- rehabilitation plans (PL: *plan postępowania naprawczego*–PPN), including the assessment of the status of their implementation and/or completion,
- processes for the approval of recovery plans and their further monitoring,
- the assignment of SREP ratings,
- the implementation of recommendations issued as part of an inspection and/or SREP assessment and any other recommendation following off-site supervision.

In 2018, the KNF Board familiarised itself with papers regarding the banking sector:

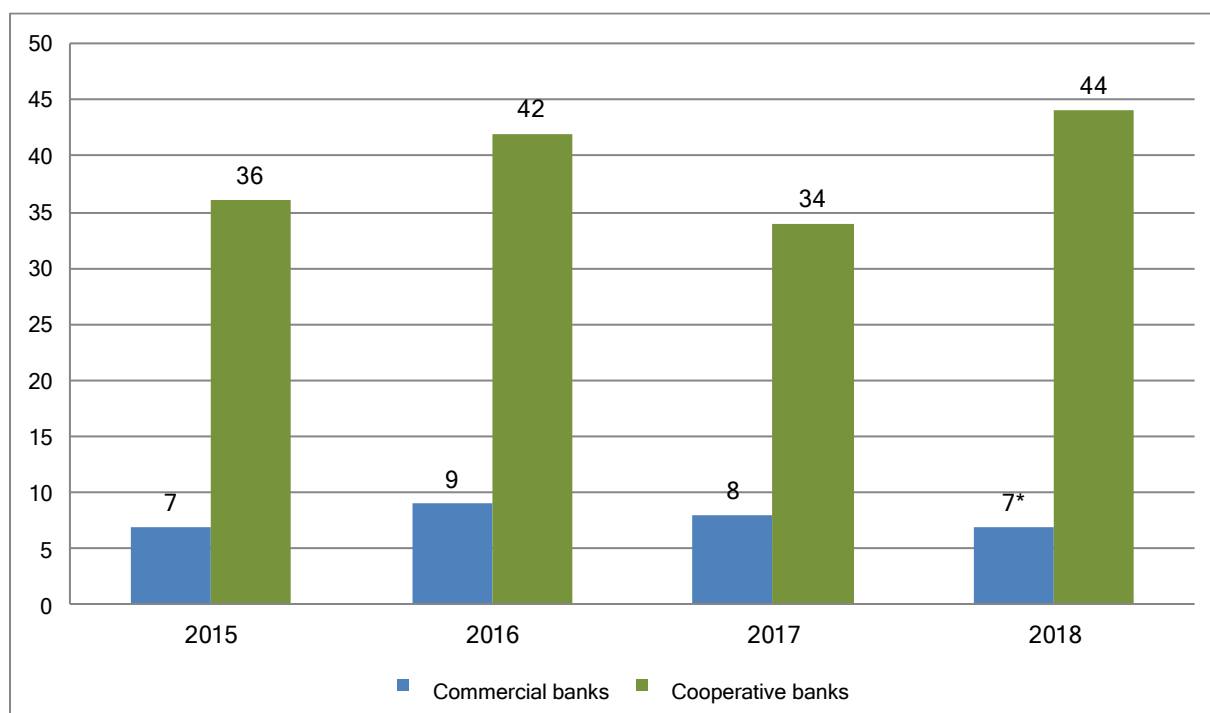
- Report on the standing of banks in 2017,
- Information on the standing of banks in the first quarter of 2018,
- Report on the standing of banks in the first half of 2018,
- Information on the standing of banks between January and September 2018,
- Information on the standing of cooperative banks in 2017,
- Information on the standing of cooperative banks in the first quarter of 2018,
- Information on the standing of cooperative banks in the first half of 2018,
- SREP Report for cooperative and associating banks for 2017,
- Information of the distribution of profit generated by cooperative banks in 2017.

SUPERVISION OF BANKS SUBJECT TO REHABILITATION PROCEEDINGS

In early 2018, 7 commercial banks, 34 cooperative banks and 1 associating bank were subject to rehabilitation proceedings. In 2018, two commercial banks completed the rehabilitation plan and one commercial bank launched a recovery plan. At the end of 2018, 44 cooperative banks and 1 associating bank were subject to rehabilitation measures.

The KNF Board examined two semi-annual reports on the standing of commercial banks subject to rehabilitation proceedings and two semi-annual reports on the standing of cooperative banks subject to rehabilitation proceedings.

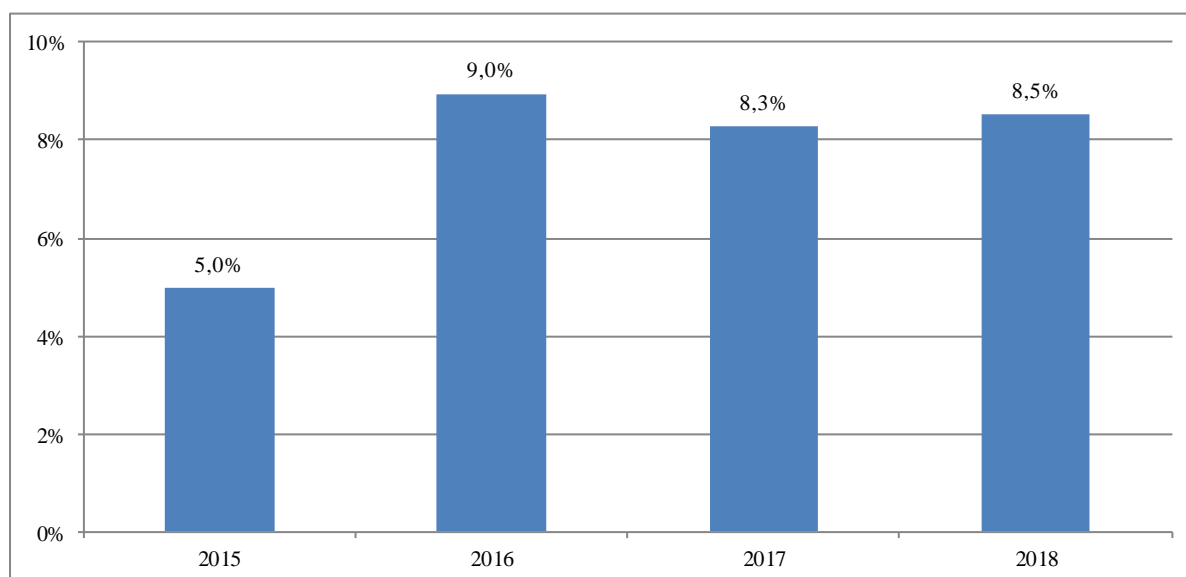
Diagram 18. The number of commercial and cooperative banks subject to rehabilitation proceedings in the years 2015-2018



Source: KNF's own calculations

*including one affiliating bank

Diagram 19. Share of assets of commercial and cooperative banks subject to rehabilitation proceedings in the banking sector assets (in %) in the years 2015-2018



Source: KNF's own calculations

The share of assets of cooperative banks subject to a rehabilitation plan in the banking sector assets was 0.9% at the end of 2018.

FINAL DECISIONS ON SUBORDINATED DEBT

In 2018, the KNF Board issued the following final decisions in individual cases relating to:

- inclusion, in the supplementary funds, of cash from the issue of bonds and subordinated debt (15 final decisions),
- early redemption of subordinated bonds (4 final decisions),
- early repayment of subordinated debt (1 final decision).

FINAL DECISIONS ON OWN FUNDS

Final decisions in individual cases were related to:

- permission to classify liabilities arising from the financial instruments issued by the bank as Tier I capital (2 final decisions),
- permission to classify the bank's cash gained from the issue of long-term bonds and subordinated loans as instruments in Tier II capital (27 final decisions),
- authorisation to include bank's profit for a given period as Tier 1 capital (38 final decisions),
- permission to reduce own funds (424 final decisions),
- permission to reduce own funds / prior consent (21 final decisions),
- permission to classify shares contributed after 28 June 2013 as Tier I capital (83 final decisions),
- authorisation to classify the issued shares to the Tier I core capital (15 final decisions),
- authorisation of early redemption of subordinated bonds included in Tier 2 capital (4 final decisions),
- authorisation of early return of the funds deriving from the subordinated loan included in the Tier 2 capital (1 final decision).

FINAL DECISIONS CONCERNING MERGER

The KNF Board authorised the merger of:

- Getin Noble Bank (the acquiring bank) and BPI Bank (the bank being acquired),
- Bank Spółdzielczy in Kłobuck (the acquiring bank) and Bank Spółdzielczy in Wręczyca Wielka (the bank being acquired),

- Śląski Bank Spółdzielczy „SILESIA” in Katowice (the acquiring bank) and Bank Spółdzielczy in Kęty (the bank being acquired),
- Bank Spółdzielczy Rzemiosła in Cracow (the acquiring bank) and Bank Spółdzielczy in Dębica (the bank being acquired),
- Śląski Bank Spółdzielczy „SILESIA” in Katowice (the acquiring bank) and Bank Spółdzielczy in Kłomnice (the bank being acquired),
- Mikołowski Bank Spółdzielczy in Mikołów (the acquiring bank) and Bank Spółdzielczy in Wodzisław Śląski (the bank being acquired).

INFORMATION ON THE INSTITUTIONAL PROTECTION SCHEMES (IPSS)

At its meeting on 4 December 2018, having reviewed the request of the SGB Cooperative Protection Scheme, the KNF Board unanimously approved the Group Recovery Plan for the SGB Protection Scheme. At its meeting on 18 December 2018, the KNF Board unanimously approved the Group Recovery Plan for the Protection Scheme of the BPS Association (PL: *System Ochrony Zrzeszenia BPS*).

STRESS TESTS

In 2018, for the ninth time, the KNF conducted stress tests of the banking sector. The purpose of the tests was to determine the potential impact of changes in the macroeconomic environment on the financial and capital situation of the Polish banking sector institutions and to assess the sector's resilience to shock. All commercial banks (excluding BGK, affiliating banks, and banks withdrawing from Poland) participated in the tests. In terms of total assets, the banks participating in the tests accounted for about 80 % of the balance sheet total of the entire banking sector.

The ninth edition of the test coincided in time with the European stress tests coordinated by the European Banking Authority (EBA). The tests covered major banking group in the European Economic Area, including PKO BP and Pekao, and the test results were published on the EBA's website. Among all European banks directly participating in the EBA stress tests, the two Polish banks turned out to be among institutions with the highest capital resilience and resistance to unfavourable developments in the economy.

Other domestic commercial banks underwent the KNF tests and used the EBA methodology and forms for the purpose of their projections. Having received the data, the KNF conducted preliminary verification of the data. The data was verified for accuracy and compliance with the applicable legislation, internal consistency, and reality of extrapolated trends. Additionally, models developed at the KNF were used to verify bank forecasts. All doubts that arose during that process were systematically consulted with the banks. The published results indicate high resistance of the banking sector to hypothetical market shocks as well as good capitalisation.

SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

In March 2018, the KNF informed banks about the publication of the amended *Methodology of supervisory review and evaluation process of commercial, affiliating and cooperative banks* (hereinafter: 'SREP methodology')⁹.

Following the amendment, the SREP Methodology takes into account the provisions of national laws which introduce a series of important changes affecting the operation of supervised entities, including in particular:

- Act of 11 May 2017 on statutory auditors, audit firms and public supervision (Journal of Laws 2017, item 1089),
- Act of 23 March 2017 on mortgage credit and supervision of mortgage credit intermediaries and agents (Journal of Laws 2017, item 819),
- Regulation of the Minister of Development and Finance of 25 May 2017 on higher risk weight for exposures secured with mortgages on real estate (Journal of Laws 2017, item 1068).

The amendments made to the SREP Methodology are also based on the acts of law, accounting standards and good supervisory practices which entered into force in early 2018, including in particular those pertaining to:

- provision of investment services, including client protection, e.g.:
 - Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail investment and insurance-based products (PRIIPs),
 - 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 (MiFIR)¹⁰,
- accounting standards, including:
 - Commission Regulation (EU) 2016/2067 of 22 November 2016 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9 (Regulation on IFRS 9),
 - Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State,
- issues relating to IT risk, in connection with the implementation of the requirements laid down in the EBA Guidelines on ICT Risk Assessment under the Supervisory Review and Evaluation process (SREP) of 11 May 2017 ('ITC Guidelines').

Moreover, to make the SREP more consistent with the requirements of the Guidelines on the SREP¹¹ as part of implementation of the provisions of Article 107 of CRD IV, the calculation of the overall SREP score, as described in the SREP Methodology, has been supplemented with a new category of SREP scores, the so-called viability scores, which comprise two SREP scores assigned previously for the areas of bank management and analysis of the business model, and two new SREP scores for the areas of capital adequacy and liquidity adequacy.

⁹ The publication is available in the section: Market → Information for authorised entities → Banking.

¹⁰ With regard to the system of European legal acts governing the provision of investment services after 3 January 2018, the SREP Methodology contains a reference to the KNF Statement of 27 December 2017 on the application of MiFID II in Poland after 3 January 2018.

¹¹ EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) of 19 December 2014

The SREP Methodology has also been changed to consider the requests formulated by the cooperative banks sectors with regard to wider application of the principle of proportionality, thus reducing the burden for banks. To that end, the number of questions addressed to cooperative banks in the self-assessment form as part of the full-SREP survey has been reduced and the scope of areas/types of risk assessed in a given SREP cycle has been changed by introducing the option to divide the risks under assessment by year, maintaining the 3-year cycle in which the assessment of all areas of risk is updated.

In 2018, commercial banks were given 32 SREP scores, while cooperative banks were given 890 SREP scores.

The SREP conducted by the KNF takes into account, in a complementary and consistent manner, the findings from on-site analyses and on-site inspections carried out by the supervisory authority at banks. The intensity of the SREP at individual banks depends primarily on the overall SREP score assigned in the previous SREP cycle and the results of categorisation process. The SREP methodology involves periodic updates of the SREP score as part of quarterly off-site analyses, and a dialogue between the supervisory authority and banks. Similarly as in previous years, the SREP also took into account the results of *ad hoc* reviews conducted by the supervisory authority, e.g. in the form of surveys.

RECOVERY PLANS

The main objective of a recovery plan is to introduce preventive measures to avoid the escalation of adverse events which might lead, in extreme cases, to bank failure or to the launch of forced resolution by the bank's body responsible for forced resolution, and to secure the continuity of business in areas deemed critical.

2018 was another year in which banks submitted to the KNF Board appropriate requests for approval of a recovery plan by means of a final decision. In most cases, the requests resulted from the obligation to update the recovery plans at least annually, referred to in Article 141m(4) of the Banking Law (request for approval of an updated recovery plan). 32 recovery plans were accepted in 2018 and 37 requests were still being reviewed at the end of 2018.

MONITORING OF BANKS' COMPLIANCE WITH APPLICABLE REGULATIONS

The KNF carries out regular off-site monitoring of the financial situation of banks, including the liquidity and capital situation. In 2018, once again special emphasis was placed on maintaining good quality of equity and its appropriate level by banks. Equity ensures safety for a bank in the event of adverse external events which might arise, for example, in connection with a crisis in real terms or turbulence in international financial markets.

DIVIDEND POLICY AND ADDITIONAL CAPITAL REQUIREMENT

In order to maintain capital adequacy at a level deemed safe, once again the supervisory authority recommended that commercial banks should limit the payment of dividends. The direct objective of the dividend policy is to ensure stability of the banking sector by strengthening the capital base and to protect the users of financial services, including depositors. The result of the KNF's current dividend policy is a stable and high solvency ratio of the sector at 19.10% at the end of 2018 (18.96% at the end of 2017).

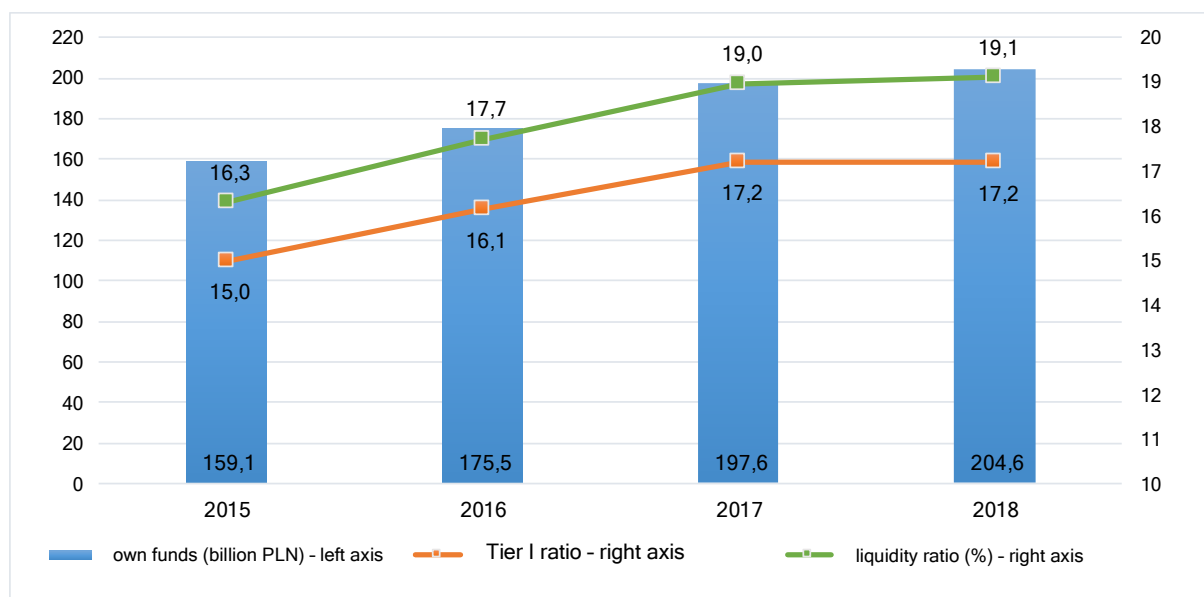
In 2018, the KNF Board published medium-term objectives of the dividend policy of commercial banks. When formulating the dividend policy for the years to come, the KNF took into account the Recommendation of the European Central Bank (ECB) of 13 December 2016 on dividend distribution policies (already applied in previous years) and maintained the additional criteria for banks engaged in foreign-currency credit facilities. The amount of potential dividend depends on the bank's capital ratios, SREP score, level of leverage, size of its portfolio of housing currency loans and share in the portfolio of loans granted in 2007-2008. In addition, the possibility to pay out 100% of the profit was limited to institutions with a relatively low sensitivity of capital position to an unfavourable macroeconomic scenario.

In spite of a good current situation, it is recommended to maintain a strong capital base, and in the case of some banks its further strengthening due to the level of risk already accumulated in the balance sheets of banks and the uncertainty about the future development of the economic prosperity.

To that end, in 2018, the KNF Board issued recommendations setting additional capital requirements for 14 banks (on a solo or consolidated basis) resulting from the fact that they hold portfolios of mortgage-secured foreign currency loans of households in EUR and CHF. The additional capital requirement is calculated under Pillar II for loan portfolios with particularly high risk and provides individualised impact on banks with significant portfolios of foreign currency loans granted to unsecured borrowers, i.e. those who earn income in a currency other than the loan currency. As recommended in Resolution No 14/2017 of the Financial Stability Committee, in 2017, additional capital requirements under Pillar II were supplemented with requirements for operational risk, market risk and collective default risk in respect of risk factors relating to the foreign currency loan portfolio.

On 22 May 2018, the KNF Board adopted assumptions concerning its position on the medium-term dividend policy of, among others, cooperative and affiliating banks in. The purpose of the publication was to facilitate the framework financial planning for medium-term dividend distribution at KNF-supervised entities.

Diagram 20. Own funds and capital adequacy of the domestic banking sector in the years 2015-2018



Source: KNF's own calculations

IDENTIFICATION OF OTHER SYSTEMICALLY IMPORTANT INSTITUTIONS (O-SIIs)

Under the Act of 5 August 2015 on macro-prudential supervision,¹² the KNF Board is obliged to identify other systemically important institutions and to set appropriate capital buffers for them.

The identification of other systemically important institutions, made by the KNF Board for the first time in 2016, was based on the following criteria: the size of a given financial institution, its importance for the economy of the Republic of Poland and the European Union, the importance of its cross-border activity and the examination of interrelationship between a given institution or group and the financial system.

In 2018, under the said Act, the KNF Board reviewed the adequacy of the buffer rate of an O-SII. Following the review and taking into account the opinion of the Financial Stability Committee, by its final decisions of 31 July 2018 the KNF Board confirmed the identification of eleven banks as O-SIIs and identified one additional bank as an O-SII. On that basis, the KNF Board also decided to set appropriate capital buffers.

3.1.3. INSPECTION ACTIVITIES

INSPECTIONS OF COMMERCIAL BANKS: GENERAL INFORMATION

Inspection activities at banks in 2018 were carried out on the basis of the provisions of law and the KNF's prudential recommendations, taking into account the guidelines of the European Banking Authority (EBA) and the Basel Committee on Banking Supervision (BCBS), based on uniform standards and examination procedures included in the Inspection Manual and detailed methodologies supplementing the Manual.

Inspection activities were carried out in the form of comprehensive and targeted inspections, investigations, validation proceedings, and inspection of preparedness to start operating activities.

¹² Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system (Journal of Laws of 2015 item 1513, as amended).

Table 28. Inspection activities carried out by the KNF at commercial banks in 2018¹³

| Inspection activities | Number |
|--|--------|
| Targeted inspections | 14 |
| Comprehensive inspections | 3 |
| Investigation proceedings | 1 |
| Inspection of preparedness to start operating activities | 2 |

Source: KNF's own calculations

COMPREHENSIVE AND TARGETED INSPECTIONS AT COMMERCIAL BANKS

In the case of comprehensive inspections, the inspection activities focused primarily on the inspection of banks' management of each risk, in particular credit, liquidity, market and operational risks, and on the assessment of capital adequacy and management of the bank, considering compliance with banking laws, the related supervisory standards, the articles of association, and compliance with the requirements set out in the authorisation to establish a bank.

Inspection activities carried out as part of comprehensive inspections and selected targeted inspections usually also covered thematic reviews, i.e. reviews targeted at examining the same set of issues at systemically important banks. The scope of thematic reviews included topics such as:

- measurement of assets according to IFRS 9¹⁴,
- internal control system, considering the new regulatory requirements and supervisory standards, in particular Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, remuneration policy and the detailed method for estimation of internal capital at banks (Journal of Laws 2017, item 637, as amended), and the KNF's Recommendation H on internal control system at banks.

The following areas/issues were covered by the remaining targeted inspections conducted at commercial banks:

- management of liquidity risk and funding risk, in terms of contingency liquidity planning, stress tests and correct calculation of the liquidity coverage requirement (LCR),
- capital adequacy in terms of correct calculation of capital requirements and own funds,
- the safety of electronic banking services, in particular mobile banking, and biometric and video verification.

Tables 29-34 provide summary information on the material irregularities (concerning to varying degrees the entities under inspection) identified with respect to:

- the issues examined as part of thematic reviews,
- other material issues examined during targeted and comprehensive inspections.

Table 29. Material irregularities identified during inspection activities at commercial banks in 2018 in the area of credit risk in terms of measurement of assets according to IFRS 9

| Credit risk in terms of measurement of assets according to IFRS 9 | |
|---|--|
| 1. | Irregularities in respect of identification (i.e. incomplete or incorrect criteria of classification) of exposures on account of a significant increase in credit risk since initial recognition (paragraph 5.5.9 of IFRS 9): – adoption of the level of credit risk at the date of initial recognition of a financial instrument |

¹³ This table does not include validation proceedings (conducted at commercial banks) or inspection activities in the area of prevention of money laundering and terrorist financing (conducted accordingly at all types of KNF-supervised entities).

¹⁴ Commission Regulation (EU) 2016/2067 of 22 November 2016 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9.

| | |
|----|--|
| | <p>(prior to 2018 in the case of no estimate of such risk) according to the adopted simplifications—where the level of risk cannot be determined without excessive expenses or efforts,</p> <ul style="list-style-type: none"> – no comparison of the level of risk over the exposure lifetime, – the use of a 12-month PD to establish whether the expected credit losses throughout lifetime should be recognised where it is not appropriate to apply it (paragraph B5.5.14 of IFRS 9), – the use of 30 DPD as a sole criterion of classification, – identification of ‘low risk exposures’ on the basis of discretionary criteria, which are inconsistent with the requirements of IFRS 9 in that respect (paragraphs B5.5.22-B 5.5.24 of IFRS 9), – the use of absolute thresholds for credit portfolios, – imprecise and too vague criteria for putting exposures on a watch list, – unclear and imprecise criteria for the ‘entry’ and ‘exit’ of credit exposures into/from a credit portfolio characterised by a significant increase in credit risk since the initial recognition, – limitation of the list of criteria for a significant increase of risk with respect to quality criteria. |
| 2. | <p>Irregularities in respect of identification (i.e. incomplete or incorrect criteria of classification) of exposures which meet the requirement of default (including exposures affected by impairment due to credit risk):</p> <ul style="list-style-type: none"> – the use of 90 DPD as a sole criterion of classification (e.g. for the portfolio of agricultural credit facilities), – unclear and imprecise criteria for the ‘entry’ and ‘exit’ of credit exposures into/from a credit portfolio characterised by default, including on account of impairment of a credit exposure (e.g. in the case of restructuring which provides grounds for impairment). |
| 3. | <p>Irregularities in the estimation of expected credit losses (ECL) and related allowances:</p> <ul style="list-style-type: none"> – in the case of individual approach: <ul style="list-style-type: none"> • failure to consider information on current events and forecasts of future economic conditions (paragraph 5.5.17 of IFRS 9), • lack of assessment of risk or probability of credit loss which takes into account the possibility of occurrence and non-occurrence of a credit loss, which implies that a bank needs to examine at least two scenarios (the results concerning occurrence and non-occurrence of a loss—paragraph 5.5.18 of IFRS 9), • lack of a detailed justification of adopted probability of realisation of scenarios, – in the case of group (portfolio-based) approach: <ul style="list-style-type: none"> • improper modelling of credit risk parameters: <ul style="list-style-type: none"> ✓ failure to consider current events and forecasts in credit risk parameters (failure to make the ECL model dependent on the model of macroeconomic forecasts (paragraph 5.5.17 of IFRS 9), ✓ failure to consider the extension of the lending period with respect to EAD modelling, ✓ failure to consider the ‘age’ of exposures in the PD model, • the use of an inconsistent definition of default in the modelling of expected credit losses in relation to a given bank. |
| 4. | <p>Irregularities in the modification of financial assets:</p> <ul style="list-style-type: none"> – failure to recognise events of restructuring of an exposure as material modification, i.e. a modification which leads to that asset being removed from the balance sheet and its new recognition following modification, and thus failure to recognise credit assets generated on that account as POCI assets, – assuming that any restructuring of an exposure affected by impairment, or renegotiation of existing terms of a credit agreement resulting in the need to identify an exposure as exposure affected by impairment, is an immaterial modification. |
| 5. | <p>Limited scope of internal regulations which might result in improper identification of credit risk:</p> <ul style="list-style-type: none"> – lack of formalisation as to: identification of business models, SPPI tests (including benchmark test), – lack of any detailed approach to material modification or POCI assets, – lack of a description of how macroeconomic forecasts are considered in estimation of expected credit losses, – lack of completeness and excessively high level of generality of documents pertaining to impairment models for the purposes of IFRS 9, including: methodologies for model |

| | |
|--|---|
| | <p>development, monitoring and validation, as well as model, monitoring and implementation documents,</p> <ul style="list-style-type: none"> – no identified criteria for assessment of quality of the impairment models under IFRS 9, at the stage of validation or regular review–monitoring, – lack of, or insufficiently, detailed rules for historical verification of the level of allowances, – lack or insufficiently detailed rules for historical verification of models/parameters used for the purposes of estimation of allowances. |
|--|---|

Source: KNF's own calculations

Table 30. Material irregularities identified during inspection activities at commercial banks in 2018 in relation to internal control system, considering the new regulatory requirements and supervisory standards

| The internal control system, considering the new regulatory requirements and supervisory standards | |
|---|--|
| 1. | <p>Irregularities as to formal and organisational requirements concerning the internal control system (hereinafter: 'ICS'), including:</p> <ul style="list-style-type: none"> – lack of, or improper, detailed criteria or definitions and scale of assessment of adequacy and effectiveness of the ICS within the three lines of defence, – failure to set the requirement to notify the supervisory board of adequacy and effectiveness of the ICS, – concerns about the rules of classification of irregularities identified as part of the ICS, in particular material and critical irregularities, – too vague and unclear criteria for recognition of processes as material (which allow for a free choice and discretion of the approach, or which are not bank-specific), – incorrect relationship between the general objectives of the ICS with its specific objectives, – assigning tasks relating to the identification of material processes and development of a matrix of control functions to a wrong unit, i.e. internal audit. |
| 2. | <p>Improper record-keeping relative to the control function, including control mechanisms and independent monitoring of their application, presented in the form of a matrix of control functions, including:</p> <ul style="list-style-type: none"> – an incomplete list of material processes, or failure to indicate the person responsible for the tasks of extraction and design of processes at the bank, – failure to define the criteria for selection of control mechanisms, – lack, or insufficiently, detailed rules for independent monitoring of control mechanisms, including: <ul style="list-style-type: none"> • lack of the requirement of vertical tests and ongoing vertical verification of control mechanisms in the 1st line of defence through the 2nd line of defence, • lack of rules for: planning, defining the scope and frequency of testing, and failure to indicate organisational units responsible for tests, methods of conducting and keeping records of tests, • lack of reporting of the results of vertical testing, – failure to indicate who is authorised to approve the matrix of control functions, – failure to identify the key control mechanisms relating to the monitoring, classification and valuation of credit facilities. |
| 3. | <p>Irregularities in the management of compliance risk, including:</p> <ul style="list-style-type: none"> – failure to define the method of ensuring appropriate human resources necessary to perform the tasks of the compliance unit, and failure to ensure sufficient funds for systematic improvement of qualifications of the staff of the compliance unit, – failure to ensure full independence of the compliance function, – insufficient scope of compliance tests, – lack of detailed rules concerning testing, the method of implementation and application of mechanisms to control compliance risk, – failure to carry out the annual assessment of efficiency of compliance risk management, to be conducted by the bank's supervisory board. |

| | |
|----|--|
| 4. | <p>Irregularities in the functioning of internal audit, including:</p> <ul style="list-style-type: none"> – failure to ensure full independence of the internal audit function, – poor quality and insufficient scope of internal audit, – insufficient frequency of internal audit activities in the areas which are of importance to the bank, – failure to define the level of Key Performance Indicators for the purpose of assessment of quality of works of the internal audit unit, – lack of reporting of recommendations with an extended time limit for implementation. |
|----|--|

Source: KNF's own calculations

Table 31. Material irregularities identified during inspection activities at commercial banks in 2018 in the area of management of liquidity risk and funding risk, in terms of contingency liquidity planning, stress tests and correct calculation of the liquidity coverage requirement (LCR)

| Management of liquidity risk and funding risk, in terms of contingency liquidity planning, stress tests and correct calculation of the liquidity coverage requirement (LCR) | |
|--|--|
| 1. | <p>Irregularities in the calculation of the LCR relating to non-compliance with the requirements of Regulation 2015/61¹⁵, consisting in:</p> <ul style="list-style-type: none"> – improper definition of a stable retail deposit in terms of compliance with the requirements for a transaction account, – treating funds invested by financial entities as retail deposits, – failure to conduct, or errors in conducting, reviews of retail deposits in terms of identification of deposits with increased cash outflows, – unauthorised exclusion of term deposits from outflows, – failure to include (in outflows) interest due within 30 days, – improper identification of operating deposits, including incorrect classification, to that category, of funds on current accounts of large enterprises, non-commercial institutions as well as central government and self-government institutions, – the weight of an outflow was not assigned to the funds on the minimum deposit account (an affiliating bank), – classification of instruments which do not meet the criteria set out in Regulation, e.g. Treasury bonds which covered the BFG fund for protection of guaranteed funds, as Level 1 assets, – non-compliance with the requirement to cash a representative sample of Levels 2A and 2B assets at least annually, – failure to estimate, or incorrect estimation of, the values and rates of potential outflows on account of other products and services, – improper estimation of inflows on account of credit facilities and other receivables. |
| 2. | <p>Irregularities relating to stress testing, including:</p> <ul style="list-style-type: none"> – the rules of stress testing were not approved by the supervisory board, – assumption of insufficiently conservative assumptions for tests, which fail to ensure accurate risk measurement, e.g. overestimation of the volume of securities eligible for collateral for the purpose of the marginal lending facility, – failure to document the reviews which confirm the choice of scenarios and to assess the adequacy of the adopted assumptions, – insufficient, or lack of, coverage of certain outflows, e.g. electronic deposits, outflows on account of discharge of clients' off-balance sheet commitments, – failure to use test results in liquidity risk management. |
| 3. | <p>Irregularities relating to contingency liquidity planning, indicating:</p> <ul style="list-style-type: none"> – failure to define, in a clear and accurate manner, the symptoms of the need to launch the plan, – inconsistency with scenarios of stress tests, or insufficient use of test results, – assumption of unrealistic assumptions concerning collateral in an emergency, e.g. by: |

¹⁵ Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to liquidity coverage requirement for Credit Institutions.

| | |
|--|---|
| | <p>considering the marginal lending facility and the refinance loan as sources of contingency liquidity, despite the lack of the relevant agreements with the NBP, too short time limits for the sale of liquid assets,</p> <ul style="list-style-type: none"> – failure to define key intraday payments and their priority, – insufficient preparation for liquidity assistance from the NBP in the form of a refinance loan, e.g. failure to adapt to the requirements on the refinance loan, too low frequency of tests of bank's willingness to contract a refinance loan, irregularities in the process of generating the pool of debts, which serves as a collateral for the refinance loan, – insufficient scope of contingency plan options (failure to take into account an internal or external emergency, or a combination of such scenarios), – insufficient testing of the plan, – lack of proper distribution of responsibility for plan implementation. |
|--|---|

Source: KNF's own calculations

Table 32. Material irregularities identified during inspection activities at commercial banks in 2018 in the area of capital adequacy relating to correct calculation of capital requirements using the standard method and correct calculation of own funds

| Capital adequacy relating to correct calculation of capital requirements using the standard method and correct calculation of own funds | |
|--|--|
| 1. | <p>Irregularities relating to the calculation of own funds, including :</p> <ul style="list-style-type: none"> – failure to deduct, from the Tier I core capital, the adjustment to the value of assets measured at fair value (AVA), – failure to deduct, from the Tier I core capital, the bank's indirect participations in own instruments, – inclusion, in Tier I, of equity instruments in the form of ordinary shares issued without authorisation from the KNF Board. |
| 2. | <p>Assigning incorrect value of CCF to off-balance sheet liabilities:</p> <ul style="list-style-type: none"> – application of CCF of 0% (instead of 20% or 50%, depending on maturity) to off-balance sheet liabilities of defaulting borrowers, – application of CCF of 0% (instead of 20% or 50%, depending on maturity), despite the lack of real possibility to automatically cancel the liability due to the worsening creditworthiness of the borrower. |
| 3. | <p>Irregularities relating to incorrect segmentation of credit exposures and assignment of risk weights included mainly:</p> <ul style="list-style-type: none"> – classification of exposures secured with mortgages on real estate: <ul style="list-style-type: none"> • classification of foreign-currency exposures secured with mortgages on real estate into the category of retail exposures with a risk weight of 75% instead of category of exposures secured with mortgages on real estate with a risk weight of 150%, • assignment of the risk weight of 50% (instead of 100%) to exposures secured with mortgages on commercial real estate and related to lease transactions, – classification into the category of exposures to public entities with a risk weight of 50%, into the category of exposures to local government units or local authorities with a risk weight of 20%, into the category of exposures to institutions with a risk weight of 20%, and into the category of retail exposures with a risk weight of 75%, instead of the category of exposures to enterprises with a risk weight of 100%, – application of the risk weight of 50% (instead of 100%) to derivatives recognised in the category of exposures to enterprises, – classification of exposures to closed-end investment funds into the category of exposures to institutions with a risk weight of 20% and 50% or into the category of exposures in the form of participations or shares in collective investment undertakings with a risk weight of 100% instead of the category of exposures associated with a particularly high risk with a risk weight of 150%, – classification of minority holdings in relation to housing cooperatives into equity exposures with a risk weight of 100% instead the category of exposures relating to a particularly high risk with a weight of 150%. |
| 4. | <p>Failure to calculate, or incorrect calculation of, the requirement on account of risk associated with Credit Valuation Assessment (CVA).</p> |

Source: KNF's own calculations

Table 33. Material irregularities identified during inspection activities at banks in 2018 in relation to IT risk relating to the safety of electronic banking services, in particular mobile banking, and biometric and video verification

| IT risk relating to the safety of electronic banking services, in particular mobile banking, and biometric and video verification | |
|--|--|
| 1. | <p>Irregularities relating to the safety of electronic and mobile banking services indicating:</p> <ul style="list-style-type: none"> – failure to conduct an audit which would cover all services and systems used in telephone banking, – location of data processing centres does not mitigate the risk of unavailability of systems in case of a natural disaster, – failure to conduct a test of the business continuity scenario, in which one of the data processing centres is not available. |
| 2. | <p>Irregularities with respect to biometry and video verification:</p> <ul style="list-style-type: none"> – banks' internal procedures of video verification did not provide for the requirement to assess each environmental and behavioural factor, – in some case, there were no formal rules or requirements regarding training for staff who manage video verification measures, – low efficiency of control of staff responsible for the management of the video channel in terms of proper verification of client identity through the video channel, and compliance by consultants with the related guidelines, in particular regarding cases of non-compliance by bank staff with internal procedures identified by the supervisor, – lack of regular testing of recordings for accuracy and quality of audit and video, – failure to perform analysis of banks' compliance with the requirements laid down in the Guidelines of the General Inspector of Financial Information of 22 August 2018 on identification of clients of obliged institutions and verification of client's identity in their physical absence, – failure to keep records of the conduct and approval of the results of tests to validate implementation of risk control mechanisms of a biometric solution, described in the review performed at the implementation stage of a mobile application. |

Source: KNF's own calculations

Table 34. Other material irregularities identified at banks in 2018¹⁶

| Other material irregularities identified at banks | |
|--|---|
| 1. | <p>With regard to credit risk management, the following irregularities were identified:</p> <ul style="list-style-type: none"> – reduction of the basis for calculation of allowances for expected credit losses on the basis of outdated appraisal reports, – no verification of credibility and accuracy of market assumptions and parameters at the stage of collateral acceptance or collateral monitoring, – no defined measures of efficiency of restructuring and debt collection activities, and thus no assessment of efficiency of the asset restructuring and debt collection processes, – failure to comply with supervisory recommendations S and T with respect to the assessment of creditworthiness of individuals and assessment of investment projects. |
| 2. | <p>With regard to operational risk management, the following irregularities were identified:</p> <ul style="list-style-type: none"> – incomplete adaptation of banks' operations with respect to model management to the standards laid down in the KNF Recommendation W on risk management of models at banks, including improper identification of models, lack of validation methodologies and assessment criteria in relation to certain models, and lack of regular assessment of the quality of operation (monitoring) of certain models, – insufficient control over the activities of banks' IT system administrators and activities of IT service providers, – lack of sufficient control over the management of end-user computing (EUC). |
| 3. | <p>With regard to bank management, the following irregularities were identified:</p> <ul style="list-style-type: none"> – banks introduced a minimum amount of variable remuneration, which was not subject to deferral, – contracts of employment of certain members of management board did not provide for |

¹⁶ This applies to the areas which are examined as part of inspection and which go beyond the topics discussed previously.

| | |
|----|--|
| | <p>suspension, restriction or refusal to pay variable components of remuneration in the case referred to in Article 142(1) of the Act of 29 August 1997 the Banking Law (Journal of Laws 2017, item 1876),</p> <ul style="list-style-type: none"> – failure to carry out the annual assessment of risk management, to be carried out by the bank's supervisory board, – the Audit Committee failed to monitor the tasks relating to the effectiveness of the internal control system and risk management system, including with regard to financial reporting, which constituted a breach of Article 130(1) point 1b of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision (Journal of Laws 2017, item 1089). |
| 4. | <p>With regard to the management of market risk and overall interest rate risk in the banking book, irregularities concerned mainly the aspects relating to the offering of structured deposits and/or financial instruments to clients:</p> <ul style="list-style-type: none"> – submission of incomplete information on the risk of conclusion of a transaction at the time of conclusion of such a transaction with a client, including on the possible loss for the client, – lack of regulations on saving recordings and data concerning financial instruments, – failure to publish, on the bank's website, key information for investors (KID) for the most complex derivative products, – incorrect information in an investment recommendation submitted to the client as part of the investment advisory service. |

Source: KNF's own calculations

In 2018, actions in the field of supervisory validation of internal approaches (7 validation proceedings) focused on cooperation with banks and with the European Central Bank (hereinafter: 'ECB'), both as part of the pre-application and application phases, including verification of the solutions used by banks to implement the Internal Ratings-Based Approach (hereinafter: 'the IRB Approach'¹⁷) or the Advanced Measurement Approach (hereinafter: the AMA Approach¹⁸), and in the post-application phase, including actions taken when a bank obtains permission (or conditional permission) to use an internal approach.

These activities were carried out both in the context of the off-site analysis and during the on-site validations, and were focused in particular on:

- the analysis of compliance of bank solutions with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 March 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No 648/2012 (OJ L 176 of 27 June 2013, pp. 1-337) and European regulations laying down regulatory and implementing technical standards for the authorisation of competent supervisory authorities to use internal approach, for the portfolios covered by the roll-out plan,
- the analysis of extensions and changes in the IRB Approach and the AMA Approach,
- verification of the fulfilment of conditions resulting from prior permissions,
- periodic review of the IRB Approach and the AMA Approach with regard to the banks using these approaches,
- ongoing cooperation with the banks and the ECB to the extent relating to the implementation and use of internal approaches.

INSPECTIONS AT COOPERATIVE BANKS: GENERAL INFORMATION

In 2018, inspection activities at cooperative banks were carried out on the basis of the provisions of law and the KNF's prudential recommendations, taking into account the guidelines of the European Banking Authority (EBA) and the Basel Committee on Banking Supervision (BCBS), based on uniform standards and examination procedures included in the Inspection Manual and detailed methodologies supplementing the Manual.

¹⁷ Internal Ratings Based Approach (credit risk).

¹⁸ Advanced Measurement Approach (operational risk).

Inspection activities were carried out in the form of comprehensive inspections, targeted inspections, and investigations.

Table 35. Inspection activities carried out by the KNF at cooperative banks in 2018

| Inspection activities | Number |
|--|--------|
| Comprehensive inspections at cooperative banks | 3 |
| Targeted inspections at cooperative banks | 33 |
| Investigations at cooperative banks | 2 |

Source: KNF's own calculations

In the case of inspection activities at cooperative banks, the main area of inspection was credit risk. Assessment also covered organisational preparedness of selected banks to conduct business outside a cooperative association.

Tables 36-37 provide summary information on the material irregularities (concerning to varying degrees the entities under inspection) identified with respect to:

- the area of credit risk in terms of assessment of creditworthiness, classification of credit exposures, collateralisation of credit exposures and the debt collection and restructuring processes,
- other material issues examined during comprehensive and targeted inspections and investigations at cooperative banks.

Table 36. Material irregularities identified during inspection activities at cooperative banks in the area of credit risk (examined during targeted and comprehensive inspections)

| Credit risk management | |
|------------------------|--|
| 1. | <p>Irregularities in the assessment of client's creditworthiness, including:</p> <ul style="list-style-type: none"> – non-compliance with Article 70 of the Banking Law at the time of granting a loan, consisting in a failure to: <ul style="list-style-type: none"> • verify quantitative data submitted by clients, • verify the source of income, lack of financial forecasts for the entire lending period, • obtaining or assessment, by banks, of recovery plans, or failure to establish special security where the client was not creditworthy, – non-compliance with Article 75c of the Banking Law (failure to assess the financial and economic standing of a client in the case of amendment to the contractual terms and time limits for the repayment of credit). |
| 2. | <p>Irregularities in the classification of credit exposures to risk categories leading to incorrect presentation of the credit portfolio, insufficient special-purpose provisions and write-downs, including:</p> <ul style="list-style-type: none"> – failure to identify any significant deterioration of the financial and economic situation of a debtor, – failure to recognise significant negative deviations in the performance from the related financial forecasts made in loan applications, – failure to analyse each item of the balance sheet and profit and loss account and the related changes, – classification of exposures only according to the criterion of timeliness of repayment where the criterion of the assessment of the debtor's financial situation is also required, – classification of exposures as 'watch-list' due to the borrower's economic and financial situation, – reclassification of exposures to a lower risk category despite the debtor's failure to regain creditworthiness, and failure to consider the criterion of at least 3-month timely loan servicing, – lack of automatic classification of liabilities according to the criterion of timely repayment of receivables, – failure to assess the possibility of debt repayment, in whole or in part, before deciding on debt restructuring. |
| 3. | <p>Irregularities in the measurement of collateral, leading to insufficient special-purpose provisions and write-downs, i.e.:</p> |

| | |
|----|---|
| | <ul style="list-style-type: none"> – reduction of the basis for calculation of special-purpose provisions and write-downs on the basis of outdated valuation reports for commercial real estate, or without considering previous encumbrances in the land and mortgage register, – no verification of credibility and accuracy of market assumptions and parameters at the stage of collateral acceptance or collateral monitoring, – lack, or low quality, of data in the internal database on real estate, – failure to use the inter-bank database on the real estate market. |
| 4. | <p>Irregularities in the lending process, relating to exemptions applied by banks, e.g. in the process of granting credit:</p> <ul style="list-style-type: none"> – to persons/entities who/which are not creditworthy without any special security or without a plan to improve the economic and financial situation, – to persons who have no stable income or whose income is below the required level, – with respect to the score at BIK, which shows that the client is unreliable, or with respect to exceeding the acceptable arrears as per a BIK report, – the down payment was below the required level, – to persons whose period of employment was shorter than the lending period, – despite the existence of a source of income not approved by the bank, and/or with respect to security accepted, e.g.: <ul style="list-style-type: none"> – renouncement of the required value of security for the repayment of money borrowed, – renouncement of the valuation of real property based on an appraisal report, – excessive level of LtV. <p>At the same time, the influence of deviations on the level of credit risk and bank's performance was not analysed or monitored.</p> |
| 5. | <p>Limited scope of internal regulations which might result in improper identification of credit risk, including:</p> <ul style="list-style-type: none"> – lack of rules concerning acceptable quantitative measures considering the specific nature of business activities of borrowers, – failure to define the industries which, in the bank's view, require special attention, – failure to develop rules and procedure for debt restructuring, – lack of rules for application of deviations from lending procedures, including lack of a catalogue of acceptable deviations and limit on the total amount of credit facilities granted with such deviations. |

Source: KNF's own calculations

Table 37. Other material irregularities identified during comprehensive and targeted inspections and investigations at cooperative banks

| Other material irregularities | |
|--------------------------------------|--|
| 1. | In relation to liquidity risk, material irregularities were identified in: the method of identification and measurement of risk, solutions adopted in the contingency liquidity plan, assumptions for stress tests, the system of prudential limits and the method of calculation of the LCR. |
| 2. | In relation to market risk, material irregularities were identified in risk measurement, concerns or reservations were expressed as to the organisation of fiscal activities, the process of entering into transactions and the system of limits (this applies to inspection in terms of assessment of organisational preparedness to conduct business outside an association). |
| 3. | In relation to operational risk, material irregularities were identified in IT and ICT security management, including incomplete implementation of KNF <i>Recommendation on the safety of payment transactions carried out via Internet</i> . Deficiencies were identified in the area of safeguarding business continuity, including failure to ensure appropriate backup location. |
| 4. | In relation to capital adequacy, irregularities were identified in the calculation of capital requirements on account of credit risk. The irregularities consisted mainly in applying incorrect segmentation and risk weights. |
| 5. | For bank management, material irregularities were identified in relation to the rules for minimising conflict of interest, management of non-compliance risk, management of operating expenses, and outsourcing. Inspection activities at some banks revealed that the internal control system was not fully effective and failed to ensure full compliance with the applicable laws and supervisory recommendations. The material irregularities consisted in a failure to take into account certain requirements under Regulation of the Minister of Development and Finance of 6 March 2017 on |

| |
|---|
| the risk management system and internal control system, remuneration policy and the detailed method for estimation of internal capital at banks (Journal of Laws 2017, item 637) and the standards set out in the KNF Recommendation H KNF on internal control system at banks. A negative opinion was expressed due to the lack of appropriate support of control processes using a matrix of control functions. The reservations concerning the matrix of control functions covered an excessive level of generality in the description of important processes, and the failure to include all important processes, leading to the failure to assign appropriate control mechanisms. Reservations were also formulated as to the activities of the compliance unit and the internal audit unit. |
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Source: KNF's own calculations

3.2. CREDIT UNIONS (PL: SKOK)

3.2.1. LICENSING ACTIVITIES

APPROVAL OF AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF CREDIT UNIONS AND OF THE NATIONAL ASSOCIATION OF CREDIT UNIONS

In 2018, the KNF Board issued:

- 4 final decisions on the approval of articles of association of credit unions:
 - 1 final decision concerning an amendment to a final decision issued following proceedings for a review of a case regarding approval of the articles of association of the National Association of Credit Unions,
 - 1 final decision to discontinue proceedings in respect of approval of an amendment to the articles of association of a credit union,
 - 1 final decision following a request for a review of a case, to repeal the final decision to refuse to approve amendments to articles of association and to approve other amendments made by the KNF Board, in the part relating to the refusal to approve amendments and to discontinue proceedings in that case,
 - 1 final decision following a request for a review of a case, to repeal the final decision to refuse to approve amendments to articles of association and to approve amendments,
- 1 final decision following a request for a review of a case, to uphold the appealed final decision on the refusal to approve articles of association.

APPROVAL AND APPOINTMENT OF PRESIDENTS OF MANAGEMENT BOARDS OF CREDIT UNIONS AND OF THE NATIONAL ASSOCIATION OF CREDIT UNIONS

In 2018, the KNF Board issued:

- 1 final decision on approval of the appointment of president of management board of a credit union,
- 2 final decisions on approval of the appointment of president/vice-president of management board of the National Association Of Credit Unions,
- 1 final decision following examination of a request for a review of a case, to uphold the final decision to refuse to approve the appointment of president of management of a credit union,
- 1 final decision following examination of a request for a review of a case, to repeal the final decision to refuse to approve appointment of president of a credit union and to discontinue proceedings.

INTERIM DECISIONS IN OTHER CASES

In 2018, the KNF Board issued the following interim decisions:

- 1 interim decision upholding the interim decision to stay the proceedings,

- 1 interim decision on the resumption of stayed proceedings.

3.2.2. SUPERVISORY ACTIVITIES

As at end of 2018, 20 unions were subject to rehabilitation proceedings. In 2018, the KNF Board decided on the take-over of two credit unions by banks pursuant to the Act of 5 November 2009 on cooperative savings and credit unions. Spółdzielcza Kasa Oszczędnościowo-Kredytowa Rafineria was taken over by BGŻ BNP Paribas. Spółdzielcza Kasa Oszczędnościowo-Kredytowa Piast was taken over by Bank Millennium S.A.

In 2018, the KNF Board approved the merger, under the Act of 5 November 2009 on credit unions, of three credit unions: (1) Spółdzielcza Kasa Oszczędnościowo-Kredytowa Kozienice and Spółdzielcza Kasa Oszczędnościowo-Kredytowa Bogdanka; (2) Spółdzielcza Kasa Oszczędnościowo-Kredytowa Wisła and Spółdzielcza Kasa Oszczędnościowo-Kredytowa Bełchatów; (3) and Spółdzielcza Kasa Oszczędnościowo-Kredytowa Szopienice and Spółdzielcza Kasa Oszczędnościowo-Kredytowa Mysłowice.

In 2018, the KNF Board took cognisance of three periodic reports on the standing of the credit unions sector: Information on the standing of credit unions in 2017, in the first quarter of 2018, the first half of 2018. In 2018, the KNF Board also took cognisance of a report on the standing of the credit unions obliged to implement rehabilitation plans for 2017.

3.2.3. INSPECTION ACTIVITIES

In 2018, 1 comprehensive inspection and 1 inspection in respect of the quality of assets and off-balance sheet commitments and credit risk management were carried out at credit unions.

Following inspections, reservations were expressed as to the quality of management of their operations, in particular due to the irregularities in risk identification, measurement and control. The main reservations concerned credit risk management, including:

- measurement of credit and loan exposures leading to missing write-downs,
- measurement of shares,
- assessment of creditworthiness,
- credit risk monitoring,
- concentration risk,
- strategy for the development of a credit portfolio,
- collateralisation of credit exposures,
- the functioning of the internal control system.

Other findings concerned weaknesses/irregularities in the area of management of liquidity risk and interest rate risk. Finally, the oversight exercised by the supervisory board and management board was considered to be insufficient.

3.3. DOMESTIC PAYMENT INSTITUTIONS, PAYMENT SERVICE OFFICES, AND DOMESTIC ELECTRONIC MONEY INSTITUTIONS

3.3.1. LICENSING ACTIVITIES

RE-AUTHORISATION OF DOMESTIC PAYMENT INSTITUTIONS

On 20 June 2018, the Act of 10 May 2018 amending the Act on trading in financial instruments and certain other acts entered into force and implemented, into the Polish legal order, Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market (PSD2). The amendment to the Act of 19 August 2011 on payment services introduced new types of payment services (i.e. the payment transaction initiation service and the account information service) and a series of new requirements for both the current payment service providers and the KNF. Most of those requirements concern the security of payment services provided to users.

The amendment also introduced a requirement for domestic payment institutions to submit, by 20 September 2018, documents to confirm their compliance with Section IV of the Act on payment services concerning the take-up and pursuit of business by domestic payment institutions, as set out in the Act of 10 May 2018 (re-authorisation). The re-authorisation process covered 40 domestic payment institutions, i.e. all institutions authorised to conduct business in the area of provision of payment services at the effective date of the regulations amending the Act on payment services.

The obligation to submit information within the statutory time limit was performed by 34 out of 40 domestic payment institutions, and then—following a request by the KNF—by another 6 entities.

The re-authorisation of domestic payment institutions should conclude with a confirmation by the KNF that a specific institution has fulfilled the requirements under Section IV of the Act on payment services as of 20 December 2018. Where there are no grounds for such confirmation, the KNF Board must withdraw the relevant entity's authorisation to provide payment services as domestic payment institution. The confirmation of fulfilment of the requirements was submitted to 35 entities, which were informed by the KNF that they may continue their business based on their current authorisation and that their entry in the register of domestic payment institution is valid. The other 5 entities did not complete the re-authorisation process with such confirmation, and one entity expressed its intention to change its current form of business into a small payment institution, and with respect to other entities appropriate supervisory measures were applied.

DOMESTIC PAYMENT INSTITUTIONS AND DOMESTIC ELECTRONIC MONEY INSTITUTIONS

As at 31 December 2018, 40 domestic payment institutions held authorisations.

In 2018, the KNF received 13 requests for authorisation to provide payment services as domestic payment institution, including 5 requests regarding a change of the previous authorisation and 1 request for authorisation to operate as domestic electronic money institution.

In that period, 1 final decision on a change of an authorisation to provide payment services was made, 1 set of proceedings in respect of authorisation to provide payment services as domestic payment institution was discontinued, 1 set of proceedings was stayed, and 5 requests were disregarded. 1 interim decision on the refusal to resume proceedings in respect of authorisation to provide payment services as domestic payment institution and 1

interim decision on the refusal to initiate the proceedings in respect of authorisation to operate as domestic payment institution were issued.

In 2018, 60 requests from domestic payment institutions for a change in the data entered in the register referred to in Article 4(3) of the Act on payment services and 1 cross-border notification were reviewed.

SMALL PAYMENT INSTITUTIONS AND ACCOUNT INFORMATION SERVICE PROVIDERS

The amendment to the Act on payment services which entered into force on 20 June 2018 introduced a possibility to provide payment services as small payment institution or account information service provider following entry in the register of payment service providers referred to in Article 4(3) of the Act on payment services. The two forms of business are regulated businesses as defined in the Act of 6 March 2018—the Business Law (Journal of Laws 646, as amended), which means that they may only be taken up following entry in the register and submission of a statement on fulfilment of requirements for such business laid down in the Act on payment services. In 2018, the KNF Board received 23 requests for entry in the register as a small payment institution; as a result, 10 such entries were made, 2 requests were disregarded and 2 requests for entry of an account information service provider were still being processed at the end of 2018.

PAYMENT SERVICE OFFICES

In 2018, the KNF Board received 474 requests concerning payment service offices, of which 221 requests concerned entry in the register, 102 requests concerned a change in such entry, and 151 requests concerned removal from the register.

As at 31 December 2018, 1 382 payment service offices were included in the register of payment service offices.

NOTIFICATIONS UNDER ARTICLE 72A OF THE ACT OF 19 AUGUST 2011 ON PAYMENT SERVICES, CONCERNING AN INTENTION TO ACQUIRE QUALIFYING HOLDINGS AND/OR SHARES OF DOMESTIC PAYMENT INSTITUTIONS

The amendment to the Act on payment services which entered into force on 20 June 2018 introduced an obligation to notify the KNF of the intention to acquire or take up, directly or indirectly, shares of a domestic payment institution in a number sufficient to reach or exceed 20%, 30% or 50%, respectively, of the total number of votes at the decision-making body or a share in the share capital.

By the end of 2018, the KNF Board received 3 such notifications and all of them have been processed.

NOTIFICATIONS CONCERNING EU PAYMENT INSTITUTIONS AND EU ELECTRONIC MONEY INSTITUTIONS

In 2018, the KNF Board received 240 notifications from competent supervisory authorities regarding the activity of EU payment institutions operating in Poland through a branch, through agents and on a cross-border basis.

In that period, the KNF Board received from competent supervisory authorities 100 notifications concerning EU electronic money institutions, including 1 notification concerning an agent and 1 notification concerning a cross-border distributor.

3.3.2. SUPERVISORY ACTIVITIES

The activities in the area of payment services carried out by domestic payment institutions (PL: KIP) and payment service offices (PL: BUP) are supervised by the KNF Board to the extent and according to the principles laid down in the Act on payment services and the Act on financial market supervision.

The primary objective of the supervision of domestic payment institutions exercised by the KNF Board is to ensure financial security of domestic payment institutions, and their compliance with the applicable domestic and EU laws governing the functioning of the market of payment services, and to protect the interests of electronic money users and holders. With regard to payment service offices, the objective of the supervision exercised by the KNF is to ensure compliance of payment service offices with the Act on payment services and to protect the interests of the participants in the payment service market (users of the money transfer service).

Table 38. Breakdown of own funds of domestic payment institutions (KIPs) (in PLN thousand)

| Item | Q3 2017 (PLN) | Q4 2017 (PLN) | Q1 2018 (PLN) | Q2 2018 (PLN) | Q3 2018 (PLN) |
|--|------------------|------------------|------------------|------------------|------------------|
| Own funds, including: | 804 114 657.0 | 694 951 009.00 | 732 316 090.00 | 790 483 046.00 | 640 489 276.00 |
| - initial capital | 717 126 925.0 | 587 747 509.00 | 597 757 596.25 | 607 661 863.25 | 519 146 860.00 |
| - revaluation capital | 21 588 408.0 | 4 928 405.00 | 4 928 405.00 | 14 524 142.00 | 9 595 737.00 |
| - retained earnings | 43 894 769.0 | 47 547 946.00 | 55 352 776.00 | 100 505 142.00 | 17 188 387.00 |
| - profit during approval and net profit of the current reporting period | 21 277 206.0 | 54 714 141.00 | 77 716 004.65 | 71 944 161.59 | 67 887 703.00 |
| Deductions of own funds: | 337 438 119.0 | 225 037 323.00 | 208 888 304.00 | 230 680 394.00 | 204 869 645.00 |
| - own shares held by a payment institution, measured at the carrying amount, including any impairment loss | 144 782 623.0 | 81 827.00 | 81 944.00 | 80 419.00 | 21 270.00 |
| - all liabilities resulting from the issue of preference shares | 0.0 | 0.00 | 0.00 | 0.00 | 0.00 |
| - intangible assets measured at the carrying value | 97 725 895.0 | 102 186 790.00 | 103 740 628.42 | 104 889 350.82 | 101 823 870.00 |
| - loss from previous years | 78 353 872.0 | 93 988 922.00 | 94 163 416.91 | 121 836 736.91 | 96 104 511.00 |
| - loss during approval | 0.0 | 234 536.00 | 7 574 229.00 | 0.00 | 0.00 |
| - net loss of the current | 19 175 528.0 | 28 527 239.00 | 3 935 804.00 | 5 960 149.94 | 5 749 409.00 |

| | | | | | |
|-------------------------------------|---------------|----------------|----------------|----------------|----------------|
| period | | | | | |
| Own funds (after deductions) | 444 372 455.0 | 464 630 086.00 | 523 427 784.00 | 549 284 679.00 | 434 980 007.00 |

Source: KNF's own calculations

The analysis of the reporting data on the domestic market of payment services submitted to the KNF leads to the conclusion that this area is dominated by several well-established KIPs, which operate on a large scale. In the third quarter of 2018, domestic payment institutions providing only money transfer services (Group C) carried out 2.57% of all payment transactions (10.40 million transactions). The second group of entities (Group B), which, in addition to the money transfer service, also provide other payment services, including transfer orders and direct debits, carried out 0.20% (0.80 million transactions) in that period. The vast majority of payment transactions, i.e. 97.23% (392.95 million transactions), were carried out by Group A (KIPs which, in addition to providing payment services from the above-mentioned Group B, also act as clearing agents as approved by the President of the NBP, and enable the execution of payment transactions initiated by or through an acceptor, the payer's payment instrument, especially consisting in the service of authorisations, sending payment orders of the payer or the acceptor to the issuer of the payment card or to payment systems, in order to provide the acceptor with the funds due (acquiring)).

Table 39. The number of transactions (in million) carried out by domestic payment institutions (KIP)

| KIP | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 |
|--------------|---------------|---------------|---------------|---------------|---------------|
| GROUP A | 300.35 | 323.82 | 324.61 | 371.92 | 392.95 |
| GROUP B | 0.09 | 0.09 | 0.09 | 0.09 | 0.08 |
| GROUP C | 9.92 | 10.18 | 10.49 | 10.62 | 10.40 |
| TOTAL | 310.36 | 334.09 | 335.19 | 382.63 | 403.43 |

Source: KNF's own calculations

Table 40. The value of transactions (in PLN million) carried out by domestic payment institutions

| KIP | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 |
|--------------|------------------|------------------|------------------|------------------|------------------|
| GROUP A | 24 952.61 | 27 694.49 | 26 619.01 | 30 202.20 | 31 738.50 |
| GROUP B | 45.08 | 50.43 | 216.15 | 129.70 | 112.80 |
| GROUP C | 2 276.15 | 2 587.16 | 2 742.74 | 3 279.60 | 3 049.70 |
| TOTAL | 27 273.84 | 30 332.08 | 29 577.90 | 33 611.40 | 34 900.97 |

Source: KNF's own calculations

Table 41. Fees and commissions (in PLN thousand) collected by all domestic payment institutions

| KIP | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 |
|--------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| GROUP A | 190 502.30 | 213 619.02 | 195 350.13 | 214 901.83 | 222 438.45 |
| GROUP B | 190.01 | 189.45 | 519.47 | 557.77 | 201.69 |
| GROUP C | 24 428.98 | 27 075.93 | 27 105.18 | 30 620.81 | 30 888.33 |
| TOTAL | 215 121.29 | 240 884.40 | 222 974.78 | 246 080.41 | 253 528.47 |

The average value of a single payment transaction at KIPs in the third quarter of 2018 was PLN 0.63 (PLN 0.67 in the second quarter of 2018, PLN 0.69 in the first quarter of 2018).

Under the Act on payment services, payment service offices are obliged to provide the KNF with quarterly and annual reporting information, including data on the number and value of money transfers made. For the first quarter of 2018, 1 157 payment service offices (85.4%) out of 1 355 entities subject to that obligation submitted reporting information to the KNF; for the second quarter of 2018, the reporting information was submitted to the KNF by 1 302

payment service offices (92.8%) out of 1 403 entities subject to that obligation; and for the third quarter of 2018, the reporting information was submitted to the KNF by 1 239 payment service offices (89.39%) out of 1 386 entities subject to that obligation.

The number and value of money transfers made by payment service offices (PL: BUP) was:

- in the first quarter of 2018: 9.2 million money transfers with a total value of PLN 1.6 billion,
- in the second quarter of 2018: 8.8 million money transfers with a total value of PLN 1.6 billion,
- in the fourth quarter of 2018: 9.4 million money transfers with a total value of PLN 1.6 billion.

The reporting information for quarters 1-3 of 2018 received from payment service offices shows that the obligations towards the KNF are not fulfilled by:
- about 10.61% of offices as regards providing the KNF with the original document confirming conclusion of an insurance contract, or a bank or insurance guarantee.

Under the applicable legislation governing the functioning of the domestic market of payment services, the supervisory authority does not have the power to remove the BUPs that fail to comply with the above-mentioned reporting requirements from the register. The level of protection of the transactions carried out by payment service offices (the level of protection of funds) is determined based on the relation of value of collateral held by them (i.e. insurance contracts or guarantee agreements) to the average monthly value of money transfers made by those entities.

The KNF's supervisory activities in relation to payment service offices include the monitoring of timely submission of reporting information, monitoring of compliance with the obligation to protect the clients' funds, notifying the payment service offices of the obligation to limit the scale of operations or of the need to transform into the KIP, if the statutory limit of monthly turnover of EUR 500 thousand is exceeded.

Despite being entered in the register of small payment institutions, none of the entities demonstrated the commencement of the provision of payment services in that capacity by 31 December 2018.

As part of its supervisory activities in relation to domestic payment institutions, the KNF carries out a substantive analysis of the applications for authorisation to operate as a domestic payment institution, and analyses financial results of the KIPs in the context of their compliance with financial plans presented at the stage of granting authorisations. In addition, in 2018, comprehensive inspections were carried out in four domestic payment institutions selected by the KNF to verify their financial security, consistency of data submitted in periodic reports with the reality, and the functioning of KIPs in accordance with the applicable regulations governing the functioning of the market of payment services at the national and Community levels.

The following reports on the payment services industry were presented at the KNF Board's meetings:

- Information on the standing of KIPs and BUPs in the first quarter of 2018 as at 25 May 2018,
- Information on the standing of KIPs and BUPs in the second quarter of 2018 as at 20 December 2018.

3.3.3. INSPECTIONS AT DOMESTIC PAYMENT INSTITUTIONS

In 2018, the KNF conducted 4 inspections at domestic payment institutions to assess the quality of management (including the risk management system and the internal control system) and management of operational risk and 1 inspection to assess compliance of data

on the scope and value of payment services provided by the company in 2016 with the reports submitted to the KNF.

The inspections at KIPs revealed irregularities in the management process, including risk management and internal control system. The key findings included:

- insufficient scope of internal audit,
- lack of independent audit of ICT security,
- non-compliance with the requirement of independence of audit work,
- lack or incomplete implementation of the Rules of Corporate Governance,
- lack of separation of operational and control functions within the organisational structure,
- failure to define, in the business continuity plan, the priorities for restoring each system and the maximum time for restoring systems/services,
- reservations as to completeness and timeliness of certain internal regulations, including the financial and strategic planning process,
- irregularities in the management of operational risk, including lack of a log of incidents and events relating to operational risk, failure to apply KRIs, lack of a limit specifying the acceptable level of operational risk,
- irregularities in complaint handling,
- internal audits were conducted by a third party, without an appropriate agreement.

3.4. MORTGAGE CREDIT INTERMEDIARIES AND THEIR AGENTS

According to the Act on mortgage credit and supervision of mortgage credit intermediaries and agents (Journal of Laws 2017, item 819) (hereinafter: 'Act on mortgage credit'), mortgage credit intermediaries and their agents must be supervised by the KNF Board.

For credit mortgage intermediaries, the Act on mortgage credit provides for two registration procedures:

- authorisation (at the request of the entity), resulting in entering the mortgage credit intermediary in Section I of the register of credit intermediaries,
- entering the mortgage credit intermediary in Section I of the register of credit intermediaries at the request of the lender (bank) under Article 57 of the Act on mortgage credit (without authorisation).

Mortgage credit intermediaries are entered in Section I of the register of credit intermediaries under an appropriate RPH number.

In 2018, the KNF Board entered 986 credit intermediaries in Section I of the register of credit intermediaries, of which:

- 250 mortgage credit intermediaries were entered on the basis of authorisation (250 final decisions on authorisation),
- 736 mortgage credit intermediaries were entered at the request of lenders (banks).

In 2018, the KNF removed 194 mortgage credit intermediaries from Section I of the register of credit intermediaries, of which:

- 9 intermediaries were removed on the basis of the final decision to withdraw authorisation (made each time at the request of the intermediary),
- 185 intermediaries were removed at the request from lenders for removal of intermediaries they had registered (in each case at the request of lenders).

As at 31 December 2018, 852 mortgage credit intermediaries were included in the register. In the course of other proceedings in respect of mortgage credit intermediaries, in 2018 the KNF Board issued 12 final decisions to discontinue proceedings in respect of authorisation to conduct business of mortgage credit intermediation and 2 interim decisions to correct an obvious typographical error in a final decision.

In 2018, 23 requests for authorisation to conduct the business of mortgage credit intermediation were disregarded. In each case, that was due to applicants' failure to remove formal defects in their requests, despite having been properly requested in writing to do so.

As regards an important formal requirement for authorisation of the business of mortgage credit intermediation relating to the passing of the examination for mortgage credit intermediaries, referred to in Article 49(1) point 1(d) in conjunction with Article 53 of the Act on mortgage credit, the Examination Board for Mortgage Credit Intermediaries, referred to in Article 52 of the Act on mortgage credit, acted in 2018 in its full composition and conducted 3 exams, taken by 34 individuals, of whom 15 passed the exam.

For mortgage credit intermediaries, the Act on mortgage credit provides for the entry of agents in Section I of the register of credit intermediaries at the request of a mortgage credit intermediary. Agents of mortgage credit intermediaries are entered in Section I of the register of credit intermediaries under an appropriate RHA number.

In 2018, the KNF Board:

- entered 6 706 agents in the register (each time at the request of a mortgage credit intermediary),
- removed 709 agents from the register (each time at the request of a mortgage credit intermediary).

As at 31 December 2018, 5 861 agents of mortgage credit intermediaries were included in the register.

3.5. CONSUMER CREDIT INTERMEDIARIES

Section II of the register of credit intermediaries applies to consumer credit intermediaries as defined in the Article 5 point 3 of the Act on consumer credit (consolidated text in: Journal of Laws 2018, item 993). The KNF Board does not supervise that category of intermediaries but it keeps a register of them. Consumer credit intermediaries are entered in Section II of the register of credit intermediaries at their own request. Consumer credit intermediaries are entered in Section II of the register of credit intermediaries under an appropriate RPK number.

In 2018, the KNF Board:

- entered 25 866 consumer credit intermediaries in the register,
- removed 27 consumer credit intermediaries from the register.

In the course of other administrative proceedings in respect of consumer credit intermediaries, in 2018 the KNF Board issued:

- 24 final decisions to refuse to enter a credit intermediary in the register of credit intermediaries,
- 2 final decisions to refuse to initiate the proceedings for entry of a credit intermediary in the register of credit intermediaries,
- 1 final decision to discontinue proceedings in respect of entry of a credit intermediary in the register of credit intermediaries.

As at 31 December 2018, 27 917 consumer credit intermediaries were included in the register.

3.6. NON-BANK LENDING INSTITUTIONS

Non-bank lending institutions, as defined in Article 5 point 2a of the Act on consumer credit, are not supervised by the KNF Board. The KNF Board keeps a register of non-bank lending institutions, as referred to in Article 59ab of the Act on consumer credit. An entry in the

register of non-bank lending institutions is made at the request of such an institution. Non-bank lending institutions are entered under an appropriate RIP number.

In 2018, the KNF Board:

- entered 346 non-bank lending institutions in the register,
- removed 11 non-bank lending institutions from the register.

In the course of other proceedings in respect of entry of a non-bank lending institution, in 2018 the KNF Board issued 7 final decisions to refuse to enter a non-bank lending institution in the register of non-bank lending institutions, and each time the refusal was due to the applicant's legal form being incompatible with statutory law.

As at 31 December 2018, 421 non-bank lending institutions were included in the register.

3.7. PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING (AML/CFT ACTIVITIES)

In 2018, AML/CFT inspection activities were conducted at obliged institutions pursuant to the Act of 16 November 2000 on the prevention of money laundering and terrorist financing (Journal of Laws 2017, item 1049, as amended; hereinafter: 'Act of 16 November 2000') and the Act of 1 March 2018 on the prevention of money laundering and terrorist financing (Journal of Laws 2018, item 723, as amended; hereinafter: 'AML/CFT Act'), which repealed, on 13 July 2018, the Act of 16 November 2000. The inspections were conducted at entities in the following sectors: banking, domestic payment institutions, and capital sector. The AML/CFT inspections were conducted with reference to the *Report from the Commission to the European Parliament and the Council on the assessment of the risks of money laundering and terrorist financing affecting the internal market and relating to cross-border activities* (COM(2017) 340 final), published on 26 June 2017 and its recommendations concerning adoption of appropriate measures to mitigate any identified risk.

As recommended by the European Commission, the inspection covered the method of identification of beneficial owner, and inspections at payment institutions considered, in particular, the training provided by such institutions to agents. Additionally, the European Commission identified safe deposit boxes used at banks as a particularly high risk-product, and that issue was also covered by the KNF inspection.

Table 42. Number of inspections conducted by the KNF at supervised entities in 2018 in the area prevention of money laundering and terrorist financing

| Inspection activities at entities | Number |
|-----------------------------------|-----------|
| Commercial banks | 12 |
| Cooperative banks | 3 |
| Brokerage houses/firms | 6 |
| Domestic payment institutions | 16 |
| Total | 37 |

Source: KNF's own calculations

All inspections conducted by the KNF inspectors revealed irregularities and failures in the areas under inspection. Most irregularities were found in the area of risk assessment and application of financial security measures, which is a consequence of targeted inspections aimed at identifying beneficial owner. Other areas where a relatively large number of irregularities were found were the organisation of the AML/CFT process and submission of information to the General Inspector for Financial Information (GIFI).

The most common irregularities found in all sectors of the financial market covered by inspection are presented in Table 43.

Table 43. The most common irregularities and infringements identified during the 2018 inspections in the area of AML/CFT

| Anti-money laundering and combating the financing of terrorism | |
|---|---|
| 1. | <p>Irregularities in the area of assessment of the risk of money laundering and terrorist financing and the application of client due diligence measures:</p> <ul style="list-style-type: none"> – failure to identify or incorrect identification of the beneficial owner, – failure to assess the risk for the clients whose only product at a bank was a safety deposit box, – failure to verify whether clients whose only product at a bank was a safety deposit box were on the lists of sanctions and whether such clients were politically exposed persons (PEPs), – failure to regularly update the data on clients and beneficial owners which might affect their previous risk assessment, – failure to verify clients for PEP status, – incorrect assessment of money laundering risk resulting in failure to apply enhanced client due diligence measures. |
| 2. | <p>Irregularities in the organisation of the AML/CFT process:</p> <ul style="list-style-type: none"> – insufficient scope, quality and/or frequency of management information, – no formal assignment of tasks and responsibilities, – breach of the principle of separation of the operational and supervisory functions. |
| 3. | <p>Irregularities in the submission of information to the GIFI:</p> <ul style="list-style-type: none"> – late submission of information on transactions to the GIFI, – incorrect parametrisation of the threshold value of transactions subject to notification to the GIFI, – notifying the GIFI of transactions which are not subject to the notification requirement. |
| 4. | <p>Irregularities in the internal control system:</p> <ul style="list-style-type: none"> – low quality of control, expressed in the lack of negative findings in the area of AML activities, despite numerous irregularities found by the KNF, – the internal control system did not cover the key elements of the AML process. |
| 5. | <p>Irregularities in internal procedure, for example:</p> <ul style="list-style-type: none"> – incompatibility of internal regulations with applicable laws, – inconsistencies between internal regulations. |
| 6. | <p>Irregularities identified in the information accompanying money transfers:</p> <ul style="list-style-type: none"> – lack of documents to confirm that the person accepting a client's order verified information on the payer, – failure to store, in IT systems, full information on the payer in the case of a transaction exceeding the equivalent of EUR 1 000. |
| 7. | <p>Irregularities in the analysis of transactions:</p> <ul style="list-style-type: none"> – failure to carry out periodic reviews of the rules used in IT systems to identify potentially suspicious transactions, – incompatibility of the rules of identification of suspicious transactions defined in IT systems with the rules defined in internal procedures, – the analytical system does not cover all transactions. |
| 8. | <p>Irregularities in employee training:</p> <ul style="list-style-type: none"> – the training programmes did not take into account all tasks which are relevant for the AML/CFT process, – ineffective mechanisms to confirm that the staff involved in the AML/CFT process have acquainted themselves with the changes in legislation and internal regulations. |
| 9. | <p>Irregularities identified in the area of suspending transactions, blocking accounts and freezing assets:</p> <ul style="list-style-type: none"> – verification of parties to the transaction against lists of sanctions only after the operation is closed, – lack of a system of day-to-day verification of clients transferring funds at agency points against lists of sanctions, – verification of clients for inclusion on lists of sanctions only at the time of establishing business relationships. |

Source: KNF's own calculations

In order to eliminate the irregularities, the KNF Board issued post-inspection recommendations for supervised institutions in the areas in question. In addition, where material or numerous irregularities were identified, the KNF Board recommended that supplementary training be provided to the employees implementing the AML/CFT process and that additional mechanisms be strengthened or introduced in the internal control system.

Monitoring of the implementation of the KNF recommendations was based on periodical reports submitted by the entities under inspection, in which the entities provided a detailed description of corrective actions taken by them to eliminate the irregularities.

In 2018, the KNF continued its cooperation with the GIFI, in particular in the area of:

- exchange of information on the plans and results of inspections at obliged institutions,
- active participation of a representative of the Chair of the KNF Board in the activities of the Financial Security Committee attached to the GIFI,
- reporting irregularities identified at obliged institutions in the course of ongoing analysis,
- communication of information for the purpose of administrative proceedings conducted by the GIFI in matters relating to the imposition of penalties on obliged institutions,
- participation at working meetings, training sessions and workshops.

Following the entry into force of the AML/CFT Act, since 13 July 2018 administrative proceedings in respect of imposition of penalties for breaches identified in the course of the KNF inspections have fallen within the remit of the KNF Board.

By 31 December 2018, the KNF Board did not impose any penalty.

The KNF Board also conducted analytical activities in the area of prevention of ML/FT. As a result, recommendations aimed at eliminating the irregularities found in the course of ongoing analysis were formulated and communicated to financial market entities, in particular to those at which an increase in the risk of money laundering and terrorist financing was identified, and information about financial security measures applied to mitigate such risk were requested.

The KNF Board also made a significant contribution to the development of the framework for national assessment of risk of money laundering and terrorist financing and submitted an in-depth analysis of the main directions of cash flows and the origin of non-residents who use the Polish financial system.

In order to mitigate the risk that supervised entities might be used for money laundering, the KNF Board engaged in educational activities in the form of seminars devoted to the AML/CFT issues addressed to each financial sector, law enforcement authorities, and public prosecutors.

4. CAPITAL MARKET SUPERVISION

4.1. INVESTMENT FIRMS, CUSTODIAN BANKS, TIED AGENTS OF INVESTMENT FIRMS, SECURITIES BROKERS, INVESTMENT ADVISERS

BROKERAGE ACTIVITIES

In 2018, the KNF Board issued 6 final decisions to partially withdraw authorisation to conduct brokerage activities and 2 final decisions on complete withdrawal of authorisation to conduct brokerage activities. The KNF Board also issued 4 final decisions to discontinue proceedings, including 2 final decisions on granting authorisation to conduct brokerage activities, and 2

final decisions on approval of the appointment of president of management board of a brokerage house or member of management board of a brokerage house responsible for supervising the risk management system. There were also issued 2 final decisions on objection to the transfer of authorisations to conduct brokerage activities and 1 final decision on the transfer of financial instruments and funds and documents relating to account keeping referred to in Article 69(4) point 1 of the Act on trading in financial instruments.

As at 31 December 2018, pending requests included 9 requests for authorisation to conduct brokerage activities, 1 request for partial withdrawal of authorisation to conduct brokerage activities, 12 requests for approval of the appointment of president of management board of a brokerage house or member of management board of a brokerage house responsible for supervising the risk management system, and 1 request for agreement to the performance by a member of supervisory board of an additional function of member of supervisory board at another entity.

In 2018, 5 notifications on the intention to acquire or take up shares in brokerage houses were considered. In 3 cases the KNF Board did not raise any objections and in 2 cases the proceedings were discontinued.

As at 31 December 2018, pending proceedings included 2 proceedings in respect of notification of the intention to acquire or take up shares in a brokerage house, 1 set of proceedings in respect of a transfer of financial instruments and funds and documents relating to account keeping referred to in Article 69(4) point 1 of the Act on trading in financial instruments.

NOTIFICATION OF INVESTMENT FIRMS

In the period covered by this report, the KNF Board received 140 notifications of the intention to conduct brokerage activities without a branch and 4 notifications of the intention to conduct brokerage activities through a branch in the Republic of Poland by foreign investment firms, as well as 301 notifications concerning a change of data covered by the original notification. 44 entities abandoned their brokerage activities conducted in the Republic of Poland without a branch, and 3 entities abandoned their activities conducted through a branch.

Table 44. The number of notified foreign investment firms at the end of the years 2015-2018

| Type of entity | 2015 | 2016 | 2017 | 2018 |
|---|--------------|--------------|--------------|--------------|
| Foreign investment firms without a branch | 1 816 | 1 919 | 1 975 | 2 062 |
| Foreign investment firms – a branch | 15 | 15 | 14 | 15 |
| Total | 1 831 | 1 934 | 1 989 | 2 077 |

Source: KNF's own calculations

In the period covered by this report, the KNF Board passed 5 resolution on the communication of information on the intention of Polish investment firms to conduct brokerage activities without a branch in the territory of other Member States and discontinued 1 set of proceedings in respect of notification of the intention of Polish investment firms to conduct brokerage activities without a branch in the territory of other Member States.

As at 31 December 2018, the KNF Board did not conduct any proceedings in respect of notification of the intention of Polish investment firms to conduct brokerage activities in the territory of other Member States.

Table 45. The number of Polish investment firms which notified their intention to conduct brokerage activities outside the territory of the Republic of Poland as at the end of the years 2015-2018

| Type of entity | 2015 | 2016 | 2017 | 2018 |
|---------------------------------------|-------|-------|-------|-------|
| Brokerage houses (number of branches) | 2 (8) | 2 (8) | 2 (8) | 2 (8) |
| Brokerage houses without a branch | 13 | 12 | 11 | 12 |

Source: KNF's own calculations

DAY-TO-DAY SUPERVISION OF INVESTMENT FIRMS

The KNF Board supervises the activities of investment firms and the financial standing of brokerage houses by carrying out:

- the analysis of current reports and periodic reports of investment firms, including financial statements of brokerage houses, submitted in accordance with the national law,
- the analysis of current reports and periodic reports following from CRR¹⁹ and Commission Implementing Regulation (EU) No 680/2014 issued on the basis thereof²⁰,
- proceedings aimed at issuing decisions regarding the application of specific provisions of CRR by individual brokerage houses,
- proceedings aimed at issuing decisions on approval of recovery plans by selected brokerage houses.

Moreover, pursuant to Article 110r of the Act of 29 July 2005 on trading in financial instruments (Journal of Laws 2018, item 2286, as amended), the supervisory review and evaluation process is conducted in relation to the regulations, strategies, processes and mechanisms implemented by brokerage houses in the field of risk management.

In 2018, the supervision over the activities of investment firms comprises an analysis of monthly reports and current reports of 44 brokerage houses and 9 banks providing investment services, as well as annual financial statements for 2017, semi-annual financial statements for the first half of 2018 and reports on capital adequacy of brokerage houses. In 2018, the consolidated financial statements for 2017 and the reports on capital adequacy on a consolidated basis brokerage houses, submitted in accordance with the provisions in force, were also analysed. Of 44 brokerage houses indicated above, 4 brokerage houses ceased their brokerage activities in 2018.

As part of the supervision of brokerage houses for their compliance with legislation, including the provisions of CRR, 19 final decisions and 4 interim decisions to initiate *ex officio* proceedings were issued as a result of proceedings conducted at the request of brokerage houses, and 2 final decisions were issued as a result of *ex officio* proceedings.

¹⁹ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit unions and investment firms and amending Regulation (EU) No 648/2012 (OJ EU L 176 of 27.6.2013, as amended)

²⁰ Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (OJ EU L 191 of 28.6.2014).

Table 46. Average value of own funds (in PLN million), total risk exposure amount (in PLN million) and total capital ratio of brokerage houses in the years 2015-2018

| Detailed list | 2015 | 2016 | 2017 | 2018 |
|------------------------------------|--------|--------|--------|--------|
| Average level of own funds | 31.55 | 31.24 | 34.83 | 39.29 |
| Average total risk exposure amount | 102.93 | 107.79 | 141.54 | 127.93 |
| Total capital ratio | 30.65% | 28.98% | 24.61% | 30.71% |

Source: KNF's own calculations

Data comes from quarterly COREP reports for data as of 31/12/2015, 31/12/2016, 31/12/2017 and 31/12/2018. That data takes into account the changing number of brokerage houses operating in the years 2015-2018.

The 'Report on the financial standing of brokerage houses in 2017' was presented at the KNF Board's meeting.

Table 47. Basic data from the balance sheets of brokerage houses (in PLN million) for the years 2015-2018

| Balance sheet item | 2015 | 2016 | 2017 | 2018 |
|---|-----------------|-----------------|-----------------|-----------------|
| I. Cash and cash equivalents | 5 210.80 | 3 957.23 | 4 391.39 | 4 437.18 |
| II. Short-term receivables | 1 559.61 | 1 550.30 | 1 608.56 | 1 407.17 |
| III. Financial instruments held for trading | 197.42 | 206.82 | 260.81 | 223.95 |
| IV. Short term prepayments and accruals | 20.31 | 16.92 | 14.77 | 14.51 |
| V. Short-term loans | | 5.55 | 8.13 | 17.51 |
| VI. Financial instruments held to maturity | 88.21 | 88.87 | 93.21 | 100.69 |
| VII. Financial instruments available for sale | 245.01 | 244.35 | 225.91 | 232.35 |
| VIII. Long-term receivables | 6.43 | 5.08 | 6.58 | 6.98 |
| IX. Long-term loans | 6.97 | 5.84 | 8.09 | 8.78 |
| X. Intangible assets | 63.48 | 38.33 | 33.66 | 37.10 |
| XI. Tangible fixed assets | 83.27 | 69.40 | 67.00 | 62.25 |
| XII. Long-term prepayments and accruals | 76.16 | 60.87 | 58.05 | 52.91 |
| XIII. Called-up share capital not paid | | 0.00 | 0.00 | 0.00 |
| XIV. Own shares and stocks | | 0.23 | 2.35 | 1.20 |
| TOTAL ASSETS | 7 557.66 | 6 249.79 | 6 778.51 | 6 602.58 |
| | | | | |
| I. Short-term liabilities | 5 152.94 | 4 390.64 | 4 884.31 | 4 693.88 |
| II. Long-term liabilities | 6.69 | 13.03 | 6.63 | 12.16 |
| III. Accruals | 88.75 | 51.11 | 57.49 | 43.18 |
| IV. Provisions for liabilities | 59.94 | 64.11 | 64.70 | 51.78 |
| V. Subordinated debt | 10.17 | 14.82 | 13.06 | 13.19 |
| VI. Equity capital | 2 239.17 | 1 716.08 | 1 752.32 | 1 788.39 |
| TOTAL LIABILITIES | 7 557.66 | 6 249.79 | 6 778.51 | 6 602.58 |

Source: KNF's own calculations

Data for the years 2015-2017 comes from the audited financial statements; data for 2018 is derived from monthly MRF reports as at 31/12/2018.

Data does not include data of one brokerage house whose financial year does not coincide with the calendar year. That data takes into account the changing number of brokerage houses operating in the years 2015-2018.

Table 48. Basic data from the profit and loss account of brokerage houses (in PLN million) for the years 2015-2018

| Item of the profit and loss account | 2015 | 2016 | 2017 | 2018 |
|--|----------|---------|---------|---------|
| I. Income from core activities, including: | 985.47 | 725.06 | 775.29 | 640.27 |
| 1. Income from investment services and activities | 985.47 | 709.71 | 724.90 | 570.45 |
| 2. Income from other core activities | | 15.35 | 50.39 | 69.82 |
| II. Costs of investment services and activities | 1 038.43 | 889.17 | 889.10 | 855.91 |
| III. Profit (loss) on core activities (I-II) | -52.95 | -164.11 | -113.81 | -215.64 |
| IV. Income from financial instruments held for trading | 402.53 | 355.98 | 419.21 | 429.54 |
| V. Costs of financial instruments held for trading | 39.56 | 13.75 | 45.02 | 75.02 |
| VI. Profit (loss) on operations of financial instruments held for trading (IV-V) | 362.97 | 342.23 | 374.19 | 354.52 |
| VII. Income from financial instruments held to maturity | 2.21 | 2.17 | 1.90 | 2.05 |
| VIII. Costs of financial instruments held to maturity | 0.00 | 0.15 | 0.48 | 0.07 |
| IX. Profit (loss) on operations of financial instruments held to maturity (VII-VIII) | 2.21 | 2.02 | 1.42 | 1.98 |
| X. Income from financial instruments available for sale | 144.26 | 27.34 | 31.50 | 37.33 |
| XI. Costs of financial instruments available for sale | 21.56 | 1.92 | 13.19 | 8.13 |
| XII. Profit (loss) on operations of financial instruments available for sale (X-XI) | 122.70 | 25.42 | 18.31 | 29.20 |
| XIII. Other operating revenues | 32.80 | 30.41 | 29.22 | 29.49 |
| XIV. Other operating expenses | 15.55 | 28.60 | 35.76 | 32.68 |
| XV. Difference in provisions and revaluation write-off | 7.24 | | 0.00 | |
| XVI. Profit (loss) on operating activities (XIII+XIV+XV) | 459.43 | 207.37 | 273.57 | 166.87 |
| XVII. Financial revenues | 79.11 | 52.81 | 48.13 | 58.67 |
| XVIII. Financial expenses | 23.18 | 14.41 | 48.21 | 21.49 |
| XIX. Gross profit (loss) (XVI+XVII-XVIII) | 515.36 | 245.77 | 273.49 | 204.05 |
| XX. Income tax | 80.82 | 51.34 | 53.02 | 39.01 |
| XXI. Other statutory reductions in profit (increases in loss) | -0.26 | 0.00 | 0.00 | 0.00 |
| XXII. Net profit (loss) (XIX-XX-XXI) | 434.80 | 194.43 | 220.47 | 165.04 |

Source: KNF's own calculations

Data for the years 2015-2017 comes from the audited financial statements; data for 2018 is derived from monthly MRF reports as at 31/12/2018.

Data does not include data of one brokerage house whose financial year does not coincide with the calendar year. That data takes into account the changing number of brokerage houses operating in the years 2015-2018.

SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP) FOR BROKERAGE HOUSES

In 2018, the process of supervisory evaluation of brokerage houses was carried out. The evaluation covered 40 brokerage houses. For 34 entities, the evaluation was simplified and based solely on the analysis of information provided and the conclusions resulting from the analysis of the reports submitted by those entities.

In 2018, ratings were granted for two cut-off dates, i.e. 31 December 2017 and 30 June 2018.

The 'Report on the Supervisory Review and Evaluation Process (SREP) for Brokerage Houses in 2017' was presented at the KNF Board's meeting.

TIED AGENTS OF INVESTMENT FIRMS

As of 31 December 2018, the register of tied agents of investment firms contained entries on 285 entities, including 41 legal persons and organisational units without legal personality and 244 natural persons.

In 2018, 66 natural persons and 10 legal persons and organisational units without legal personality were entered in the register of tied agents of investment firms. The KNF Board issued 14 final decisions on removal from the register of tied agents of investment firms, including 13 final decisions under Article 79(9) point 2 of the Act on trading in financial instruments. The KNF Board discontinued 23 proceedings in respect of entry in the register of tied agents of investment firms and refused to enter 1 entity.

As at 31 December 2018, pending requests included 43 requests for entry in the register of tied agents of investment firms.

Table 49. The state of the register of tied agents of investment firms at the end of the years 2015-2018

| Tied agents of investment firms | 2015 | 2016 | 2017 | 2018 |
|---------------------------------|------------|------------|------------|------------|
| Natural persons | 194 | 150 | 187 | 244 |
| Legal persons | 35 | 29 | 36 | 41 |
| Total | 229 | 179 | 223 | 285 |

Source: KNF's own calculations

SECURITIES BROKERS

As at 31 December 2018, the number of licensed securities brokers was 3 070. In 2018, 63 persons were entered on the list of securities brokers.

Table 50. The number of persons entered on the list of securities brokers and the total number of licensed securities brokers in the years 2015-2018

| Detailed list | 2015 | 2016 | 2017 | 2018 |
|--|-------|-------|-------|-------|
| The number of persons entered on the list of securities broker in a given year | 116 | 67 | 37 | 63 |
| Total number of licensed securities brokers | 2 907 | 2 974 | 3 008 | 3 070 |

Source: KNF's own calculations

In 2018, two exams for securities brokers were held. 270 persons took the exams and 61 persons passed them. So far, 3 256 persons have passed the examination for securities brokers.

Moreover, in the period covered by this report, 1 supplementary exam for securities brokers was held. 5 persons took the exam. Nobody passed it. So far, 101 persons have passed the supplementary exam for securities brokers.

INVESTMENT ADVISERS

As at 31 December 2018, the number of licensed investment advisers was 708. 51 persons were added to the list of investment advisers in 2018.

Table 51. The number of persons entered on the list of investment advisers and the total number of licensed investment advisers in the years 2015-2018

| Detailed list | 2015 | 2016 | 2017 | 2018 |
|--|------|------|------|------|
| The number of persons entered on the list of investment advisers in a given year | 34 | 33 | 87 | 51 |
| Total number of licensed investment advisers | 539 | 571 | 657 | 708 |

Source: KNF's own calculations

In 2018, 6 partial exams of the examination for investment advisers took place. 27 persons passed the entire examination cycle. In addition, two aptitude tests were held. 18 persons passed the exams. Overall, 45 persons passed the exams for advisers and the aptitude tests.

INSPECTION OF BROKERAGE HOUSES AND TIED AGENTS OF INVESTMENT FIRMS

2018 saw the conclusion of 5 inspections initiated in 2017 in respect of offering investment certificates of non-public assets closed-end investment funds under a non-public procedure. The entities under inspection included: investment firms, tied agent of an investment firm, a bank providing investment services, and a bank operating under Article 113 of the Act on trading in financial instruments.

The topic of financial market entities offering financial instruments, mostly corporate bonds and investment certificates, was addressed as a particularly important topic in the course of inspections initiated in 2018. In that respect, 4 brokerage houses and a bank cooperating with investment firms as offerors were inspected. The other 2 inspections of brokerage houses related to the provision of brokerage services on the Forex market.

One inspection still ongoing at the end of 2018 related to the bank's performance of the activities referred to in Article 70(2) of the Act on trading in financial instruments (hereinafter: 'Act').

In addition to that, inspections usually focused on the following areas of activity:

- organisational structure and technical conditions of the business, including IT systems,
- the functioning of the internal control system, the system of supervision over compliance of the business with the law, and the internal audit system,
- supervision of an investment firm in terms of the tasks performed by its tied agent,
- supervision of a bank providing investment services in terms of the activities of the bank's organisational units referred to in Article 113 of the Act,
- performance of brokerage activities in connection with the provision of brokerage services,
- performance of the activities referred to in Article 70(2) of the Act on trading in financial instruments,
- rules of conduct in relations with a client.

Since 21 October 2018, inspection has also covered a review of how and to what extent investment firms apply the laws implementing MiFID II.

The inspection revealed breaches, by the entities under inspection, of:

- Act of 29 July 2005 on trading in financial instruments (Journal of Laws 2017, item 1768, as amended),

- Regulation of the Minister of Finance of 24 September 2012 on the procedure and conditions to be followed by investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks (Journal of Laws 2015, item 878, as amended),
- Regulation of the Minister of Development and Finance of 25 April 2017 on detailed technical and organisational conditions for investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks (Journal of Laws 2017, item 855),
- Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (OJ L 2017.87.1),
- Regulation of the Minister of Finance of 30 May 2018 on the procedure and conditions to be followed by investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks (Journal of Laws, item 1112),
- Regulation of the Minister of Finance of 29 April 2018 on detailed technical and organisational conditions for investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks (Journal of Laws, item 1111),
- internal regulations of investment firms, regulations for the provision of brokerage services and agreements concluded by investment firms with clients with respect to the provision of brokerage services.

Table 52. Main irregularities identified during inspection activities in 2018 in the area of offering financial instruments

| Offering financial instruments | |
|--------------------------------|---|
| 1. | Offering financial instruments by supervised financial market entities without appropriate authorisation from the KNF Board; |
| 2. | The activities relating to the offering of financial instruments were not outsourced by an investment firm to a third party authorised by the KNF Board; |
| 3. | An investment firm failed to conduct brokerage activities in the area of offering financial instruments in a reliable and professional manner, in accordance with fair dealing rules. |
| 4. | When offering financial instruments, an investment firm failed to observe the client's best interest principle. |
| 5. | An investment firm, as offeror, failed to enter into a consortium agreement with an entity authorised by the KNF Board under the procedure for the outsourcing agreement. |
| 6. | An investment firm failed to outsource—in accordance with statutory law—brokerage activities consisting in third parties storing documents pertaining to the provision of brokerage services submitted by clients and potential clients via e-mail, including subscription for the acquisition of financial instruments, by not entering into an appropriate outsourcing agreement. |
| 7. | An investment firm failed to assess the suitability of brokerage services and financial instruments offered to the client (issuer) before entering into the agreement on the offering of financial instruments. |
| 8. | Failure by an investment firm to notify a client of any existing conflict of interest in connection with the offering of financial instruments to that client. |
| 9. | Failure by an investment firm to provide a basis for calculation of payment under the agreement on the offering of securities in connection with its percentage structure. |

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| 10. | Failure by an investment firm to submit—to the existing clients or potential clients who have entered into agreements for the provision of services of acceptance and transmission of orders to acquire or dispose of financial instruments following subscription for a financial instrument offered—a general description of the essence of the financial instruments offered and of the risk associated with investing in those financial instruments, so as to allow a client to make an informed investment decision, by adapting the scope of such information to the financial instrument and the category of the client. |
| 11. | Failure by an investment firm to accept subscription orders for financial instruments in accordance with the terms of the offer (e.g. by accepting subscription orders from investors after the lapse of the time limit for subscription, by indicating a wrong minimum number of financial instruments covered by subscription). |
| 12. | Failure by an investment firm to entrust related persons with the performance of activities relating to the offering of financial instruments so as to allow them to perform such activities in a proper, fair and reliable manner. |
| 13. | Failure by an investment firm to conduct training for the staff of a tied agent with regard to the tasks under the agency agreement in relation to the acceptance of subscription orders for financial instruments offered by the investment firm. |
| 14. | Failure, by a bank referred to in Article 70(2) of the Act, to entrust the activities relating to the offering of financial instruments to individuals who have the necessary knowledge, skills and qualifications to perform such activities properly, which led to serious discrepancies between a series of messages for investors and the basic knowledge of economics and finance; moreover, the messages presented an inaccurate view of the actual investment risk. |
| 15. | Failure to ensure the performance of the activities referred to in Article 113(1) of the Act, submitted for performance outside the bank's unit in which brokerage activities are conducted, in accordance with internal regulations adopted by the bank. |
| 16. | Bank's internal procedures do not govern activities relating to the supervision of operations and how they are performed pursuant to Article 113 of the Act, leading to the absence of effective of supervision over such activities. |
| 17. | Failure to ensure that the bank referred to in Article 113 of the Act should formulate a written investment recommendation on the subscription of a certain financial instrument following the assessment of suitability of financial instruments and brokerage services under a contract. |
| 18. | Failure to identify a potential conflict of interest in connection with performance, by bank staff performing activities under Article 113 of the Act, of activities in the area of offering, acceptance and transmission of orders, and failure to adopt adequate measures and procedures to manage such conflict. |
| 19. | Failure by a tied agent of an investment firm to ensure that the staff acting for and on behalf of an investment firm in the area of offering financial instruments act in accordance with the procedures submitted by the investment firm (including with respect to providing investors, in a proper manner, with proposals for acquisition of a financial instrument offered; lack of due care in providing investors with necessary information, in particular on risk factors relating to the acquisition of a financial instrument offered). |

Source: KNF's own calculations

Table 53. The most common irregularities identified during inspection activities in 2018 in the area of organisational structure, functioning and technical conditions for the operation of investment firms

| Organisational structure, functioning and technical conditions for the operation of investment firms | |
|---|---|
| 1. | Failure to properly develop and implement the internal control system, the system of legal compliance and the internal audit system. |
| 2. | Failure to exercise an adequate and ongoing supervision of legal compliance, resulting in violation of the provisions of law, internal regulations and agreements concluded with the clients, in connection with the provision of brokerage services by investment firms. |

| | |
|-----|---|
| 3. | Failure to perform the tasks of the internal audit system in a manner that allows for the recognition that an investment firm constantly reviews and assesses the correctness and effectiveness of the systems, regulations and internal procedures applied in its brokerage activities. |
| 4. | Failure to perform internal controls in significant areas of the investment firm's brokerage activities, and thus failure to perform activities by the Supervision Inspector within the framework of the internal control system aimed at preventing cases of non-compliance with internal regulations and mandatory procedures adopted by the investment firm. |
| 5. | Lack of proper supervision of individuals tied to an investment firm for their compliance with internal regulations, in particular with respect to protection and flow of information protected by professional secrecy and investment on one's own account. |
| 6. | Failure to implement day-to-day monitoring of the existing systems or internal regulations and procedures and failure to adopt measures to eliminate irregularities due to outsourcing internal audit once a year to a third party. |
| 7. | Failure to keep obligatory registers (e.g. of complaints from clients, transactions of tied individuals, potential and actual conflicts of interest) as required by the relevant legislation. |
| 8. | The Supervision Inspector had no knowledge about the investment firm's core activities. |
| 9. | Failure to ensure that the individuals performing tasks relating to the supervision of compliance has appropriate qualifications and that the compliance unit has appropriate resources, including human resources, to ensure proper performance of those tasks. |
| 10. | Failure to ensure that the internal control system has the capacity to perform its tasks. |
| 11. | Failure to provide, simultaneously, the management and supervisory boards of investment firms with reports on the internal audit and annual reports on the performance of tasks by the system of supervision of legal compliance of the business. |
| 12. | Lack of involvement of management boards of investment firms in the development and support for the functioning of the internal control system, the system of legal compliance and the internal audit system. |
| 13. | Failure to define a business continuity plan which would ensure continuous and uninterrupted operation of the investment firm, or contingency plans to ensure ongoing business and mitigation of losses in case of adverse internal and external events that might cause a serious disruption to the operations in terms of replacement of the person responsible for the management of a specific investment strategy (in connection with the management of portfolios composed of one or more financial instruments). |
| 14. | Failure by an investment firm to ensure technical and organisational solutions to ensure the safety and continuity of brokerage services and protection of clients' interests. |
| 15. | Lack of regulations on IT management and ICT security. |
| 16. | Failure to secure premises against unauthorised access. |
| 17. | Lack of an appropriate system for granting, withdrawal and verification of rights of access to IT systems. |
| 18. | Failure to store and archive, or even draw up, documents containing the investment firm's investment strategies or document containing information which provided grounds for drawing up such strategies in connection with the provision of the service of management of portfolio composed of one or more financial instruments. |
| 19. | Failure to properly archive documents and other information carriers in electronic form so as to protect the content of such information against loss or modification. |
| 20. | Failure to properly archive the documents drawn up or received by means of electronic information carriers, including electronic files of corporate mail, for a period of 5 years starting from the first day of the year following the year in which such documents and other carriers were developed, kept or drawn up. |

| | |
|-----|--|
| 21. | Failure to record data regarding the brokerage business and the activities performed by each organisational unit of the investment firm. |
| 22. | The investment firm's organisational rules do not define the scope of tasks and responsibilities of individual organisational units and positions in relation to the statutory obligation to implement supervision over the activities of a tied agent of the investment firm. |
| 23. | Failure to employ the required number of investment advisers for the purposes of management of portfolio composed of one or more financial instruments. |
| 24. | Failure to entrust brokerage activities to employees who have the necessary knowledge, skills and qualifications to perform such activities properly. |
| 25. | Failure to ensure that brokerage activities are entrusted to certain employees in a manner which ensures proper, fair and reliable performance of such activities. |
| 26. | Failure to notify the KNF Board, within the statutory time limit, of the intention of an investment firm to conclude an outsourcing agreement. |

Source: KNF's own calculations

Table 54. The most common irregularities identified during inspection activities in 2018 in the area of conduct of investment firms in relations with the client

| Conduct in relations with the client | |
|--------------------------------------|---|
| 1. | Failure to include, in marketing communications, at least every 12 months, information on the results of management of portfolios composed of one or more financial instruments. |
| 2. | Failure to include, in marketing communications, a clear warning that the presented data on the results of management of portfolios composed of one or more financial instruments refer to the past and that the past results do not guarantee their achievement in the future. |
| 3. | Lack of an accurate, legally required description of investment strategies relating to the management of portfolios composed of one or more financial instruments. |
| 4. | Performance of activities consisting in investment advisory services without the required authorisation from the KNF Board. |
| 5. | Failure by an investment firm to enter into a contract for the provision of services of acceptance and transmission of orders to acquire or dispose financial instruments with a retail client, in writing, otherwise being null and void. |
| 6. | Failure by an investment firm to conclude a contract in writing (otherwise being null and void) with a retail client for the provision of brokerage services of acceptance and transmission of orders to acquire or dispose financial instruments outside the organised trading. |
| 7. | Failure to provide, to retail clients, brokerage services of acceptance and transmission of orders to acquire or dispose financial instruments outside the organised trading on the basis of the rules for provision of such services. |
| 8. | Failure to conclude a contract for acceptance and transmission of orders to acquire or dispose of participations in accordance with the requirement to ask a client or potential client to submit basic information regarding the level of knowledge about investments in respect of financial instruments and the necessary investment experience to assess whether a financial instrument offered as part of a brokerage service, or the brokerage service to be provided under the contract, are appropriate for the client concerned, taking into account his/her individual situation. |
| 9. | Failure to perform a proper assessment which would make it possible to determine whether the financial instrument offered as part of a brokerage service, or the brokerage service to be provided under the contract, are appropriate for the retail client concerned, taking into account his/her individual situation. |
| 10. | Failure by an investment firm to notify a client of a conflict of interest and to refrain from concluding a contract for the provision of services of acceptance or transmission of orders until the receipt of the client's declaration of intent to enter into the contract despite the existence of |

| | |
|-----|---|
| | a conflict of interests. |
| 11. | Failure to provide brokerage services in accordance with the investment firm's policy to act in the best interest of the client. |
| 12. | Failure to provide clients and potential clients with full information on the level of investment risk associated with a given brokerage service or financial instrument when determining the benefits which could be achieved if the client decides to use the brokerage services provided by the investment firm concerned. |
| 13. | Failure to submit to clients and potential clients information which clearly specifies the period of time to which the presented data apply. |
| 14. | Failure to submit to potential clients, prior to the conclusion of the contract for brokerage services, information on the measures undertaken to protect funds. |
| 15. | Failure to submit to the client, at least once a year, by means of a durable medium, information, data on the amount of assets (funds) as at the end of the period for which the notice is made. |
| 16. | Failure to inform the client of the applicable fees so as to allow the client to become familiar with the investment firm's activities with respect to the transfer of benefits between the investment firm and a third party, and thus to make an informed investment decision. |
| 17. | Failure to include in the rules of brokerage services key information regarding the method of providing the brokerage service to the client. |
| 18. | Failure to provide brokerage services in accordance with the client's best interest principle. |
| 19. | Failure to act in a manner compatible with the client's best interest due to improper performance of contracts. |

Source: KNF's own calculations

Table 55. The most common irregularities identified during inspection activities in 2018 in the area of provision of brokerage services by investment firms

| Provision of brokerage services | |
|---------------------------------|---|
| 1. | Failure by an investment firm to apply its internal regulations with respect to the provision of brokerage services. |
| 2. | Lack of proper development, implementation and application of procedures and measures to manage conflicts of interest which should be adequate to the type and scope of the brokerage activities. |
| 3. | Failure to properly define all the circumstances which, in relation to each brokerage activity, cause or might cause a conflict of interest associated with a material risk of violation of the client's interests. |
| 4. | Failure to take into account certain circumstances which constitute or may constitute a conflict of interest in relation to the brokerage business pursued, for the purpose of proper monitoring and supervision of the management of conflicts of interest at the investment firm. |
| 5. | Failure to develop strategies and practices with respect to remuneration under appropriate internal procedures, to take into account the interests of all clients of the investment firm, trying to ensure professional treatment of clients and to prevent any violation of their interests in the firm's strategies regarding remuneration in the short, medium and/or long term. |
| 6. | Failure to apply questions which allow to obtain information on the nature, volume and frequency of transactions in financial instruments carried out by the client and on the period in which they were carried out, including the knowledge about investments in such financial instruments. |
| 7. | Failure to register the funds of each client so that the assets held for a client can be separated at any time from the assets of another client and from own funds. |
| 8. | Failure to provide brokerage services consisting in the storage and/or registration of financial instruments and reliable management of cash accounts due to the failure to manage cash accounts for each client. |
| 9. | Failure to register funds of each client on a cash account managed in accordance with the laws. |

| | |
|-----|---|
| 10. | Failure to clearly define the number of financial instruments which are an object of order. |
| 11. | Failure to accept remuneration from investment fund management companies on account of performance of agency contracts in the distribution of participation units in investment funds in accordance with a provision of law, to the extent the funds were not allocated for the improvement of quality of brokerage services provided to clients. |
| 12. | Failure to adapt the policy to act in the best interest of the client to the specific nature of financial instruments offered by the investment firm and to the brokerage business conducted. |
| 13. | Failure to provide a basis for calculation of remuneration under the contract for acceptance and transmission of orders in connection with its percentage structure. |
| 14. | Non-compliance with the provisions on professional secrecy of the Act on trading in financial instruments due to the disclosure of a professional secret to an unauthorised person. |

Source: KNF's own calculations

Following inspections, post-inspection recommendations were issued for the inspected entities. Due to the findings from some inspections, information was submitted to other state administration bodies, including the Office of Competition and Consumer Protection, for the purpose of possible examination, according to the remit of those bodies. Notifications of suspected criminal offence were submitted to the law enforcement authorities as a result of inspections at two entities.

For one entity under inspection, the KNF Board withdrew authorisation to conduct brokerage activities, and for the other it restricted the authorisation. For some of the other supervised entities, further examinations were initiated or conducted in respect of initiation of administrative proceedings to impose a financial penalty due to identification of breaches of laws and/or notification of a suspected criminal offence.

4.2. COMMODITY BROKERAGE HOUSES AND ENTITIES MAINTAINING ACCOUNTS OR REGISTERS OF EXCHANGE COMMODITIES

LICENSING ACTIVITIES

In 2018, 3 energy undertakings were granted authorisation to keep accounts and/or registers of exchange commodities and 1 set of proceedings in respect of authorisation to keep accounts and registers of exchange commodities were discontinued.

As at 31 December 2018, pending applications included 1 application for authorisation to keep accounts and registers of exchange commodities was under examination and 1 application for authorisation to conduct the brokerage business in respect of trade in exchange commodities. 56 energy undertakings held authorisation to keep accounts and/or register of exchange commodities, and 1 commodity brokerage house held authorisation to conduct business in respect of trade in exchange commodities.

4.3. ENTITIES OF THE INVESTMENT FUND MARKET

LICENSING ACTIVITIES

In 2018, the supervisory authority issued 280 final and interim decisions relating to the entities of the investment fund market.

The number and subject-matter of the resolutions as well as final and interim decisions issued on the basis of authorisation granted by the KNF Board in 2018 are presented in Tables 1.1 and 1.2., respectively, in Appendix 1.

In 2018, the Chair of the KNF Board issued 13 interim decisions to initiate *ex officio* proceedings or to extend the scope of proceedings under Article 13 of the Act of 29 July 2005 on capital market supervision (Journal of Laws 2018, item 1417, as amended, hereinafter: 'Act on capital market supervision').

As at 31 December 2018, 61 investment fund management companies, managing a total of 878 investment funds, held authorisations from the KNF Board, including: 47 open-end investment funds, 52 specialist open-end investment funds, and 779 closed-end investment funds.

Table 56. The number of investment fund management companies and investment funds in the years 2015-2018 cumulatively

| Detailed list | 2015 | 2016 | 2017 | 2018 |
|--------------------------------------|------|------|------|------|
| Investment fund management companies | 60 | 62 | 62 | 61 |
| Investment funds | 815 | 929 | 905 | 878 |

Source: KNF's own calculations

In 2018, the Polish Financial Supervision Authority issued:

- 1 authorisation to establish a specialised open-end investment fund,
- 2 authorisation to establish a public closed-end investment fund.

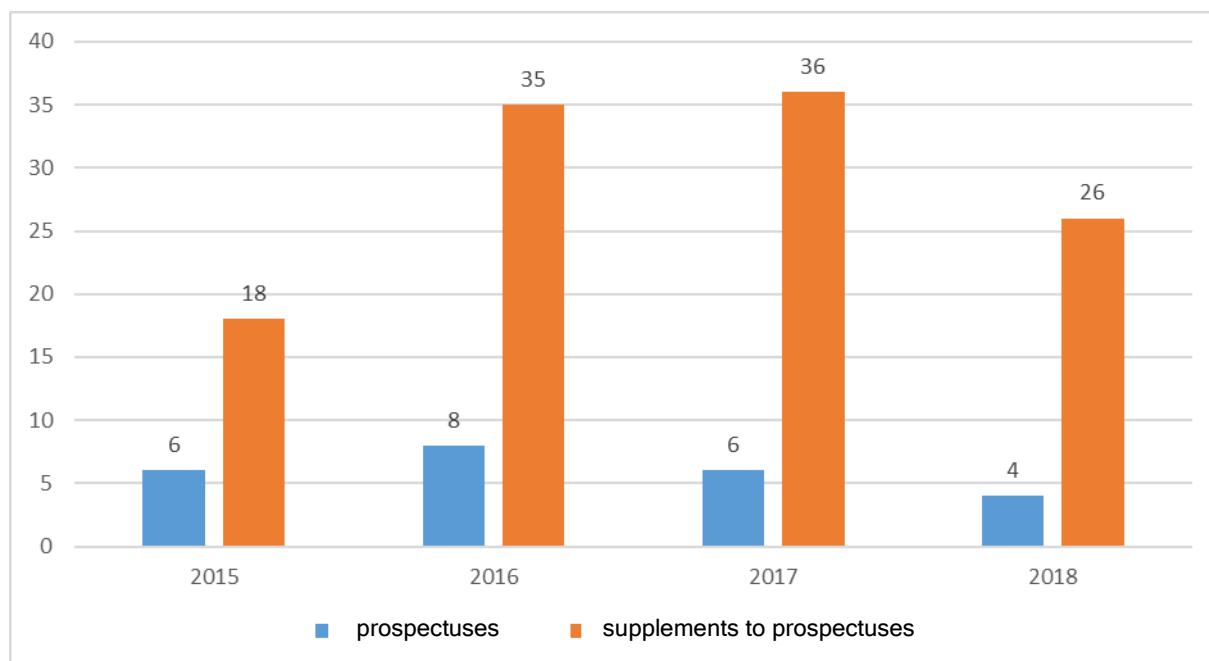
In 2018, 1 new fund with separate sub-funds started began operating. Following its establishment and amendment to the funds' articles of association in respect of creation of new sub-funds, the number of sub-funds separated within that type of funds increased from 574 sub-funds in December 2017 to 580 sub-funds at the end of December 2018.

In 2018, 56 closed-end investment funds, whose investment certificates in accordance with the fund's articles of association will not be offered by public offering or admitted to trading on a regulated market or placed in the alternative trading system, were registered.

In 2018, the KNF Board issued 30 final decisions on the approval of prospectuses and supplements in the investment fund sector, including:

- 4 final decisions approving prospectuses of investment certificates issued by public closed-end investment funds,
- 26 final decisions approving supplements to prospectuses of investment certificates issued by public closed-end investment funds.

Diagram 21. The number of prospectuses and supplements to prospectuses of public closed-end investment funds approved by the KNF in the years 2015-2018



Source: KNF's own calculations

ACQUISITION OR TAKING UP OF SHARES AND/OR RIGHTS ATTACHED TO SHARES

In 2018, 2 notifications of the intention to acquire or take up shares of an investment fund management company were considered. In both cases, a final decision was made not to object to the intention to acquire or take up shares of an investment fund management company and to set a date within which the acquisition or take-up may take place. As at 31 December 2018, 1 set of proceedings regarding the intention to acquire or take up shares of a investment fund management company was still pending.

CROSS-BORDER ACTIVITY

In 2018, the KNF Board received, by e-mail, 14 complete notifications of the intention to dispose of participations foreign UCITS funds in the territory of the Republic of Poland which pertained to 3 new foreign funds and 60 new sub-funds of foreign funds. For comparison, in 2017, 12 complete notifications concerning 2 new foreign funds and 23 sub-funds of foreign funds were received.

In 2018, the KNF Board received 4 notifications from management companies of their intention to operate in the territory of the Republic of Poland under the freedom to provide services (i.e. without establishing a branch). In that period, the KNF Board also received 1 notification from a management company of its intention to operate in the territory of the Republic of Poland through a branch. For comparison, in 2017 there was only 1 notification from a management company of its intention to operate in the territory of the Republic of Poland under the freedom to provide services (i.e. without a branch), and no notification from management companies of their intention to operate in the territory of the Republic of Poland through a branch.

As regards alternative investment funds (i.e. non-UCITS funds) with their registered offices in an EU Member State other than the Republic of Poland, the KNF Board received, in 2018,

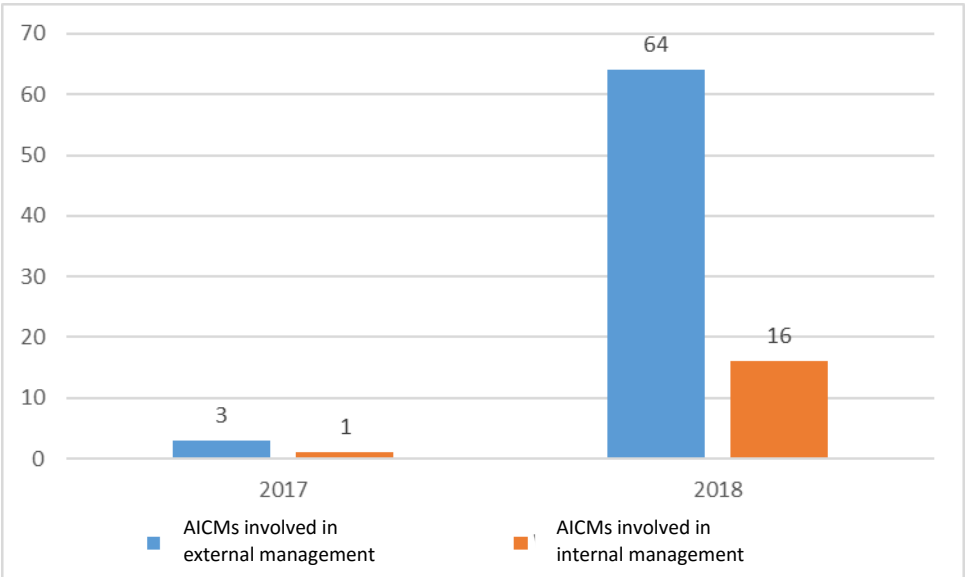
104 complete notifications of the intention to market 97 alternative investment funds, 24 European venture capital funds (EuVECA) and 1 European social entrepreneurship fund (EuSEF) in the territory of the Republic of Poland. For comparison, in 2017 the KNF Board received 77 complete notifications of the intention to market 71 alternative investment funds and 14 European venture capital funds (EuVECA) in the territory of the Republic of Poland.

Moreover, in 2018, the KNF Board received notifications from 10 alternative investment fund managers based outside the Republic of Poland of their intention to operate in the territory of the Republic of Poland without a branch and 1 notification from an alternative investment fund manager based outside the Republic of Poland of its intention to operate in the territory of the Republic of Poland through a branch. For comparison, in 2017, there were 9 notifications of the intention to operate without a branch and no notification of the intention to establish a branch.

ALTERNATIVE INVESTMENT COMPANIES/PARTNERSHIPS (AICs) AND ALTERNATIVE INVESTMENT COMPANY/PARTNERSHIP MANAGERS (AICMs)

As at 31 December 2018, 80 AICMs were disclosed in the Register of AICMs, including 64 self-managed AICMs (involved in internal management) and 16 AICMs involved in external management. In 2018, the KNF Board entered 76 entities in the Register of AICMs. As at 31 December 2017, 4 AICMs were registered, including 3 involved in external management and 1 involved in internal management. As at 31 December 2017, the value of managers’ assets amounted to PLN 54.4 million.

Diagram 22. Number of AICMs by external management and internal management* in the years 2017-2018 (cumulatively)



*Internal management (a self-managed AIC) refers to one entity which is both an AICM and AIC.
Source: KNF’s own calculations

supplements to prospectuses

The information submitted in the requests for entry in the Register of AICMs shows that among the above-mentioned entities entered in the Register of AICMs, 45 entities intended to operate as an AICM under agreements signed with the National Centre for Research and 10 entities under agreements with the Polish Development Fund, by using the funds under the Smart Growth Operational Programme.

At the same time, as at 31 December 2018, since the KNF commenced its supervision of AICMs it had received a total of 256 requests, including 248 requests for entry in the register of AICMs, 1 request for authorisation to operate as an AICM, and 7 requests for a review of a

case concluded with the KNF Board's final decision on the refusal to make an entry in the Register of AICMs.

Table 57. Number of requests received by the KNF Board by 31 December 2018

| Type of request | 2016 | 2017 | 2018 | Total |
|--|----------|------------|-----------|------------|
| Requests for entry in the Register of AICMs | 1 | 174 | 73 | 248 |
| Requests for authorisation to operate as an AICM | | 1 | | 1 |
| Requests for a review of a case concluded with the KNF Board's final decision on the refusal to make an entry in the Register of AICMs | | | 7 | 7 |
| Total | 1 | 175 | 80 | 256 |

Source: KNF's own calculations

In 2018, with regard to the market of alternative investment companies/partnerships, the KNF Board issued 33 final and interim decisions, including:

- 11 final decisions on the refusal to make an entry in the Register of AICMs, including one final decision after conducting proceedings in the second instance following a request for review,
- 16 final decisions to discontinue proceedings due to the party's withdrawal of the request or submission of a request for discontinuation of proceedings,
- 6 interim decisions, including:
 - 1 interim decision refusing to allow for an administrative hearing pursuant to Article 123 § 1 and § 2, in conjunction with Article 89 § 1 and § 2 of the Administrative Procedure Code,
 - 1 interim decision refusing to stay the proceedings pursuant to Article 123 § 1, in conjunction with Article 98 § 1 of the Administrative Procedure Code,
 - 2 interim decisions suspending the proceedings, at the request of a party pursuant to Article 98 § 1 of the Administrative Procedure Code,
 - 2 interim decisions to resume proceedings pursuant to Article 98 § 2 of the Administrative Procedure Code.

It should be noted that the entry in the Register of AICMs is a substantive and technical act, which does not require any binding administrative act (e.g. a final administrative decision).

In 2018, the day-to-day work included also educational and information activities relating to the operation of the financial market in terms of AICs and AICMs. Back in 2017, a new section named 'AICs' was created on the KNF website (www.knf.gov.pl) in which information regarding AICs and AICMs is published.

The section presents statements on substantive and supervisory aspects of supervision of AICs and AICMs, answers to frequently asked questions from financial market participants, guidelines formulated by the European Securities and Markets Authority and the European Commission, questions and answers regarding application of Directive on AIFMs drawn up by the European Commission, national and EU legal regulations pertaining to the operation of AICs and AICMs as well as draft legal regulations.

INTERMEDIARIES IN THE DISPOSAL AND REPURCHASE OF PARTICIPATION UNITS AND/OR SHARES

Under Article 32(2) of the Act on investment funds and the management of alternative investment funds, units of investment funds or shares of foreign funds may be disposed of and repurchased through an entity having its registered office or place of residence in the territory of the Republic of Poland.

As of 31 December 2018, the list of distributors of participation units and/or shares authorised by the KNF Board included 84 entities.

During the period covered by this report, the KNF Board issued 4 authorisations for mediation in the disposal and repurchase of participation units in investment funds and/or shares of foreign funds and 7 final decisions ascertaining the expiry of a final decision to grant authorisation to conduct the activities in question.

SUPERVISION OF COLLECTIVE INVESTMENT UNDERTAKINGS

The supervisory activities of the Polish Financial Supervision Authority towards investment fund management companies and investment funds – after such entities have obtained the necessary permission – include, among others: monitoring of the current situation of these entities by analysing current reports, current information and periodic reports.

Current reports and current information of investment funds are divided into two main groups:

- current reports and current information of open-end investment funds, specialised open-end investment funds and closed-end investment funds, submitted exclusively to the Polish Financial Supervision Authority,
- current reports of public closed-end investment funds submitted to the Polish Financial Supervision Authority and made available to the public.

In addition to the semi-annual and annual financial statements of investment funds, the following is also included in the group of periodic reports submitted obligatorily:

- quarterly reports of open-end investment funds, specialised open-end investment funds and closed-end investment funds, issuing non-public investment certificates, which are submitted only to the Polish Financial Supervision Authority,
- quarterly reports of public closed-end investment funds submitted to the Polish Financial Supervision Authority and made available to the public.

Periodic reports of investment fund management companies include:

- monthly reports,
- annual financial statements,
- annual reports on the functioning of internal control.

When carrying out supervisory activities with regard to investment fund management companies and investment funds, the Polish Financial Supervision Authority also regularly analyses information sent by depositaries of investment funds pursuant to Article 231 of the Act of 27 May 2004 on investment funds and the management of alternative investment funds.

Table 58. The number of analysed current and periodic reports of investment funds and investment fund management companies and information from depositaries in the years 2015-2018

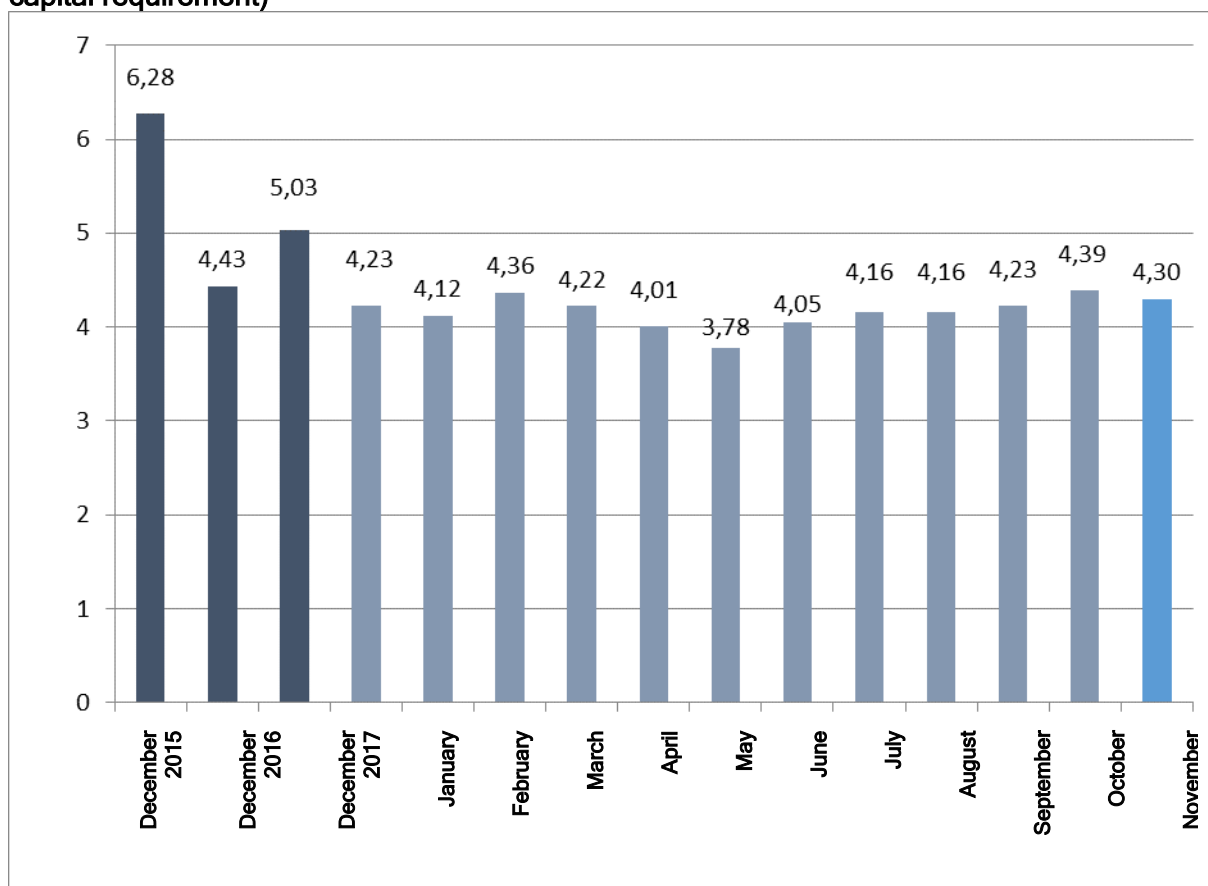
| Type of report/information | 2015 | 2016 | 2017 | 2018 |
|--|-------|-------|-------|-------|
| Current and periodic reports of investment fund management | 4 795 | 6 381 | 5 791 | 5 990 |

| | | | | |
|--|---------------|---------------|---------------|---------------|
| companies | | | | |
| Current and periodic reports of investment funds | 25 864 | 30 639 | 28 851 | 29 072 |
| Information from depositaries | 3 774 | 4 478 | 4 398 | 4 506 |
| Total | 34 433 | 41 498 | 39 040 | 39 568 |

Source: KNF's own calculations

As part of its supervision, the KNF Board also monitors compliance by investment fund management companies with capital requirements.

Diagram 23. The average value of the capital requirement coverage ratio of investment fund management companies at the end of the years 2015-2017 and in 2018 (equity/minimum capital requirement)²¹



Source: KNF's own calculations

Over 2018, the average value of the minimum capital requirement coverage ratio for the entire sector of investment fund management companies ranged from 3.78 to 4.39. The equity of the companies was on average approximately four times higher than the level of the minimum obligatory equity capital required by the provisions of the Act on investment funds and management of alternative investment funds. The decrease in the average value of the ratio in January 2018 resulted from, among other things, the increase in the requirement determined in accordance with Article 50(1) of the Act on investment funds on the basis of

²¹ Based on monthly reports provided by investment fund management companies. Monthly reports are not audited or reviewed by a statutory auditor so information included therein may be subject to subsequent corrections.

the costs of investment fund companies incurred in 2017. On the other hand, the decrease in the average value of the capital requirement coverage ratio in the second quarter of 2018 was caused by dividend payments made by investment fund companies from the profits for 2017.

Supervisory Review and Evaluation Process (SREP) for investment fund management companies (PL: TFI)

According to the objectives of the SREP, the following three areas were evaluated in relation to TFI:

- the risk borne by the investment fund management company,
- capital adequacy of the investment fund management company
- quality of management in the investment fund management company.

61 TFI were subject to evaluation under the SREP carried out in 2018. The ratings are assigned in the range from 1 (the best rating) to 4 (the worst rating). The average of the SREP scores assigned to the companies in 2018 was 2.30 and it was lower compared to the average score in 2017, which was 2.11.

The following reports on the activities of investment fund market entities were presented at the KNF Board's meetings:

- Information material on the disposal of participation units issued by foreign funds in the territory of the Republic of Poland between 1 January and 31 December 2017,
- Report on the financial standing of investment fund management companies in 2017,
- Report on the SREP for investment fund management companies in 2017.

INSPECTION OF THE INVESTMENT FUND MARKET ENTITIES

There were 11 inspections carried out during the period covered by this report, including 5 inspections at investment fund management companies and funds managed by them, 2 inspections at entities acting as intermediaries in the disposing and repurchasing of participation units or shares, 2 inspections at depositaries, 1 inspection at a manager of securitised receivables of securitisation funds, and 2 inspections at an entity acting as a representative of a foreign fund²².

Table 59. Selected irregularities identified during inspection activities at investment fund management companies in 2018, in the area of management of investment funds and their representation towards third parties, in the area of valuation of assets of selected investment funds, technical and organisational conditions for the conduct of business

| Management and representation of investment funds before third parties; valuation of assets of selected investment funds; technical and organisational arrangements for the conduct of business | |
|--|--|
| 1. | Failure to conduct business of fund management in a reliable and professional manner, using due care. |
| 2. | Failure by an investment fund management company to act with special consideration for the best interests of a unit holder. |
| 3. | Failure by investment fund management companies to act in the best interests of a unit holder. |
| 4. | Failure to ensure, in the valuation of assets of investment funds, that their value is measured at a reliably estimated fair value |
| 5. | Failure to exercise ongoing supervision of the entity entrusted by the company with the management of investment portfolios of investment funds. |

²² including 2 inspections commenced in 2017 and completed in 2018, and 1 inspection still pending by the end of 2018.

| | |
|-----|--|
| 6. | Drawing up and submitting to the KNF Board periodic reports of selected funds containing true, accurate and complete information. |
| 7. | Improper management of accounting books of an investment fund. |
| 8. | Pre-investment documents pertaining to the acquisition of a portion of portfolios of receivables were drawn up improperly and contained untrue information. |
| 9. | Failure by an investment fund company to employ persons with necessary knowledge and qualifications to perform activities relating to the relevant business, lack of an appropriate organisational structure with a clear distribution of functions. |
| 10. | Lack of technical and organisational solutions which normally ensure business continuity. |
| 11. | Failure to include, in the investment fund management company's risk management system, the scope and size of the company's business. |
| 12. | Improper inclusion of criteria for selection of deposits in the investment fund's assets. |
| 13. | Lack of day-to-day supervision over the performance of the activities entrusted by the investment fund management company to the economic operator or to a foreign economic operator in connection with the activities pursued by the company. |
| 14. | Incorrect classification of costs incurred by investment fund management companies and investment funds, resulting in inappropriate (understated) determination of the company's capital requirement in a given year. |
| 15. | Involvement—in the process of accepting subscriptions for investment certificates of funds—of entities which are not authorised to perform activities relating to offering financial instruments. |
| 16. | Failure to prevent conflicts of interest. |

Source: KNF's own calculations

Table 60. Selected irregularities identified during inspection activities carried out at the depositaries for investment funds, in the area of performance of their duties in accordance with law or the contract for the performance of depositary functions in 2018.

| Verification whether the obligations of a fund depositary are performed in compliance with law or the contract for the performance of depositary functions, in particular with the Act of 27 May 2004 on investment funds and management of alternative investment funds. | |
|--|--|
| 1. | Failure to notify the KNF Board that a fund is in breach of law or fails to properly take into account the interest of fund unit holders. |
| 2. | Failure to ensure that the net asset value of an investment fund and the net value of assets for an investment certificate are calculated in accordance with the law and the articles of association of the investment fund. |
| 3. | Failure to use due care and diligence in the management of registers of the investment fund's assets. |
| 4. | Failure by the depositary to properly and reliably perform its duties relating to exercising permanent control over the factual and legal acts performed by the fund. |
| 5. | Failure to ensure that a fund's obligations are fulfilled in compliance with the law and the fund's articles of association. |

Source: KNF's own calculations

Table 61. Selected irregularities identified during inspection activities in the entities managing securitised receivables of securitised funds in 2018.

| Compliance of the business with agreements concluded with investment fund management companies and with the provisions of the procedure for managing securitised receivables. | |
|--|--|
| 1. | Performance of activities as manager of securitized receivables of investment funds in breach of certain provisions of the agreements on management of securitized receivables. |
| 2. | Performance of duties under selected agreements for the management of securitised receivables in blatant contravention of legislation and the investment fund's articles of association, and conducting business in violation of interests of the participants in the securitisation fund. |
| 3. | Measuring receivables of selected packages at values other than a fair value. |

| | |
|----|---|
| 4. | Undertaking—as part of the management of selected investment portfolios of investment funds—activities consisting in conclusion of contracts to generate artificial profit from the disposal of elements of deposits, in blatant contravention of the principles of fair trading. |
| 5. | Failure to manage securitised receivables in accordance with the principles of fair dealing and in a manner that guarantees proper protection of the interests of securitisation fund participants. |

Source: KNF's own calculations

Table 62. Selected irregularities identified during inspection activities in entities managing investment portfolios of closed-end non-public assets in 2018.

| Compliance of the business with agreements concluded with investment fund management companies and investment fund's articles of association | |
|--|--|
| 1. | Infringement of investment fund asset management agreements concluded by a fund manager. |
| 2. | Violation of the articles of association of investment funds managed by fund managers. |

Source: KNF's own calculations

In 2018, post-inspection recommendations were issued for 11 supervised entities. The implementation of post-inspection recommendations for the 17 supervised entities was verified.

4.4. COMPANIES OPERATING THE REGULATED MARKET, THE EXCHANGE COMMODITY MARKET AND THE SECURITIES DEPOSITORY

As part of the supervision of companies operating a regulated market and a securities depository, the KNF Board makes decisions on the provision of services and approves or grants consent, in particular to:

- making changes to the regulations at: Giełda Papierów Wartościowych w Warszawie S.A., Towarowa Giełda Energii S.A., BondSpot S.A. and Krajowy Depozyt Papierów Wartościowych S.A.,

and approves:

- amendments to the articles of association of Giełda Papierów Wartościowych w Warszawie S.A., Towarowa Giełda Energii S.A., and BondSpot S.A.,
 - amendments to the articles of association of Giełda Papierów Wartościowych w Warszawie S.A., Towarowa Giełda Energii S.A., and BondSpot S.A.,
 - acquisition of shares in a company operating the stock exchange and a company operating the OTC market by legal persons other than those specified in the Polish and foreign law,
 - admission of non-securitised financial instruments to trading on a regulated market.

Table 63. The number of final decisions issued in 2018

| Entity being a party to the final decision | Number of final decisions |
|--|---------------------------|
| Giełda Papierów Wartościowych w Warszawie S.A. | 5 |
| BondSpot S.A. | 4 |
| KDPW S.A. | 2 |
| KDPW_CCP S.A. | 3 |
| Towarowa Giełda Energii S.A. | 5 |
| Izba Rozliczeniowa Giełd Towarowych S.A. | 1 |

Source: KNF's own calculations

The number and the subject-matter of final decisions included in Table 63 are presented in Table 1.2. of Appendix 1.

Representatives of the KNF Board attended 49 meetings of supervisory boards and 3 general meetings of shareholders:

- 11 meetings of the Supervisory Board of GPW w Warszawie S.A.,
- 8 meetings of the Supervisory Board of KDPW S.A.,
- 2 meetings of the General Meeting of KDPW S.A.,
- 6 meetings of the Supervisory Board of KDPW_CCP S.A.,
- 1 meeting of the General Meeting of KDPW_CCP S.A.,
- 8 meetings of the Supervisory Board of BondSpot S.A.,
- 10 meetings of the Supervisory Board of TGE S.A.,
- 6 meetings of the Supervisory Board of IRGiT S.A.,

Other tasks of the KNF Board in the area of supervision of companies operating a regulated market, supervision of the exchange commodities market and the depository for securities, under the Act on capital market supervision, also include inspection activities, such as:

- inspection activities at head offices of supervised institutions, such as Giełda Papierów Wartościowych w Warszawie S.A., BondSpot S.A., Krajowy Depozyt Papierów Wartościowych S.A., Towarowa Giełda Energii S.A.,
- drawing up official inspection reports.

APPROVAL OF PROSPECTUSES OF FINANCIAL INSTRUMENTS OTHER THAN INVESTMENT CERTIFICATES

In 2018, the KNF Board issued 98 final decisions on the approval of prospectuses, information memoranda and supplements updating their content, including:

- 25 final decisions approving prospectuses of securities other than investment certificates (drawn up in the form of a single document or three documents),
- 2 final decisions approving information memorandum,
- 71 final decisions approving supplements to prospectuses (and to information memoranda) of securities other than investment certificates.

Data on the number of approved prospectuses and the annexes to prospectuses for the years 2015-2018 are presented in Table 64.

Table 64. The number of approved prospectuses and information memoranda as well as supplements thereto in the years 2014-2017

| Detailed list | 2015 | 2016 | 2017 | 2018 |
|--|------|------|------|------|
| The number of approved prospectuses | 51 | 40 | 37 | 25 |
| The number of approved information memoranda | 2 | 3 | 3 | 2 |
| The number of approved supplements | 144 | 100 | 96 | 71 |

Source: KNF's own calculations

In the period covered by this report, the KNF Board received 52 notifications of the approval of prospectus from supervisory authorities of other Member States.

In the course of 58 sets of proceedings for the approval of the prospectus (information memorandum) conducted in 2018, the KNF Board made nearly 4 600 comments on the submitted documents.

In addition, the KNF Board issued 16 interim decisions to suspend administrative proceedings in respect of approval of a prospectus (information memorandum), 6 interim decisions to resume suspended proceedings, and 15 final decisions to discontinue

administrative proceedings in respect of approval of the prospectus (information memorandum, supplement to a prospectus).

The list of issuers whose prospectuses were approved by the KNF Board in 2018 is presented in Table 2.1. in Appendix 2, while the current list of prospectuses approved by the KNF Board is available on the KNF website.

In 2018, the KNF also received 39 notifications of the intention to carry out promotional activities relating to the public offering of securities.

AUTHORISING RESTORATION OF THE CERTIFICATED FORM OF SHARES (ABOLITION OF THE DEMATERIALISATION OF SHARES)

Table 65. Number of final decisions to authorise restoration of the form of a document to shares of a public company (abolition of share dematerialisation—Article 91(1-2) of the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies) in the years 2015-2018

| 2015 | 2016 | 2017 | 2018 |
|------|------|------|------|
| 7 | 18 | 21 | 22 |

Source: KNF’s own calculations

SUPERVISION OF ISSUERS OF SECURITIES OTHER THAN INVESTMENT FUNDS

The responsibilities of the KNF Board also include supervision of compliance with information requirements specified in the Act on public offering, MAR, and the Act on trading in financial instruments by issuers whose securities are admitted to trading on a regulated market.

For issuers whose securities are admitted to an alternative trading system, the KNF Board supervises compliance with information requirements concerning submission of a list of shareholders authorised to participate in the general meeting and a list of shareholders who hold at least 5% of the number of votes at the general meeting. Supervision of confidential information of those issuers, in accordance with the Act on offering, is exercised by the organiser of the trading system; the KNF Board cooperates in that respect with the Warsaw Stock Exchange and undertakes measures where an organiser of an alternative trading system cannot obtain clarifications from issuers.

In 2018, the KNF verified compliance of approx. 31 thousand current reports, periodic reports and confidential information submitted by public companies.

In 2018, 369 measures were undertaken due to a suspicion of improper fulfilment of information requirements. The KNF submitted 199 recommendations for public companies to enforce compliance with information requirements. The recommendations concerned irregularities in: submission to the KNF Board of a list of shareholders authorised to participate in a company’s general meeting and/or a list of shareholders holding at least 5% of the total number of votes at the general meeting which was actually held (104 recommendations), management reports included in annual reports (42 recommendations), confidential information (43 recommendations), other information published by companies (10 recommendations).

2018 was the first full year of supervision of audit committees. At the end of 2017, the KNF submitted to the issuers of securities admitted to trading on a regulated market surveys on audit committees. In 2018, the KNF reviewed information received from companies (416 surveys) and carried out supervisory activities in the case of a change in the composition of audit committees, occurred during the year. Due to concerns about the composition of audit committees, supervisory measures were adopted towards 131 issuers.

Supervisory measures were adopted toward two issuers due to a suspicion of breaches in terms of proper monitoring of financial reporting and effectiveness of the internal control system, the risk management system and internal audit, including financial reporting.

Following implementation, into the Polish legal order, of Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups, large public-interest entities which meet the following criteria:

- for entities:
 - the average annual employment in terms of full-time equivalent units (FTE) exceeds 500 units, and
 - the balance sheet total as at the end of the financial year exceeded PLN 85 000 000 and/or the net revenue from the sales of goods and products for the financial year exceeded PLN 170 000 000
- for groups:
 - the average annual employment in terms of full-time equivalent units (FTE) exceeds 500 units, and
 - the balance sheet total as at the end of the financial year exceeded PLN 102 000 000 and/or the net revenue from the sales of goods and products for the financial year exceeded PLN 204 000 000

are required to disclose, in the report on activities, an additional separate part ‘Statements on non-financial information’ to include social, employee, environmental issues, respect of human rights and fight against corruption, policy for diversity in corporate social responsibility.

The review of annual reports for 2017 has shown that 151 issuers whose securities are admitted to trading on regulated markets were subject to that requirement, of which 82 entities made a statement on non-financial information pursuant to Article 49b(1) of the Accounting Act, 63 entities made separate reports on non-financial information pursuant to Article 49b(9) of the Act, and 6 entities benefited from the exemption under Article 49b(11) of the Act.

In six cases, the KNF formulated recommendations on publication of annual reports containing statements/reports on non-financial information as provided for in the legislation.

In 2018, as part of its supervision over the reporting of issuers of securities other than investment funds, the KNF carried out, among others, the following activities:

- 196 financial statements (including consolidated ones) of 96 issuers were analysed for compliance with the applicable accounting standards, in particular IFRS, i.e. International Accounting Standards, International Financial Reporting Standards and related Interpretations published in the form of regulations of the European Commission, selected according to the selection methodologies referred to in ESMA Guidelines on enforcement of financial information (ESMA/2014/1293en, 28.10.2014). Based on the results of the analysis, a report is drawn up and published on the KNF website,
- 116 positions and opinions were elaborated and submitted, including 76 for external entities, concerning, among others: application of IFRS, issuers’ compliance with disclosure requirements with respect to periodic reports, and requirements concerning statutory audits of financial statements of public-interest entities,
- 21 recommendations were issued to stop breaches of disclosure requirements.

In the period covered by this report, the KNF Board issued a total of 16 final decisions on a request for suspension of trading in financial instruments by operators of organised markets, including:

- 9 final decisions on a request for suspension, by the Warsaw Stock Exchange, of trading in shares of a public company, under Article 20(2) of the Act of 29 July 2005 on trading in financial instruments, due to a failure to timely meet disclosure requirements,

- 2 final decisions on a request for suspension, by the Warsaw Stock Exchange, of trading in financial instruments issued by a public company, under Article 20(2) of the Act of 29 July 2005 on trading in financial instruments, due to concerns about the credibility of inside information disclosed to the public by the company,
- 1 final decision on a request for suspension, by BondSpot S.A., of trading in financial instruments issued by a public company and introduced to an alternative trading system operated by BondSpot S.A., under Article 78(3) of the Act of 29 July 2005 on trading in financial instruments, due to concerns about the credibility of inside information disclosed to the public by the company,
- 2 final decisions on a request for suspension, by the Warsaw Stock Exchange, of trading in shares of a public company, under Article 20(2) of the Act of 29 July 2005 on trading in financial instruments, due to a failure to disclose to the public information on transactions carried out by an entity/person closely associated with the person discharging managerial responsibilities within an issuer,
- 1 final decision on a request for suspension, by the Warsaw Stock Exchange, of trading in shares of a public company and introduced to an alternative trading system in the NewConnect market, under Article 78(3) of the Act of 29 July 2005 on trading in financial instruments, due to circumstances which indicate a potential violation of the interests of investors,
- 1 final decision on a request for suspension, by the Warsaw Stock Exchange, of trading in shares of a public company, under Article 20(2) of the Act of 29 July 2005 on trading in financial instruments, due to circumstances which indicate a potential violation of the interests of investors, in particular due to the lack of accurate information on the issuer's financial standing,
- 9 final decisions on the examination of requests made by the Warsaw Stock Exchange and BondSpot S.A. for exemption from the requirements concerning transparency for trading systems provided for in 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,
- 4 final decisions authorising issuers to delay public disclosure of inside information pursuant to Article 17(5) and (6) of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC.

In 2018, the KNF Board passed the following resolutions:

- 1 resolution on the public disclosure of information on the legal measures adopted by the KNF Board to prevent the breach of the Act on public offering and Regulation 596/2014,
- 1 resolution on the public disclosure of information on the legal measures adopted by the KNF Board to prevent the breach of the Act on trading in financial instruments, the Act on public offering, the Act on investment funds, and Regulation 596/2014.

[Supervision of compliance with notification requirements for shareholders of public companies in connection with trading in qualifying shareholdings and supervision of compliance with notification requirements for persons discharging managerial responsibilities within issuers and persons closely associated with them](#)

The KNF Board is responsible for supervising compliance with the notification requirements laid down in the Act on public offering with respect to trading in qualifying shareholdings of public companies (Article 69 *et seq.*) and the notification requirements under Article 19 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (OJ L 173 of 12 June 2014, p. 1, as amended, hereinafter: 'MAR') with respect to transaction carried out by persons discharging managerial

responsibilities and persons closely associated with them. The KNF Board is also responsible for ensuring that persons discharging managerial responsibilities respect the prohibition of transactions during closed periods.

In 2018, the KNF verified legal compliance of more than 2 000 notifications made by public companies and over 2 240 notifications made by persons acquiring or disposing of qualifying shareholdings in public companies pursuant to Article 69 of the Act on public offering, as well as about 3 400 notifications made by obligated entities under Article 19 of MAR, pertaining to transactions of persons discharging managerial responsibilities and persons closely associated with them.

In 2018, about 400 measures were undertaken due to a suspicion of improper fulfilment of notification requirements by shareholders of public companies.

Supervision of compliance with requirements concerning announcement and implementation of notifications of sale of or change in shares of public companies

The tasks of the KNF Board include supervision over formal and legal correctness of announcing and implementing notifications of sale of or change in shares of public companies, in connection with exceeding particular thresholds in the total number of votes by shareholders. If an announced notification does not meet statutory requirements, the KNF Board may demand the necessary changes or additions to the notification. The KNF Board may also make a request for explanations concerning the content of the notification.

In 2018, 30 notifications of sale of shares of public companies were announced and their formal and legal aspects were analysed; of which 6 notifications of share sale were announced due to exceeding the threshold of 33% of the total number of votes at public companies, and 21 notifications were announced for all other shares of the companies. In 2018, 1 notification was also announced in connection with the intention to withdraw from trading, on a regulated market operated in the territory of the Republic of Poland, in shares of foreign public companies which are simultaneously traded on the regulated market in another country and 2 notifications in connection with the intention to withdraw from trading, on a regulated market operated exclusively in the territory of the Republic of Poland, in shares of a foreign public company.

In 2018, in the case of 1 notification, the KNF Board made a request, pursuant to Article 78(1) of the Act on public offering, for explanations as to the content of the notification. The value of the shares mentioned in the notifications announced in 2018 amounted to nearly PLN 4.5 billion. For comparison, the respective value of notifications amounted to more than PLN 11.7 billion in 2017, more than PLN 6.6 billion in 2016, and more than PLN 4.7 billion in 2015.

4.5. PENSION INVESTMENT SUPERVISION

The main purpose of supervision over the statutory activities of the pension market entities is to protect the interests of members of pension funds. The analytical supervision covers the financial situation and the investment and operating activities of pension societies and funds (the so-called second and third pillar of the pension system, including voluntary pension funds under which individual retirement accounts (IKE) and individual retirement protection accounts (IKZE) are maintained). The KNF also monitors compliance of those institutions with the laws and their articles of association and the fulfilment of disclosure requirements.

MONITORING THE FINANCIAL SITUATION AND INVESTMENT AND OPERATING ACTIVITIES OF PENSION SOCIETIES AND PENSION FUNDS

The tasks of day-to-day supervision of financial and operating activities and investment policies of open, occupational and voluntary pension funds as well as the activities of general and occupational pension societies were performed through a systematic analysis of reporting data submitted by the supervised entities to the KNF in electronic form:

- daily and quarterly financial statements of pension funds, including balance sheets of funds together with explanatory notes, lists of investment portfolios, profit and loss accounts along with explanatory notes, statement of completed transactions and important orders, and information on the value and number of units of account,
- monthly, semi-annual and annual asset structure of funds,
- operational reports of funds concerning the existing fund membership agreements, transferred premium, external and internal transfer payments, number of members and number of accounts kept, events influencing the change in the amount of open pension funds' capitals,
- financial statements of pension societies, including balance sheets, profit and loss accounts, information on remuneration in the PTE, liabilities of the PTE and equity relations of pension societies.

The financial situation of pension societies and the investment policies of pension funds was monitored, among others, through:

- an analysis of transactions carried out on the capital market in terms of profitability and risk associated with the acquisition of a particular financial instrument and resulting from the construction of the instrument and from the financial situation of the issuer,
- the monitoring of investment activities of pension funds in terms of observance of the fundamental rule of profitability and security of deposits
- verification of valuations of financial instruments included in investment portfolios of pension funds,
- an analysis of the structure of investment portfolios of pension funds, its volatility over time and the assumed level of risk,
- assessment of the effectiveness of investment activities of pension funds against the background of the current situation in the capital market and the macroeconomic situation,
- an analysis of internal procedures and declarations of the principles of pursuing investment activity at the supervised entities,
- the monitoring of the activities of funds in the area of entrusting entities established outside the country with the management of assets, and issuing a final decision ordering the fund to amend or terminate the above-mentioned agreement,
- the monitoring of the process of gradual transfer of capital of open pension fund members who will reach the retirement age in less than 10 years (the so-called safety slider) to the Polish Social Insurance Institution (ZUS),
- the monitoring of conversion of funds and redemption of units of account which affect the amount of capitals of open pension funds,
- the monitoring of correctness of activities of the OFE and the PTE considering the provisions relating to the Guarantee Fund,
- the monitoring of the capital standing of pension societies, in particular compliance with the capital requirements arising from the provisions of law and from the recommendations of the supervisory authority,
- the monitoring of pension societies' investment activities for their compliance with the provisions of law and the risk resulting from the pension societies' investment activities,
- the monitoring of timeliness and accuracy of disclosure obligations relating to the publication of pension fund asset structures,
- assessment of the implementation by the supervised entities of the KNF's guidelines concerning the dividend policy of pension societies.

Another key task of the supervisory authority is to review, on a case-by-case basis, the detailed methodology for the valuation of financial instruments for which no valuation market is established or for which no prudent market-based valuation is possible, as provided for by pension funds. During the reporting period, the supervisory authority assessed 340

valuations provided by open pension funds (PL: OFE), voluntary pension funds (PL: DFE) and occupational pension funds (PL: PFE) For one methodology of valuation of a financial instrument applied by a pension fund, the supervisor made a request for changes.

Table 66. Valuation methodologies submitted by pension funds to the KNF for approval in the years 2015-2018

| Type of funds | The number of methodologies submitted | | | |
|---------------|---------------------------------------|------------|------------|------------|
| | 2015 | 2016 | 2017 | 2018 |
| OFE | 340 | 291 | 344 | 285 |
| PFE | 6 | 12 | 16 | 5 |
| DFE | 36 | 44 | 54 | 50 |
| Total | 382 | 347 | 414 | 340 |

Source: KNF's own calculations

A considerable part of the supervisory activities towards occupational pension societies—due to the large share of their current and successive funding by employers—is carried out under indirect supervision. This guarantees financial security and continuity of business of those entities. The specificity of occupational societies is that they use outsourcing more than the general pension societies and, in consequence, some supervisory activities cover entities other than pension societies.

In the period covered by this report, the Polish Financial Supervision Authority established and published the weighted average rate of return of all open pension funds two times, for periods between 31 March 2015 and 30 March 2018, and between 30 September 2015 and 28 September 2018. The mandatory minimum rate of return of the OFE and the possible deficit have not been determined since 2014.

Table 67. Statutory rates of return of open pension funds (OFE) calculated and published by the KNF in 2018 (in %)

| Name of the open pension fund | Rate of return for the period between 31/03/2015 and 31/03/2018 | Name of the open pension fund | Rate of return for the period between 30/09/2015 and 29/09/2018 |
|--|---|--|---|
| MetLife OFE | 14.384% | OFE PZU „Złota Jesień” | 20.978% |
| OFE PZU „Złota Jesień” | 14.211% | MetLife OFE | 20.918% |
| PKO BP Bankowy OFE | 12.500% | Allianz Polska OFE | 19.821% |
| Allianz Polska OFE | 12.008% | PKO BP Bankowy OFE | 18.857% |
| AXA OFE | 11.660% | Nationale-Nederlanden OFE | 18.564% |
| OFE Pocztylion | 11.162% | OFE Pocztylion | 18.415% |
| Aviva OFE Aviva BZ WBK* | 10.944% | Pekao OFE | 18.387% |
| Nationale-Nederlanden OFE | 10.783% | Aviva OFE Aviva BZ WBK* | 17.899% |
| Pekao OFE | 9.885% | Generali OFE | 17.668% |
| Aegon OFE | 7.299% | Aegon OFE | 17.087% |
| Generali OFE | 7.238% | AXA OFE | 16.790% |
| Weighted average rate of return | 11.424% | Weighted average rate of return | 18.826% |

Source: KNF's own calculations

*on 15 November 2018, the name of the entity was changed to Aviva OFE Aviva Santander

The following reports on the activities of pension market entities were presented at the meetings of the KNF Board:

- *Financial situation of general pension societies in 2017,*
- *Individual retirement accounts and individual retirement protection accounts in 2017,*
- *Investment activity of pension funds in the period between 31 March 2015 and 30 March 2018,*
- *Financial situation of general pension societies in the first half of 2018,*
- *Market of open pension funds in the fourth quarter of 2017,*
- *Market of open pension funds in the first quarter of 2018,*
- *Market of open pension funds in the second quarter of 2018,*
- *Market of open pension funds in the third quarter of 2018.*

Based on all information sent to the KNF in 2018, monthly, quarterly and/or annual statistical and financial data on the OFE, PPE and IKE markets and information on transfers of the OFE members was prepared and published on a regular basis.

SUPERVISION OF LEGAL COMPLIANCE OF PENSION SOCIETIES AND FUNDS AND OTHER PENSION MARKET ENTITIES

The supervision exercised by the KNF in the field of monitoring legal compliance of pension funds and pension societies covered, *inter alia*, the following activities:

- compliance with capital requirements for pension societies as provided for by the law,
- examination of compliance of allocating assets of pension funds in deposit categories specified by the law,
- monitoring the amount of costs covered from the assets of pension funds,
- fulfilment of the disclosure requirements by the supervised entities towards the supervisory authority.

Table 68. Provisions of law on investment limits violated by pension funds in 2018

| Provision of law | Number of violations* | Including unintentional** |
|--|-----------------------|---------------------------|
| Article 141(1) of the Act on the organisation and operation of pension funds | 359 | 359 |
| Article 142(1) point 1 of the Act on the organisation and operation of pension funds | 20 | 20 |
| Article 142(1) point 4 of the Act on the organisation and operation of pension funds | 1 563 | 1 562 |
| § 2(1) in conjunction with § 2(4) of the Regulation of the Council of Ministers on additional restrictions on investment activities pursued by pension funds | 250 | 250 |

Source: KNF's own calculations

* For reporting purposes, violations of the same provision by the same fund in respect of the same instrument or group of instruments occurring on successive valuation days are treated as further violations of the investment limit.

** Violations of the provisions which resulted from changes in market prices being the basis of the valuation of assets and liabilities of funds, exchange rates or organisational or capital relations between entities whose financial instruments are the subject of a deposit of the fund's assets, or from other circumstances which the fund had no direct influence on.

As part of the supervision over compliance with disclosure requirements, the KNF verified the timeliness and correctness of daily and quarterly financial statements of pension funds, operational reports of the OFE and the DFE, financial statements of pension societies as well as monthly, semi-annual and annual asset composition published by the OFE. Submitted

daily reports and other information were received and verified on a regular basis and, at the same time, any errors found in the transmitted data were clarified.

Table 69. Electronic reports on the financial and operational activities, together with corrections, sent and verified as part of the disclosure requirements of pension funds and societies, received in 2018

| Type of reports submitted | Correct reports | Incorrect reports |
|---------------------------------|-----------------|-------------------|
| Financial statements of the OFE | 40 977 | 282 |
| Operational reports of the OFE | 2 828 | 18 |
| Financial statements of the DFE | 2 573 | 157 |
| Operational reports of the DFE | 33 | 1 |
| Financial statements of the PFE | 37 | 2 |
| Operational reports of the PFE | 24 | 0 |
| Reports of the PTE | 512 | 26 |
| Reports of the PFE | 12 | 2 |
| Total | 46 996 | 488 |

Source: KNF's own calculations

The supervision of the Polish Financial Supervision Authority also included an examination of legal compliance of the activities of entities other than pension management companies and pension funds:

- depository banks, in the performance of their duties with regard to the safekeeping of pension funds' assets and information obligations towards the supervisory authority,
- transfer agents in the performance of the tasks entrusted to them by the fund or pension society (in particular, keeping a register of members, keeping accounts and performing information duties with regard to the fund's members and the supervisory authority),
- entities entrusted by occupational pension funds with the task of asset management,
- the National Depository for Securities in terms of managing the Guarantee Fund.

SUPERVISORY REVIEW PROCESS (SRP) FOR GENERAL PENSION SOCIETIES

The supervisory review process (SRP) is a comprehensive process which uses all available information obtained by the supervisory authority in the exercise of direct supervision as part of inspection activities carried out at the supervised entities and indirect supervision through licensing, analysis of reporting data and additional inquiries sent to the PTE in the form of supervisory calls or questionnaires. In 2018, the SRP of general pension societies (PTE) for 2017 was carried out. The supervisory evaluation was made in relation to 11 PTE and its results were reported on 31 October 2018 to the management boards of 10 entities operating as at the day on which the relevant notice was sent.

5. INSURANCE MARKET SUPERVISION

5.1. INSURANCE SECTOR ENTITIES

5.1.1. LICENSING ACTIVITIES

AUTHORISATION TO CONDUCT THE BUSINESS OF INSURANCE AND REINSURANCE

In 2018, one authorisation was granted in respect of extension of the material scope of the insurance business of a domestic insurance undertaking.

NOTIFICATION ON THE CONDUCT OF INSURANCE BUSINESS IN POLAND

By the end of 2018, the following entities had been notified for the purpose of conducting insurance business in Poland under the freedom to provide services: 695 insurance undertakings in EU Member States and other member states of the European Economic Area, 29 insurance undertakings operating through a branch, and 1 reinsurance undertaking. In 2018, the KNF Board received 35 notifications from foreign insurance undertakings of their intention to conduct cross-border business of insurance – under the freedom to provide services (including 5 notifications of the intention of foreign insurance undertakings in EU Member States to establish a branch in Poland under the freedom of establishment).

Moreover, 22 insurance undertakings in EU Member States notified their intention to change the scope of their insurance business conducted in the territory of the Republic of Poland under the freedom to provide services and 22 insurance undertakings in EU Member States reported the cessation of their insurance business in the territory of the Republic of Poland.

In 2018, the KNF Board received 28 notifications of the intention to transfer or take over an insurance portfolio in whole or in part, including:

- 13 notifications of a portfolio transfer between insurance the undertakings all of which had been notified in Poland,
- 12 notifications of a portfolio transfer between the insurance undertakings at least one of which had been notified in Poland,
- 3 notifications of a portfolio transfer between insurance undertakings that had not been notified in Poland.

Moreover, the KNF Board received 4 notifications of merger of insurance undertakings involving a transfer of a portfolio or a part thereof, including:

- 3 notifications concerning undertakings notified in Poland,
- 1 notification concerning undertakings one of which had been notified.

CHANGES IN THE GOVERNING BODIES OF INSURANCE OR REINSURANCE UNDERTAKINGS

In 2018, the KNF Board issued 20 final decisions on approval of the appointment of members of the management board of insurance and reinsurance undertakings (5 final decisions on approval of the appointment of the president of the management board of an insurance undertaking, and 15 final decisions on approval of the appointment of a member of the management board of an insurance undertaking responsible for risk management). In 12 cases in respect of approval of appointment of a member of management board, the proceedings were discontinued.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF SUPERVISED ENTITIES

In 2018, the KNF Board issued 20 final decisions on approval of amendments to the articles of association of domestic insurance undertakings.

ACQUISITION OR TAKING UP OF SHARES AND/OR RIGHTS ATTACHED TO SHARES

In 2018, the KNF Board issued 6 final decisions in the proceedings in question. In five cases, no grounds have been found for objecting to the direct acquisition or take-up of shares in domestic insurance undertakings. In one case, the KNF Board discontinued the proceedings in respect of the intention to acquire shares in a domestic insurance undertaking.

ENTRY IN THE REGISTER OF ACTUARIES

During the period covered by this report, 5 final decisions on entry in the register of actuaries were issued.

As at 31 December 2018, 396 actuaries were included in the register.

INSURANCE AGENTS

In 2018, 158 293 actions were performed in the electronic register of insurance agents consisting in the registration of applications for entry in the register, modification of data entered in the register, and removal from the register. There were 129 610 changes in the agents' data and 556 238 changes relating to persons providing agency services. 5 023 insurance agents and 38 785 persons providing agency services were removed from the register.

As at 31 December 2018, 31 427 insurance agents and 237 692 persons providing agency services were entered in the register.

Table 70. The number of registered insurance agents and persons performing agency services in the years 2015-2018

| Detailed list | | 2015 | 2016 | 2017 | 2018 |
|---|---------------------------------|----------------|---------------|---------------|----------------|
| Agents | exclusive | 5 540 | 5 696 | 6 172 | 7 575 |
| | multiagents | 3 417 | 3 916 | 2 968 | 3 172 |
| | Total | 8 957 | 9 612 | 9 140 | 10 747 |
| Persons providing services as insurance agent | working for one agent | 109 626 | 74 420 | 64 539 | 83 970 |
| | working for at least two agents | 14 144 | 17 450 | 14 961 | 18 115 |
| | Total | 123 770 | 91 870 | 79 500 | 102 085 |

Source: KNF's own calculations

In 2018, the register of insurance agents also included 26 entities providing agency services through persons hired under a contract of employment, in respect of whom the law provides for a simplified procedure for obtaining qualifications, including :

- 11 banks pursuing the business of an agent through persons who are only required to complete training in the general and special terms and conditions of insurance products offered by the insurance undertaking with which the registered entities cooperate, tariff

information, rules for calculating insurance premiums, quantitative and qualitative settlement under the existing insurance contracts, and collection of insurance premiums,

- 15 economic operators which pursue—under an agreement concluded with a non-life insurance undertaking—the business of an agent as a complement to their main economic activities, if the agency business is directly related to the main activities of that economic operator, it does not require detailed insurance knowledge, and if the duration of the insurance contract does not exceed 12 months.

In 2018, as part of their supervisory activities, authorised representatives of the KNF participated as observers in 6 examinations for persons applying for a licence to provide agency services, in accordance with § 7 of Regulation of the Minister of Finance of 14 October 2014 (Journal of Laws 2014, item 1485) on the examination for persons applying for a licence to provide agency services, issued to the Act on insurance mediation.

INSURANCE BROKERS AND REINSURANCE BROKERS

Table 71. Register of brokers at the end of the years 2015-2018

| Brokers | | 2015 | 2016 | 2017 | 2018 |
|-------------|-----------------|--------------|--------------|--------------|--------------|
| Insurance | natural persons | 830 | 842 | 869 | 878 |
| | legal persons | 449 | 481 | 505 | 516 |
| | Total | 1 279 | 1 323 | 1 374 | 1 394 |
| Reinsurance | natural persons | 10 | 10 | 12 | 14 |
| | legal persons | 29 | 32 | 37 | 40 |
| | Total | 39 | 42 | 49 | 54 |

Source: KNF's own calculations

In 2018, 2 988 changes were made in the data entered in the register of insurance brokers and reinsurance brokers. As at 31 December 2018, 1 394 insurance brokers and 54 reinsurance brokers were included in the register.

In 2018, the KNF Board issued a total of 79 authorisations to conduct brokerage activities in the field of insurance and reinsurance, including 46 authorisations for natural persons and 33 authorisations for legal persons.

In the period covered by this report, 48 proceedings were conducted in respect of withdrawal of authorisation to conduct brokerage activities in the field of insurance and reinsurance. All proceedings were conducted at the request of a party.

Table 72. The number of authorisations to conduct brokerage activities in the field of insurance granted by the KNF Board in the years 2015-2018

| Detailed list | 2015 | 2016 | 2017 | 2018 |
|--------------------------------------|------------|-----------|-----------|-----------|
| Natural persons | 61 | 36 | 32 | 33 |
| Legal persons | 67 | 50 | 44 | 46 |
| Total (excluding reinsurance) | 128 | 86 | 76 | 79 |

Source: KNF's own calculations

In the period covered by this report, 6 examinations were conducted by the Examination Board appointed by the Minister of Finance, including 3 exams for insurance brokers and 3 exams for reinsurance brokers. In total, 502 persons took the exam. 364 candidates were successful (including 23 candidates who took the exam for reinsurance brokers).

Table 73. Statistics on candidates taking the examination for insurance brokers in the years 2015-2018

| Detailed list | 2015 | 2016 | 2017 | 2018 |
|--|------|------|------|------|
| All candidates taking the exam | 468 | 402 | 388 | 479 |
| Candidates who passed the brokerage exam | 393 | 133 | 186 | 341 |

Source: KNF's own calculations

Table 74. Statistics on candidates taking the examination for reinsurance brokers in the years 2015-2018

| Detailed list | 2015 | 2016 | 2017 | 2018 |
|--|------|------|------|------|
| All candidates taking the exam | 37 | 17 | 22 | 23 |
| Candidates who passed the brokerage exam | 34 | 13 | 18 | 23 |

Source: KNF's own calculations

NOTIFIED INSURANCE INTERMEDIARIES

In 2018, 225 insurance intermediaries intending to operate in the territory of the Republic of Poland, reported by the registration and/or supervisory authorities in the European Union Member States, were notified and 118 notifications of the intermediaries were withdrawn.

THE NEW REGISTER OF INSURANCE INTERMEDIARIES

Due to the new rules governing insurance mediation in the European Union (Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution), in 2016 works were initiated to implement them into the Polish legal order. The outcome of those works is the Act of 15 December 2017 on insurance distribution. One of the new tasks of the KNF following the entry into force of the said Act on 1 October 2018 was to create a new register of insurance intermediaries to meet the requirements of the current legislation. In 2018, the KNF carried out activities relating to the creation of the new register, including in particular definition of the processes of management of the register according to the new legal guidelines, implementation of an IT tool to allow for a registration of applications by means of an online form, and partial automation of the application review process at the KNF. The online form for submitting applications to the register of insurance intermediaries will be launched in January 2019 and the new register is expected to become fully operational by 31 December 2019.

5.1.2. SUPERVISORY ACTIVITIES

ANALYTICAL SUPERVISORY ACTIVITIES: ANALYSIS OF THE STATUS OF IMPLEMENTATION OF THE KNF'S RECOMMENDATIONS ON PRODUCT ADEQUACY

In 2018, the KNF verified the declarations of insurance undertakings on self-assessment of the status of implementation of the Recommendations on product adequacy assessment issued by the KNF Board on 22 March 2016. According to information available as of 1 January 2018, 15 undertakings were offering products to which the Recommendations apply. The verification in question was conducted at two levels:

- direct contact, i.e. through supervisory visits at insurance undertakings, and
- off-site analysis, based on the materials received from insurance undertakings.

SUPERVISORY REVIEW PROCESS (SRP) FOR INSURANCE UNDERTAKINGS

In 2018, the eighth edition of the Supervisory Review Process (SRP) for insurance undertakings was carried out. The SRP scores for 2017 were assigned to 61 insurance/reinsurance undertakings, including 27 life insurance undertakings and 34 non-life insurance undertakings.

As a result of the SRP, insurance/reinsurance undertakings were assessed for risk and materiality, and such assessment determines whether the supervisory authority, in accordance with the proportionality principle, should adopt appropriate supervisory measures, including inspections.

Compared with the methodology for 2016, the changes made in the SRP methodology for 2017 were mainly aimed at putting the issues under assessment in order and updating them according to the experiences from previous SRPs and the comments submitted by insurance/reinsurance undertakings, including the comments submitted by the Polish Chamber of Insurance. The SRP methodology for 2017 was published on the KNF website on 12 July 2018. The main components of the SRP have not changed. The changes concerned mainly the adaptation of calculation of indicators, areas and their weights as well as revision of scores to the comments received from the insurance market, considering the lessons learned during the SRP in 2016.

The changes regarding indicators concerned mainly modification of their calculation, adaptation of score limits, and introduction of revision. A new indicator was added (*Stress test for the risk of a decline of the credit rating of the largest issuer/counterparty*) and three indicators were removed (*Stress test for treasury bonds and municipal bonds*, *Stress test concerning the assumptions made to measure technical provisions*, *Loss burden on equity*), which resulted in changes in weights of areas and other indicators under the risk assessment. For areas subject to the qualitative assessment of management, the matters assessed were put in order and updated. Other important changes in the SRP methodology regarded:

- inclusion, in the area *Quality of market risk management*, of the undertaking's compliance with the requirements under Regulation (EU) No 648/2012 of the European Parliament and of the Council No 648/2012 of 4 July 2012 (hereinafter: 'EMIR'),
- inclusion, in the area *Quality of operational risk management*, of the issue whether the undertaking has an appropriate database of operational events,
- inclusion, in the area *Qualitative assessment of the business model*, of quality of cooperation with insurance agents,
- changes in the revision of assessment of management, for the issues such as:
 - key function holders,
 - cooling-off period,
 - undertaking's obligation to adapt its business to the legislation,
- changes in the definition of conduct risk.

On 18 December 2018, the results of the SRP for insurance/reinsurance undertakings were submitted at the KNF Board's meeting.

STRESS TESTS IN THE INSURANCE SECTOR

In 2018, the KNF continued its activities on the use of stress tests in the supervision of insurance and reinsurance undertakings, in particular as a tool to assess the resistance of the Polish insurance sector to extreme but still probable events as well as on the improvement of the risk management in insurance and reinsurance undertakings.

The KNF started its activities by reviewing, in the first quarter of 2018, of the stress-testing methodology for the insurance sector. Compared with the previous year, the stress-testing methodology was changed to take into account the results of the stress tests for the previous year, the conclusions on the SRP, own risk and solvency assessment (ORSA) reports, the review of the SCR standard formula, and finance schemes. Considering the foregoing, test scenarios were changed and shocks for market risk were recalibrated. Some test scenarios, compared with the previous year, were removed: the scenario of application of a capital requirement to concentration and spread risks for government and municipal bonds under the SCR standard formula, the scenario of concurrent realisation of catastrophe risk and risk of default by a reinsurer for non-life insurance/reinsurance undertakings, the scenario regarding the analysis of sensitivity of technical provisions for solvency purposes to the assumptions adopted for their measurement (assumptions other than those considered in sub-modules of risk in the SCR), the scenario of IT/cyber risk, and the scenario of liquidity risk. Changes were made in the stress test for reserve risk in Section I and in the scenario for reserve risk in Section II and for catastrophe risk in Section II. New scenarios were added: a scenario of a decline of the credit rating of the largest issuer/counterparty of one credit quality step and the 'no-deal Brexit' scenario. On 14 May 2018, the revised stress-testing methodology for insurance/reinsurance undertakings for 2017 was published on the KNF's website. On 15 May 2018, insurance/reinsurance undertakings were requested to carry out stress tests as at 31 December 2017 by 29 June 2018.

The KNF used the results of the stress tests to identify insurance undertakings with higher risks, i.e. those that did not pass stress tests and their explanations were not sufficient.

OUTWARD REINSURANCE OF INSURANCE UNDERTAKINGS

In 2018, the KNF drew up a report on outward reinsurance of domestic insurance undertakings, including reinsurance of catastrophic events. The report focuses on outward reinsurance since domestic insurance undertakings do not engage in inwards reinsurance to a significant extent. Outward reinsurance represents an important area of business for many insurance undertakings and the results of stress tests show that it is the main method of mitigating risk, especially catastrophe risk. The report is based on annual financial statements (for 2017) of insurance undertakings and a KNF's survey on catastrophic events.

The results of the KNF's survey on reinsurance have shown that life insurance undertakings use reinsurance to a very limited extent, which follows from the nature of their insurance business (e.g. a long term of contracts). In Section II, the level of reinsurance of the whole Section was approx. 18-20% but for some insurance undertakings it did not exceed 10%. For the last two years, following the entry into force in 2016 of the Solvency II regime, most life insurance undertakings have reported higher levels of reinsurance. However in 2017, there was a slight fall in the level of reinsurance (from 19.9% in 2016 to 18.7% in 2017). That may be a sign that the level of application of reinsurance to secure the insurance business of insurance undertakings has become stable and that appropriate level of solvency has been ensured.

The analysis of 34 questionnaires from life insurance undertakings has shown that the gross value of damages resulting from catastrophic events in 2017 was PLN 935.4 million, of which 59.2% were damages caused by natural catastrophes. About 49% of gross damages from catastrophic events, i.e. PLN 458.4 million, were incurred by insurance undertakings, and 51%, i.e. PLN 477.0 million by reinsurers. In 2017, losses due to catastrophic events accounted for 4.4% of the gross amount of damages and benefits from direct insurance²³ in non-life insurance undertakings. The largest gross damages were incurred due to bad

²³ Gross claims incurred increased by the gross change in the provision for outstanding claims.

wintering of crops, heavy rainfall, storm, hail and tornadoes. Those gross damages amounted to PLN 488.9 million (52.3% of all gross damages from catastrophic events occurred in 2017), of which PLN 347.3 million were incurred by insurance undertakings (70.0% of gross damages for that category of catastrophic events). Most damages from catastrophic events in that category was caused by the events (gross damages amounted to PLN 436.7 million) which occurred between 8 and 17 August 2017 throughout Poland, in particular in the Kashubia area.

The following studies on the insurance market were submitted to the KNF Board's meetings:

- *Stress tests of insurance/reinsurance undertakings for the year 2017,*
- *Reinsurance of domestic insurance undertakings and catastrophic events in 2017,*
- *Report on the condition of the insurance sector after the third quarter of 2017,*
- *Activity of foreign insurance undertakings in Poland and domestic insurance undertakings abroad in 2016,*
- *Report on the condition of the insurance sector after the fourth quarter of 2017,*
- *Financial plans of insurance/reinsurance undertakings for 2018,*
- *Report on the condition of the insurance sector after the first quarter of 2018,*
- *Report on the activities of the Insurance Guarantee Fund in 2017,*
- *Report on the condition of the insurance sector after the second quarter of 2018,*
- *Information on the implementation of Recommendations on product adequacy testing by insurance undertakings,*
- *Results of the Supervisory Review Process (SRP) for insurance/reinsurance undertakings for 2017,*
- *Information on the implementation of Recommendations on product adequacy testing for insurance undertakings.*

PRE-APPLICATION PROCESSES FOR INTERNAL MODELS

The Solvency II regime, in addition to setting a capital requirement in a standard manner, gives insurance and reinsurance undertakings the opportunity to set up the solvency capital requirement in a manner which is more adequate to their risk profile and the scale of operations. The set of tools, systems, and procedures which would allow this is the so-called internal model. This model should meet a number of strict requirements laid down in the Act of 11 September 2015 on the business of insurance and reinsurance (Journal of Laws 2018, item 999, as amended) and other provisions of Solvency II, and its use must be approved by the competent supervisory authorities. Verification and assessment of the model is a complex process, which requires highly specialised knowledge in many areas. The provisions of the Act on the business of insurance and reinsurance provide for a relatively short time (6 months) to complete the verification. The pre-application process meets the above-mentioned challenges and is based on a voluntary cooperation of insurance undertakings and the supervisory authority. Its purpose is better preparation of domestic insurance undertakings to submit an application for the use of the internal model to determine the solvency capital requirement. The activities conducted by the KNF in 2018 represented a continuation of pre-application processes carried out in 2011. The KNF presented the results of such activities to the undertakings as part of ongoing communication, which translated into further actions of the undertakings leading to the elimination of errors in internal models and their improvement in terms of compliance with the provisions of Solvency II.

As at 31 December 2018, the KNF conducted pre-application processes for 7 domestic insurance undertakings (2 life insurance undertakings and 5 non-life insurance undertakings, which accounted for a total of 52.9% of the Polish insurance market—based on the amount of the gross written premium reported in the quarterly financial statements of insurance undertakings for the third quarter of 2018).

As at 31 December 2018, the KNF's activities for the assessment of internal models at the European level took the form of a pre-application process or a process of verification of the

continuous adequacy of the model. The representatives of the KNF participated in international meetings, including meetings and consultations with the representatives of one of the foreign supervisory authority as part of cooperation for the assessment of a request for a major change to a group internal model and in the activities of expert teams appointed by EIOPA. In addition, the KNF staff participated in the preparation of opinions on EIOPA's proposal on the activities for convergence of supervisory practices with regard to internal models and were involved in the formulation of opinions for the meetings of the Board of Supervisors of EIOPA (BoS) on issues related to internal models.

Further work on the assessment of internal models (both at national and international levels) will continue in 2019.

REVIEW OF THE SOLVENCY CAPITAL REQUIREMENT (SCR) STANDARD FORMULA

In 2018, at the request of the European Commission, the European Insurance and Occupational Pensions Authority (EIOPA) carried out activities for the review of the Solvency Capital Requirement (SCR) standard formula. Activities relating to the revision of the SCR standard formula were carried out by EIOPA within the SCR Review Project Group.

The 2018 stage of the Group's work focused on the development of EIOPA's second set of advice for the European Commission (submitted to the European Commission in February 2018). The document developed by the SCR Project Group includes proposals of changes in methods to calculate SCR according to the standard formula in terms of, among others, assumptions, applied simplifications or parameters to reflect the reality of the European insurance market and the risk profile of most insurance/reinsurance undertakings.

The SCR standard formula review has required EIOPA to obtain qualitative information from insurance/reinsurance undertakings and national supervisory authorities. In view of the foregoing, EIOPA prepared quantitative studies on loss absorbency adjustments for deferred taxes and interest rate risk.

On 9 November 2018, the European Commission, on the basis of EIOPA's advice, published a draft amendment to Commission Delegated Regulation (EU) 2015/35, with respect to the SCR standard formula. The draft Delegated Regulation takes into account most proposals of EIOPA made in the two sets of advice for the European Commission with regard to, among others:

- a method based on the assessment for original exposure,
- simplifications applied in the SCR standard formula,
- assignment of credit ratings to credit quality steps in concentration risk on assets,
- setting LGD in counterparty default risk,
- loss absorbency adjustment for deferred taxes,
- treatment of guarantees and financial instruments issued by local government units and local authorities,
- the methodology for setting a capital requirements for selected sub-modules of catastrophe risk,
- parameters for selected segments in premium risk and reserve risk in the module of provisions actuarial risk in non-life insurance and in the module of actuarial risk in health insurance.

The draft Delegated Regulation does not provide for any changes concerning interest rate risk, whose review is expected to be performed as part of the comprehensive review of the Solvency II regime, by the end of 2020.

Representatives of the KNF were actively involved in the activities of EIOPA's Project Group, among others :

- coordination of works regarding: exposures guaranteed and exposures to regional governments and local authorities, re-calibration of marine risk, aviation risk and fire risk in the man-made catastrophe risk sub-module,

- participation, as speakers, in EIOPA’s training sessions concerning the review of the SCR standard formula.

OWN RISK AND SOLVENCY ASSESSMENT (ORSA)

In 2018, the supervisor received ORSA Reports made in 2017 and 2018 and considered, in the SRP, the reports made in 2017. Following the final acceptance, at the end of the first quarter of 2018, of the chapter on own risk and solvency assessment of EIOPA's Supervisory Review Process Handbook, a large part of ORSA requirements were made more specific and their interpretation has been harmonised at the EU level.

In 2018, the supervisor initiated and held individual meetings with 35 insurance undertakings in order to discuss their ORSA reports, mainly to clarify and address the reservations about the reports made during the last SRP. During the meetings, the supervisor expressed and discussed with the insurance undertakings its claims regarding possible changes in the reports to better meet the supervisor's expectations (considering the recommendations formulated in EIOPA's Handbook). At the end of August 2018, the KNF submitted to all insurance undertakings a letter specifying the ORSA requirements, including in the light of EIOPA's Handbook. However, the purpose of such measures is not to standardise the reports; the KNF attaches great importance to maintaining an individual nature of reports, adapted as much as possible to the risk profile of each undertaking.

The quality of ORSA Reports improves with each year, especially in terms of broader identification of risks, better selection of stress tests and scenarios, and involvement of management board of insurance undertakings in the ORSA process. In the reports, all insurance undertakings estimate that they will meet the regulatory capital requirements within the business planning horizon.

MONITORING FINANCIAL SITUATION OF INSURANCE UNDERTAKINGS

The main task in the area of analytical supervision is constant monitoring of the financial situation and the protection of market stability and, in case of a threat, taking appropriate supervisory activities. The primary objective of these activities is to ensure that insurance/reinsurance undertakings are capable of paying the benefits to policy holders, the insured persons, the beneficiaries or persons entitled under insurance contracts.

The assessment of the financial situation of insurance/reinsurance undertakings, in particular the assessment of their solvency, is carried out mainly on the basis of the quarterly and annual financial reports of undertakings as well as quantitative data and information submitted by insurance/reinsurance undertakings.

Each of the additional financial and statistical reports submitted by insurance/reinsurance undertakings as well as the quantitative data and information are subject to a separate analysis, the results of which are published in the relevant reports that underpin further individual supervisory decisions.

The financial situation of insurance/reinsurance undertakings was also monitored on the basis of the requirement to submit data on certain items of the financial statements drawn up for accounting purposes (which the requirement was introduced in 2018) as well as other information provided by undertakings on an *ad hoc* basis at the specific request of the supervisory authority which is used to identify increased and high risks under the Early Warning System.

The analyses show that the financial situation of the majority of insurance undertakings in 2018, as in the previous years, was stable.

Among the activities carried out in 2018 to monitor risks in the operations of insurance/reinsurance undertakings, the following most important activities should be indicated:

- analysis of compliance of dividend payments planned and effected in 2018 with the recommendation of the Chair of the KNF Board, and of their impact on the results of insurance/reinsurance undertakings (20 pieces of information was reviewed in that

- respect) as well as preparation of recommendations regarding the assumptions concerning the position of the supervisory authority on the dividend policy of insurance/reinsurance undertakings in the medium term and in 2019,
- evaluation of the performance by insurance/reinsurance undertakings of their obligations under 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 (EMIR) in 2017 (13 reports were analysed in that respect),
 - review of implementation by insurance undertakings of Recommendations concerning the product management system (in the second round, 35 self-assessment surveys of insurance undertakings were reviewed),
 - participation in the preparation of the communication from the supervisor of 20 August 2018 on the role and importance of implementation of a compliance function at insurance/reinsurance undertakings,
 - cooperation with the Insurance Guarantee Fund (UFG) with respect to correctness and timeliness of fulfilling by insurance undertakings the obligation to provide data to the Polish central database of the UFG Information Centre (in total 5 reports were analysed in that respect),
 - analysis of solvency indicators based on 725 monthly reports submitted under the Early Warning System,
 - analysis of the amount of own funds and solvency requirements based on data and information for supervisory purposes submitted on a quarterly basis (242 reports) and annual basis (62 reports),
 - analysis of the terms and conditions of subordinated loan agreements concluded by insurance undertakings. If any irregularities or imprecise clauses in the contracts were found, the undertakings were asked to provide the relevant annexes to the contracts.

SUPERVISION OF INSURANCE UNDERTAKINGS FOR COMPLIANCE WITH THE DISCLOSURE AND REPORTING REQUIREMENTS AND THE LEGISLATION

Provisions of law governing the insurance business impose a number of disclosure requirements on insurance/reinsurance undertakings, towards both the supervisory authority and policy holders. The task of the supervisory authority in this regard is to verify both the publication of certain information and its content. Timely and complete fulfilment of disclosure requirements is one of the basic tasks of insurance/reinsurance undertakings and enables both the supervisory authority and the purchasers of insurance services to gain universal access to certain data relating to the operations of insurance/reinsurance undertakings.

Due to the fulfilment of the statutory disclosure requirements by the undertakings, in 2018 the analyses covered:

- financial statements, including 242 additional quarterly financial statements and statistical reports, 61 additional annual separate financial statements and 6 consolidated annual statements,
- quantitative reports, including 242 quarterly reports for supervisory purposes, 61 annual reports for supervisory purposes and 1 group report,
- solvency and financial condition reports (in terms of compliance with the requirements laid down in the legislation and EIOPA guidelines on disclosures), including 61 separate reports and 1 group report,
- regular surveillance reporting (61 separate reports and 1 group report),
- information on unconfirmed transactions in derivatives (97 reports),
- information on intra-group transactions/risk concentration (38 reports),
- information on changes in the documents defining the outsourcing policy—in 16 cases,
- information on the implementation/change of outsourcing of functions within the management system and basic and/or important activities—in 111 cases,
- information on a change of the person responsible for keeping the books of accounts—in 3 cases,

- information on the selection of entities auditing the financial statements of insurance undertakings for 2018,
- information on changes in premium tariffs of compulsory motor insurance (motor vehicle liability insurance) and compulsory agricultural insurance (farmers' liability insurance and insurance of agricultural buildings)—in 92 cases,
- publication of annual reports of unit-linked funds (PL: *ubezpieczeniowy fundusz kapitałowy*—UFK) as at 31 December 2017 on insurance undertakings' websites (23 insurance undertakings, 2 784 unit-linked funds) and semi-annual reports of unit-linked funds as at 30 June 2018 (21 insurance undertakings, 2 682 unit-linked funds) and as at 31 December 2017 (23 insurance undertakings, 2 784 unit-linked funds),
- information on individual retirement accounts (PL: IKE) and individual retirement protection accounts (PL: IKZE) as at 31 December 2017 (25 life insurance undertakings), and as at 30 June 2018 (25 life insurance undertakings).

The results of the analyses show that insurance undertakings, except for occasional cases, fulfil the above-mentioned disclosure requirements in accordance with the applicable provisions of law.

In the course of ongoing supervision of the insurance business, compliance of the insurance undertakings' business with the provisions of law is also monitored through the assessment of how the recommendations are implemented. In 2018, the implementation of the supervisor's post-inspection recommendations (34 cases) was reviewed.

EXAMINATION OF REQUESTS SUBMITTED BY INSURANCE UNDERTAKINGS/REINSURANCE UNDERTAKINGS

In addition to the activities relating to the supervision of undertakings' operation, the KNF Board was also examining requests from supervised entities for granting specific rights and/or for approval of certain activities subject to financial supervision.

In 2018, the KNF considered the following requests from insurance undertakings for:

- review of a case in respect of exemption from replacement of security concerning derivatives as part of intra-group transactions
 - 1 set of ongoing proceedings,
- a final decision not to subject an entity to group supervision (pursuant to Article 374(5) point 2 of the Act on the business of insurance and reinsurance)
 - 1 set of proceedings concluded with a final decision,
- administrative proceedings under Article 402(3) in conjunction with Article 419(2) of the Act on the business of insurance and reinsurance—1 set of proceedings concluded with a final decision,
- proceedings in respect of authorisation to repay a subordinated loan
 - 3 proceedings concluded with a final decision,
- authorisation to extend the maximum duration of a contract with an audit firm—5 proceedings concluded with a final decision.

In 2018, also 2 interim decisions setting a new time limit for handling the case were made.

SUPPLEMENTARY SUPERVISION OF REGULATED ENTITIES IN FINANCIAL CONGLOMERATES

According to Article 14 of the Act of 15 April 2005 on supplementary supervision of credit unions, insurance undertakings, reinsurance undertakings and investment firms included in a financial conglomerate, the KNF Board performs, at least once a calendar year, a review of the financial sector in order to identify groups meeting the relevant criteria for financial conglomerates.

A review of national capital groups conducted in 2018, covering the period between 1 January 2017 and 31 December 2017, showed that the PZU Group still meets the criteria

identifying it as a financial conglomerate. At the same time, the KNF Board is the body competent to act as coordinator for the identified financial conglomerate.

5.1.3. INSPECTION ACTIVITIES

INSPECTION ACTIVITIES AT INSURANCE UNDERTAKINGS

In 2018, inspection activities were carried out at 35 insurance/reinsurance undertakings. As regards insurance/reinsurance undertakings, 15 inspections and 21 supervisory visits were carried out as part of the inspection activities; at one entity both inspection and supervisory visit were carried out. In total, inspection activities were carried out at 16 life insurance undertakings and at 19 insurance/reinsurance undertakings.

All inspection activities were targeted and covered between 1 and 4 issues.

The inspection activities in 2018 were carried out in the following areas:

- organisation and management of an insurance undertaking,
- claims settlement/payment of benefits,
- valuation of technical provisions for solvency purposes,
- valuation of assets and liabilities for solvency purposes,
- preparation of data and information for supervisory purposes,
- drawing up statistical reports,
- reporting,
- compliance with the requirements concerning the risk management system,
- compliance with the requirements concerning the system of management of operational risk association with insurance distribution,
- fulfilment of assumptions concerning the solvency capital requirement (SCR) with regard to certain modules of the standard formula,
- compliance with the requirements laid down in the Guidelines concerning the management of the information technology and information and communication environment security areas in the insurance and reinsurance undertakings.

Table 75. The most common irregularities identified during inspection activities at the insurance sector entities in 2018

| | |
|----|--|
| 1. | Failure to ensure an effective risk management system: in the area of reinsurance, in the area of insurance guarantees, ICT security. |
| 2. | Failure to ensure an effective internal audit function, which includes an evaluation of the adequacy and effectiveness of the internal control system and other elements of the management system. |
| 3. | Failure to ensure an effective internal control system. |
| 4. | Incorrect performance of tasks in the process of claim settlement (late payment/refusal to pay compensation, violation of disclosure requirements). |
| 5. | Violation of the interests of beneficiaries under insurance contracts by failing to provide the aggrieved parties, in connection with the payment of compensation under an agreement, with accurate information on how the proposed compensation was calculated. |
| 6. | Violation of the interests of the insured by failing to inform them about a change in the rules for calculating the surrender value and, consequently, unequal treatment of the insured. |
| 7. | Irregularities consisting in the conclusion of short-term contracts of third party liability insurance of motor vehicle holders by unauthorised persons. |
| 8. | Failure to comply with internal regulations, including articles of association, rules of procedure of management board, supervisory board, audit committee, organisational committee. |
| 9. | Irregularities consisting in the application of incorrect or unsupported methods and assumptions in the valuation of technical provisions for solvency purposes. |

| | |
|-----|--|
| 10. | Irregularities consisting in incorrect definition of parameters used in the valuation of technical provisions for solvency purposes. |
| 11. | Errors in the implementation of the calculation formulas for the valuation of technical provisions for solvency purposes. |
| 12. | Irregularities relating to the documentation describing the method of valuation of assets and liabilities for solvency purposes as regards the description used to determine the value of methods. |
| 13. | Lack of measurement of assets and liabilities at fair value. |

Source: KNF's own calculations

In 2018, 15 insurance undertakings under inspection received a total of 93 post-inspection recommendations concerning adjustment of the undertaking's activities to the legal regulations and cessation of the violation of interests of policyholders, the insured, beneficiaries under insurance contracts.

INSPECTIONS AT INSURANCE UNDERTAKINGS IN THE AREA OF USING THE SERVICES OF INSURANCE AGENTS

In the period covered by this report, 10 inspections were carried out at insurance undertakings to check the correctness of the agency business pursued by the undertakings in the area of using the services of insurance agents, in particular:

- insurance agents' compliance with the requirement to perform agency activities by natural persons who meet statutory requirements, and
- legal compliance of the activities carried out by insurance agents,
- correct conclusion of agency agreements,
- timeliness of applying for entering the entity's insurance agents with which the agency agreement was signed in the register of insurance agents,
- timeliness of applying for entry of changes in the register or for removal of an entity from the register,
- correctness of data relating to the insurance agents submitted to the supervisory authority by the insurance undertaking together with the application for entry of an agent in the register, for modification of the agent's data or for removal of the agent from the register,
- the scope of training and examinations for persons applying to perform agency activities,
- complaints filed against insurance agents.

As at 31 December 2018, the finalisation of the inspection reports was ongoing.

INSPECTION ACTIVITIES AT ENTITIES CONDUCTING BROKERAGE ACTIVITIES

In 2018, 14 inspections were carried out in the place of the brokerage business. Irregularities were identified in 8 places of business and in consequence, recommendations were issued to remove the irregularities and to adjust the brokerage activities to legal requirements. The primary purpose of the inspections was to verify whether operations of the entity conducting brokerage were consistent with the law and the authorisation granted. In particular, the following was inspected:

- fulfilment of the conditions required to obtain authorisation and conduct brokerage,
- contracts concluded with insurance undertakings,
- conclusion of, or taking steps to conclude, insurance contracts, performance of preparatory activities for the conclusion of insurance contracts and participation in the management and performance of insurance contracts, also in compensation cases, as well as organisation and supervision of brokerage.

The most common irregularities:

- conducting brokerage activities in breach of Article 28(3) point 1(e) (currently Article 34(4) point 1(e) of the Act of 15 December 2017 on insurance distribution) in conjunction with

Article 23(1) of the Act of 22 May 2003 on insurance mediation (currently Article 29(1) of the Act of 15 December 2017 on insurance distribution),

- conducting brokerage activity in breach of Article 26(1) point 2 of the Act on insurance mediation (currently Article 32(1) point 4 of the Act of 15 December 2017 on insurance distribution),
- failure to submit or late submission of applications for modification of an entry in the register of insurance brokers as a result of changes in the data entered in the register of insurance brokers to the supervisory authority (Article 46(1) of the Act on insurance mediation—currently Article 61(1) of the Act of 15 December 2017 on insurance distribution),
- non-compliance of the agreements on mutual settlement on account of conducting brokerage with the provisions of law.

5.2. PENSION SECTOR ENTITIES

5.2.1. LICENSING ACTIVITIES

PENSION FUNDS AND PENSION SOCIETIES

In the area of licensing functions, administrative proceedings were conducted in the pension market which resulted in 46 final administrative decisions. In addition, 10 interim decisions were issued in relation to pension market entities. The number and subject-matter of the final and interim decisions are presented in Tables 1.1 and 1.2. in Appendix 1.

Management of Pekao Otwarty Fundusz Emerytalny and Dobrowolny Fundusz Emerytalny Pekao taken over by Powszechne Towarzystwo Emerytalne

On 24 April 2018, the KNF Board authorised consolidation involving the take-over of the management of Pekao OFE, take-over of the management of DFE Pekao and acquisition of a part of an enterprise of Pekao PTE SA, as defined in Article 55¹ of the Civil Code, by PTE PZU SA. The actual take-over of the management of the funds by PTE PZU SA took place on 19 May 2018. The winding-up of DFE Pekao was finalised on 28 September 2018 and the winding-up of Pekao OFE and the transfer of the assets of that funds to OFE PZU 'Złota Jesień' was finalised on 12 October 2018.

As at 31 December 2018, the pension funds market comprised 10 open pension funds and 7 voluntary pension funds.

OCCUPATIONAL PENSION SCHEMES (PL: *PRACOWNICZY PROGRAM EMERYTALNY–PPE*)

Entries in the register

In the period covered by this report, the KNF identified:

- an increase of approx. 280% in the number of applications for entry of a scheme in the register (292 applications in 2018 and 77 applications in the previous year),
- an increase of approx. 131% in the number of applications for entry of changes to a scheme in the register (266 applications in 2018 and 115 applications in the previous year),
- an increase of approx. 29% in the number of applications for removal of a scheme from the register (36 applications in 2018 and 28 applications in the previous year),
- a decrease of approx. 37% in the number of notifications of changes in the details of an employer or manager (59 notifications in 2018 and 94 in the previous year).

In addition, in 2018, the KNF received 20 applications for inclusion of an employer in an inter-company scheme registered in the PPE register.

In 2018, the KNF identified an increase in the number of applications for entry of a pension scheme in the PPE register and applications from employers running occupational pension schemes with regard to a change of the basic contribution. That was linked to the plans to introduce obligatory employee capital plans. Occupational pension schemes are an alternative for employee capital plans. Under the Act of 4 October 2018 on employee capital plans (Journal of Laws 2018, item 2215), any employer running an occupational pension scheme will be exempted from the obligation to run an employee capital plan if the organisation's agreement under that scheme defines the basic contribution at a minimum of 3.5% of the member's remuneration.

The number and the subject-matter of PPE-related final decisions issued in 2018 on the basis of an authorisation granted by the KNF Board are presented in Table 1.2. in Appendix 1.

Supervision of occupational pension schemes (PPEs)

An employer running a PPE is required to submit an annual report on the running of such a PPE in a given calendar year to the supervisory authority. Thus, the supervisory authority receives the relevant information on the functioning of individual PPEs, and—after aggregation of the reports—the data on the market, relevant developments and trends.

1 230 PPEs were in operation at the end of 2018, some of them being of an inter-company nature, with more than one employer involved, which means that 1 389 employers who were operating a PPE as at 31 December 2018 were required to submit the report for 2018.

In 2018, the supervisory authority conducted 115 proceedings in relation to employers who failed to comply with the requirement to submit a report on their PPE for 2017 within the set time limit.

5.2.2. INSPECTION ACTIVITIES

In 2018, inspections were conducted at 5 pension market entities; 3 inspections covered the activities of general pension societies and pension funds managed by them, one inspection took place at an occupational pension society following liquidation of an occupational pension fund managed by it, and one inspection was conducted at an entity (transfer agent) which provides bookkeeping and accounting services to open and voluntary pension funds.

All inspections were focused on a specific issue and inspections at general pension societies and pension funds managed by them focused on the following areas of business:

- management and organisation,
- take-over of the management of an open pension fund,
- management of operational risk in connection with compliance with information requirements, risk of disclosure of a professional secret and risk associated with measurement of financial instruments and observance of investment limits,
- management of assets of pension funds,
- outsourcing of certain activities to third parties,
- reporting the irregularities detected—prior to the inspection.

Inspection at an occupational pension society covered the following processes:

- cashing an investment portfolio of the fund being liquidated,
- redemption of units and financial settlement with members of the fund being liquidated,
- transfer of assets of the fund to a new managing financial institution,

- mutual settlement between the fund being liquidated and the occupational pension society.

Inspection of a transfer agent covered the inspection of performance of contractual clauses under which the agent was entrusted with the tasks imposed by the legislation on general pension societies and/or pension fund.

Table 76. Irregularities identified during inspection activities at pension sector entities in 2018

| | |
|----|--|
| 1. | Violation of the accounting principles and principles of measurement of pension funds. |
| 2. | Breach of professional secrecy provided for in the Act on the organisation and operation of pension funds. |
| 3. | Late performance of information obligations towards members of pension funds. |
| 4. | Late transfer payments for members of pension funds. |
| 5. | Late performance of obligations regarding notification to the National Court Register and the Register of Funds. |
| 6. | Deficiencies in the records of the AGMs. |

Source: KNF's own calculations

6. ANALYTICAL ACTIVITIES

6.1. REGULATORY AND PRUDENTIAL ACTIVITIES

The most important regulatory and prudential tasks completed in 2018 included drawing up resolutions, prudential resolutions, statements and communications of the KNF Board.

6.1.1. RESOLUTIONS OF THE KNF BOARD

THE SECOND STAGE OF AMENDMENT TO RESOLUTION NO 312/2012 OF THE KNF BOARD OF 27 NOVEMBER 2012 ON THE PROCEDURE FOR SUPERVISION OVER BANKING ACTIVITIES

Following the final decision adopted on 1 August 2017 at the 365th meeting of the KNF Board, under which Resolution 319/2017 of the KNF Board amending Resolution No 312/2012 of the KNF Board of 27 November 2012 on the procedure for supervision over banking activities, due to its limited scope, represented the first stage of amendment to Resolution No 312/2012, in 2018 the KNF performed intense work to draw up a draft resolution comprehensively amending the Resolution on the procedure for supervision over banking activities.

In the course of work on the draft resolution, the KNF identified, among others, the need to achieve greater consistency between the provisions of Resolution No 312/2012 to the extent relating to inspection activities and the provisions of the Act of 6 March 2018—the Business Law.

Given the wide scope of amendments to Resolution No 312/2012, a decision was made to implement them in the form of a new resolution, not an amendment to Resolution No 312/2012.

6.1.2. RECOMMENDATIONS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

REKOMENDATION B (AMENDMENT)

In 2018, the KNF worked on an amendment to *Recommendation B on limiting the risk of banks' financial investments*.²⁴

The purpose of the amended Recommendation B is to provide banks with good practices for mitigation of the risk of investments whose value is determined by price parameters.

In its essential part, the Recommendation contains provisions on banks' investment strategy and policy. The Recommendation expresses the supervisor's expectations not only as to the substance but also to the form of the investment strategy and policy. A bank's investment strategy and policy, both in the short, medium and long term, should be made in writing and ensure the safety of the bank and of clients' funds, considering a series of factors. The document should be endorsed by the bank's governing bodies, i.e. the management board and the supervisory board.

The Recommendation also includes another essential element, which is the management of an investment portfolio; that part refers to the development of an investment portfolio which should be diversified properly.

Based on the assumptions for the amendment to Recommendation (agreed at the KNF Board's meeting on 21 November 2017), and maintaining its essential provisions, the recommendation will include specification and additional references resulting from both the supervisory practice and the applicable regulatory solutions. Following internal and public consultations, a version of Recommendation B was drawn up at the end of 2018, which was in the final phase of reviews and consultations.

RECOMMENDATION B (ASSUMPTIONS FOR AMENDMENT)

In 2018, works were undertaken to adapt *Recommendation G on the management of interest rate risk* to the *Guidelines on the management of interest rate risk arising from non-trading book* (EBA/GL/2018/02) of 19 July 2018. The Guidelines will enter into force on 30 June 2019 and repeal the current guidelines (EBA/GL/2015/08) in that respect. Objectives for an amendment to Recommendation G were elaborated and submitted to the KNF Board for acceptance at a meeting in January 2019.

RECOMMENDATION L

On 18 December 2018, the KNF Board accepted an amendment to *Recommendation L on the role of statutory auditors in the supervision of banks and credit unions*, addressed to banks and credit unions. The Recommendation concerns good practices for cooperation between statutory auditors and audit firms on the one hand and the financial supervisor on the other with regard to exchange of data and information which are obtained by statutory auditors and audit firms in the course of a statutory review of financial statements of banks and credit unions and which are important for the implementation of the objectives of supervision of the relevant entities; the good practices reflect the expectations of the KNF Board towards banks and credit unions as to the rules of conduct compatible with the Act of 11 May 2017 on statutory auditors, audit firms and public supervision (Journal of Laws 2017, item 1089, as amended, hereinafter: 'Act on statutory auditors').

The amended Recommendation L will ensure consistency between the KNF recommendations concerning the role of statutory auditors and audit firms in the supervision of banks and credit unions and the current national and EU legislation and market standards. The provisions of Recommendation L apply with reference to the principle of proportionality, structural differences and specific nature of business activities of supervised entities which are addressees of the Recommendation. The KNF Board set the time limit for banks and credit unions to adapt to the Recommendation by 31 March 2019.

²⁴ Recommendation B was issued in 2002 by the General Inspectorate of Banking Supervision and superseded Recommendation B of 3 March 1997 on limiting the risk of banks' capital investments.

RECOMMENDATION S (AMENDMENT)

In 2018, the KNF worked on the amendment to *Recommendation S on good practices in the management of credit exposures secured by mortgages*. The purpose of the amendment is to extend the Recommendation to include rules concerning the management of credit exposures secured by mortgages bearing a fixed interest rate or periodically a fixed interest rate in order to take into account the risk associated with such loans and to indicate that banks should have such loans among their loans secured with mortgages on real estate. Considering the final objectives of the amendment to Recommendation S, the KNF drew up a draft amendment to Recommendation S and submitted it on 14 August 2018 for public consultation.

As at 31 December 2018, the KNF was reviewing the final approach to the issues raised during consultations and worked on the final wording of the draft document.

RECOMMENDATION T (AMENDMENT)

At the meeting on 14 September 2018, the KNF Board unanimously passed Resolution No 352/2018 amending the resolution to issue Recommendation T on good practices in risk management for retail credit exposures.

The amendment to Recommendation T is a result of implementation of post-inspection conclusions of the Supreme Audit Office following inspection P/17/111, expressed in the statement 'Protection of consumers using loans subject to foreign exchange risk'. In its post-inspection recommendations, the Supreme Audit Office has stated that it requests that point 19.3.c of Recommendation T be changed so as to ensure that clients are informed about the scale of currency risk on the basis of historical data comprising the time horizon corresponding to the period for which the credit exposure is envisaged, not only for the last 12 months.

The resolution introduced a change to recommendation 19.3(c) concerning the recommended conduct, in particular with regard to information that a bank should submit to a client when offering a credit facility, loan or any other product, in a foreign currency or indexed to a foreign currency other than the currency of the client's income.

The change consists in replacing, in the detailed recommendation 19.3.(c) of the words 'in the last 12 months' with the words: 'in the last historical period corresponding to the period of repayment of a given credit exposure'.

The KNF Board set the time limit for banks to adapt to the Recommendation by 31 October 2018.

RECOMMENDATION Z (DRAFT)

In 2018, work was carried out to develop *Recommendation Z on internal governance rules in banks*. Draft Recommendation Z complements, clarifies and expands on the issues of internal governance at banks, which have already been regulated in the above-mentioned regulations and documents of the KNF.

The draft text includes conclusions of the Polish Financial Supervision Authority from the observations and experiences related to the supervisory activities carried out, including the findings of inspections conducted at banks, the SREP, the assessment of banks' statutory solutions and other experiences and supervisory activities. The draft also refers to international standards (of the European Banking Authority (EBA) and the Basel Committee on Banking Supervision) in the area in question.

As at 31 December 2018, the KNF worked on the final version of the draft.

The issuance of Recommendation Z requires prior amendments to the Act of 29 August 1997—the Banking Law, concerning personal data protection in the case of provisions of the draft document pertaining to the assessment of candidates for specific functions to be performed at the bank. In 2018, the KNF conducted legislative work in that respect (the

process has not been completed). The changes are to be introduced as part of the draft law aimed at adapting the national legislation to GDPR (Regulation (EU) No 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC).

6.1.3. STATEMENTS OF THE KNF BOARD AND THE KNF, AND STATEMENTS IN THE FORM OF KNF COMMUNICATIONS

STATEMENT OF THE KNF BOARD ON THE APPLICABLE CAPITAL REQUIREMENTS IN 2018

In its statement of 12 January 2018, the KNF Board recalled the capital requirements which applied to banks in 2018. From 1 January 2018, the combined buffer requirement, defined in the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system (consolidated text in: Journal of Laws 2017, item 1934), represented a sum of the applicable buffers, i.e. the initial margin of 1.875% (2.5% since 2019), the counter-cyclical buffer, the O-SII buffer (defined on a case-by-case basis by the KNF Board), the systemic risk buffer of 3%.

STATEMENT ON THE REVIEW OF INFORMATION ON THE LINKS OF BANKS' CLIENTS

In its statement of 16 January 2018, the KNF Board announced that it had reviewed information about the links of clients of banks/branches of banks, reported in the NB300 reporting forms concerning significant exposures. The review was aimed at verifying the consistency and accuracy of information presented by banks/branches of banks under item 'Client's Shareholders' of the NB300 report. The rules of drawing up lists of shareholders of each clients of a bank/branches of a bank listed in the NB300 report are laid down in the supplementary instructions to the NB300 packages issued by NBP2.

COMMUNICATION FROM THE KNF BOARD ON THE SUPERVISOR'S POSITION ON THE OBJECTIVES OF THE MEDIUM-TERM DIVIDEND POLICY OF COMMERCIAL BANKS

The Communication of 14 March 2018 contained information about the objectives regarding the medium-term dividend policy of commercial banks. The KNF Board recommended that the amount of dividend from profit should depend on the fulfilment of certain criteria concerning, for example, the failure to implement a rehabilitation plan, a positive outcome of the SREP, an appropriate level of leverage, and compliance with regulatory capital requirements increased by 1.5 percentage points. In addition, the possibility to pay out the entire profit was limited to entities with a high resistance to unfavourable macroeconomic scenarios. Moreover, additional criteria were set for banks engaged in F/X mortgage loans.

KNF STATEMENT ADDRESSED TO SUPERVISORY BOARDS OF BANKS CONCERNING COMPLIANCE IN TERMS OF SUITABILITY OF MEMBERS OF MANAGEMENT BOARDS

In its statement of 29 October 2018, the KNF reminded supervisory boards of banks about the applicable requirements concerning the assessment of suitability of members of management boards and about possible consequences of non-compliance with such requirements. The position lists cases in which supervisory boards of banks changed the composition of their management board contrary to the requirements of the Banking Law and to the Guidelines of the European Banking Authority and the European Securities and Markets Authority of 21 March 2018 (EBA/GL/2017/12) European Securities and Markets Authority on the assessment of the suitability of members of the management body and key function holders ('EBA Guidelines') and discusses such requirements.

KNF STATEMENT ON THE APPLICABLE CAPITAL REQUIREMENTS IN 2019

In its statement of 26 November 2018, the KNF Board, considering the lapse of the transition period with regard to the initial margin as referred to in Article 84(2) of the Act on macro-prudential supervision of the financial system and crisis management in the financial system (consolidated text in: Journal of Laws 2017, item 1934, as amended, hereinafter: 'Act on macro-prudential supervision'), and thus the entry into force on 1 January 2019 of the initial margin in its full amount, recalled the capital requirements applicable to banks. From 1 January 2019, the combined buffer requirement, defined in the Act on macro-prudential supervision, represents a sum of the applicable buffers, i.e. the initial margin of 2.5%, the counter-cyclical buffer, the O-SII buffer (defined on a case-by-case basis by the KNF Board), the systemic risk buffer of 3%.

LETTER OF 28 SEPTEMBER 2018 ADDRESSED TO PRESIDENTS OF MANAGEMENT BOARDS OF BANKS AND DIRECTORS OF BRANCHES OF CREDIT INSTITUTIONS, CONCERNING THE REASONS FOR AMENDMENTS TO RECOMMENDATION T ON GOOD PRACTICES IN RISK MANAGEMENT FOR RETAIL CREDIT EXPOSURES

The amendment to Recommendation T is a result of implementation of post-inspection conclusions of the Supreme Audit Office following inspection P/17/111, expressed in the statement 'Protection of consumers using loans subject to foreign exchange risk'. In its post-inspection recommendations, the Supreme Audit Office has stated that it requests that point 19.3.c of Recommendation T be changed so as to ensure that clients are informed about the scale of currency risk on the basis of historical data comprising the time horizon corresponding to the period for which the credit exposure is envisaged, not only for the last 12 months.

POSITION ON THE ACT ON PAYMENT SERVICES

Following amendments to the legislation resulting in the imposition on banks, including cooperative banks, of requirements in connection with the provision, by such banks, of payment services under the Act of 19 August 2011 on payment services (consolidated text in: Journal of Laws 2017, item 2003, as amended), the KNF Board in its statement of 3 December advised cooperative banks of the above-mentioned requirements.

COMMUNICATION FROM THE KNF OF 12 JANUARY 2018 ON CERTAIN SUPERVISORY EXPECTATIONS AS TO THE TRANSITION PERIOD RELATING TO THE IMPLEMENTATION OF PSD2

The statement presents supervisory expectations as to the rules of conduct of payment service providers in the transition period, i.e. (1) from 13 January 2018 (effective date of Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC, hereinafter: 'PSD2') to the expected date of implementation of PSD2 in Poland, and (2) from the date of implementation of PSD2 in Poland to the date of application of Regulation (EU) 2018/389 of 27 November 2017 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication).

COMMUNICATION FROM THE KNF BOARD ON THE SUPERVISION OF PAYMENT SERVICE OFFICES

The communication on the supervision of payment service offices on 6 June 2018 contained information on the possibility to make a decision on the prohibition of operation as a payment

service office in the case of a failure by such entities to comply with reporting requirements. In addition to the prohibition, such decision will also result in the removal of a business owner in question from the register of payment services and inability to be re-entered in the register for a period of 3 years. However, in less important matters, especially where a delay in the performance of statutory obligations is incidental and insignificant, or where the failure to perform the obligations is justified and the business owner immediately removes the irregularities, the KNF Board will most likely apply disciplines other than sanctions.

COMMUNICATION ON RE-AUTHORISATION OF DOMESTIC PAYMENT INSTITUTIONS

The communication of 23 August 2018 was published in connection with the obligation of domestic payment institutions to submit to the KNF Board by 20 September 2018 of documents to confirm the compliance with the requirements under Chapter IV of the Act of 19 August 2011 on payment services, following the amendment to that Act which became effective on 20 June 2018. The communication was accompanied by a form to help domestic payment institutions prepare the required documents and information.

COMMUNICATION OF THE KNF ON THE OBLIGATION OF PAYMENT SERVICE PROVIDERS TO REPORT INCIDENTS UNDER PSD2

The communication on the obligation of payment service providers to report operational incidents and/or major security incidents, including the information requirement, of 31 October 2018. In case of an incident which affects financial interests of users, the provider should immediately notify the users of services provided by that provider and inform them about the available measures they may undertake to mitigate the negative effects of the incident. The communication was accompanied by the relevant reporting forms and the instructions for filling in the forms and for submitting them to the supervisor, depending of the type of provider.

COMMUNICATION ON THE EXEMPTION UNDER ARTICLE 6 POINT 11 OF THE ACT ON PAYMENT SERVICES

The communication of 24 December 2018 was made due to doubts as to the interpretation of the wording of the amended Article 6 point 11 of the Act on payment services and the new Article 6c of that Act. The communication lists cases in which the exemption under Article 6 point 11 of the Act on payment services may apply and the related consequences. The communication was accompanied by a form of notification to be submitted by an entity providing services within a limited network.

COMMUNICATION OF 20 AUGUST 2018 ON THE ROLE AND IMPORTANCE OF IMPLEMENTATION OF A COMPLIANCE FUNCTION AT INSURANCE/REINSURANCE UNDERTAKINGS

In its communication of 20 August 2018, the supervisor drew the attention of insurance/reinsurance undertakings, in particular their statutory bodies, to the importance of the compliance function and to the fact that it should never be marginalised.

The supervisor pointed out that proper and prudent management of insurance/reinsurance undertakings is implemented and ensured through proper organisation of the system of governance. When building that system, it is each time necessary to consider the scale of a given insurance/reinsurance undertaking and the type of its insurance/reinsurance business as well as the exposure of that entity to various risks. The obligation to create an appropriate system of governance is clearly established in the Act of 11 September 2015 on the business of insurance and reinsurance. For this reason alone that obligation should be considered and performed by the management board of each insurance/reinsurance undertaking. In the light of the provisions of the said Act, special attention should be paid to the compliance function

(hereinafter: 'compliance function') within the system of governance as such function—in addition to internal audit, the risk management function and the actuarial function—forms the system of governance and is to serve as one of the determinants of the internal control system. With that communication, the supervisor would like to draw the attention of insurance/reinsurance undertakings, in particular their statutory bodies, to the importance of the compliance function and to the fact that it should never be marginalised.

KNF STATEMENT ON THE APPLICATION OF ARTICLE 21 OF THE ACT ON THE BUSINESS OF INSURANCE AND REINSURANCE

On 23 October 2018, a communication on the application of Article 21 of the Act on the business of insurance and reinsurance was published. The KNF Board has stated that to ensure proper functioning of insurance investment products and to mitigate the risk of products which do not meet the requirements of the policyholder and/or the insured, the legislator requires that the insurer, before entering into a contract, should analyse the requirements, financial standing as well as knowledge and experience in life insurance (survey on requirements) and use the results of such analysis to assess what contract of insurance is appropriate for the requirements of the policyholder and/or the insured, or whether the contract of insurance offered is appropriate for such requirements.

In fact in the course of inspection activities, the KNF Board noticed that some insurance undertakings providing unit-linked life insurance followed a practice of offering a contract of insurance which was inappropriate for the requirements, and that was reflected by the fact that insurance undertakings were choosing such offers of unit-linked insurance products in which the level of investment risk was much higher than the investment risk accepted by the policyholder and/or the insured. That should be assessed negatively since in the case of insurance products in which it is possible to select many different unit-linked insurance products, an insurance undertaking should each time suggest the conclusion of a contract of insurance appropriate for requirements, which should involve, among others, the choice of unit-linked insurance at the level of risk which is acceptable to the insured and/or the policyholder in the survey on requirements. No insurer should allow an insured or a policyholder to choose a unit-linked insurance product at the level of investment risk which exceeds the level of risk which is specified in the survey and follows from the review of its content. The obligation applies to the insurance undertaking both at the time of entering into a contract of insurance and at later stages of the contract.

To sum up, it should be noted that concluding or joining a contract of insurance under which a unit-linked insurance product is offered at a level higher than the risk accepted by the policyholder and/or the insured is only possible on the basis of a written request. Insurance undertakings must not undertake any measures to circumvent that principle for the entire term of the contract of insurance and should respect the choice in terms of acceptable level of investment risk, following from the survey on requirements.

COMMUNICATION FROM THE KNF BOARD ON NEW LEGISLATION ON THE OFFERING OF FINANCIAL INSTRUMENTS

On 27 April 2018, a communication on new legislation on the offering of financial instruments was published. The KNF Board reported that following an amendment to the Act of 29 July 2005 on trading in financial instruments, changes were made in relation to the provision of the service of offering financial instruments; the amendment regulates a wide definition of offering and introduction of the service of acceptance and transmission of orders into that process. With the new definition of offering, any mediation, i.e. for the benefit of the issuer, in attracting capital from investors in the capital market represents a supervised business and requires authorisation from the KNF. The new solution provides more clarity on the issue of offering and allows for elimination of unauthorised entities which use various methods to induce investors to acquire shares and/or bonds offered.

According to the communication, the main objective of the KNF was to increase the safety of trade and to protect investors who invest their capital where they use the services of

intermediaries in the capital market. The statement also emphasises that in consequence, the entire system of client protection resulting from appropriate legislation will apply (e.g. information requirements, performance of the appropriateness test, adaptation of the offer to the profile).

COMMUNICATION FROM THE KNF ON TRADING IN ETFs IN VIEW OF THE REQUIREMENTS UNDER THE REGULATION ON PRIIPS

On 2 October 2018, a communication on trading in exchange-traded funds (ETFs) in view of the requirements under the Regulation on PRIIPS was published. The need to publish the communication resulted from the growing interest in ETFs among investors and entities acting as intermediaries in the distribution of Packaged Retail and Insurance-based Investment Products (PRIIPs), in particular the instruments issued by third-country entities, i.e. issuers in non-EU countries.

In its communication, the KNF Board pointed to the basic legal conditions relating to mediation in acquisition and recommendations on investment in such instruments. The supervisor has stressed that entities must not sell (distribute) PRIIPs or provide advice on investing in such an instrument unless a Key Information Document (KID) was made for that instrument. The supervisor has explained that the same rule applies in the case of PRIIPs from third parties, in particular ETFs issued by entities in the U.S.

KNF STATEMENT ON THE METHOD OF DEFINITION OF ACTIVITIES BY AICMs INVOLVED IN EXTERNAL MANAGEMENT AND INTERNAL MANAGEMENT AND THE METHOD OF DEFINITION OF ACTIVITIES OF AICs

On 24 January 2018, the KNF published on its website a statement on the method of definition of activities by AICMs involved in external and internal management and the method of definition of activities of AICs. The statement in question focused on the indication of rules for a proper description of activities in incorporation documents of AICMs and AICs as well as on the indication of consequences of using an electronic template of articles of association of a limited liability company (PL: *spółka z ograniczoną odpowiedzialnością*).

KNF STATEMENT ON THE CONTENTS OF DOCUMENTS OF THE INVESTMENT POLICY AND INVESTMENT STRATEGY OF AICs

On 5 March 2018, the KNF published on its website a statement on the contents of documents of the investment policy and investment strategy of AICs. The position in question focused on the definition of the main issues which should be described in the documents of the investment policy and strategy of AICs, explanation of the interdependencies between the documents within the company's internal regulations, and on the specification of recommendations on how information about the investment policy and strategy should be presented in the articles of association or statutes of AICs.

KNF STATEMENT ON THE PROVISION OF SERVICES RELATING TO THE MEDIATION IN THE DISPOSAL AND REPURCHASE OF PARTICIPATION UNITS IN COLLECTIVE INVESTMENT UNDERTAKINGS BY BANKING SECTOR ENTITIES

On 22 March 2018, the KNF published on its website a statement on the provision of services relating to the mediation in the disposal and repurchase of participation units in collective investment undertakings by banking sectors entities which addresses certain important aspects regarding the implementation and application of the provisions implementing MiFID II and the acts of EU law enacted pursuant to MiFID II as well as provisions resulting from directly applicable acts of EU law which are relevant for the distribution of investment funds. The statement referred specifically to the issues regarding the provision of investment advisory services in relation to participation units in investment funds.

KNF STATEMENT ON THE OFFERING OF INVESTMENT CERTIFICATES OF CLOSED-END INVESTMENT FUNDS

On 29 March 2018, the KNF published on its website a statement on the offering of investment certificates of closed-end investment funds. The statement in question focused on the definition of the legal status of investment certificates, the procedure for offering investment certificates, entities authorised to act as agents in the offering of investment certificates as well as the key elements and the organisation of the investment certificate offering process.

KNF STATEMENT ON THE OUTSOURCING, BY INVESTMENT FUND MANAGEMENT COMPANIES, OF THE MANAGEMENT OF INVESTMENT PORTFOLIOS OF CLOSED-END INVESTMENT FUNDS

On 15 May 2018, the KNF published on its website a statement on the outsourcing, by investment fund management companies, of the management of investment portfolios of closed-end investment funds (Article 45a of the Act). The statement in question focused on the obligations of the management companies' obligations to ensure the possibility of affecting the activities of entities with which a contract was concluded, to the extent the entity performs the contract with the management company, e.g. to secure a right to issue orders and instructions on the management of an investment portfolio of a closed-end investment fund, binding on the entity; furthermore, the contract must ensure that the management company exercises supervision on a day-to-day basis, for the entire term of the contract.

KNF STATEMENT ON GUARANTEE CONTRACTS CONCLUDED BY INVESTMENT FUND MANAGEMENT COMPANIES WITH THIRD PARTIES FOR THE BENEFIT OF PARTICIPANTS OF CLOSED-END INVESTMENT FUNDS

On 25 May 2018, the KNF published a statement on guarantee contracts concluded by management companies with third parties for the benefit of participants of closed-end investment funds. The statement in question addressed the issues identified in the course of supervision of closed-end investment funds, in particular with regard to contracts concluded by investment fund management companies under which third parties agree to pay the participants of closed-end investment funds of fixed amounts corresponding to the difference between the repurchase price of such certificates and the value corresponding to the issue price, often increased by a guarantee profit.

COMMUNICATION FROM THE KNF ON REGULATION (EU) 2017/1131 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 14 JUNE 2017 ON MONEY MARKET FUNDS

On 7 August 2018, the KNF published on its website a communication on Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds. The communication in question aimed at explaining the main consequences stemming from the first application of the Regulation, in particular by explaining the mutual relation between the provisions of the Act on investment funds and alternative investment fund management, the provisions of Regulation of the Minister of Finance of 20 August 2004 on the requirements which must be met by money market funds, and the provisions of Regulation (EU) 2017/1131.

KNF STATEMENT ON THE RULES OF SUPERVISION OF AICMs ENTERED IN THE REGISTER OF AICMs

On 27 August 2018, the KNF published on its website a statement on the rules of supervision of AICMs entered in the Register of AICMs. The statement present the status of AICMs and

AICs in the current legal framework as well as the powers of the KNF Board following from the legislation on supervisions of AICMs and AICs. The statement explains the rules of the KNF's day-to-day supervision of AICMs entered in the Register, which is significantly limited and does not cover, in particular, the investment activities of such companies/partnerships.

KNF STATEMENT ON MANAGERS OF SECURITISED RECEIVABLES OF SECURITISATION FUNDS

On 23 October 2018, the KNF published on its website a statement on managers of securitised receivables. The KNF's statement in question was aimed at pointing out that it was advisable that the internal organisation structure of the servicer should ensure effective supervision at the entity. In particular, for entities whose legal form does not require, or even provide for, existence of a supervisory body, where it is particularly important to ensure separation—including proper authorisation within the entity's internal regulations—of an organisational unit responsible for supervision of proper operation with respect to the management of securitised receivables of securitisation funds.

KNF STATEMENT ON ACCEPTING AND GIVING 'INCENTIVES' IN CONNECTION WITH THE PROVISION OF SERVICES OF ACCEPTANCE AND TRANSMISSION OF ORDERS PERTAINING TO PARTICIPATION UNITS IN INVESTMENT FUNDS

On 21 December 2018, the KNF published on its website a statement on accepting and giving 'incentives' in connection with the provision of services of acceptance and transmission of orders pertaining to participation units in investment funds. The statement in question refers to the acceptance of 'incentives' by the entities referred to in Article 32(1) points 2 and 3 of the Act of 27 May 2004 on investment funds and management of alternative investment funds. The purpose of the statement is not only to indicate the general rules for accepting and/or giving 'incentives' but also to indicate practical examples of acceptable and unacceptable 'incentives'.

COMMUNICATION FROM THE KNF ON THE INTERPRETATION OF ARTICLE 83A(1) OF THE ACT ON INVESTMENT FUNDS AND MANAGEMENT OF ALTERNATIVE INVESTMENT FUNDS

On 27 December 2018, the KNF published on its website a communication on the interpretation of Article 83a(1) of the Act on investment funds and management of alternative investment funds which imposed on investment funds an obligation to define, in their articles of association, the categories of participation units: (1) disposed of by the fund directly; (2) disposed of by the fund through the entities referred to in Article 32(1) and (2) of that Act. The purpose of the communication in question was to draw the attention to the key issues resulting from the application of Article 83a(1) of the Act on investment funds and management of alternative investment funds, including the obligation to classify participation units disposed of by the management company acting on behalf of the fund (as its body) into the category of participation units disposed of by the fund directly.

COMMUNICATION FROM THE KNF BOARD ON THE COMPLIANCE WITH INFORMATION AND REPORTING REQUIREMENTS

The Communication from the KNF Board of 29 March 2018 was issued as a result of identification of an inconsistent practice among securities issuers in the area of reporting concerning the assessment of the effects of activities of authorised bodies, including decisions, in particular in relation to tax inspections and customs/fiscal inspections at issuers and/or their subsidiaries. In view of the foregoing, attention was drawn to the need to inform investors about the events and/or circumstances which meet the requirements of confidential information and to properly include and/or disclose the events in separate and consolidated financial statements. The statement emphasised that the issuer should assess the effects of

the activities carried out by authorised bodies also before the decision of such bodies is issued. The assessment should include both the regulations on confidential information and appropriate accounting regulations, including IFRS. The communication highlights the need to promptly notify investors of any potential or expected effect of ongoing activities, including decisions of authorised bodies, in the form of confidential information, financial statements or current report concerning the need to make an adjustment, as appropriate.

COMMUNICATION FROM THE KNF BOARD ON OFFERING BONDS

In its communication of 29 May 2018, the KNF Board reported that since confidence is built on the basis of services provided within the limits of the funds covered by statutory guarantees, banks should not be actively involved in offering bonds to their clients who have funds in the amount not greater than the amount of funds protected by deposit guarantees treated by clients as funds covered by the deposit guarantee scheme.

In its communication, the KNF Board stressed that in contrast to deposits up to the equivalent of EUR 100 000, bonds offered by companies are not covered by the legislation on deposit guarantees. In case of insolvency of an issuer of such bonds caused by a worsening financial standing of such issuer, or by changes in the capital market, the capital invested or a part thereof may be lost.

KNF STATEMENT ON PUBLIC OFFERINGS OF SECURITIES CONDUCTED ON THE BASIS OF A PROSPECTUS AND ON OFFERINGS TO WHICH THE REQUIREMENT TO PUBLICLY DISCLOSE A PROSPECTUS DOES NOT APPLY

In its statement of 28 June 2018, the KNF Board stressed that it did not supervise offers of private securities or information communicated to investors in such offers. While as regards public offerings subject to the requirement to publicly disclose a prospectus, the KNF Board approves a prospectus if it contains all information required by the law. When approving a prospectus, the KNF Board does not approve a business model of an issuer, the conduct-of-business methods or business financing methods, and it does not assess the risks occurring in the issuer's business or environment.

It was also stressed that the KNF Board approved prospectuses of issuers that operate in various industries, are at various stages of business development, have various histories and various ownership structures. Such issuers include entities that do not conduct business activities (special-purpose vehicles) and those that have just started (start-ups), those that do not generate revenue from sales as well as issuers with a high level of debt, issuers who faces problems with ensuring funds for the conduct of business and/or issuers that generate financial losses.

The KNF Board is not responsible for investment risk associated with the acquisition of securities (both shares and bonds) offered under a prospectus; the KNF points out that it is necessary that investors familiarise themselves with the approved prospectus, including the risks associated with the securities offered, the issuer's business activities, financial standing and environment.

COMMUNICATION FROM THE KNF BOARD ON THE POSITION REGARDING THE MEDIUM-TERM DIVIDEND POLICY

On 22 May 2018, the KNF Board adopted objectives concerning its position on the medium-term dividend policy of cooperative banks, affiliating banks, brokerage houses, investment fund management companies, general pension societies and insurance/reinsurance undertakings. The purpose of the publication of those objectives was to facilitate the framework financial planning for medium-term dividend distribution at KNF-supervised financial market entities.

The communication referred to:

- cooperative banks and affiliating banks,
- brokerage houses,
- investment fund management companies,
- general pension societies,
- insurance/reinsurance undertakings.

Cooperative and affiliating banks: the document states that the general rules for the disbursement of a dividend from the net profit by affiliating and cooperative banks may be subject to specification or modification according to the current situation in the sector, potential new regulatory requirements or a general situation in the banking services market if—in the supervisor’s view—it may result in the need for additional capitalisation for banks.

Brokerage houses: considering the financial and capital standing of brokerage houses in 2018, the decision was made to maintain recommendations similar to the criteria indicated in the *Statement of the KNF Board on the dividend policy of cooperative and affiliating banks, insurance and reinsurance undertakings, general pension funds, brokerage houses and investment fund management companies in 2018*, adopted in December 2017, including the criteria concerning the level of capital ratios at the end of the year and/or the share in equities in the total assets at the end of the year (according to the scope of business of the brokerage house), the supervisory score assigned under the SREP, and any future capital needs. There was extended the criterion concerning the prohibition of violation of capital adequacy standards under Regulation 575/2013 and under the Act on trading in financial instruments (Journal of Laws 2018, item 2286, as amended) and the legislation on the limits of large exposures.

Investment fund management companies: considering the stable capital situation of investment fund management companies in 2017, a decision was made to maintain recommendations similar to the criteria indicated in the *Statement of the KNF Board on the dividend policy of cooperative and affiliating banks, insurance and reinsurance undertakings, general pension funds, brokerage houses and investment fund management companies in 2018*, adopted in December 2017, including the criteria concerning compliance with capital requirements, additional future capital needs, claims from participants of investment funds against the management company on account of improper management of investment funds, the SREP rating as well as the criterion concerning the structure of assets of investment fund management companies.

General pension societies: the supervisor’s guidelines on the dividend policy were determined by the factors such as the financial and capital standing of general pension societies, the risk associated with the management of pension funds, the interests of members of pension funds as well as the applicable requirements following from the legislation. The KNF Board recommended that for the purpose of distribution of profit for a given year, general pension societies should consider all the criteria resulting from the supervisory assessment, the legislation and the criteria concerning capital adequacy. Nonetheless, the KNF Board has indicated that the value of the dividend paid out in a given year from profits from a previous year or from other elements of equity should not exceed 100% of the profits made in the year preceding the disbursement of the dividend. The payment of the dividend must not have the effect of reducing the value of equity and respectively the value of liquid assets, plus the value of the Guarantee Fund’s resources attributable to the company, below the value ensuring an adequate level of capital adequacy. In addition, the decision to pay out dividends should take into account additional capital needs over a period of one year and the possible risks associated with running a voluntary pension fund.

Insurance/reinsurance undertakings: the proposed criteria which allow insurance/reinsurance undertakings to disburse the dividend will be reviewed at the end of each year before the

supervisor's final statement is made on the objectives of the dividend policy of insurance/reinsurance undertakings for the following year. It is recommended that the dividend be only paid by the insurance/reinsurance undertakings which meet all the following criteria:

I. under the last SREP, they were assigned a good risk assessment (1.00) or satisfactory risk assessment (2.00);

II. in no quarter of the year to which the decision on the disbursement of the dividend applies, they did not report any deficit in own funds for capital requirements;

III. in the year to which the decision on the disbursement of the dividend applies, they were not covered by a short-term finance scheme or recovery plan referred to in Articles 312 and 313 of the Act on the business of insurance and reinsurance;

IV. as at the end of the year to which the decision on the disbursement of the dividend applies, the amount of own funds, without deduction of expected dividends, was at least 175% of the amount of capital requirements for life undertakings and at least 150% of the amount of capital requirements for non-life undertakings.

The insurance/reinsurance undertakings which meet the above-mentioned criteria should limit the disbursement of the dividend to 75% of the amount of the profit for the year to which the decision on the disbursement of the dividend applies; the coverage of capital requirements for the quarter in which the dividend was paid out should be at least 110%.

However, it is permitted to pay a dividend equal to the entire profit generated in the year to which the decision on the disbursement of the dividend applies (which means that it is not permitted to pay out from other elements of equity), provided that the coverage of the capital requirement (after deduction of expected dividends from equity) at the end of the year in which the dividend is paid and for the quarter in which the dividend was paid out is at the level of at least 175% for life undertakings and at least 150% for non-life undertakings.

The insurance/reinsurance undertakings that meet the above-mentioned criteria, when deciding on the amount of the dividend, should consider additional capital needs for the twelve months after the approval of the financial statements for the year to which the decision on the disbursement of the dividend applies, resulting from, among others, changes in the market and legal environment.

COMMUNICATION FROM THE KNF OF 17 AUGUST 2018 ON THE OBLIGATORY ROTATION OF STATUTORY AUDITORS AND AUDIT FIRMS ('COOLING-OFF PERIOD')

The communication specified the issues regarding the rules of rotation of audit firms for the purpose of the review of financial statements of public-interest entities (PIEs) in the context of questions and concerns raised by supervised entities. In its communication, the KNF also explained that PIEs could submit requests under Article 17(6) of Regulation 537/2014.

A detailed list of statements of the KNF Board and the KNF as well as communications from the KNF is presented in Table 9.2 in Appendix 9.

6.2. INTERNATIONAL COOPERATION

Involvement of the KNF in international fora is an essential element in the process of building a stable regulatory environment for financial market participants in Poland. Cooperation with financial supervision authorities of other countries in bilateral and multilateral forms, including colleges of supervisors, serves the implementation of the KNF's supervisory objectives.

A particularly important field of the KNF's international activity is the European System of Financial Supervision, which results from the fact that the key legal acts (e.g. CRD IV²⁵, Solvency II²⁶ and MiFID II²⁷, CRR²⁸ and MiFIR²⁹, and Regulation of PRIIPs³⁰) setting the framework for the functioning of financial institutions, are adopted in the EU forum.

Moreover, important aspects of the KNF's international activity include cooperation within regional and global institutions and international organisations, as well as the implementation of assistance and educational projects.

The KNF also cooperates on an ongoing basis with central authorities (Ministry of Finance, Ministry of Foreign Affairs) in the context of international events which may affect the stability of the Polish financial market. For example, in 2018 the KNF participated in the activities of those institutions to identify the risks and possible remedies in connection with the possibility of a no-deal Brexit in 2019.

COOPERATION WITH SUPERVISORY AUTHORITIES FROM OTHER COUNTRIES

Colleges of supervisors and resolution colleges

The basic level of cooperation between the KNF and supervisory authorities from other countries are colleges of supervisors. In 2018, employees of the KNF participated in 52 meetings (including teleconferences) of 29 different colleges of supervisors.

With regard to cross-border banking groups, in 2018, the KNF participated in 20 meetings of 9 colleges. Colleges are to coordinate supervisory activities with regard to banking groups, including preparation for possible anti-crisis measures. Arrangements for joint risk assessment and decision process and the use of advanced methods for calculating capital requirements were made in the framework of the colleges of supervisors. Draft decisions regarding the assessment of recovery plans prepared by parent entities in the group were also discussed and agreed on as part of the colleges of supervisors. Following adoption, together with the European Central Bank, of joint decisions on group recovery plans, agreements were made to consider the existing individual plans for Polish subsidiaries of groups BNP Paribas ING, Societe Generale, Deutsche Bank and Commerzbank. The agreements mark the completion of two-year negotiations, in which the main cause of disagreement was the group approach represented by the ECB and the need to ensure that major domestic banks have individual recovery plans defining the measures to be taken in case of a significant deterioration of the bank's financial standing and threats to the financial stability, a difficult macro-economic situation or any other event which might have a negative effect on the financial market and/or the bank. With regard to other European banking groups operating currently in the Polish market, negotiations with the ECB are still underway in relation to appropriate inclusion of Polish subsidiaries in group plans.

²⁵ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

²⁶ Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance.

²⁷ Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.

²⁸ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

²⁹ 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.

³⁰ Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail investment and insurance-based products (PRIIPs).

According to the Bank Recovery and Resolution Directive (BRRD)³¹ and the provisions implementing it, the KNF is a member (without voting rights) of resolution colleges established for banking groups whose subsidiaries operate in the Polish market. 2018 was another year of operation of the above-mentioned colleges. Their main task is to develop the principles of cooperation between the authorities of resolution and supervisory authorities in a crisis. Representatives of the KNF took part in 5 meetings of 5 colleges together with the representatives of the BGF, the NBP and the Ministry of Finance, presenting their comments on resolution plans prepared by the competent authorities for resolution.

During the period covered by this report, the representatives of the KNF participated in 13 colleges of insurance supervisors and 22 meetings, including 9 teleconferences held with representatives of supervisors from other countries. As part of the cooperation in colleges, the KNF representatives took part in meetings aimed at exchanging information and experiences between supervisory authorities responsible for supervision of insurance undertakings from international insurance groups, assessment of the financial situation and risks identified at the level of groups and individual insurance undertakings, as well as supervisory actions taken and planned, including supervisory inspections. At the European level, the KNF representatives are also involved in the pre-application processes and the processes of verifying continuing suitability of internal models of foreign insurance groups.

The KNF also performed tasks related to its role of a group supervisor for the PZU Group. The KNF, as the supervisor of the group, coordinated, on a continuous basis, the cooperation with the members of the PZU Group College and analysed and distributed to the members of the College the aggregate annual reports for the Group provided by EIOPA. Moreover, the KNF analysed and verified quarterly and annual group reporting. The KNF prepared and monitored the implementation of the College's work plan. In addition, between 29 and 30 November 2018, the KNF organised a meeting of the College of Supervisors of the PZU Group. Similarly as in the case of the review in 2017, the KNF identified the PZU Group as financial conglomerate.

Moreover, in 2018, the KNF representatives participated, as observers, in 2 supervisory colleges for EURIBOR/EONIA rates and for LIBOR rates. The total number of meetings was 5, including teleconferences.

Bilateral cooperation

The KNF maintains continues relations with other supervisory authorities. Bilateral relations include the exchange of supervisory information, opinions and experiences, and occur primarily at the working level.

Bilateral cooperation is facilitated by the memoranda of cooperation and exchange of information that the KNF signed with 61 foreign supervisory authorities (beside multilateral agreements within ESMA, IOSCO, and IAIS). In 2018, agreements on Fintech were signed with the Taiwan's Financial Supervisory Commission and the Hong Kong Monetary Authority. An agreement with the National Bank of Pakistan was signed and negotiations were launched with the Central Bank of Brazil. As a result of the activities initiated in 2018, the KNF will be one of the signatories to the Multilateral Agreement on the practical modalities for exchange of information between the European Central Bank (ECB) and all competent authorities (CAs) responsible for supervising compliance of credit and financial institutions. The Agreement, to be concluded in early 2019, will establish a framework for the exchange of operation for the purpose of prevention of money laundering and terrorist financing.

³¹ Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms.

European Central Bank

Since November 2014, the European Central Bank (ECB) has been directly supervising the largest banks in the euro area. As in previous years, in 2018 the KNF representatives participated in the work of supervisory colleges organised by the ECB for international banking groups whose subsidiaries are present in the Polish market. There has also been an intensive exchange of information on the developed supervisory practices, tools and methodologies with a view to harmonising supervisory approaches.

PARTICIPATION IN THE EUROPEAN SYSTEM OF FINANCIAL SUPERVISION

Under the EU legislation, the KNF is a member of the European System of Financial Supervision. The system is formed—in addition to the supervisory authorities from all EU Member States and the European Systemic Risk Board (ESRB)—by three institutions corresponding to individual market sectors, i.e.: the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Securities and Markets Authority (ESMA), and their Joint Committee. EBA, EIOPA and ESMA develop draft technical standards and guidelines complementary to EU legislation, and facilitate the supervision of cross-border financial groups.

In that context, one of the key topics in 2018 was the reform of European Supervisory Authorities, including, for example, extension of their competences in various areas. The Bulgarian and Austrian Presidencies have undertaken intense measures to agree upon the final compromise package of appropriate regulations. The KNF participated in that process by supporting the Ministry of Finance in preparation of statements and recommendations with regard to the work on the proposed changes in CRDIV/BRRD and CRR, and the regulations establishing ESAs, submitted then to the representatives of Poland in EU forums. The changes proposed by the European Commission concerned supervisory tools which are important in terms of financial stability and which are used to define capital and liquidity requirements under Pillar 2. Both in the opinion of the KNF and the Ministry of Finance, the proposed changes significantly limited the independence and freedom of national supervisors, which, especially in the case of domestic banks being part of large European groups, might have a negative influence on their capital, and thus the resistance to potential shocks.

In recent years, the European Supervisory Authorities, with the support from national supervisors, developed the topic of supervisory convergence, that is the consistency between supervisory practices in EU Member States. Considering the regulatory environment of the financial market in the European Union, the activities of EBA, ESMA and EIOPA are aimed at eliminating regulatory arbitrage, which consists in a different interpretation and enforcement of law by national supervisors. The purpose of supervisory convergence is therefore to identify and disseminate good practices as a model of conduct for national supervisory authorities. The KNF co-created EIOPA's Joint Supervisory Culture Document in the area of insurance and pensions supervision. In the area of the insurance market, the Chair of EIOPA's Review Panel responsible for supervisory convergence is Damian Jaworski, Director of the Department of Regulation, Analysis and International Cooperation at the KNF.

By actively participating in the forum of EBA, EIOPA, ESMA and the ESRB, the KNF representatives are striving for these institutions to become a useful complement to national authorities, coordinating supervisory cooperation from the perspective of the EU single market, at the same time bearing in mind that individual European countries are highly diverse.

European Banking Authority (EBA)

The European Banking Authority (EBA) carries out a wide range of tasks, primarily for the banking sector, but also for payment institutions and electronic money institutions. The KNF is involved in EBA's activities through activities both at the substantive and organisational levels. The latter type of activities was closely related to the fact that by June 2018, the KNF representative in EBA's Board of Supervisors—Andrzej Reich, Director of the Banking, Payment Institutions and Credit Unions Regulations Department—acted at the same time as Member of the Management Board of that institution.

Employees of the KNF took part in the activities of more than 50 committees, teams and working groups of EBA, dealing with issues such as: assessment of risks and threats of the banking sector in the EU, assessment of the quality of models of banking operations, cross-border activities of electronic money institutions and payment institutions, register of credit unions, client protection, anti-money laundering, liquidity monitoring, capital requirements, audit, reporting and practice in the area of supervisory evaluation, as well as in the field of crisis management. As part of the activities in 2018, amendments were made to the Guidelines on SREP by introducing capital guidelines under Pillar 2. As part of the Guidelines, new solutions were developed in relation to interest rate risk the banking book, in the guidelines on outsourcing. Important topics in EBA's activities in 2018 included issues relating to Brexit, the issue of non-performing loans, better cooperation for the prevention of money laundering and terrorist financing, assessment of IT risk management and the development of the Fintech industry.

In 2018, European stress tests were also conducted. Two Polish banks participated in the EBA stress test exercise: PKO Bank Polski S.A. and Pekao S.A. Despite the application of an additional macroeconomic shock to Poland, assuming a significant economic downturn (a decrease in Poland's GDP over the projection period, i.e. in the years 2018-2020), the stress tests results showed high resistance of both banks.

KNF representatives actively participated in EBA's regulatory activities, which included drafting technical standards and guidelines, among others, for regulations such as:

- CRR,
- BRRD,
- Directive 2014/49/EU on deposit guarantee schemes³²,
- Directive (EU) 2015/2366 on payment services in the internal market;
- Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.

European Insurance and Occupational Pensions Authority (EIOPA)

As part the tasks performed, the emphasis was placed on the promotion of a common supervisory culture and on activities relating to the introduction of a pan-European pension product.

KNF representatives participated in the activities of the EIOPA Board of Supervisors and 30 committees and working groups, dealing with issues such as insurance policy, financial stability, capital requirements for individual undertakings and groups, internal models, technical provisions, own risk and solvency assessment, risk management system, structured bankruptcy, insurance mediation, consumer protection and pension funds. In the field of ensuring stability of the financial sector and its participants, KNF representatives took part in the work on the methodology of the European stress tests for the insurance sector and on the report and recommendations regarding those tests. KNF

³² Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes.

representatives continued their efforts to create a legal framework for European principles of rehabilitation, restructuring and resolution of insurance undertakings. In addition, EIOPA carried out two peer reviews on the application by national supervisory authorities of the principles of proportionality in the system of governance and on the assessment of propriety of members of management and supervisory bodies of insurance and reinsurance undertakings. A lot of effort was made to create new chapters of the Supervisory Handbook. In the context of the Tier 1 instruments, the KNF representatives were actively involved in the works on the revision of the Solvency II Directive.

European Securities and Markets Authority (ESMA)

The KNF representatives participated in the activities of the ESMA Board of Supervisors, ten standing committees and several working groups and task forces.

The outcomes of activities of those bodies include, first and foremost, the elaboration of draft technical standards, advice for the European Commission, consultation papers, questions and answers (Q&As), guidelines and opinions. As part of work carried out, the KNF representatives participated in drafting technical standards for MAR, the Prospectus Regulation, and the Securitisation Regulation.

Consultation papers have been prepared on, *inter alia*, the Prospectus Regulation, the Securitisation Regulation, EMIR, CRAR, MMR and sustainable finance. A number of documents have also been developed to clarify the provisions of MiFID II/MiFIR, MAR, EMIR, UCITS, AIFMD, CSDR, BMR, SSR, the Prospectus Regulation and the Securitisation Regulation (so-called questions and answers). The decision was made to adopt guidelines on the management of conflicts of interest by central counterparties, the guidelines to CSDR concerning the reporting of internalised settlement, guidelines on EMIR concerning calculation of items in derivatives, guidelines on suitability assessment, guidelines on non-significant benchmarks.

ESMA adopted temporary intervention measures under Article 40 of MiFIR. The measures include: prohibition of (in the case of binary options) and restriction on (in the case of contracts for difference (CFDs)) the marketing, distribution or sale to retail client in the EU. The ESMA decisions, after being translated into official languages of the EU and published in the Official Journal of the EU, apply for a period of 3 months. The ESMA decision on binary options became effective on 2 July 2018 and the decision on CFDs on 1 August 2018. ESMA issued decisions to renew the measures for another 3-month periods. In consequence, the intervention measures adopted by ESMA pursuant to Article 40 of MiFIR applied by the end of 2018.

A debate was held on the impact of the UK's withdrawal from the EU and how to prepare supervisors from the EU27 for the challenges it poses. There followed publications of ESMA statements calling for immediate submission, to competent supervisory authorities, of requests for authorisation, in the case of financial institutions established so far in the UK and planning to relocate to other EU countries to provide services in the EU on the basis of the European single passport, a statement addressed to investment firms, highlighting the importance of information submitted by investment firms to their clients in relation to potential effects of Brexit on the existing and future contracts, a statement on the ESMA review of applications for recognition from UK CCPS and CSDS.

European Systemic Risk Board (ESRB)

In 2018, the KNF representatives participated in the meetings of the General Board (the most important decision-making body), the Advisory Technical Committee (ATC) and selected working groups of the ESRB. Those bodies conducted analyses and discussions on key threats to the stability of the financial system in the European Union, among others, provided

support to European Supervisory Authorities in the stress testing process (developing an adverse scenario) for selected financial market entities.

During 2018, the General Board reviewed the issue of prevention of a systemically common problem of non-performing loans (NPLs) in the European Union. The process concluded with the approval, by the General Board of the ESRB, of—and the decision to make publicly available—the comprehensive report on *Macroprudential approaches to non-performing loans*, which is expected to be published on the ESRB website in January 2019.

In November 2018, there was published a report of the ESRB on *Macroprudential provisions, measures and instruments for insurance*. It is part of a wider strategy implemented by the ESRB and consisting in the performance of in-depth reviews concerning non-banking sectors of the financial market. Other important activities of the Board include regular publication of the report on the application of macro-prudential instruments in EU countries. The document presents graphical statement of macro-prudential decisions made by each EU country during 2017.

INVOLVEMENT IN REGULATORY REFORMS IN THE EUROPEAN UNION

The key subject in 2018 was the so-called 'banking package', that is proposals of amendments to basic banking regulations (CRD IV, CRR, BRRD, SRMR³³) presented already in 2016 by the European Commission. The Commission's proposals, according to its declaration, are aimed at eliminating the weaknesses identified in the current prudential framework, allowing further progress in the implementation of the banking union project. In practice, the amendments are related to a wide variety of areas, focusing on requirements for additional capital requirements, debt hierarchy, leverage or risk coverage in the trading book. The new rules are also to implement a new requirement for absorption capacity conceptually agreed by the Financial Stability Board, which is to be a key element in reducing the systemic risk generated by large transnational banking groups operating in the European market. The aim of the package is also to better take into account the proportionality principle and enable banks to increase funding for SMEs. The year 2018 concluded with the adoption of comprise arrangements on key aspects of the package.

By participating in the EU regulatory processes, either directly or via the Ministry of Finance, the KNF strives for the records to be the most beneficial from the point of view of stability of the sector and safety of financial market participants in Poland.

Capital Markets Union

In March 2018, the European Commission presented conclusions that will contribute the activation of the cross-border market of investment funds, support the Union's market of covered bonds as a source of long-term funding and ensure greater legal certainty for investors in terms of cross-border transactions as part of trading in securities and claims. The Commission also called co-legislators to act swiftly to adopt the key reforms to complete the Capital Markets Union (CMU), such as requests for better supervision of the capital market, restructuring of enterprises and new opportunities for consumers to build up savings. Of 12 requests made by the Commission as a contribution in laying foundations for the future CMU, only three requests were accepted.

³³ Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010.

In May 2018, the European Commission proposed new legislation to increase access for small and medium-sized enterprises (SMEs) to the funding through public capital markets. The initiative should increase the number of first public offerings of SMEs and allow listed companies to attract more investors. More liquidity in the market will improve the trading in shares of SMEs and the entities investing in SMEs will be able to cash the investments more easily.

On 19 July 2018, the Commission published guidelines aimed at helping EU investors pursue their rights before national administration authorities and courts and supporting EU Member States in protecting the public interest in accordance with the EU law.

Additionally, new EU legislation on securitisation will become effective on 1 January 2019 (Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012). The legislation will help ensure additional sources of funding for enterprises, increase the capacity of banks to support the economy, and distribute the risk among all market participants, thus preventing any abuse that caused financial crisis in the past. The new regulation on securitisation establishes common rules and defines the criteria for a simple, transparent and standardised securitisation (STS) in the EU. The new legislation will facilitate the issue within the framework of securitisation in the EU and the investments in securitised assets and will ensure financial stability and investor protection.

COOPERATION WITH INTERNATIONAL ORGANISATIONS

International Association of Insurance Supervisors (IAIS)

In 2018, as part of membership in the International Association of Insurance Supervisors (IAIS), representatives of the KNF were involved in work of the Executive Committee, the Policy Development Committee, the Implementation Committee, and the Audit and Risk Committee. A representative of the KNF is also acting as a regional coordinator for the Central and Eastern Europe and Transcaucasia region.

In 2018, representatives of the KNF were involved in, among others, work on Common Framework for supervision of cross-border insurance groups, including work on an Insurance Capital Standard and the principles of supervision of Global Systemically Important Insurers (G-SII) work on changes to the IAIS, as well as work on the identification of needs of supervisors in developing markets.

International Organisation of Securities Commissions (IOSCO)

In 2018, representatives of the KNF took part in the work of nine permanent committees and working groups of the IOSCO.

Through the participation in the activities of standing committees and working groups, the KNF staff were involved in the work and tasks relating to artificial intelligence, development of a manual on the creation of an exchange operating the trading in commodity derivatives for new classes of goods, updating the guidelines on the best standards on the storage of goods, preparation of a commentary to the proposal of the International Accounting Standards Board (IASB) on an amendment to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', concerning the changes in accounting policies.

In connection with the joint efforts made within the Screening Group under the procedure for review of applications to join the Enhanced IOSCO Multilateral Memorandum of Understanding (EMMoU), which allows supervisors to exchange information that goes well

beyond the existing IOSCO Multilateral Memorandum of Understanding (MMoU), 10 supervisors joint the EMMoU by the end of 2018.

Cooperation within other international organisations

In 2018, the KNF was involved in the activities of the Organisation for Economic Cooperation and Development (OECD) by participating in work of the Financial Markets Committee, the Corporate Governance Committee, the Working Party on Private Pensions and the Insurance and Private Pensions Committee..

The KNF is also a member of the International Organisation of Pension Supervisors (IOPS). In 2018, the activities of the Technical Committee of that organisation focused primarily on analysing the role of supervisors in the process of: formulating guidelines on the Environmental, Social and Governance (ESG) factors to be considered by pension funds and assessing the influence of computerisation of financial services on supervisory practices in the area of pension supervision (*Fintech and Digitalization: Cyber-security, Reg-Tech and Sup-Tech*) or the report on the rules of pension projection (*Deaccumulation phase*). Cooperation with other international organisation, e.g. the World Bank and the OECD, as part of projects and programmes implemented by them, takes place within the framework of the IOPS. In 2018, representatives of the KNF were involved in the activities of the IOPS by attending 3 meetings of the Technical Committee and the General Meeting of IOPS Members.

In 2018, representatives of the PFSA took part in public consultation of the Basel Committee on Banking Supervision and participated in several of its working groups. A representative of the KNF continued to participate in meetings of the so-called Regional Consultative Group of the Financial Stability Board (FSB) for Europe , where some of the issues raised by the Committee were discussed. Since 2006, the PFSA has been managing the Secretariat of the BSCEE Group – organisation associating banking supervisors from 24 Central and Eastern European countries, cooperating with the Basel Committee.

The International Monetary Fund (IMF) and the World Bank send expert missions to Poland regularly (missions under Article IV of the IMF's Articles of Agreement).

In view of the KNF, a particularly important project in 2018 the Financial Sector Assessment Program (FSAP), a comprehensive monitoring instrument of the IMF and World Bank regarding regulatory and supervisory matters and the situation of financial markets in a given country. The FSAP review in Poland required significant resources from the KNF and involved several stages: (i) providing answers to a series of extensive questionnaires concerning all sectors supervised by the KNF; (ii) meetings of FSAP assessors (delegates of the IMF and World Bank) with the Chair of the KNF Board, Deputy Chairs of the KNF Board, and the KNF staff. In total, including closing meetings, representatives of the KNF held more than a hundred meetings with FSAP assessors in January, February and May 2018; (iii) submission of remarks, comments and additions to the preliminary FSAP reports. This edition of FSAP will officially conclude with the approval of final reports, which is planned for 2019.

In 2018, the KNF was involved in activities of the [Legal Entity Identifier Regulatory Oversight Committee \(LEI ROC\)](#), which oversees the global system identifying trading partners in financial markets.

ASSISTANCE AND EDUCATIONAL PROJECTS

Training Initiative for Financial Supervision (TIFS)

The Training Initiative for Financial Supervision (TIFS) is a training centre for supervisors in all sectors of the financial market. The purpose of the TIFS is to create a forum for discussion that offers the opportunity to exchange experiences and deepen expertise between supervisors through programmes for specialised groups of supervisory authority employees.

Three international seminars were held under the TIFS Initiative in 2018. The first seminar was devoted to capital supervision in respect of 'MiFID II/MiFIR'. The other two seminars were addressed to the representatives of the banking and insurance sectors and covered '*Supervisory approach to credit risk with focus on non-performing loans*' and '*Current challenges in the risk based supervision*'. Within the framework of the three seminars, the Polish supervisor hosted 46 representatives of supervisors in 21 countries (Albania, Austria, Bulgaria, Croatia, Montenegro, Czech Republic, Russian Federation, Georgia, Kosovo, Lithuania, Macedonia, Malta, Moldova, Germany, Poland, Portugal, Romania, Slovakia, Serbia, Ukraine, and Hungary).

Technical assistance under TAIEX

At the request of the Directorate-General for Neighbourhood and Enlargement Negotiations of the European Commission and the supervisory authorities of the countries covered by the Technical Assistance and Information Exchange instrument (TAIEX and TAIEX-SRSP), experts of the KNF actively participated in training and advisory missions for Romania, San Marino, and the society of the Turkish Republic of Northern Cyprus. The KNF staff were also involved in providing *ad hoc* expert support under the EU Twinning Project implemented by the National Bank of Poland for the benefit of the National Bank of the Republic of Belarus.

Development Cooperation Project for the National Bank of Ukraine

Within the framework of the 'Polish Assistance' programme of the Ministry of Foreign Affairs, in 2018, the KNF obtained funding for the implementation of the project 30/2018 'Further strengthening the institutional and operational capacities of the National Bank of Ukraine.' The project was carried out for the benefit of 218 representatives of the banking supervisory authority of the National Bank of Ukraine (NBU). The scope of the project included the preparation and successful completion by KNF experts of 5 training and consulting missions in Kiev in the area of application of macro-prudential instruments, inspection for prevention of money laundering and terrorist financing, payment service licensing, assessment of corporate governance, and supervisory assessment of holders of qualifying holdings in banks. The National Bank of Ukraine has positively assessed the specialist qualifications of the KNF experts and the practical usefulness of materials to be used for the purposes of changes in the functioning of the supervisor in Ukraine.

Twinning for non-banking supervision in Moldova

On 14 February 2018, the Delegation of the European Union to Moldova fully accepted the final report on the implementation by the KNF in 2015-2017 of Twinning Project for the National Commission for Financial Markets (NCFM). With the expert support provided by the KNF, the objectives and results of the project concerning the strengthening of organisational and institutional capacities of non-banking supervision of Moldova in the area of prudential regulation and supervision were successfully achieved.

Assistance initiatives to support the capacities and powers of Poland's financial supervisor

According to the decision of the European Commission, the KNF obtained support from the funds of a new EU structural reform support programme (SRSP) (under two application selection procedures) for strengthening the institutional and administrative potential of the KNF to face the new supervisory challenges resulting from the implementation of EU law by providing training for the KNF staff in respect of new EU regulations (consumer protection, financial reporting, recovery proceedings in relation to banks) as well as for reinforcing supervisory efforts in the FinTech area by supporting Regulatory Sandbox and SupTech in Poland. The purpose of the SRSP support is to exchange best supervisory experiences, expertise and practices to improve professional qualifications of employees of the Polish supervisor as well as to obtain external expert support for a further growth of FinTech business in Poland and thus to increase the efficiency of supervisory measures in that area. The above-mentioned activities are in line with priority areas of the Strategy for Responsible Development adopted by the Council of Ministers and will be carried out in 2018-2019.

6.3. ACTIONS SUPPORTING THE DEVELOPMENT OF FINANCIAL INNOVATION (FINTECH)

Recognising the impact of modern technologies on the development of the financial market, the KNF's structure was expanded with the FinTech Department. The purpose of the new Department is to support the development of the FinTech ecosystem in Poland through the application of regulatory and supervisory measures and tools. This is a part of performance of the KNF Board's task under Article 4(1) point 3a of the Act of 21 July 2006 on financial market supervision. The establishment of the Department is a next step in the activities initiated by the Special Task Force for Financial Innovation appointed on the KNF's initiative in 2016.

The main barriers to the development of the FinTech are the complex legal and regulatory requirements and legal uncertainty, that is unclear rules of application of regulations to innovative solutions. In view of the foregoing, in January 2018 the KNF implemented the Innovation Hub programme, which is a consultation and training procedure under which the supervisor undertakes information and consultation activities in the area of regulations for FinTech entities. The programme is addressed to the entities that are planning to start a business subject to the KNF supervision and that have developed an innovative financial product and/or service based on modern IT technologies as well as to entities supervised by the KNF which are planning to expand their offer by adding an innovative financial product and/or service.

The essential goal of the Innovation Hub programme is to reduce information asymmetries between the market and the supervisor and to reduce regulatory uncertainty for FinTech businesses by providing answers to questions about the application of the relevant regulatory requirements considering the specific nature of each business model. The Innovation Hub programme was launched by the KNF in January 2018 to start a dialogue with FinTech entities by providing them with explanations of legal and regulatory matters, including by presenting the supervisor's position on innovative financial products and/or services, and by gaining knowledge about the newest applications of financial technologies in digital services.

In 2018 the programme was joined by 76 entities providing FinTech solutions, including:

- a) start-ups planning to start business on a regulated market in the area of financial services (64 entities)–84%,
- b) KNF-supervised institutions, e.g. banks (12 entities)–16%.

Table 77. Topics raised in the requests for information submitted to the KNF under the Innovation Hub programme in 2018

| Topic | Number of requests | Share (%) |
|---------------------------------------|--------------------|-------------|
| Payment services (including PSD2) | 18 | 24% |
| ICO/virtual currencies | 13 | 17% |
| Robo-advisors in the capital market | 9 | 12% |
| Exchanges/crypto-currency exchanges | 6 | 8% |
| Crowdfunding | 6 | 8% |
| Banking/loans | 6 | 8% |
| Stock exchanges and financial markets | 4 | 5% |
| Credit intermediation | 2 | 3% |
| Algorithmic trading | 2 | 3% |
| KYC (AML) based on DLT/blockchain | 2 | 3% |
| Insurance | 1 | 1% |
| Cybersecurity | 1 | 1% |
| Other | 6 | 8% |
| Total | 76 | 100% |

Source: KNF's own calculations

The KNF is planning on undertaking further actions to improve, optimise and expand cooperation with start-ups under the Innovation Hub programme, in particular with regard to the development of new technological solutions in financial services (e.g. cloud computing, API, artificial intelligence, biometric verification, electronic identity) and the performance of regulatory/supervisory tasks (regtech/suptech).

The tasks of the FinTech Department focus on the cooperation with providers of financial infrastructure. That is why in 2019 the KNF intends to expand the Innovation Hub programme to include cooperation with providers of infrastructures which could allow for a rapid development of the ecosystem through the scaling of business models on infrastructure platforms.

In 2018, the KNF Board and the Ministry of Finance applied to the EU structural reform support programme (SRSP) to receive funding for activities relating to the Regulatory Sandbox, including creation of supervisory legal tools and related processes, application of new technologies for supervisory purposes (suptech) and works on the Development Strategy for Capital Markets. The application was accepted by the European Commission. The activities under the project are carried out by the European Bank for Reconstruction and Development.

In 2018, the KNF was actively involved in a series of other events promoting the topics of FinTech and new technologies in Poland and abroad. The KNF had its stands during the Impact'18 conference (Cracow, 13-14 June 2018), the Singapore Fintech Festival 2018 (12-16 November 2018) and FinTech Taipei (7-8 December 2018). During the Impact Fintech'18 congress (28-29 November 2018), the website www.fintech.gov.pl was presented for the first time; the website is devoted to the FinTech ecosystem operating in Poland. The website is used for publishing information about the KNF's activities aimed at supporting the ecosystem and details regarding licensing and registration processes. Statements, opinions and communications of the KNF Board and European Union authorities are also to be published

on the website. The website fintech.gov.pl will be updated and supplemented with any information which may help develop the FinTech ecosystem in Poland.

In 2018, much interest was generated by the topic of applying DLT/Blockchain technologies in financial markets. With this in mind, in June 2018 the KNF initiated works of the Blockchain Working Group, composed of supervisors, regulators, and entities operating in the cryptocurrencies and DLT/Blockchain technologies industries. The Group dealt with operational and legal aspects, in particular the topic of virtual currencies and other digital tokens (e.g. Initial Coin Offerings, ICOs), smart contracts, the functioning of virtual exchanges and currency exchanges as well as restrictions on the development of DLT/Blockchain technologies. The aim of the Group's work was to assess important aspects and barriers relating to the development of Distributed Ledger Technologies and preparation of a report which could provide the basis for further legislative work regarding issues of DLT/Blockchain technologies, including digital assets.

7. LAW AND ENFORCEMENT

7.1. PREVENTION OF FINANCIAL MARKET ABUSE

PRELIMINARY INVESTIGATION AND ADMINISTRATIVE PROCEEDINGS

In 2018, the KNF conducted 6 preliminary investigations to determine whether there were grounds to file a notification of suspected criminal offence, specified in the laws governing the functioning of the financial market in Poland, or to initiate administrative proceedings with regard to violation of the legislation subject to the extent of the KNF's supervision, regarding:

- failure to disclose the fact of holding shares in a public company: 1;
- pursuing activity in the area of trading in financial instruments without authorisation: 2;
- pursuing activity in the area of provision of payment services without authorisation: 3.

In 2018, the KNF Board conducted 139 administrative proceedings (of the 1st instance) in relation to the following legal acts:

- Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation): 6;
- Act on trading in financial instruments: 15; Act on public offering: 32;
- Act on investment funds and management of alternative investment funds: 18;
- Act on the business of insurance and reinsurance: 2;
- Act on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Insurers' Bureau: 19;
- the Act on payment services: 35;
- Act on statutory auditors, audit firms and public supervision: 1;
- other acts: 11.

The administrative proceedings were related to:

- non-performance or improper performance of obligations relating to immediate publication of inside information (Article 17(1) of MAR): 1;
- failure to notify or improper notification of transactions of persons discharging managerial responsibilities and persons closely associated with them (Article 17(1) and (3) of MAR): 3;
- carrying out transactions in issuer's shares in a closed period (Article 17(11) of MAR): 1;
- manipulation of a financial instrument (Article 39 of the Act on trading in financial instruments): 4;

- preparation of recommendations concerning financial instruments (Article 42 of the act on trading in financial instruments): 1,
- non-performance or improper performance of disclosure obligations by the issuer (Article 56 of the Act on public offering): 7;
- suspension of enforcement of a final decision: 4;
- declaring a final decision to be invalid: 1;
- imposing penalties on members of the issuer’s management board due to gross violation of Article 56 of the Act on public offering by the issuer (Article 96(6) of the Act on public offering): 3,
- non-performance or improper performance of obligations relating to qualifying holdings (Article 69 of the Act on public offering): 11;
- non-performance or improper performance of obligations relating to qualifying holdings (Article 69 in conjunction with Article 87 of the Act on public offering): 8;
- non-performance or improper performance of obligations relating to qualifying holdings (Articles 69 and 74 of the Act on public offering): 1;
- non-performance of the obligation to announce a tender offer to subscribe for sales or exchange of issuer’s shares in a number ensuring 66% of the total number of votes (Articles 73 and 88a of the Act on public offering): 2;
- compliance with the provisions concerning the appointment, composition and functioning of the audit committee at public-interest entities: 1;
- granting a fine reduction: 6;
- violation of laws or regulations and other internal rules in connection with practising the profession of an investment adviser and a securities broker: 2;
- irregularities relating to performance of brokerage activities by investment firms, constituting a violation of the law, rules of fair trading, interests of the client (Article 167 of the Act on trading in financial instruments, provisions of implementing regulations to the Act on trading in financial instruments): 5;
- failure to notify the KNF Board of the intention to become a parent undertaking of a brokerage house (Article 106(1) of the Act on trading in financial instruments): 2;
- failure to notify the KNF Board in a timely manner of the disposal of shares of a brokerage house (Article 107(1) point 1 of the Act on trading in financial instruments): 1;
- irregularities relating to the performance of activities by investment fund management companies and investment funds (exceeding investment limits, incorrect valuation of assets, irregularities relating to the function of the liquidator of investment funds, participation of investment funds in general meetings of issuers): 9;
- remaining the sole participant of investment funds for a period exceeding 6 months and a failure to undertake activities in the area of liquidation of investment funds (Article 65(3a), Article 246(1) point 7 of the Act on investment funds and Act on investment funds and management of alternative investment funds): 2;
- irregularities relating to the function of an investment fund’s depository: 5;
- irregularities in the performance of obligations under the agreement for management of assets of an investment fund: 1;
- irregularities in the prevention of conflicts of interests and investment of assets of a fund in securities of an investment fund management company acting as a body of that fund despite the occurrence of a conflict of interests; investing more than 20% of the value of assets of a fund in securities issued by one entity: 1;
- setting the insurance premium at a level which does not ensure at least the fulfilment of all obligations under insurance contracts and covering the costs of the insurance activity of the insurance undertaking in group 3 (accident and theft insurance of land vehicles, except rail vehicles, covering losses in motor vehicles) and group 10 (liability insurance of motor vehicles, excluding the carrier’s civil liability) in accordance with the Annex to the Act on the business of insurance in the years 2011-2015: 2;
- failure to meet deadlines for the settlement of claims (Article 14 of the Act on compulsory insurance): 19;

- failure of payment service offices to provide timely information on the total value and number of executed payment transactions and failure to provide or conclude an insurance contract, a bank guarantee contract or an insurance guarantee contract: 35.

In 2018, the KNF Board conducted 88 administrative proceedings following the submission of an application for review of a case, in relation to the following statutory laws:

- Act on public offering: 47;
- Act on trading in financial instruments: 5;
- Act on the business of insurance and reinsurance: 6;
- Act on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Insurer' Bureau: 12;
- Act on investment funds and management of alternative investment funds: 8;
- Act on the organisation and operation of pension funds: 1;
- other statutory laws: 9.

The administrative proceedings were related to:

- non-performance or improper performance of disclosure obligations by the issuer (Article 56 of the Act on public offering, Article 56 in conjunction with Article 70 of the Act on public offering): 11;
- non-performance or improper performance of obligations relating to qualifying holdings (Article 69 of the Act on public offering, Article 69 in conjunction with Article 87 of the Act on public offering, Article 73 of the Act on public offering, and Article 73 of the Act on public offering in conjunction with Article 88a of the Act on offering): 20;
- imposing penalties on members of the issuer's management board due to gross violation, by the issuer, of obligations specified in the Act on public offering (Article 96(6) of the Act on public offering): 15;
- dissemination of incorrect or false information or rumours which mislead or might mislead market participants (Article 39 of the Act on trading in financial instruments): 2;
- making a public offering of shares of an issuer by making available to an unspecified recipient information on the securities and terms of their acquisition, despite the obligation to make available a prospectus drawn up in connection with the public offering following approval by the KNF Board (breach of Article 7(1) in conjunction with Article 7(9) in conjunction with Article 27(1) and (2) of the Act on public offering, and breach of Article 3(1) of the Act on public offering): 1;
- violation, by a securities broker or an investment adviser, of laws and regulations and other internal rules (Article 130(1) point 1 of the Act on trading in financial instruments): 1;
- failure to notify the KNF Board in a timely manner of the disposal of shares of a brokerage house (Article 107(1) point 1 of the Act on trading in financial instruments): 1;
- failure to meet deadlines for the settlement of claims (Article 14 of the Act on compulsory insurance): 12;
- breach by OPFs of their obligation to pursue the maximum degree of security and profitability of their investments (Article 139 of the Act on the organisation and functioning of pension funds): 1;
- failure to apply, in the business, technical and organisational solutions to ensure the safety and continuity of brokerage services, and a failure to provide clients and/or potential clients with clear, accurate and unambiguous information (breach of Article 83a(1) of the Act on trading and § 9 of Regulation of the Minister of Finance of 24 September 2012 on the procedure and conditions to be followed by investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks): 1;
- failure by an investment fund to comply with investment restrictions (Article 95(1) point 5 of the Act on investment funds): 1;
- violation, by an investment fund, of limits relating to the issue of bonds and of reporting obligations (Article 188(4) point 2 of the Act on investment funds in conjunction with § 11(1) point 28 in conjunction with § 20(1) of Regulation of the Minister of Finance on periodic reports and current information on the activity and the financial situation of

- investment fund management companies and investment funds submitted by such entities to the Polish Financial Supervision Authority): 1;
- failure by an open-end investment fund to comply with investment restrictions resulting from articles of association and a failure by an investment fund management company to include information about the currently applied method of measuring the overall exposure of the fund in the prospectus (Article 228(2) point 2 in conjunction with Article 228(1) of the Act on investment funds): 1;
- irregularities relating to the function of an investment fund’s depository: 5;
- failure by an insurance undertaking to provide requested information (Article 207 of the Act on the business of insurance): 1;
- setting the premium at a level that does not take into account the insurance risk (Article 18 of the Act on the business of insurance): 5;
- dividing the fine imposed into instalments: 2;
- granting a fine reduction in the form of extension of the time limit for payment: 1;
- resumption of administrative proceedings: 4;
- refusal to make available files of administrative proceedings and refusal to consent to the review of files of proceedings in respect of imposition of an administrative fine on a company/partnership: 2.

Table 78. The number of preliminary investigations and administrative proceedings initiated and concluded (1st instance) in the years 2015-2018

| Detailed list | 2015 | | 2016 | | 2017 | | 2018 | |
|---------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | The number of initiated proceedings | The number of concluded proceedings | The number of initiated proceedings | The number of concluded proceedings | The number of initiated proceedings | The number of concluded proceedings | The number of initiated proceedings | The number of concluded proceedings |
| Preliminary investigation | 10 | 7 | 10 | 18 | 10 | 10 | 5 | 1 |
| Administrative | 493 | 640 | 379 | 527 | 385 | 205 | 56 | 68 |
| Total | 503 | 647 | 389 | 545 | 395 | 215 | 61 | 69 |

Source: KNF’s own calculations

In 2018, 68 final administrative decisions (1st instance) were issued, including:

- 51 final decisions on the imposition of a fine,
- 1 final decision on the imposition of a fine and the exclusion of an issuer from trading on the regulated market,
- 1 final decision on removal of a securities broker from the list of securities brokers, or an investment adviser from the list of investment advisers,
- 1 final decision on the imposition of a fine and partial discontinuation of administrative proceedings,
- 7 final decisions on discontinuation of administrative proceedings,
- 2 final decisions not to impose a fine pursuant to Article 189f of the Code of Administrative Procedure,
- 1 final decision on refusal to grant a fine reduction,
- 1 final decision on granting a fine reduction,
- 3 final decisions on the refusal to grant a fine reduction and on partial discontinuation of administrative proceedings.

In 2018, 53 final administrative decisions were issued following the examination of requests for review of a case, including:

- 10 final decisions on reversing a final decision appealed against and imposition of a smaller fine,
- 6 final decisions on reversing a final decision appealed against, imposition of a smaller fine and partial discontinuation of proceedings,
- 3 final decisions on reversing a final decision appealed against and discontinuation of proceedings.
- 33 final decisions on upholding an entire final decision issued in the 1st instance,
- 1 final decision on reversing, partial discontinuation and upholding the remaining part.

The total amount of fines imposed in 2018 was PLN 27 238 000 (1st instance), including fines imposed on:

- issuers: PLN 1 700 000,
- shareholders and other natural persons: PLN 2 440 000,
- members of management boards of public companies: PLN 480 000,
- investment firms: PLN 10 200 000,
- investment fund management companies: PLN 400 000,
- insurance undertakings: PLN 5 117 000,
- payment service offices: PLN 1 000,
- banks acting as depositaries of investment funds: PLN 6 900 000.

NOTIFICATION OF A SUSPECTED CRIMINAL OFFENCE

In 2018, the KNF submitted 49 notifications of reasonable suspicion of a criminal offence to the Regional Prosecutor's Office in Warsaw and to District Prosecutor's Offices, with regard to, among others, the following legal acts:

- Act on trading in financial instruments: 22;
- Act on public offering: 5;
- Act on capital market supervision: 1,
- Banking Act: 7,
- Penal Code: 11,
- Accounting Act: 4,
- Act on payment services: 6;
- Act on investment funds and management of alternative investment funds: 1;
- Act on financial market supervision: 1,
- Act on consumer credit: 2.

In some cases, the notifications concerned several norms, hence, the sum of the violated legal norms is greater than the total number of notifications sent in 2018.

Table 79. Notifications drawn up in the years 2015-2018 by type of the violated provision of law

| Type of violated provision of law | Number of notification of suspected criminal offence | | | |
|---|--|------|------|------|
| | 2015 | 2016 | 2017 | 2018 |
| Article 183 of the Act on trading in financial instruments (manipulation of a financial instrument) | 10 | 9 | 14 | 5 |
| Articles 180 and 181 of the Act on trading in financial instruments (unlawful disclosure of inside information and insider trading) | 10 | 9 | 9 | 7 |

| | | | | |
|---|-----------|-----------|-----------|-----------|
| Article 100 of the Act on public offering (providing false data or holding back true data in the prospectus and reports) | 2 | 0 | 2 | 5 |
| Article 178 of the Act on trading in financial instruments (pursuing activities in the area of trading in financial instruments without permission) | 12 | 6 | 12 | 10 |
| Article 171(1) of the Banking Act (pursuing banking activities without authorisation) | 2 | 3 | 9 | 7 |
| Other* | 27 | 27 | 27 | 19 |
| Total: | 63 | 54 | 73 | 60 |

Source: KNF's own calculations

* Violated legal norms:

- Article 46 of the Act on capital market supervision (preventing or obstructing the conduct of administrative proceedings)
- Article 99 of the Act on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies (public offering of securities without the approval of an issue prospectus or information memorandum as required by the Act),
- Article 171(2) of the Banking Act (unauthorised use of terms indicating the performance of banking activities under a name, advertisement or to designate one's own business activity),
- Article 171(4) of the Banking Act (giving false data or holding back real data),
- Article 150(1) of the Act on payment services (operating without authorisation in the area of provision of payment services),
- Article 152(1) of the Act on payment services (providing untrue data regarding the provision of payment services),
- Article 287 of the Act on investment funds (conducting activities consisting in investing in securities, money market instruments or other property rights, the cash of natural or legal persons or organisational units without legal personality, without authorisation, collected by way of a proposal to conclude an agreement on participation in such undertaking),
- Articles 77 and 79 of the Accounting Act (bookkeeping contrary to the principles set out in the Act, drawing up financial statements contrary to the provisions of the Act),
- Article 20a of the Act on financial market supervision (obstructing or preventing the conduct of activities in preliminary investigation),
- Article 59h of the Act on consumer credit (pursuing business without the required entry in the register of non-bank lending institutions),
- Article 59i of the Act on consumer credit (pursuing business in the area of consumer credit intermediation without the required entry in the register),
- Article 296 of the Penal Code (abuse of trust),
- Article 286 of the Penal Code (fraud),
- Article 299 of the Penal Code (money laundering),
- Article 277 of the Penal Code (misappropriation of a public function),
- Article 258 of the Penal Code (organised crime),
- Article 284 of the Penal Code (misappropriation),
- Article 186 of the Penal Code (lack of care of protection devices),
- Article 297 of the Penal Code (credit fraud).

**Number of notifications made to the Prosecutor's Office in 2018 was 49; they included 60 breaches of specific statutory laws.

Out of the notifications submitted to the Prosecutor's Offices in 2018, 44 preparatory proceedings were initiated (1 of them were subsequently discontinued, a complaint was lodged in 2 cases; the complaints were not considered by the court); initiation of proceedings was refused in 2 cases (in 2 cases a complaint was lodged by the KNF, in one case the complaint was not considered by the court, in the other case the complaint has not yet been examined by the court). As at 31 December 2018, the remaining notifications awaited the prosecutor's final decision as to further course of the proceedings.

BILLS OF INDICTMENT

In 2018, the KNF received information that Prosecutor's Offices sent 22 bills of indictment to common courts following notifications of reasonable suspicion of criminal offence from the KNF.

Table 80. Bills of indictments sent by the Prosecutor's Offices to courts in 2018 by type of violated legal norm

| Type of violated provision of law | Bills of indictment |
|---|---------------------|
| Article 178 of the Act on trading in financial instruments (conducting brokerage activity without authorisation) | 4 |
| Article 183 of the Act on trading in financial instruments (manipulation of a financial instrument) | 7 |
| Article 181 of the Act on trading in financial instruments (insider trading) | 4 |
| Article 184 of the Act on trading in financial instruments (preventing or obstructing the performance of activities) | 0 |
| Article 171(1) and (3) of the Banking Act (pursuing banking activities without authorisation) | 1 |
| Article 225 of the Act on the business of insurance (carrying on insurance activity without authorisation) | 0 |
| Article 99 of the Act on public offering (violation of the terms and conditions of the public offering of securities) | 0 |
| Other* | 6 |
| Total | 22 |

Source: KNF's own calculations

* Violated legal norms:

- Article 296 of the Penal Code (abuse of powers or failure to fulfil obligations),
- Article 47(2) of the Act on insurance mediation (performance of activities of an insurance agent without the required entry),
- Article 286 of the Penal Code (fraud),
- Article 87 of the Act on bonds (issuance of bonds contrary to the provisions on the Act on bonds).

JUDGMENTS OF CONVICTION AND CONDITIONAL DISCONTINUATION

In 2018, common courts issued 14 judgments of conviction and conditional discontinuation of criminal proceedings following notification of justified suspicion of a criminal offence submitted by the KNF and following the activities undertaken *ex officio* by the prosecutor's office in respect of the following statutory laws:

- Act on trading in financial instruments: 8 judgments;
- Banking Act: 4 judgments;
- Act on public offering: 1 judgment;
- Act on insurance mediation: 1 judgment.

Judgments issued in 2018:

- Judgment of the Regional Court in Kielce of 25 January 2018 in the case under Article 183(1) of the Act on trading in financial instruments. The court reversed the judgment of conviction of 09 November 2016 and conditionally discontinued criminal proceedings by setting a probationary period of 1 year (final judgment). The notification was submitted on 14 June 2006;
- Judgment of the District Court in Płock of 26 April 2018 in the case under Article 183(1) of the Act on trading in financial instruments. The court imposed a fine of PLN 15 000 on the defendant (final judgement). The notification was submitted on 14 August 2014;

- Judgment of the District Court for Warszawa Wola of 27 April 2018 in a case under Article 180 concurrently with Article 181(1) of the Act on trading in financial instruments. The court imposed a fine of PLN 80 000 on the defendant (final judgement). The notification was submitted on 28 September 2011;
- Judgment of the Regional Court in Warsaw of 10 May 2018 in a case under, among other things, Article 171(1) of the Banking Act. The court sentenced one defendant to 8 years' imprisonment and the other defendant to 7 years' imprisonment (a non-final judgement). The notification was submitted on 15 February 2012;
- Judgment of the District Court for Warszawa Śródmieście of 6 July 2018 in a case under Article 183 of the Act on trading in financial instruments and Article 286 of the Penal Code. The court sentenced two defendants to 1 year and 6 months of imprisonment conditionally suspended for a probationary period of 3 years and to a fine of PLN 100 daily rates of PLN 1000 each (a non-final judgment). The notification was submitted on 5 February 2004;
- Judgment of the Court of Appeal in Szczecin of 27 July 2018 in a case under, among other things, Article 171(1) of the Banking Act. The court sentenced the defendant to 1 year and 6 months of imprisonment and imposed an obligation to compensate for the damage caused (final judgement). The notification was submitted on 28 June 2013;
- Judgment of the District Court for Warszawa Praga Południe of 7 August 2018 in a case under Article 47(2) of the Act on insurance mediation. The court imposed a fine of 100 daily rates of PLN 20 each (final judgement). The notification was submitted on 3 July 2017;
- Judgment of the Regional Court in Toruń of 13 September 2018 in a case under Article 183(1) of the Act on trading in financial instruments. The court upheld the judgment of 21 November 2017 by conditionally discontinuing criminal proceedings against two defendants for a period of 2 years and ordered each of the defendant exemplary damages of PLN 60 000 for social purposes (final judgement). The notification was submitted on 28 May 2013;
- Judgment of the Regional Court in Warsaw of 5 October 2018 in a case under Article 171(1) of the Banking Act. The court quashed the judgment of 21 September 2017 and imposed a penalty of 1 year and 6 months of imprisonment and a fine of PLN 10 000 (final judgement). The notification was submitted on 15 February 2012;
- Judgment of the District Court for Warszawa Mokotów of 23 October 2018 in a case under Article 183(1) of the Act on trading in financial instruments. The court ordered the defendant to pay a fine of PLN 1000 and made a confiscation order for PLN 863 075.44 (final judgement). The notification was submitted on 26 February 2016;
- Judgment of the District Court for Poznań Stare-Miasto of 30 October 2018 in a case under Article 178 of the Act on trading in financial instruments. The court conditionally discontinued proceedings for 1 year and ordered a monetary performance in the amount of PLN 1000 (final judgment). The notification was submitted on 22 April 2015;
- Judgment of the District Court for Warszawa Mokotów of 7 November 2018 in a case under Article 183(1) of the Act on trading in financial instruments. The court imposed a fine of PLN 20 000 on the defendant (final judgement). The notification was submitted on 5 April 2017;
- Judgment of the Regional Court in Warsaw of 20 November 2017 in a case under, among other things, Article 171(1) and (3) of the Banking Act. The court imposed on the defendant a penalty of imprisonment for 5 years and the obligation to compensate for the damage caused to 25 aggrieved parties (non-final judgement). The notification was submitted on 20 August 2012;
- Judgment of the Regional Court in Warsaw of 21 December 2018 in a case under Article 99 of the Act on public offering. The court imposed on the defendant a penalty of imprisonment for 4 years and the obligation to compensate for the damage caused to 15 aggrieved parties (non-final judgement). The notification was submitted on 19 March 2012.

Information about the final and binding nature of judgements or the lack thereof is given as at 31 December 2018.

Table 81. Judgments of conviction and conditional discontinuation in 2018 by type of violated provision of law

| The basis for conviction | Number of judgments |
|--|---------------------|
| Article 183 of the Act on trading in financial instruments (manipulation of financial instrument) | 6 |
| Article 178 of the Act on trading in financial instruments (pursuing activities in the area of trading in financial instruments without authorisation) | 1 |
| Article 171(1) and (3) of the Banking Act (conducting banking activity without authorisation) | 4 |
| Other* | 3 |
| Total | 14 |

Source: KNF's own calculations

* Grounds for conviction:

- Articles 180 concurrently with Article 181(1) of the Act on trading in financial instruments (unlawful disclosure of inside information and insider trading),
- Article 99 of the Act on public offering (offering financial instruments),
- Article 47(2) of the Act on insurance mediation (performance of activities of an insurance agent without the required entry).

POWERS EXERCISED IN CRIMINAL PROCEEDINGS

As part of the powers exercised in criminal proceedings, the legal counsel authorised by the Chair of the KNF Board act as agents of aggrieved parties and agents of the subsidiary prosecutors.

Table 82. Number of cases in the years 2017-2018 in which legal counsel were authorised by the Chair of the KNF Board in criminal proceedings

| Type of appearance | Number of cases | |
|--|-----------------|------------|
| | 2017 | 2018 |
| Appearances as agents of the aggrieved party | 150 | 218 |
| Appearances as agents of the subsidiary prosecutor | 36 | 60 |
| Total | 186 | 278 |

Source: KNF's own calculations

In addition, legal counsel filed 12 complaints against the interim decisions of the Prosecutor's Office refusing to initiate or discontinue pre-trial proceedings.

POWERS EXERCISED IN CIVIL PROCEEDINGS

In civil cases arising from relations due to participation in trading on the financial market or concerning entities operating in that market, the Chair of the KNF Board has the powers of a public prosecutor under, among others, Article 60 of Civil Procedure Code.

As regards the banking market, in 2018 the Chair of the KNF Board exercised his rights of a public prosecutor in civil proceedings to declare invalidity of, or repeal, a resolution of a general meeting of a supervised entity. As at 31 December 2018, the proceedings were concluded by dismissing the claim against the supervised entity (in accordance with the position expressed by the Chair of the KNF Board).

The Chair of the KNF Board also exercised the rights of a public prosecutor in civil proceedings relating to a claim for repealing of a resolution of a meeting of representatives of members of a cooperative bank in respect of approval of merger with another cooperative bank. As at 31 December 2018, no date of the hearing was set.

7.2. PARTICIPATION IN LEGISLATIVE WORK

The KNF Board's statutory tasks include preparation of drafts and participation in the preparation of draft legal acts in the field of financial market supervision. While preparing draft legal acts, the KNF cooperates primarily with the Ministry of Finance. The KNF also participates in further stages of legislative work, i.e. in the work conducted by the Government Legislation Centre, Committees of the Sejm, and Senate Committees. In the legislative process carried out by bodies which initiate and conduct legislative work on the basis of the relevant regulations, the KNF acts as a consultative and advisory body. As part of such activities, the KNF cooperated with the Ministry of Digitization, Ministry of Development, Ministry of Agriculture and Rural Development, Ministry of Sport and Tourism, and the Minister–Member of the Council of Ministers, Special Services Coordinator. This chapter includes information on the most important legislative work, from the perspective of the ongoing supervision, carried out with the participation of the KNF.

A list of regulations and draft regulations which were the subject-matter of work and/or opinions of the KNF in 2018 is presented in Appendix 4.

LAWS AND DRAFT LAWS

Act of 1 March 2018 amending the Act on trading in financial instruments and certain other acts (Journal of Laws, item 685). The Act amending the Act on trading in financial instruments and certain other acts introduced changes to:

- Act of 29 July 2005 on trading in financial instruments (Journal of Laws 2017, item 1768, as amended),
- Act of 26 July 1991 on personal income tax (Journal of Laws 2016, item 2032, as amended),
- Act of 15 February 1992 on corporate income tax (Journal of Laws 2016, item 1888, as amended),
- Act of 10 April 1997–The Energy Law (Journal of Laws 2017, item 220, as amended),
- Act of 29 August 1997–The Banking Law (Journal of Laws 2016, item 1988, as amended),
- Act of 26 October 2000 on commodity exchanges (Journal of Laws 2017, item 1127),
- Act of 28 February 2003–The Bankruptcy Law (Journal of Laws 2016, item 2171, as amended),
- Act of 27 May 2004 on investment funds and management of alternative investment funds (Journal of Laws 2016, item 1896, as amended),
- Act of 29 July 2005 on capital market supervision (Journal of Laws 2016, item 1289, as amended),
- Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies (Journal of Laws 2016, item 1639, as amended),
- Act of 21 July 2006 on financial market supervision (Journal of Laws 2017, item 196, as amended),
- Act of 25 July 2014 on special hydrocarbon tax (Journal of Laws 2016, item 979, as amended).

The aim of the Act is to make the necessary changes in the national legal system in connection with the entry into force of European regulations concerning capital market, i.e.:

- Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (OJ L 173 of 12 June 2014, pp. 349-496), hereinafter: 'MiFID II',
- Directive (EU) 2016/1034 of the European Parliament and of the Council of 23 June 2016 amending Directive 2014/65/EU on markets in financial instruments (OJ L 175 of 30 June 2016, p. 8),

- 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 (OJ L 173 of 12 June 2014, pp. 84-148), hereinafter: ‘MiFIR’,
- Regulation (EU) No 2016/1033 of the European Parliament and of the Council of 23 June 2016 amending Regulation (EU) No 600/2014 on markets in financial instruments, Regulation (EU) No 596/2014 on market abuse and Regulation (EU) No 909/2014 on improving securities settlement in the European Union and on central securities depositories (OJ L 175 of 30 June 2016, pp. 1-7),
- Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012 (OJ L 337 of 23 December 2015, p. 1), hereinafter: ‘Regulation 2015/2365’,
- Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (OJ L 171 of 29 June 2016, p. 1), hereinafter: ‘Regulation 2016/1011’.

Together, MiFID II and MiFIR provide the legal framework for requirements applicable to investment firms, regulated markets, data reporting services providers and third country firms providing investment services or activities in the European Union. MiFID II covers the rules governing authorisation, acquisition of qualifying holdings, exercise of the freedom of establishment and the freedom to provide services, the operating conditions for investment firms to ensure investor protection, the powers of the home and host Member State supervisors and the system of penalties. MiFIR sets out requirements for the public disclosure of trade transparency data and transaction data to competent authorities, removes barriers to non-discriminatory access to clearing systems, regulates the mandatory trading of derivatives on organised venues, specific supervisory activities in relation to financial instruments and derivative positions, as well as the provision of services by third country firms without a branch.

Regulation 2015/2365 provides for increased transparency of Securities Financing Transaction (SFT) markets. Examples of SFT transactions include: (i) securities lending or borrowing, (ii) repurchase or reverse repo transactions of securities and guaranteed rights (commonly known as repo and reverse repo), (iii) buy-sell-back and sell-buy-back transactions of securities, commodities and guaranteed rights and (iv) collateral management transactions. Regulation 2015/2365 requires Member States to ensure that competent authorities have the power to impose administrative penalties and other administrative measures in the event of infringements of the provisions of that Regulation. The Act also introduces into the Polish legal system provisions ensuring the application of Regulation 2016/1011 introducing a common legal framework aimed at ensuring the accuracy and reliability of indices used in the Union as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds. The Regulation thus contributes to the proper functioning of the internal market, ensuring a high level of consumer and investor protection, administrative sanctions and other administrative measures.

Act of 4 October 2018 on employee capital plans (Journal of Laws, item 2215). The Act implements the objectives adopted by the Council of Ministers under the Capital Creation Plan to the extent relating to the introduction of a general system of voluntary 3rd pillar saving schemes for pension purposes in the sector of businesses. The Act on employee capital plans governs the key matters in terms of proper functioning of the entire process of collection, investment and disbursement of funds from contributions of employees and employers to be paid after the employees participating in an employee capital plan attain the age of 60 years. The Act on employee capital plans introduces legal framework for employee capital plans to be run by financial institutions which, as a rule, operate in various sectors: capital, pension and insurance sectors. To the extent resulting from the Act on employee capital plans, the KNF Board will supervise: investment fund management companies, general pension societies, occupational pension societies and insurance undertakings

managing target-date funds which may be specialist open-end investment funds, voluntary and/or occupational pension funds and unit-linked insurance funds, included in the records of occupational pension schemes kept by the Polish Development Fund (PL: *Polski Fundusz Rozwoju*–PFR). As a rule, target-date funds will implement an investment policy adapted to the age of the member of an employee capital plan.

The Act on employee capital plans is based on the idea that the systemic and management framework for such entities will result from sector-specific laws, i.e. the Act on investment funds and management of alternative investment funds, the Act on the organisation and functioning of pension funds, and the Act on the business of insurance and reinsurance. Therefore, the Act on employee capital plans has introduced changes in those laws to adapt the operational rules for such entities to the legal solutions provided for in the Act on employee capital plans.

Act of 23 October 2018 amending the Act on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Insurer' Bureau (Journal of Laws, item 2448) The purpose of the amendment was to implement the EU legislation, i.e. Directive 2009/103/EC of the European Parliament and of the Council of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability.

Act of 23 October 2018 amending the Act on insurance of agricultural crops and livestock (Journal of Laws, item 2124). The purpose of the amendment was to create opportunities for insuring agricultural crops against any, several or all risks selected by a farmer, including risk of drought, with an option of using the State funding for premiums on account of the insurance contract.

Act of 10 May 2018 amending the Act on occupational pension schemes (Journal of Laws, item 1091). The purpose of the amendment was to implement the EU legislation, i.e. Directive 2014/50/EU of the European Parliament and of the Council of 16 April 2014 on minimum requirements for enhancing worker mobility between Member States by improving the acquisition and preservation of supplementary pension rights.

Act of 10 May 2018 on the protection of personal data (Journal of Laws, item 1000). The Act applies to the protection of natural persons in connection with the processing of personal data to the extent specified in Articles 2 and 3 of Regulation (EU) No 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (General Data Protection Regulation) (OJ L L 119 of 4 May 2016, p. 1).

Act of 5 July 2018 on the national cybersecurity system (Journal of Laws, item 1560). The Act provides for: the organisation of the national cybersecurity system as well as the tasks and obligations of the entities being part of that system, the manner of exercising supervision and control with regard to the application of the Act, and the scope of the Polish National Cyber Security Strategy. By virtue of the Act, the KNF Board has become an authority competent for cybersecurity for the banking sector and the infrastructure of financial markets.

Act of 10 May 2018 amending the Act on payment services and certain other acts The main objective of the draft is to align national regulations on the provision of payment services with the provisions of Directive 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market (OJ L 337 of 23 December 2015, pp. 35-127). The new Directive of 2015 and the related Act extend the scope of the former Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market to include new payment services (payment transaction initiation service, account information service) and new categories of payment service providers (payment transaction initiation service provider, account information service provider, small payment institution). The Act has also modified the scope of exemptions under the Act.

Act of 20 July 2018 amending the Act on waste and certain other acts (Journal of Laws, item 1592). The Act has modified the issue of waste storage and the obligations of waste holders. Following the amendment, waste may be stored if the necessity to store it results from technological and/or organisational processes and if it does not extend beyond the time limits

justified by the application of such processes, in any case for not more than 1 year. More clarity has been provided on the process of making final administrative decisions, imposing a fine for the second time, and the decision to stop the activities of a waste holder as well as authorisation to collect waste and authorisation to process waste. The KNF Board did not make any comment to the draft Act.

Act of 9 November 2018 amending certain laws to strengthen financial market supervision and investor protection (Journal of Laws, item 2243)

Representatives of the KNF participated in the legislative work on that Act, mostly at the stage of activities of Sejm and Senate committees. In the course of legislative work concerning the government draft Act amending certain laws to strengthen financial market supervision and investor protection (paper No 2812), the KNF submitted mostly comments concerning detailed solutions for a change of the legal status of the KNF and the KNF Board as provided for in the draft, including in relation to transitional and adapting provisions which were aimed to ensure the continuity of supervision of the financial market. The Act of 9 November 2018 amending certain laws to strengthen financial market supervision and investor protection introduced substantial changes in the organisational framework of the financial market supervision. The Act of 9 November 2018, in its primary scope, entered into force on 1 January 2019 but certain provisions thereof entered into force prior to that date (the first provisions as of 1 December 2018 and further as of 15 December 2018) and certain provisions had an extended period of *vacatio legis*, and their effective date was set for 1 July 2019. The provisions which entered into force on 15 December 2018 have expanded the composition of the KNF Board to include four new members. Following the entry into force as of 1 December 2019 of further changes, the former KNF Board and the KNF were abolished. At the same time the Act established the Polish Financial Supervision Authority (KNF) as a state legal person responsible for providing support and assistance to the KNF Board and the Chair of the KNF Board. The KNF Board and the Chair of the KNF Board have become the bodies of the newly established KNF. The Chair of the KNF Board manages the activities of the KNF and represents the KNF externally, while the KNF Board, as previously, is competent for the supervision of the financial market. Despite the changes in the systemic solutions, no change has been made to the principle of supervision of the financial market. Similarly to the legal status prior to 1 January 2019, the KNF Board will continue to exercise all powers relating to the supervision of the financial market and the transitional provisions will maintain in force all supervisory activities, administrative decisions, recommendations and guidelines issues by the KNF Board before 1 January 2019. The supervision of the activities of the KNF as a state legal person is exercised by the President of the Council of Ministers. The new status of the KNF is mainly to ensure more financial independence. That objective was addressed on many occasions by the same KNF Board and from external perspectives. The proposal for excluding the budget of the KNF from the state budget to increase the KNF's independence and to eliminate the risk of insufficient funding for the supervisor represented a clear recommendation following the Financial Sector Assessment Programme (FSAP) carried out by the International Monetary Fund (IMF) and the World Bank in 2018, and similar recommendations were also formulated under the FSAP in 2013. The operational expenses of the KNF will no longer be paid with the funds from the state budget and reimbursed through payments to cover the supervision costs but they will be paid directly with the payments made by supervised entities. The KNF will conduct its financial management based on the annual financial plan adopted by the KNF Board and approved by the President of the Council of Ministers. The KNF's annual financial statements will be reviewed by an audit firm selected by the President of the Council of Ministers. The KNF's annual financial statements will be approved by the President of the Council of Ministers. As of 1 January 2019, the Act also appointed a new financial market institution in the form of the Financial Education Fund, managed by the Financial Ombudsman.

The Act of 9 November 2018 includes an amendment to the Banking Law (initially processed within another draft act); the amendment allows the KNF Board to decide on a take-over of a bank by another bank with the consent of the acquiring bank where the total own funds of a bank fall or might fall below the level specified in the Act. The need to make such amendment

by the end of 2018 due to specific conditions in the cooperative banks sector was highlighted to the Minister of Finance by the Chair of the KNF Board and the amendment entered into force on 1 December 2018. As proposed by the KNF, the Act also introduced changes to the bank inspection procedure referred to in Article 70(2) of the Act on trading in financial instruments. Where an inspection at a bank relates only to the business activities referred to in Article 70(2) of the Act on trading in financial instruments, cross-selling practices including the activities referred to in Article 70(2) of the Act on trading in financial instruments, or the financial instruments and activities with regard to structured deposits referred to in Chapter 6a of the Act of 29 August 1997—the Banking Law, such inspection is conducted according to the provisions of the Act on trading in financial instruments, not (as previously) the Banking Law, which refers, in that respect, to the provisions of the Business Law. The change follows from the need to adapt the inspection procedure to the nature and specificity of the business activities in the capital market and, as appropriate, to the scope of the bank's activities under inspection. The changes in that respect became effective on 1 December 2018.

As of 1 July 2019, the new law introduces compulsory dematerialisation of corporate bonds, investment certificates issued by closed-end investment funds, and mortgage bonds, regardless of whether or not such securities were offered to the public, and whether or not they are held for trading in any trading system, which securities will be subject to compulsory registration in the depository for securities kept by the National Depository for Securities (KDPW S.A.).

Draft Act amending the Act on the organisation and operation of pension funds and the Act on occupational pension schemes. The purpose of the amendment was to implement the EU legislation, i.e. Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs). As at 31 December 2018, the Act was discussed at the ministerial level (Ministry of Foreign Affairs, Committee for European Affairs).

Draft Act amending the Act on the performance of the mandate of deputy or senator and the Act on occupational pension schemes. The draft was rejected by the Senate. The purpose of the amendment was to establish new institutions to provide assistance to former Members of Parliament who have no source of income and have fallen into penury.

Draft Act on the provision of services relating to the pursuit of claims for compensation The purpose of the amendment was to extend the scope of protection of individuals who have incurred a loss caused by prohibited acts and use the services of a compensation office. The draft was referred to committees for the first reading.

Draft act amending the Act on financial market supervision and certain other acts in connection with the development of financial innovations The purpose of the proposed regulation was to provide support in starting a business in the sector of financial innovations (FinTech). The regulatory changes are the first step towards the completion of a complementary environment that will create an opportunity for developing and testing innovative solutions. The draft also provides for amendments of the following laws: the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies, the Act of 19 August 2011 on payment services, the Act of 11 September 2015 on the business of insurance and reinsurance, the Banking Law of 31 January 1989. As at 31 December 2018, the draft act was being developed by the KNF.

Draft Act on firms investing in real property lease In 2018, the KNF participated in the work on a draft Act on firms investing in real property lease. The draft act pertains to the introduction into the legal order of a status of a firm investing in real property lease (PL: *firma inwestująca w najem nieruchomości*—FINN), similar to EU entities such as REIT, which are joint-stock companies, whose core business will be the lease of residential properties. The requirement for FINNs to start their business will be the entry of the company made by the KNF Board in the register of firms investing in real property lease. The author of the draft act adopted the idea that the KNF supervision will apply solely to FINN companies. The compliance by subsidiaries with statutory requirements will be assessed under the owner supervision exercised by FINNs. As at 31 December 2018, the draft Act was elaborated at the Sejm.

Draft Act amending the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies, and certain other acts The purpose of the draft is to make the necessary changes in the national legal order following the entry into force of EU regulations concerning the rules for publication of prospectuses in connection with the issue of securities and encouragement of long-term engagement of shareholders of public companies, i.e.:

- to ensure the application of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market and repealing Directive 2003/71/EC (OJ L 168 of 30 June 2017, p. 12),
- to implement Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement (OJ L 132 of 20 May 2017, p. 1). As at 31 December 2018, the draft act was being agreed upon at the Ministry of Finance.

Draft act amending the Commercial Companies and Partnerships Code and certain other acts The purpose of the draft act was to introduce the basis for the mandatory dematerialisation of shares of joint-stock companies and limited joint-stock partnerships outside the scope regulated in Article 5(1) of the Act on trading in financial instruments. As at 31 December 2018, the draft act was elaborated under the government legislative process (list of legislative activities of the Council of Ministers, UD117).

Draft act amending the Act on financial market supervision and the Act on investment funds and management of alternative investment fund (UC 125) The purpose of the draft act is to ensure effective implementation of Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 (OJ L 347 of 28 December 2017, g. 35).

Draft act amending the Commercial Companies and Partnerships Code and certain other acts (item on the list of activities of the Council of Ministers: UD154). The draft act pertains to the introduction into the legal system of a simple joint-stock company (PL: *prosta spółka akcyjna*–PSA), which is to be characterised by, among other things, limited liability of shareholders for the company’s commitments combined with a high degree of flexibility, in terms of both the shaping of mutual relations between shareholders, and the management of the company. As at 31 December 2018, the draft act was being elaborated at the Ministry of Entrepreneurship and Technology.

A deregulation package to reduce red tape in the economy and reduce the administrative burden for economic operators and citizens with respect to the applicable legal regulations on financial markets, in particular pertaining to the obligations of KNF-supervised entities. The KNF Board submitted a proposal for amendments to, among other things, the Act of 29 August 1997–the Banking Law, the Act of 20 April 2004 on occupational pension schemes, and the Act of 20 April 2004 on individual retirement accounts and individual retirement protection accounts. As at 31 December 2018, the packages was being processed at the Ministry of Finance.

Draft amendment to the Act on financial market supervision and certain other acts to raise the level of protection of non-professional participants of the foreign exchange market and other market participants using financial services provided online. The draft pertains to the entire financial market but it was drawn up due to the threats identified in the Forex market. The completion of the KNF’s work on the draft amendments coincided with the presentation by the Supreme Audit Office of the results of the inspection ‘Protection of non-professional participants of the foreign exchange market.’ The KNF’s proposals were included in the government proposal (UD265), which, as at 31 December 2018, was assessed at the Ministry of Finance.

Draft Act amending the Penal Code. Legislative proposal for a new wording of Article 286a of the Penal Code to specify the statutory elements of a special type of fraud: financial fraud based on a pyramid scheme. The separation of that particular type of prohibited act is justified mainly by the creation of a structure of a financial fraud which considers typical

elements of criminal behaviours in the financial market based on pyramid schemes. As at 31 December 2018, works were at the stage of inter-ministerial arrangements.

Draft act amending the Act on financial market supervision The proposed amendment consists in adding, into the list of criminal offences provided in Article 6b(1), of the offence of financial fraud specified in the proposed Article 286a of the Penal Code and in introducing, in Article 18a of the Act on financial market supervision, of the said provision of the Code to ensure the possibility of conducting investigation to assess whether there are grounds for making a notification of a suspected criminal offence specified in Article 286a of the Penal Code. As at 31 December 2018, works were at the stage of inter-ministerial arrangements.

Draft Act amending certain laws to prevent usury The purpose of the draft, in addition to the provisions concerning prevention of usury, was to introduce KNF supervision of non-bank lending institutions and credit intermediaries. As at 31 December 2018, the draft was being processed by the Ministry of Justice.

Draft Act amending the Act on the protection of rights of acquirer of a housing unit or single-family home (No UD358 on the list of legislative activities on the website of the Public Information Bulletin of the Government Legislation Centre, Government Legislative Process). The KNF submitted comments on the draft, which is processed by the President of the Office of Competition and Consumer Protection. As at 31 December 2018, the draft act was being assessed.

Government's draft Act on the restructuring of debt of entities running agricultural farms, regarding the supplementing of forms of assistance for indebted entities running agricultural farms. The KNF submitted its opinion on the draft to the Minister of Finance. Following the completion of legislative work at the Sejm, the Act was signed by the President of the Republic of Poland and published on 18 December 2018 (Journal of Laws 2019, item 33).

Draft Act on the protection of rights of acquirer of a housing unit or single-family home and the Real Property Development Guarantee Fund (No UD 358 on the legislative list). As at 31 December 2018, the draft act was being elaborated under the government legislative process.

Parliamentary draft Act on the restructuring of credits denominated or indexed to a currency other than the Polish currency and on the introduction of a ban on granting such credits (Sejm paper No 729) The draft act provides for, among other things, a total ban on introducing foreign currency loans into the market, a revision of the banking law – the possibility of returning the flat and terminating the loan agreement, the statutory distribution of bank losses over time, regardless of the solutions contained in the International Accounting Standards, and the expiry of the enforcement orders already in effect. According to the draft, the restructuring of loans is voluntary and may be carried out within two years of the entry into force of the draft. After the first reading at the session of the Sejm, the draft was referred to the Public Finance Committee. As at 31 December 2018, the draft was at the stage of parliamentary work in the Public Finance Committee.

Draft Act on the principles of repaying certain receivables resulting from credit and loan agreements, presented by the President of the Republic of Poland (Sejm paper No 811) The purpose of the draft is to eliminate the effects of undue consumer compensation in the form of excessive currency spreads. The draft act lays down the rules for the reimbursement of certain receivables arising from the secured by mortgages credit agreements for a denominated or indexed loan and loan agreements for a denominated or indexed loan, concluded between the lender and the consumer. As at 31 December 2018, the draft was at the stage of parliamentary work in the Public Finance Committee.

Parliamentary draft Act on special rules of restructuring of housing loans in foreign currencies in connection with changes in the exchange rate of foreign currencies to the Polish currency (Sejm paper No 877) The draft act proposes to borrowers whose loan value exceeds 80% or more, respectively, in relation to the collateral, to conclude a new agreement with the bank regarding a new conversion, if they wish to use it to get rid of the currency risk, and convert their debt to the date before the date of conclusion of such agreement, at the current exchange rate. It is also proposed to calculate the costs as if it were a PLN loan, to calculate the interest-cost difference and in this part to determine the amount so that the risk is shared between the bank and the customer. The bank would order a relief of 50% of this amount.

After the first reading at the session of the Sejm, the draft was referred to the Public Finance Committee. As at 31 December 2018, the draft was at the stage of parliamentary work in the Public Finance Committee.

Draft Act amending the Act on support for borrowers in financial difficulties who have taken out a housing loan and the act on corporate income tax, presented by the President of the Republic of Poland (Sejm paper No 1863) The draft amends the mechanism for providing financial support to any person who, as a result of objective circumstances, find themselves in financial difficulties and are, at the same time, obliged to repay instalments on their mortgage, which are a heavy burden on their household budgets; it introduces a new facility to support the voluntary restructuring of loans denominated or indexed to currencies other than these, where borrowers earn income. As at 31 December 2018, the draft was at the stage of parliamentary work in the Public Finance Committee.

Government's draft Act amending the Act on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring and certain other acts (Sejm papers No 2877 and 3000). The draft pertains mainly to the implementation of Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 to introduce a new category of debt (before the category of subordinated debt) which will be fully included in the minimum requirement for own funds and eligible liabilities (MREL). The draft is also aimed at improving the current solutions relating to the functioning of provisions on compulsory restructuring and the deposit guarantee scheme contained in the Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring (Journal of Laws 2017, item 1937, as amended). As at 31 December 2018, the draft was at the stage of parliamentary work (report of the Public Finance Committee, paper No 3000).

Government's draft Act amending certain laws to ensure the application of Regulation 2016/679 (Sejm paper 3050). The draft pertains to the opportunity for full application of the GDPR. It also amends the provisions of the following acts: Act of 21 July 2006 on financial market supervision; Act of 22 May 2003 on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Insurer' Bureau; Act of 11 September 2015 on the business of insurance and reinsurance; Act of 7 December 2000 on the functioning of cooperative banks, their affiliation and affiliating bank; Act of 29 August 1997—the Banking Law; Act of 5 November 2009 on credit unions; Act of 29 July 2005 on trading in financial instruments; Act of 27 May 2004 on investment funds and management of alternative investment funds. As at 31 December 2018, the draft was at the stage of parliamentary work (work in combined committees for Administration and Internal Affairs and for Justice and Human Rights; report of sub-committees).

Draft act amending the Act on payment services and certain other acts, presented by the President of the Republic of Poland The purpose of the draft act amending the Act on payment services and some other acts is to amend the provisions regulating the issue of payment transactions executed with the use of an incorrect unique identifier. The proposed legislation is intended to allow the effective recovery of amounts of payment transactions executed using erroneous payment account numbers which have not been recovered by payers as a result of action taken by their payment service provider. The draft act represents partial implementation of the provisions of Directive 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market into the Polish legal order, i.e. with respect to Article 88. The purpose of the transposed provision is to give the payment service provider the right to provide the payer with information enabling him/her to make a legal claim for the recovery of the amount of a payment transaction executed using a wrong unique identifier in the event that the payee does not pay that amount voluntarily, and to provide a legal basis for doing so in cooperation between the payer's provider and the payee's provider. As at 31 December 2018, the draft was being revised in the Polish Sejm (paper No 1606).

DRAFT REGULATIONS

Draft Regulation of the President of the Council of Ministers on payments to cover the costs of bank supervision The legislative work on the new regulation issued under Article 131a(3)

of the Banking Law was undertaken in connection with statutory changes in the rules for financing the operational costs of the KNF and its bodies following the entry into force of the Act of 9 November 2018 amending certain laws to strengthen financial market supervision and investor protection. The new Regulation for the banking sector introduced a simple non-prepaid mechanism for determining the receivables of a bank in connection with the level of expected supervision costs to be covered by the banking sector in a given financial year, considering the difference between the expected and actual supervision costs in the final account in the following financial year. The provisions of the Regulation set the time limit for payments due from banks for the 1st quarter of the relevant year to ensure liquidity of financing of the operational costs of the KNF operating from 1 January 2019 as a state legal person.

Draft Regulation of the President of the Council of Ministers on payments to cover the costs of supervision of the insurance, reinsurance and insurance mediation activities Similarly as in the case of the Regulation of the President of the Council of Ministers on payments to cover the costs of bank supervision, the legislative work on the new regulation issued under Article 14(3) of the Act of 22 May 2003 on insurance and pension supervision was undertaken in connection with statutory changes in the rules for financing the operational costs of the KNF and its bodies following the entry into force of the Act of 9 November 2018 amending certain laws to strengthen financial market supervision and investor protection. The new Regulation for the insurance sector introduced, similarly as in the banking sector, a simple non-prepaid mechanism for determining the receivables of an insurance or reinsurance undertaking in connection with the level of expected supervision costs to be covered by the insurance market in a given financial year, considering the difference between the expected and actual supervision costs in the final account in the following financial year. The provisions of the Regulation set the time limit for payments due from insurance undertakings and reinsurance undertakings for the 2nd quarter of the relevant year to ensure liquidity of financing of the operational costs of the KNF operating from 1 January 2019 as a state legal person.

7.3. PROTECTION OF FINANCIAL MARKET PARTICIPANTS

BASIC AREAS OF ACTIVITY

One of the statutory objectives of financial market supervision is to ensure protection of interests of participants of this market. The supervisory activities of the KNF Board in this respect consist in constant monitoring of market practices as well as in interventions, especially in the areas of activity of the supervised entities where violations of the law or interests of non-professional financial market participants may occur.

The KNF Board monitors market practices by exercising supervisory powers, allowing it to request information and clarifications directly from the supervised entities, and by collecting data on its own. Supervisory activities are undertaken in response to problems currently occurring in the market, identified, inter alia, based on information included in notifications from non-professional financial market participants.

The scope of tasks carried out by the supervisory authority in the area of protection of non-professional financial market participants includes in particular:

- analytical and explanatory work on signals received, in particular, from the recipients of financial services and government authorities or civil society organisations acting for the protection of financial market participants, regarding the activities of the supervised entities, with regard to violations of law or legally protected interests of the recipients of financial services and threats to transparency and confidence in the financial market associated with it,
- undertaking supervisory measures with respect to market practices of financial market entities on the basis of signals received,

- carrying out analytical activities related to standard contracts and product design, on the basis of signals received.

ANALYTICAL WORK AND INTERVENTIONS

In the course of activities carried out on the basis of the issues raised in the notifications made by non-professional market participants, the supervisory authority conducted analytical activities. For details see Appendix 5.

INVESTIGATIONS FOLLOWING NOTIFICATIONS MADE BY NON-PROFESSIONAL FINANCIAL MARKET PARTICIPANTS

Notifications regarding the activities of supervised entities which were submitted to the KNF by non-professional financial market participants represent an important source of information on emerging phenomena in the area of practices of financial institutions. The subject of the analysis of information included in such notifications is, in particular, an assessment of actions taken by the supervised entities in the context of their compliance with the provisions of law. The findings made on the basis of analytical and explanatory activities carried out with regard to the supervised entities may serve as a basis for supervisory measures to eliminate market practices raising concern.

TOTAL NOTIFICATIONS

In 2018, the KNF received a total of 5 709 signals addressed to non-professional financial market participants regarding irregularities in the KNF-supervised activities of entities in the insurance, capital, banking, pension, payment service and credit unions sectors. Compared to 2017 (which saw 5 586 notifications on irregularities), in the period covered by this report the number of notifications increased by 2.2%.

In 2018, the KNF also reported the receipt of 809 other messages regarding the activities of supervised entities or the functioning of financial markets.

Notifications concerning banking sector entities

In the period covered by this report, the KNF received 2 919 signals concerning improper functioning of banking sector entities. Compared to 2017, the number of notifications regarding the banking sector increased by nearly 15%.

The main issues were related to:

- maintaining bank accounts (notifications concerned primarily the management of an account, irregularities relating to account blocking due to bailiff execution, the amount of the fees and commissions collected for the keeping/management of an account),
- other activities carried out by banks (notifications concerned primarily financial instruments offered by banks),
- servicing loans and credits (irregularities resulting from the agreement servicing were signalled first of all, as well as issues related to the manner of debt recovery activities conducted by banks),
- quality of service (problems related mainly to improper or incompetent service provided by bank employees were signalled),
- servicing mortgage loans (notifications concerned mostly irregularities in the performance of a contract),
- the handling of payment instruments (the reports concerned mainly irregularities regarding the method and/or date of settlement of transactions made with cards as well as the amount of fees and commissions collected by banks).

Table 83. Notifications received by the KNF and relating to the activities of the banking sector entities in the years 2017-2018 (by subject)

| Type of entity | 2017 | % | 2018 | % |
|-------------------------------------|--------------|----------------|--------------|----------------|
| Commercial banks | 2 407 | 94.76% | 2 699 | 92.46% |
| Cooperative banks | 124 | 4.88% | 120 | 4.11% |
| Branches of EU credit institutions | 2 | 0.08% | 84 | 2.88% |
| EU cross-border credit institutions | 7 | 0.28% | 15 | 0.51% |
| Branches of EU credit institutions | 0 | 0.00% | 1 | 0.03% |
| Total | 2 540 | 100.00% | 2 919 | 100.00% |

Source: KNF's own calculations

Notifications received by the KNF in the years 2017-2018 and relating to the activities of commercial and cooperative banks (by subject) is presented in Tables 6.1. and 6.2. in Appendix 6.

Notifications concerning payment service providers other than banking sector entities and credit unions

In 2018, the KNF received 193 notifications on irregularities in the activities of payment service providers other than banking sector entities and credit unions.

62 notifications concerned the activities conducted by such entities operating as payment institutions. The issues raised in those notifications were related primarily to non-execution or late execution of transactions, and subsequently improper or incompetent client service.

The other notifications described reservations regarding other business activities (not subject to supervision by the KNF) conducted by an entity authorised to operate as a payment institution.

Compared to 2017, the number of notifications concerning payment services provided by entities other than banking sector entities and credit unions increased by 77%.

Notifications concerning the entities of the credit unions sector

In the period covered by this report, 57 notifications related to credit unions were received. Compared to 2017, the number of notifications dropped by almost 27%.

The issues raised in those notifications concerned, among others:

- servicing of credits and loans (including, first of all, problems with contract management and debt collection),
- maintaining accounts (including issues such as lack of access to the account, management of the account, and the amount of fees and commissions collected).

Notifications received by the KNF in the years 2017-2018 and relating to the activities of credit unions (by subject) are presented in Table 6.3. in Annex 6.

Notifications concerning insurance sector entities

In the period covered by this report, the KNF received a total of 2 065 notifications concerning activities of the insurance sector entities, including 209 notifications concerning insurance undertakings established in Poland and offering life insurance (more than 10% of all signals reported in the sector), 1 604 notifications concerning insurance undertakings offering non-life insurance (nearly 78% of all signals reported in the sector) and more than 30 notifications concerning the activities of insurance intermediaries (1 notification related to the activities of brokers and 29 notifications related to the activities of insurance agents), as well as 22 notifications concerning the activities of branches of insurance undertakings of EU Member States (including 4 notifications regarding life insurance and 18 notifications regarding non-life insurance) and 200 notifications on the activities of notified insurance undertakings of EU Member States (including 2 notifications relating to life insurance and 198 notifications

relating to non-life insurance). The number of notifications concerning the activities of insurance sector entities decreased by 10% compared to their number in 2017.

Table 84. Notifications received by the KNF and relating to the activities of the insurance sector entities in the years 2017-2018 (by subject)

| Type of entity | Division | 2017 | % | 2018 | % |
|--|----------|-------------|----------------|-------------|----------------|
| Insurance undertakings in Poland | I | 233 | 10.15% | 209 | 10.12% |
| Insurance undertakings in Poland | II | 1953 | 85.10% | 1604 | 77.68% |
| Branches of insurance undertakings of EU Member States | I | 5 | 0.22% | 4 | 0.19% |
| Branches of insurance undertakings of EU Member States | II | 25 | 1.09% | 18 | 0.87% |
| Notified insurance undertakings of EU Member States | I | 1 | 0.04% | 2 | 0.10% |
| Notified insurance undertakings of EU Member States | II | 23 | 1.00% | 198 | 9.59% |
| Insurance agents | - | 53 | 2.31% | 29 | 1.40% |
| Insurance brokers | - | 2 | 0.09% | 1 | 0.05% |
| Total | - | 2295 | 100.00% | 2065 | 100.00% |

Source: KNF's own calculations

In the area of life insurance, the most frequent problems reported by customers included issues related to the refusal to pay out benefits and, to a lesser extent, issues relating to the valuation of units of unit-linked funds or the way an insurance undertaking invests or performs a contract, as well as issues relating to the amount of policy redemption in the event of early termination of a contract. In the event of refusal to pay out the benefit, the manner in which the insurer justified its refusal to accept liability was contested.

In the area of non-life insurance, the most frequently reported problems were related to:

- irregularities in the claims handling process,
- lengthy procedures for the settlement of claims, mainly of motor insurance, primarily of the MTPL insurance,
- the amount of compensation paid,
- refusal to pay compensation,
- irregularities in the provision of damage files by the insurance undertaking.

Notifications received by the KNF in the years 2017-2018 and concerning life insurance undertakings in Poland (by subject) is presented in Table 6.4. in Appendix 6, whereas the division of notifications concerning non-life insurance undertakings in Table 6.5. in Appendix 6.6.

Moreover, Tables 6.6. and 6.7. in Appendix 6 show the division of subjects of notifications concerning branches of insurance undertakings of European Union Member State received by the KNF in the period covered by this report.

Notifications concerning pension sector entities

In 2018, the KNF received 13 notifications concerning improper functioning of pension sector entities. There were 10 notifications concerning the activities of open pension funds (OFE) and 2 notifications concerning the activities of voluntary pension funds managed by general pension societies as well as 1 notification concerning an occupational pension scheme run by an occupational pension society. Compared to 2017, there was a nearly 28% decline in the number of notifications relating to the activities of pension sector entities, while in relation to the functioning of open pension funds the number of notifications decreased by more than 41%.

Notifications concerning the activities of OFEs received by the KNF in 2018 related mainly to the problems in obtaining payment of funds from an account of deceased members of the OFE encountered by authorised persons.

The notifications in that respect are presented (by subject) in Table 6.8. in Appendix 6.

Notifications concerning the capital market entities

In the period covered by this report, 593 notifications concerning the functioning of capital market entities were received. Compared to 2017, the number of notifications in that sector dropped by almost 4.5%.

In the case of public companies, the most frequently reported issues related to possible manipulations on the rate of financial instruments, and to a lesser extent to issues related to companies' compliance with corporate rights of shareholders.

With regard to investment fund companies, the objections raised most often concerned the liquidation of a fund, the investment policy pursued by such entities, and the quality of services provided.

Comments were made with regard to the activities of investment firms, including foreign investment firms, and focused mainly on the quality of the services provided.

There were also signals showing reservations about the way of carrying out debt collection by the entities managing securitised liabilities of a securitisation fund.

Table 85. Notifications received by the KNF and relating to activities of the capital market entities in the years 2017-2018 (by subject)

| Type of entity | 2017 | % | 2018 | % |
|---|------------|----------------|------------|----------------|
| Public companies and other capital market participants | 318 | 51.29% | 286 | 48.31% |
| Investment fund management companies | 170 | 27.42% | 123 | 20.78% |
| Investment firms | 65 | 10.48% | 80 | 13.51% |
| Foreign investment firms | 35 | 5.65% | 21 | 3.55% |
| Managers of securitisation fund assets | 24 | 3.87% | 80 | 13.51% |
| Companies operating the exchange/the exchange market | 7 | 1.13% | 2 | 0.34% |
| Distributors of participation units in investment funds or participation units in foreign funds | 1 | 0.16% | 1 | 0.17% |
| Total | 620 | 100.00% | 593 | 100.00% |

Source: KNF's own calculations

Notifications received by the KNF in the years 2017-2018 and relating to the activities of capital market entities (by subject and market segment) are presented in Tables: 6.9., 6.10., 6.11., and 6.12., respectively, in Appendix 6.

SUPERVISORY ACTIVITIES IN THE FIELD OF MARKET PRACTICES OF THE FINANCIAL MARKET ENTITIES

Review of compliance by banks and credit unions with the requirements under Articles 92ba-92bd of the Banking Act and Articles 13d-13f of the Act on credit unions (Information Centre)

The compliance by supervised entities with the requirements referred to in Articles 92ba-92bd of the Act of 29 August 1997—the Banking Law (Journal of Laws 2017, item 1876, as amended) and 13d-13f of the Act of 5 November 2009 on credit unions (Journal of Laws 2017, item 2065, as amended), hereinafter: Act on credit unions, is constantly monitored by the KNF. The analysis in question covered 23 commercial banks, 553 cooperative banks, 5 branches of credit institutions, and 33 credit unions to assess the compliance by those

entities with the obligation to respond to the requests made by applicants through the Information Centre.

The review has concluded that the entities apply an inconsistent practice in the management of records of requests received through the Information Centre. While the issue of records of requests has not been addressed in the Act, the fact that most entities keep the records translates into the entity's capacity of self-inspection and its ability to confirm that the entity has responded to all requests. Another concern is raised by the differences in the statistics on the number of requests received by certain entities through the Information Centre.

Considering the foregoing, further measures will be undertaken to check whether supervised entities fulfil their obligations in that respect.

Review of compliance by banks and credit unions with the requirements under Articles 56a, 59a(6) and (7), 59b and 111c of the Banking Law and Articles 13a(6) and (7), 13b, 13c and 14(2a) of the Act on credit unions The compliance by supervised entities with the requirements referred to in Articles 56a, 59a(6) and (7), 59b and 111c of the Act of 29 August 1997—the Banking Law (Journal of Laws 2017, item 1876, as amended) and Articles 13a(6) and (7), 13b, 13c and 14(2a) of the Act of 5 November 2009 on credit unions (Journal of Laws 2017, item 2065, as amended) is monitored by the KNF. The analysis in question covered 23 commercial banks, 553 cooperative banks, 7 branches of credit institutions, and 32 credit unions.

The information requirement concerning the submission of information about the possibility of making an order in the case of death is fulfilled by all banks and credit unions. A vast majority of entities notify the legatees of the funds in an account which may be managed by the beneficiaries of the order. Issues, if any, occur where entities have outdated information on addresses or have no such information at all.

Difficulties in the performance of obligations, or cases of a failure to perform certain obligations, have been identified, e.g. the absence of the date of death in the PESEL database prevents entities from establishing the contract termination date, delays in the access to the PESEL database, doubts as to the interpretation of certain provisions of the Act (Article 111c of the Banking Law, and its equivalent—Article 13 c of the Act on credit unions).

Considering the results of the review in question, additional measures are planned to receive information from the Ministry of Finance and the Ministry of Digitisation, as appropriate, on any legislative changes and changes in the PESEL register (adding the date of death) and day-to-day monitoring of entities for elimination of backlogs in the performance of obligations under the Act.

Review relating to the opening of bank account using identity documents (ID card, passport) with an emphasis on Polish citizens living abroad: selected matters. The review was carried out following the receipt of signals from Polish citizens who reside abroad permanently, use the Polish passport only and reported that they could not open an account on the basis of a passport of a citizen of the Republic of Poland, which is an identity document according to the Act on passport documents. The review covered 10 commercial banks and was guided by the scale of activities of entities in terms of their number of personal accounts in PLN. The review was aimed at assessing what document and information was required by banks for the purpose of opening bank accounts.

It has been concluded that the entities apply an inconsistent practice of account opening. Not all entities under inspection opened accounts on the basis of passport documents or residence permit. According to Article 4 of the Act on passport documents, a passport document (which confirms the right to cross a border and remain abroad and certifies the Polish nationality) also certifies the identity of the person indicated in that document with respect to the data contained in that document. According to Article 242 of the Act on foreigners, a residence permit, in its validity period, confirms the identity of a foreigner during his/her stay in the territory of the Republic of Poland and authorises him/her, together with a travel document, to cross a border multiple times, without the need to obtain a visa.

As a rule, banks as sole business owners, decide on their offer on their own. An exception of that rule is the basic payment account. According to Article 59ia. of the Act on payment services, banks offering services relating to the keeping of payment accounts for consumers are required to provide the services of keeping the basic payment account. The basic

payment account is designed for consumers for whom no provider keeps, as part of activities conducted in the Republic of Poland, another payment account in the Polish currency that allows for execution of transactions ensuring full functionality of the basic account. A bank account used to carry out payment transactions is also a payment account.

The decision not to honour a Polish passport or residence permit may have a discriminatory effect and hinder access to bank accounts (a Polish passport on the grounds of place of residence, a residence permit on the grounds of nationality). Both documents confirm the identity of the person indicated in them and are issued by Polish public administration authorities.

Considering the facts, the practice in question will be further reviewed and discussed during consultations.

Review of the rules for reduction, by insurance undertakings, of the amount of a benefit paid due to the rescission or withdrawal from a unit-linked life insurance contract referred to in Division I class 3 of the Appendix to the Act of 11 September 2015 on the business of insurance and reinsurance The review in question represented a continuation of the review carried out in 2017 with respect to the performance by insurance undertakings of the obligation under Article 23(1) point 5 of the Act of 11 September 2015 on the business of insurance and reinsurance, i.e. the obligation to specify, in a unit-linked life insurance contract, the title and the amount of the fees collected from premiums, from the assets of unit-linked funds or through the redemption of participation units in unit-linked funds. The 2018 review looked at template contracts submitted by insurance undertakings; the contracts were reviewed for: the rules adopted and applied by insurance undertakings with regard to the manner and form used to specify, in a unit-linked life insurance contract, the rules for rescinding/withdrawing from the contract within 60 days of the first receipt, from the policyholder/insured, of information referred to in Article 20(3) of the said Act; the rules adopted and applied by insurance undertakings with regard to the specification of the reduction of the amount of the benefit due to the rescission/withdrawal from a unit-linked life insurance contract within 60 days of the first receipt, from the policyholder/insured, of information referred to in Article 20(3) of the said Act; compliance with Article 26(4) of the said Act of the rules for determining, by insurance undertakings, the value of units in unit-linked funds; compliance with Article 15(3) of the said Act of the rules adopted and applied by insurance undertakings with regard to the manner and form used to specify the rules for rescinding/withdrawing from the contract within 60 days of the first receipt, from the policyholder/insured, of information referred to in Article 20(3) of the said Act.

Review of the practices used by insurance undertakings to reduce the benefit on account of the rental costs of a replacement vehicle by the costs of operation of one's own vehicle during the settlement of claims under third party liability insurance of motor vehicle holders, avoided by the beneficiary The review was carried out following reports made by non-professional financial market participants to the KNF which revealed that insurance undertakings were reducing the benefit on account of the rental costs of a replacement vehicle by the costs of operation of one's own vehicle, avoided by the beneficiary. The review in question covered insurance undertakings and branches of foreign insurance undertakings authorised to conduct the business of insurance referred to in Division Model agreements were submitted by 20 insurance undertakings performing insurance activity referred to in Division II class 10 of the Appendix to the Act of 11 September 2015 on the business of insurance and reinsurance. The KNF asked whether insurance undertakings (branches of foreign insurance undertakings) reduce the benefit on account of the rental costs of a replacement vehicles by the costs of operation of one's own vehicle avoided by the beneficiary, and if so, the KNF asked to indicate the rules adopted to apply a reduction of the benefit on account of the rental costs of a replacement vehicle avoided by the beneficiary by the costs of operation of one's own vehicle, effective on 30 June 2018, in particular: to submit appropriate internal rules effective on that date, i.e. procedures, information other documents governing such rules; to specify all types of costs of operation of the beneficiary's vehicle saved at the time the beneficiary uses a replacement vehicle, as identified by the insurance undertaking; to indicate the amount of each of the above-mentioned types of costs per year/month/day, together with the method of calculation of such costs; to explain how the

insurance undertaking customises the rules for calculating the reduction of the benefit on account of the rental costs of a replacement vehicle by the avoided costs in relation to a given claim. Additionally, insurance undertakings (branches of foreign insurance undertakings) were asked to submit examples of documents concerning the satisfaction of the claim for reimbursement of the rental costs of a replacement vehicle according to the rules applicable as at 30 June 2018. Most undertakings reported that they did not apply the reduction of the benefit on account of the rental costs of a replacement vehicle by the avoided costs of operation of one's own vehicle, or reported that they did not have any third party liability insurance of motor vehicle holders in their portfolio. However, two undertakings incorporated in their internal rules a clause providing for a reduction of the benefit on account of the rental costs of a replacement vehicle by the costs of operation of one's own vehicle avoided by the beneficiary; in practice, only one of the undertakings actually reduced the benefit on account of the rental costs of a replacement vehicle by the costs of operation of one's own vehicle avoided by the beneficiary.

OTHER ACTIONS OF AN INDIVIDUAL NATURE RELATING TO THE ELIMINATION OF MARKET PRACTICES WHICH ARE DETRIMENTAL TO THE INTERESTS OF CLIENTS OF FINANCIAL INSTITUTIONS

Failure to execute a standing order following an inter-bank merger: orders of payment to a tax office have not been executed, although the client secured sufficient funds on the account. The review has shown that there were discrepancies between IT systems of the bank being acquired and the acquiring bank. In the case in question, the discrepancies concerned the format of an identifier in the form of the Tax Identification Number (NIP): at one bank the NIP No had to be entered without dashes, whereas at the other bank with dashes/pauses, so the system did not carry out the order and returned the payment with a message that an incorrect identifier had been entered. 171 transfers rejected due to an incorrect identifier entered were identified.

Incorrect dispatch of bank statements to clients with information on the collection of a 'fee for the credit card': the issue occurred for 48 961 accounts; clients received statements with incorrect description of operations on the account: PLN 6 (fee) - PLN 6 (adjustment to the fee) = PLN 6 (balance on the current account). The bank reported that the issue was a consequence of the merger of the banks, all the irregularities were identified and removed.

Issues and irregularities resulting from a merger of banks: following the merger, borrowers made a series of comments regarding the performance of their credit agreements, e.g. issues such as lack of information or inappropriate form of notification of the merger and of the related consequences for borrowers, failure to add annexes to agreements, the need to make payments onto new account numbers, inability to contact the bank through the helpline, inability to receive information about the branches which, following the merger, have become part of another bank, issues with receiving information through online banking, issues relating to direct management of credit agreements such as failure to credit funds on accounts, failure to identify the payments made to repay debt, messages on outstanding instalments despite the payment of funds, etc. The bank undertook measures to eliminate the difficulties encountered by clients (expansion of the functionalities on online banking, reinforcement of the staffing of the helpline); the issues relating to individual matters are examined under the complaint procedure.

Irregularities in the calculation of interest before the end of the grace period of the credit card: the situation was caused directly by the harmonisation of systems of two previously merged banks. For 5 157 clients, interest was charged for a purchase before the end of the grace period. After identification of the error, the bank made adjustments, and the interest was returned.

Incorrect preparation of letters by the entity acting on the order of a bank; the letter contained commercial information of a third party: a third party submitted inaccurate content of a message of another entity; incorrect e-mails were sent to approx. 44 thousand clients. As explained by an external agency, the situation was a systemic error caused by the

occurrence, in the system, of files with e-mail templates with the same name. The bank imposed consequences on the agency responsible for the dispatch in the form of a financial penalty and new e-mails were sent to clients with a correct message. In order to avoid similar events in the future the agency introduced a mailing tool which is to verify the files in terms of names of templates and preparation dates, to ensure that the appropriate, most updated file is used. At the same time, the bank introduced, into the mailing process, the rule of a test dispatch, to be sent before the final dispatch.

Improper conclusion of agreements on savings deposit accounts: despite the conclusion of an agreement on savings deposit account for one period without the option for renewal, a new option was added to the bank's IT system to renew the term deposit, and the deposit was renewed for several subsequent contractual periods (such situation continued for about 7 years). The bank confirmed that it managed the deposit account contrary to the agreement, i.e. the non-revolving term deposit was managed as a revolving deposit. The bank identified a total of 293 such cases for deposit accounts opened between 3 November 2008 and 15 January 2009. The bank reported that it made appropriate adjustments in the IT system to avoid such errors in the future.

Unjustified delivery of requests for security for mortgage credit: despite the delivery of a credit insurance policy and full performance of the agreement, the bank continued to ask clients to supplement the documents; the issue occurred for about 3 thousand agreements. The bank reported that the situation was caused by temporary issues with the verification of documents submitted by clients, including technical issues on the part of a third party responsible for the dispatch of alerts to clients.

Irregularities concerning the execution of orders in online banking: an error in the operation of the online banking system consisting in the client's inability to receive information about the details of a rejected transaction as part of a standing order and to retry it from the level of a rejected payment. The bank confirmed that the cause of such irregularities was the introduction of a new function of repeating payments within a standing order and the introduction of a counter of attempts to retry that payment, including an incorrect code in the record of the programmed function. The difficulties may have affected all the clients for whom, for example due to the lack of funds on the account, a payment within a standing order was rejected. The bank applied remedies and informed the clients who reported the issue about the actions taken to remove the error.

Irregularities in online banking consisting in incorrect presentation of the total/minimum outstanding amount on credit card accounts: in January/February 2018, as a result of an error in the system, the refunds for transactions received on a credit card account did not reduce the total/minimum outstanding amount, and an incorrect amount was shown in online banking, in the 'card repayment' section. The bank stated that the error occurred for all the clients who at that time received refunds for transactions on their credit card account. On 1 February 2018, the bank removed the error.

Analysis of a notification concerning a 'text message with an account password' received by a person other than a client of a domestic payment institution and generated during registration of a payment processing application: the domestic payment institution confirmed that a person who was not a client of that institution received a text message with an account password during registration of a payment processing application. As it was explained, during registration of a client in the application, a potential user of the application enters manually his/her mobile phone number for identification purposes in the payment system (it is not possible to automatically collect the phone number from a SIM card). The phone number provided may only be verified by sending a feedback text message to an indicated number. As a result of an error in the mobile phone number of the person who wanted to register in the system, the text message in question was sent to a third party. In consequence, the registration process aimed at creating an account in the application was not completed. The domestic payment institution reported that it was necessary to send a text message to a potential user of the application to verify whether that person has a specified phone number. However, the institution decided to change the content of the text message in the registration process into 'Your current password is: xxxxyy. If you haven't created an account, click here.' Clicking on an active link redirects to the website of the domestic payment institution on

which the holder of the number will be able to find out why he/she has received the message and will be asked to contact Client Service if it was not him/her who tried to register.

An irregularity concerning the making of deposits of coins in a foreign currency in bank outlets: refusal to process the payment of cash in coins of a foreign currency for the repayment of a client's credit liability. The bank confirmed that payments in coins of foreign currencies were only accepted in certain outlets. As of 15 February 2018, bank outlets were allowed to start processing payments on coins of foreign currencies. If a client expresses the intention to make such payment, the outlet is required to contact the Demand Centre to launch such service.

Irregularities consisting in a third party claiming to be a client of the bank opening an account at that bank: the bank confirmed that a person claiming to be a client of the bank submitted, on 17 March 2018, an application to open a personal account through an online form available on the bank's website. According to the bank's records, the person in question has been the client of the bank since 10 September 2013 but had no active product. The application to open an account contained new contact details, which was treated as a change of details made by the client. Further activities carried out through the helpline included confirmation of submission of the new application and the content of the new details. Following verification of the submission of the application, a personal account was opened and the details in the complainant's records were changed. The account was activated after the bank received a signed account agreement. The bank explained that according to the then-applicable process sheet for changing details through the bank's helpline, a client without active products was not subject to another verification so personal and contact details could be completed and changed. The bank has reported that it now has a procedure under which the staff of the helpline must not change—for any client, including clients without active accounts—details such as Personal ID No (PESEL), name, date and place of birth, mother's maiden name (except for typographic errors). In case of discrepancies, a client is asked to visit a bank outlet for the purpose of verification of identity and documents and determination whether there are grounds for modifying the details.

Irregularities in the execution of the order to close a bank account: the bank confirmed that the delay in the execution of the order to close the accounts was caused by a fault of the tool used to process the termination notices submitted through the New Online Banking. The bank submitted statistics for 2018 regarding all complaints about the failure to close a product, including complaints considered to be well-founded. At the same time, the bank assured that it has taken actions to minimise such irregularities: a report was drawn up to present all termination notices submitted to the New Online Banking and the same termination process is now an automated process.

Irregularities concerning a change in the interest rate of a promotional term deposit: as a result of a human error in the process of checking the terms of a special offer, there have been identified 190 bank deposit accounts for which the interest rate was decreased by mistake. The bank restored the correct interest rate and credited the missing amounts of interest. The bank introduced a mechanism of additional verification for each case of reduction of the interest rate of a promotional deposit which is to allow for confirmation whether or not the client has fulfilled specific requirements of the special offer prior to the reduction of the interest rate. It will also allow the bank to audit the history of compliance with specific requirements.

Irregularities in the collection of fees for a bank account which was supposed to be unconditionally free: the bank confirmed that there had been a technical error in the communication between the main accounting system and the application supporting the processing of payment cards and ATMs. Incorrect settings of a tariff plan in the card processing application led to the collection of monthly fees for debit card processing. The bank identified 10 bank accounts for which that problem occurred. The bank applied remedies to eliminate the technical error, and the incorrect fees were returned.

Delay in the payment of an estate of a deceased person: due to an error made by an employee who made an illegible scan of documents submitted by the client for the purpose of payment of an estate of a deceased person (e.g. invisible clause on the final and binding nature of the interim decision on the acquisition of inheritance), the time limit for the

execution of the order was extended. The bank decided to pay statutory interest for the period from the day on which the 14th day of verification of documents submitted by the heir (27 calendar days) passed. In 2018, the bank reported 22 cases of untimely payment of funds to heirs. In order to avoid similar situations in the future, training was provided to the staff responsible for the management of the payments from accounts after the holder's death.

Unauthorised transactions carried out with a cancelled debit card: 33 months after a client cancelled a stolen debit card, he/she was charged with an amount of a transaction he/she did not carry out (PLN 153.36). The bank explained that the transactions in question had been carried out on account of tolls for using bridges/highways in Belgium and carried out at CAT3 terminals (MCC 4784). The terminal represents a special class of devices (POS terminals) admitted for operation by MasterCard and Visa card organisations. The terminals allow for acceptance (in Europe) of payments without the need to confirm the transaction with a PIN code unless the transaction exceeds EUR 50.00. For amounts up to EUR 25.00, the transactions do not generate a request for authorisation and the bank of the card issuer receives only the settlement of the transaction. That functionality of the POS terminal is provided in accordance with the regulations of payment organisations for merchants marked with MCC 4784 (Merchants that collect fees associated with toll roads, highways, and Bridges), who collect tolls for road crossing. The bank could not reject the transactions in the authorisation process, as it never took place. The client's account was credited with amounts claimed, in the total amount of PLN 153.36 ; the bank is carrying out a business analysis and examines possible systemic solutions which may be used to eliminate even such minor incidents.

A bank account opened on the basis of an invalid ID card and a credit swindled at 10 financial institutions: the document used to open the account became invalid in 2016; on the basis of the first complaint made by the client, the bank blocked the account and electronic access channels through which the client was able to use the funds deposited in the account. The bank explained that as of the entry into force, on 13 July 2018, of the Act of 1 March 2018 on the prevention of money laundering and terrorist financing the bank started to use the process of verification of information provided by the client in the online application to open a payment account that required verification in the Register of ID Cards (hereinafter: 'RDO database'). Currently, an application for a banking product may only be processed following successful verification in the RDO database. At the same time, the bank stressed that prior to the entry into force of the above-mentioned changes, the data verification process did not comprise checking, in the RDO database, the validity period of the identity document produced by the client. As a means to secure the process against potential abuse from applicants, the client was required, in particular, to ensure full consistency between the data provided in the application and the data in the verification transfer. Where the option of delivery of documents through a courier company was chosen, the bank required that the company verify the personal data provided in the form with the identify document produced by the client and to verify the validity of that document.

Irregularities consisting in double application of the annual fee for the credit card: the bank reported a technical error occurred at the time of migration of cards to another IT system. The error consisted in the fact that although the order for automatic repayment had already been carried out in the original system, the target system following migration adopted the value of the automatic repayment from the previous cycle instead of the current value, which led to the fee being collected again from the clients' personal account. The bank stresses that the error in the processing of automatic repayment occurred only once, due to migration of IT systems, and concerned 2 631 clients. The bank immediately detected the issue and took steps to avoid it in the future. Any time an incorrect amount of automatic repayment resulted in an overpayment in the credit card account, the funds were credited towards the next liabilities arising in the account of a given credit card. At the same time, the bank stresses that the overpayments were also credit in the personal account any time the client made such an order.

Irregularities in the area of mediation in offering investment products of third parties: it was established that the process of notification on the option to acquire a product was not included in formal procedures for introducing products, sale and client service. The client

service activities were carried out according to general guidelines, as part of individual practices of each staff member. The bank decided to pass a resolution which required that all products and services promoted and/or offered to clients by the bank be subject to the procedure for incorporation into the offer and to the selling/servicing procedures.

Issues with the operation of the split payment mechanism: the bank confirmed the occurrence of an issue with regard to corporate accounts which use the old version of the Online Banking System. The review conducted by the bank has shown that the issue occurred for 342 clients, each of whom had at least one rejected split payment transfer. The bank reported that on 6 July 2018 and 3-4 August 2018 it implemented appropriate solutions in its Online Banking System and eliminated the irregularities.

Delays in the issuance of credit decisions at two banks: the banks were in breach with Article 14(2) of the Act of 23 March 2017 on mortgage credit and on supervision of mortgage credit intermediaries and agents (Journal of Laws 2017, item 819)

One of the banks under review confirmed the occurrence of a problem with observing the statutory time limit for submitting the credit decision to the client (21 days of the receipt by the bank of the application for a mortgage credit agreement). Between 22 July 2017 and 8 August 2018, the bank recorded 468 delays in the issuance of the decision, which accounted for 4.98% of all the applications on which the bank made the decision in the relevant period. The maximum delay occurred for very few applications and continued for about 70 days. When explaining the reasons of the delays, the bank indicated a significant increase in the demand in the real estate market and the sale of mortgage loans with participation of credit intermediaries who, following the entry of new legislation, submit credit applications for one client to at least 3 banks, which results in an increase in the number of applications that require a credit decision and does not translate proportionally into an increase in the number of actual credit agreements. The bank assured that it was making every effort to optimise the process of granting decisions on mortgage credit, e.g. by changing internal procedures for informing clients about the time limit for granting the credit decision and applying flexibility in entrusting staff with the handling of applications to quickly reduce the queues.

The other bank under review also confirmed the occurrence of a problem with observing the statutory time limit for submitting the credit decision to the client (21 days of the receipt by the bank of the application for a mortgage credit agreement). The bank reported that the accumulation of pending credit applications occurred in March and April 2018, which led to delays in the issuance of credit decisions. The maximum identified duration of delay was 38 calendar days. Most delays continued for up to 10 calendar days. In 2018, in connection with the government's MDM programme, the bank identified 823 such cases. Overall, in 2017 and 2018 the cases of a failure to observe the time limit accounted for about 5% of all credit applications submitted. The bank adopted a series of remedies to eliminate the irregularities, including organisational changes, increased staffing, and process improvement.

7.4. ARBITRATION COURT AT THE POLISH FINANCIAL SUPERVISION AUTHORITY

DEVELOPMENT OF THE COURT

The KNF Board also provides financial market participants with the possibility of out-of-court settlement of disputes at the Arbitration Court functioning at the KNF Board (hereinafter: 'Arbitration Court'), which was established in 2008. Proceedings before the Arbitration Court are voluntary. This means that the condition for initiating the proceedings is that both parties agree to an amicable settlement of the dispute within the framework of the Arbitration Court. The Court of Arbitration offers two fundamentally different ways of proceeding: mediation and arbitration. Since 2016, within the framework of arbitration, an additional possibility of conducting proceedings in electronic form, the so-called simplified arbitration, has been introduced. Market participants are particularly interested in mediation proceedings. In 2018, the Arbitration Court received over 2 300 applications for mediation, submitted by

both financial institutions and clients. According to the data at the end of 2017, in more than 1 000 cases both parties to the dispute expressed their willingness to attempt to resolve the dispute by mediation proceedings are conducted for 44% of applications. This shows the ever-increasing popularity of this amicable form of dispute resolution among both consumers and financial institutions. The reasons why mediation has become more popular include very high effectiveness of mediation conducted before the Arbitration Court. In more than 80% of these cases, the mediation resulted in a settlement agreement. Another positive thing is the increasing number of financial institutions which offer mediation to their clients, as a tool of dispute resolution.

The largest number of applications submitted to the Arbitration Court at the KNF according to the subject of the dispute concerned:

- refusal or partial refusal to pay compensation or benefits,
- performance of the insurance contract,
- performance of the credit or loan agreement.

In the 3rd quarter of 2018, works were undertaken to amend the Rules of Procedure of the Arbitration Court at the KNF in order to improve the court's operation.

PROMOTION ACTIVITIES

In May 2018, the new edition of 'Mediator-friendly Financial Institution' awards took place, which aims to promote the amicable settlement of disputes between financial institutions and the recipients of their services, and to appreciate financial institutions which base their contacts with their clients on openness, dialogue and striving for agreement. Six financial institutions received the awards: PZU S.A., Generali TU S.A., Vienna Life TU na Życie S.A. VIG, STU ERGO Hestia S.A., Open Life TU Życie S.A., and Euro Bank S.A.

It was also the first time the 'Ambassador of Mediation in the Financial Market' distinction was awarded. The purpose of the distinction is to contribute to the promotion of amicable dispute resolution in the financial market by awarding it to natural persons, legal entities and other entities which undertake actions of outstanding importance, scope or effectiveness to promote the idea of amicable dispute resolution in the financial market. The award may also be granted to the parties' representatives in mediation proceedings conducted at the Mediation Centre of the Arbitration Court who through their conduct and involvement significantly contribute to the amicable settlement of disputes. The award was granted to Ms Monika Pawłowska, Judge at the Regional Court in Warsaw for her activities undertaken to promote the idea of amicable resolution of disputes in the financial market.

2018 saw the completion of activities relating to the development of a material promoting the amicable settlement of disputes within the framework of the Arbitration Court. The final promotional material presents in a clear and simple manner the benefits for participants of arbitration proceedings resulting from the decision to choose the mediation proceedings indicated by the KNF's Arbitration Court.

Table 86. Requests submitted to the Arbitration Court (AC) at the KNF in the years 2017-2018

| Detailed list | Total | | Arbitration | | Mediation | |
|--|-------|--------------|-------------|-----------|-----------|--------------|
| | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| Requests | 2 964 | 2 361 | 23 | 47 | 2 941 | 2 314 |
| Permissions | 1 020 | 1 044 | 4 | 4 | 1 016 | 1 040 |
| Cases settled in favour of the applicant prior to the beginning of the arbitration proceeding (a settlement was reached or a settlement proposal was made) | 43 | 28 | 0 | 0 | 43 | 28 |
| Refusals | 1 349 | 1 170 | 12 | 34 | 1 337 | 1 136 |

| | | | | | | |
|--|-----|----|---|---|-----|----|
| Others (withdrawal of, or failure to complete, an application by the applicant, no contact with a party) | 13 | 32 | 1 | 5 | 12 | 27 |
| Pending cases (no response from the other party regarding permission to mediation/arbitration) | 539 | 87 | 6 | 4 | 533 | 83 |

Source: own calculations by Arbitration Court at the KNF

Table 87. Requests submitted to the Arbitration Court at the KNF in the years 2017-2018 by sector of the financial market

| Financial market sectors | 2017 | 2018 |
|--------------------------|-------|-------|
| Insurance | 2 458 | 2 103 |
| Banking | 497 | 249 |
| Capital | 3 | 3 |
| Other | 6 | 5 |
| Credit unions | 2 | 1 |

Source: own calculations by Arbitration Court at the KNF

8. OTHER ACTIVITIES

8.1. ACTIVITIES RELATING TO THE PERFORMANCE OF OBLIGATIONS UNDER THE ACT ON THE NATIONAL CYBERSECURITY SYSTEM

Following the entry into force of the Act of 5 July 2018 on the national cybersecurity system (Journal of Laws, item 1560), new rights and responsibilities were assigned to the KNF Board. Pursuant to Article 41 point 4 of the Act, the KNF Board has become an authority competent for cybersecurity for the banking sector and the infrastructure of financial markets. The tasks of the competent authority are defined mainly in Articles 42 and 53-54 of the Act. The responsibilities of the KNF Board include, in particular:

- ongoing review of entities in the banking sector and the infrastructure of financial markets for their recognition as key service operator or non-compliance with the requirements to be met by an entity to be recognised as a key service operator, and issuance of decision in that respect,
- preparation, in cooperation with CSIRT NASK, CSIRT GOV, CSIRT MON and sectoral teams for cybersecurity, of recommendations on the activities aimed at strengthening cybersecurity, including sectoral guidelines concerning incident reporting,
- monitoring of the application of the provisions of the Act on the national cybersecurity system by key service operators and digital service providers,
- calling the key service operators and/or digital service providers—at the request of CSIRT NASK, CSIRT GOV and/or CSIRT MON—to remove within the set time limit of the vulnerabilities which led or might have led to a serious, material or critical incident,
- conducting inspections of key service operators and digital service providers,
- imposing financial penalties on key service operators and digital service providers.

To perform the above-mentioned obligations imposed on the KNF Board by Order of 9 October 2018, the Chair of the KNF Board appointed, within the KNF, an inter-department Team for Cybersecurity. The KNF Board, as an authority competent for cybersecurity, in accordance with Article 86 of the Act on the national cybersecurity system recognised, by 9 November 2018, for the banking sector and the infrastructure of financial markets, 19 entities which met the criteria for recognition as key service operators, and issued the related decisions. After the final decisions on recognition of key service operators became final and

binding, the Chair of the KNF Board submitted to the Minister of Digitisation, as required in Article 7 of the Act on the national cybersecurity system (ePUAP), a request for entry of the above-mentioned entities on the list of key service operators.

The KNF Board prepared a survey on IT systems concerning the compliance with the requirements under the Act on the national cybersecurity system (information security management), which was submitted to key service operators. The responses will enable the KNF Board to find out more about the stage of implementation of the Act on the national cybersecurity system by key service operators.

8.2. EDUCATION AND INFORMATION ACTIVITIES

Since 2009, in the performance of its statutory tasks in the area of dissemination of knowledge on the functioning of the financial market, the KNF has been carrying out the project called the Education Centre for Market Participants (CEDUR), as part of which mainly training and publishing activities were carried out in the period covered by this report. In 2018, the Polish supervisor organised 81 training seminars conducted by the KNF staff, addressed mostly to KNF-supervised entities from all sectors of the financial market, representatives of the judiciary and law enforcement agencies, consumer protection institutions and the school environment. More than 5.5 thousand participants took part in the seminars. A list of the events organised under the CEDUR project in 2018 is presented in Appendix 7. Moreover, the KNF, in cooperation with the National Association of Cooperative Banks, organised the workshop: 'Effect of regulatory changes on the further development of cooperative banks: the supervisory perspective'.

In addition, representatives of the KNF participated as speakers in about 100 external events, i.e. panels, congresses and conferences.

In the period covered by this report, the KNF published the following educational brochures:

- *Jak prawidłowo wypełniać obowiązki informacyjne. Poradnik dla emitentów (wyd. II zaktualizowane) [How to properly fulfil information obligations. Handbook for issuers (2nd edition, updated)],*
- *Przewodnik po kredycie konsumenckim (wyd. II zaktualizowane) [Manual on consumer credit (2nd edition, updated)],*
- *Rynek Forex. Zagrożenia i prawa uczestników nieprofesjonalnych [Forex Market. Rights and risks of non-professional clients],*
- *Przewodnik dla członków rad nadzorczych, w tym członków komitetów audytu banków spółdzielczych odpowiedzialnych za jakość sprawozdań finansowych w bankach spółdzielczych [Manual for members of supervisory boards, including members of audit committees at cooperative banks responsible for the quality of financial statements at cooperative banks],*
- *Bezpieczeństwo systemów teleinformatycznych - zmiany, trendy i zasady [Security of ICT systems: trends, developments, and principles],*
- *Obowiązki notyfikacyjne akcjonariuszy związane ze zmianami udziałów w ogólnej liczbie głosów oraz osób pełniących obowiązki zarządcze w spółkach publicznych, Część I - Znaczne pakiety akcji i obowiązki informacyjne związane ze zmianą udziału w ogólnej liczby głosów spółki publicznej, wezwania do sprzedaży lub zamiany akcji, przymusowy wykup [Notification requirements for shareholders concerning changes in shares in the total number of votes and persons discharging managerial responsibilities at public companies, Part I: Qualifying holdings and information requirements concerning a change in a share in the total number of votes at a public company, invitations to sell or change shares, compulsory redemption],*
- *Obowiązki notyfikacyjne akcjonariuszy związane ze zmianami udziałów w ogólnej liczbie głosów oraz osób pełniących obowiązki zarządcze w spółkach publicznych, Część II - Obowiązki notyfikacyjne związane z transakcjami wykonywanymi przez osoby pełniące*

obowiązki zarządcze [Notification requirements for shareholders concerning changes in shares in the total number of votes and persons discharging managerial responsibilities at public companies, Part II: Notification requirements concerning transactions carried out by persons discharging managerial responsibilities].

As part of the activities addressed to the school environment, the KNF coordinated at national level, for the fourth time, the international Global Money Week – ‘World Money Week’, which in 2018 was held under the slogan ‘Money Matters Matter’, the KNF cooperated with the Ministry of Finance. The initiator and coordinator of the campaign is Child & Youth Finance International (CYFI), a non-profit organisation cooperating with the OECD. In 2018, the ‘Global Money Week’ campaign involved more than 10 thousand children and youth from all over Poland, including the youngest children at pre-school age, pupils and students at all stages of education, as well as children under the care of special school and education centres.

Furthermore, in cooperation with the Centre for the Development of Education, as part of the 2nd edition of the World Investor Week (WIW), the KNF held a seminar for teachers interested in financial matters (‘The framework for protection of financial service users in Poland’). The purpose of the seminar was to familiarise the participants with the framework for protection of financial service users (including investors) as well as the function and role of the KNF, the Financial Ombudsman, and the Office of Competition and Consumer Protection (UOKiK). The speakers included representatives of the KNF, the Financial Ombudsman, and the UOKiK. The World Investor Week is a global initiative launched by the International Organisation of Securities Commissions (IOSCO) in order to raise public awareness of the role of education and to protect investors in the financial market.

Another form of education activities addressed to the academic community was the organisation of the 7th edition of the Competition for the Award of the Chair of the KNF Board for the best PhD dissertation in the field of financial market as well as the meeting of the Chair of the KNF Board with students.

WEBSITE

The main tool the KNF uses to conduct information activities is the website, which recorded over 6 million page views in 2018. Information presented on the website of the KNF Board as the financial market supervisor includes tasks and composition of the KNF Board, communications from the meetings, organisational structure of the KNF, tasks of departments, public procurement, job advertisements and public warnings of the Polish Financial Supervision Authority. The list of public warnings of the KNF Board as at 31 December 2018 is presented in Appendix 8. Moreover, the website contains extensive information on the supervised markets: up-to-date lists of entities operating in each market, financial data and statistics, publications (reports, including thematic reports), legal acts, including instruments of Community law, information on activity in the EU institutions, etc.

In 2018, 91 060 pieces of media material included references to the Polish Financial Supervision Authority, of which: 79 7425 on the Internet, 4 995 in the press, and 6 640 on the radio and television.

When cooperating with the media, the KNF is pursuing an open communication policy. Tasks in this area include, among other:

- public presentation of the KNF’s statements and results of activities,
- providing information on actions, initiatives and programmes taken by the KNF Board and KNF,
- commenting on events in the financial market,
- answering questions of media representatives.

PROCESSING REQUESTS FOR ACCESS TO PUBLIC INFORMATION

As required by the Act of 6 September 2001 on access to public information (Journal of Laws of 2016, item 1764, as amended), the KNF Board is obliged to make available information, as appropriate, on the websites of the Public Information Bulletin (PL: Biuletyn Informacji Publicznej–BIP), separated as an autonomous part of the KNF's website. Under the Act on access to public information, in 2018, the KNF received 710 requests for access to public information.

SOCIAL CAMPAIGN: 'WHO WILL YOU BECOME ON THE DAY THE BUBBLE BURSTS?'

In June 2018, the KNF conducted a nation-wide social campaign 'Who will you become on the day the bubble bursts?'. Partners of the campaign included the Ministry of Finance, the National Bank of Poland, and the Police.

The purpose of the campaign was to draw clients' attention to the risks associated with investments in crypto-currencies and on the Forex market, as well as to raise the awareness that in the financial market one should not trust entities or individuals that offer 'a quick and certain high profit'. At the same time, the campaign identified sources of information such as the KNF website, where clients can check whether the provider whose services they want to use has appropriate authorisation. The campaign at television and radio stations and on the Internet included broadcasting of the following information spots:

- spot: the 'KNF Alert' application (free); it is a tool which allows for a quick and easy access to information on KNF-supervised entities and verification of information on the entities entered on the list of public warnings. It is an additional tool (in addition to the website www.knf.gov.pl) to warn and notify about the risks in the financial market,
- spot: 'Who will you become on the day the bubble bursts?' - raising awareness of financial market participants, warning of the risk associated with investments in crypto-assets, pyramid schemes and the unsupervised Forex market.

The social and information campaign in the public media is supported by the website: https://www.knf.gov.pl/dla_konsumenta/kampania_spoeczna

Additionally, as part of the campaign, at certain tax offices and police headquarters, posters concerning the campaign were placed.

8.3. COOPERATION WITH STATE BODIES AND EXTERNAL ENTITIES

COOPERATION WITHIN THE FINANCIAL STABILITY COMMITTEE (FSC)

The Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system has provided the Financial Stability Committee with powers in relation to macro-prudential supervision and crisis management. Four most important institutions included in the financial security network in Poland are represented in the Financial Stability Committee, i.e. the National Bank of Poland, the Polish Financial Supervision Authority, the Ministry of Finance, and the Bank Guarantee Fund. As regards macro-prudential supervision, the meetings of the Committee are chaired by the President of the NBP, and in the area of crisis management the Minister of Finance.

In 2018, six meetings of the Financial Stability Committee operating as a competent authority for macro-prudential supervision were held. During the meetings of the KSF-M, the issue of implementation of the Committee's recommendations on the restructuring of the portfolio of housing loans in foreign currencies. The KNF updated the SREP methodology according to the recommendation and finalised the review of the Pillar II capital requirements in connection with the granting of foreign currency loans. The KNF Board also drew up a preliminary draft of good practices applicable to the restructuring of housing loans, whereas

further works on the implementation of the recommendation depend on the final form of the Act on support for borrowers.

At the meetings held on 12 January, 16 March, 11 June, 21 September and 17 December 2018, the results of cyclical surveys entitled *Assessment of systemic risk by institutions of the financial safety network* were discussed. According to the assessment made in the survey, the portfolio of foreign currency housing loans is still the most important source of risk in the Polish financial system. The survey has shown that the level of risk remains high.

At the request of the KNF Board, on 12 January 2018 the Committee adopted final decisions on the opinion regarding the repealing of a final decision on the identification of two entities as other systemically important institutions (O-SIIs), on the identification of one entity as an O-SII, and on setting an O-SII buffer for that entity, and on setting an O-SII buffer for 10 other entities³⁴. A total of 13 opinions were drawn up to serve as a basis for KNF decisions.

The review also covered the development of the market of mortgage bonds in Poland. It was indicated that the elimination of organisational and legal barriers identified by mortgage banks could contribute to the growth of the market of mortgage bonds as sources of long-term financing. At the September meeting of the Financial Stability Committee, the KNF Board presented solutions proposed by the banking sector to support the growth of that market segment.

At the meeting held on 17 December 2018, the KNF Board highlighted new sources of risk associated with the need to adjust, in a timely manner, the reference rates of the domestic money market to the requirements of Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on benchmarks. The matter will be reviewed by the Standing Working Group and the KSF-M in 2019.

COOPERATION WITH THE SUPERVISING AUDIT COMMITTEE (SAC), THE MINISTRY OF FINANCE (MF), AND THE COMMUNITY OF STATUTORY AUDITORS

The Chair of the KNF Board appointed the Committee for Relations with Statutory Auditors. In 2018, the Committee for Relations with Statutory Auditors was taking the followings actions in cooperation with the competent departments of the KNF, in the area of:

- reviewing the draft amendments to the Act on statutory auditors, their self-government, entities authorised to audit financial statements and on public supervision,
- working cooperation with the Ministry of Finance/SAC Office with regard to the performance of the statutory tasks of the KNF Board in the area of public supervision over public-interest entities, in particular supervision over the activity of Audit Committees established and operating at such entities,
- informing the SAC about issues relating to financial revision conducted at the supervised entities by audit firms and statutory auditors,
- exchange of information with the Ministry of Finance/SAC Office about the activities of public-interest entities, in particular about the audit of financial statements conducted by statutory auditors of such entities,
- organisation of meetings between representatives of the KNF and statutory auditors who audit the financial statements of KNF-supervised entities.

Cooperation with the Supervising Audit Committee consisted in sharing information about the KNF's activities undertaken in the supervision of supervised entities which were public-interest entities.

³⁴ For more details see: Chapter 3.1 of the Report..., in the part: 'Identification of other systemically important institutions (O-SIIs).'

Public supervision exercised by the KNF Board in connection with the Act on statutory auditors, audit firms and public supervision

On 21 June 2017, the Act of 11 May 2017 on statutory auditors, audit firms and public supervision (Journal of Laws, item 1089, as amended) entered into force, hereinafter: the Act on statutory auditors, imposing new tasks on the KNF Board in the area of public supervision. Under Article 89(1) of the Act on statutory auditors, the KNF Board shall:

- 1) exercise public supervision over the application by public-interest entities (hereinafter: PIEs) of the provisions of Title III of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (OJ EU No 158, item 77) (hereinafter: 'Regulation (EU) No 537/2014');
- 2) carry out the tasks envisaged for the competent authority as specified in Articles 16(3)(f) and 17(6) of Regulation (EU) No 537/2014;
- 3) monitor compliance with the provisions concerning the appointment, composition and functioning of the audit committee or the supervisory board or other supervisory or controlling body in the event that they are entrusted with the function of the audit committee.

The definition of PIE specified in Article 2(9) of the Act on statutory auditors includes the following entities:

- a) issuers of securities admitted to trading on a regulated market of a European Union Member State, having their registered office on the territory of the Republic of Poland, whose financial statements are subject to the statutory audit obligation,
- b) domestic banks, branches of credit institutions and branches of foreign banks as defined in the Act of 29 August 1997–The Banking Law (Journal of Laws 2018, item 2187, as amended),
- c) insurance and reinsurance undertakings and major branches and branches of insurance and reinsurance undertakings as defined in the Act of 11 September 2015 on the business of insurance and reinsurance (Journal of Laws 2018, item 999, as amended),
- d) electronic money institutions and domestic payment institutions as defined in the Act of 19 August 2011 on payment services (Journal of Laws 2018, item 2003, as amended) which meet the criteria of a large entity,
- e) open pension funds, voluntary pension funds and general pension societies as defined in the Act of 28 August 1997 on the organisation and functioning of pension funds (Journal of Laws 2018, item 1906, as amended),
- f) open-end investment funds, specialist open-end investment funds and public closed-end investment funds as defined in the Act of 27 May 2004 on investment funds and management of alternative investment funds (Journal of Laws 2018, item 1355, as amended),
- g) associations as defined in the Act on investment funds and management of alternative investment funds which at the end of a given financial year and at the end of the financial year preceding the given financial year managed assets worth at least PLN 10 000 000 000 and which managed funds which hold a total of at least 30 000 registers open to participants,
- h) entities conducting brokerage activities which at the end of a given financial year and at the end of a financial year preceding a given financial year held assets on clients' accounts worth at least PLN 10 000 000 000 or managed assets worth at least PLN 10 000 000 000 and at the same time had at least 10 000 clients, excluding entities conducting activities exclusively in the area of accepting and transmitting orders to acquire or dispose of financial instruments or in the area of investment advisory services as defined in the Act of 29 July 2005 on trading in financial instruments (Journal of Laws 2017, item 1768, as amended),
- i) credit unions as defined in the Act of 5 November 2009 on credit unions (Journal of Laws 2016, item 2386, as amended) which meet the criteria of a large entity.

Pursuant to Article 89(2) of the Act on statutory auditors, for the purpose of performance of tasks in the area of public supervision, the KNF Board has the right to:

- 1) request, within the specified time limit and to the specified extent, information, explanations and/or documents or copies thereof, including those subject to the obligation of secrecy, from the persons and entities indicated in the second subparagraph of Article 23(3) of Regulation (EU) No 537/2014;
- 2) carry out an inspection at the registered office of a PIE;
- 3) impose administrative penalties referred to in Article 193(1) of the Act on statutory auditors on persons and entities for the infringements referred to in Article 192(1) of the Act on statutory auditors.

In the event of a breach of the provisions of the Act on statutory auditors or of Regulation 537/2014 to the extent that falls within the remit of the KNF Board, the supervisory authority, pursuant to Article 192(1) of the Act on statutory auditors, has been authorised to impose administrative penalties on a PIE, a member of the Management Board or other managing or supervisory body, or other supervisory body, or the Audit Committee, and their related entities and related third parties, as referred to in the second subparagraph, point (c) of Article 23(3) of Regulation 537/2014, if:

- 1) they have no policy regarding the provision of additional services by an audit firm, an entity affiliated to an audit firm or a member of its network;
- 2) they have no policy on the selection of the audit firm;
- 3) they do not comply with the provisions concerning:
 - a) the choice of audit firm, including the application of prohibited clauses,
 - b) the conclusion of an audit contract for a period shorter than 2 years and longer than 5 years, taking into account the case referred to in Article 17(6) of Regulation No 537/2014,
 - c) mandatory 'cooling-off' periods,
 - d) the procedure for the selection of the audit firm,
 - e) the obligation to notify the Polish Financial Supervision Authority that an audit firm is selected by an authority other than the authority which approves the financial statements;
- 4) they do not respect the obligations relating to the rotation of the audit firm auditing the financial statements of the public-interest entity concerned;
- 5) they do not comply with the provisions concerning the appointment, composition and functioning of the audit committee;
- 6) they influence the test result.

[Activities carried out by the KNF Board in relation to the document 'The KNF's action plan for 2018' with regard to public supervision resulting from the Act on statutory auditors, audit firms and public supervision](#)

In 2018, a review was carried out to analyse information provided in the self-assessment surveys concerning compliance by PIEs of the requirements for appointment of audit committees. Where the composition of audit committees or information provided by PIEs in that respect raised any concern, appropriate departments of the KNF conducted investigation activities in relation to PIEs in order to establish the facts and clarify all doubts.

As part of its activities in 2018, the KNF also conducted, for various PIEs, a review of their policies on selection of audit firms to audit their financial statements and to submit, to a supervisory board or any other supervisory or control body, recommendations on the appointment of a statutory auditor or audit firm to audit financial statements of PIEs. Correct rotation of audit firms and key statutory auditors of PIEs was also monitored.

The KNF exercises supervision through inspections at entities and other supervisory measures.

In 2018, the representatives of the KNF Board conducted investigations at PIEs for compliance with the requirements under the Act on statutory auditors, including:

- verification of how the audit firm is selected in the case of seven commercial banks, four cooperative banks, and one domestic payment institution,
- verification of appointment by PIEs of audit committees, including verification of compliance of the composition of those audit committees with the requirements of the Act on statutory auditors with respect to independence and appropriate skills and knowledge of members of the audit committee/supervisory board in the case of eight commercial banks, four cooperative banks, one domestic payment institution, three insurance undertakings, and one general pension society,
- analysis of operation of audit committees with regard to the performance of tasks resulting from the Act on statutory auditors in the case of eight commercial banks, four cooperative banks, one domestic payment institution, three insurance undertakings, and one general pension society,
- verification of development and implementation of the policy for choosing the audit firm to perform the audit and the policy on the provision, by the audit firm responsible for the audit, the entities related to that audit firm and the member of the audit firm network, of

acceptable services other than audit in the case of eight commercial banks, four cooperative banks, and one domestic payment institution.

The inspections in question covered 17 PIEs: eight commercial banks, four cooperative banks, one domestic payment institution, three insurance undertakings, and one general pension society.

In the case of issuers of securities admitted to trading on a regulated market, the KNF conducted supervisory activities relating to the composition and operation of audit committees. Due to concerns about the composition of audit committees, supervisory measures were adopted towards 131 issuers.

In 2018, by means of decisions, the KNF Board authorised eight PIEs to extend the term of the assignment of financial audit (including for one domestic bank, four insurance undertakings, one branch of an insurance undertaking), after the lapse of the minimum period of the assignment as specified in the Act on statutory auditors. Whereas for one branch of a credit institution, administrative proceedings are conducted following the submission by that PIE of a request for extension of the term of the assignment to audit financial statements, and for one domestic bank discussions were taking place on the topic of possible extension of the period of cooperation with the current audit firm as part of the joint audit.

In 2018, no administrative penalty was imposed on PIEs due to violations referred to in Article 192(1) of the Act on statutory auditors.

In December 2018, the KNF issued Recommendation L on the role of statutory auditors in the supervision of banks and credit-unions (hereinafter: 'Recommendation L'), which, as expected by the KNF, should be introduced by those PIEs, in accordance with the principle of proportionality, not later than on 31 March 2019.

The amended Recommendation L implements a new model of cooperation between the participants of the process of financial audit and supervision of PIEs, i.e. audit firms, statutory auditors, the KNF Board, and supervised entities whose financial statements are subject to the audit requirement, towards more equal and less hierarchical relationships. In the KNF's view, such communication strategy should result in a greater effectiveness and efficiency of the public supervision of PIEs (e.g. banks and credit unions) and greater independence of statutory auditors and better quality of financial audit, for the benefit of all financial market participants, and thus increase the stability and safety of the financial sector.

In 2018, annual meetings were held with the KNF's management and statutory auditors of PIEs, e.g. on 6 December 2018 with statutory auditors who audited financial statements of credit unions, on 7 December 2018 with statutory auditors who audited financial statements of commercial banks and insurance/reinsurance undertakings. On 14 December 2018, a meeting was held with statutory auditors who audited financial statements of cooperative banks.

Moreover, in 2018, the KNF published on its website Communication from the KNF of 17 August 2018 on the obligatory rotation of statutory auditors and audit firms.

[KNF's Action plan for 2019 with regard to public supervision resulting from the Act on statutory auditors, audit firms and public supervision](#)

Taking into account the obligation under Article 89(3) of the Act on statutory auditors to publish, on the KNF website, information on action plan for the following year, on 18 December 2018 the KNF published the Action plan of the Polish Financial Supervision Authority for 2019 in the area of public supervision under the Act on statutory auditors, audit firms and public supervision (https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_JZP_2019_64156.pdf).

COOPERATION WITH THE NATIONAL BANK OF POLAND

The KNF engages in bilateral cooperation for the exchange of information necessary to perform statutory tasks of the central bank and the financial market supervisory authority. The terms of cooperation are laid down in bilateral memoranda of cooperation and exchange of information between the KNF and the National Bank of Poland (PL: *Narodowy Bank Polski*–NBP).

Under the agreement, the KNF submitted a series of data to the NBP in 2018 in the area of:

- the banking sector and the credit unions sector, regarding, among other things, stress tests, financial plans, obtaining extra-reporting data on consumer and housing loans, tax on certain financial institutions and communication of SREP ratings, as well as information on the results of inspections with supervisory recommendations addressed to systemically important banks and on the results of control activities conducted with respect to the correctness of calculation and disbursement of the required amount of the minimum reserve;
- the payment service sector: cooperation includes the allocation of sort codes to payment accounts, the exchange of data on transactions performed by the acquirers and the issuers of payment instruments, and in the area of electronic money – exchange of data on payment schemes. The NBP also reports data on frauds committed using payment instruments.

On the other hand, the NBP sent the KNF a number of analytical materials regarding issues covered by the KNF's activities. At the same time, both institutions worked together at the operational level (with respect to information exchange, job postings, and IT issues), also with regard to individual supervised entities. In addition, similarly to previous years, at the time of preparation of the annual 'Report on the standing of banks,' the Chair of the KNF Board met with members of the Monetary Policy Council to discuss the most important developments in the banking sector and the credit unions sector, as well as the main challenges and potential sources of risks faced by both sectors;

- the insurance sector: information based both on additional financial statements and statistical reports of insurance and reinsurance undertakings (statutory) and reports consistent with Solvency II. The above-mentioned data of insurance and reinsurance undertakings and actions undertaken as part of cooperation were carried out to perform the tasks of the NBP and the tasks following from the participation of the NBP in the European System of Central Banks;
- the pension sector: data on pension funds and pension societies, occupational pension schemes, individual pension accounts and individual pension savings accounts. The data are submitted and/or made available by the KNF to the NBP at monthly, quarterly and annual intervals. In 2018, 72 monthly data sets, 56 quarterly data sets and 12 annual data sets were made available to the NBP;
- the investment fund market sector, in particular data on: shareholders of investment fund management companies, selected financial data of investment fund management companies, entities operating investment funds (depositories and entities maintaining registers of fund participants), selected financial data of investment funds and sub-funds, and data identifying investment fund management companies, investment funds and sub-funds;
- the sector of brokerage houses: statistics on entities conducting brokerage and custodian banks. Information on the number of brokerage houses, banks providing investment services, and organisational units of banks as well as information on public and private issues and securities traded on the regulated market is provided annually. Information on securities accounts and cash accounts kept by entities conducting brokerage and by custodian banks, as well as aggregated data on balance sheet and profit and loss account of brokerage houses is provided on a semi-annual basis;

- data on primary and secondary public and non-public offerings of shares made through investment firms.

Pursuant to the Act on trading in financial instruments, the regulations of the National Depository for Securities and the regulations of KDPW_CCP S.A., and amendments thereto to the extent indicated in the said Act are approved by the KNF following consultation with the President of the NBP. Therefore, the KNF sends to the President of the NBP decisions on the request for an opinion on the requests of the KDPW and the KDPW_CCP for approval of amendments to the Rules for the National Depository for Securities, Rules for settling transactions (organised trading), Rules for settling transactions (non-organised trading), and Rules of a compensation fund. Additionally, the NBP is a member of the supervisory college for KDPW_CCP S.A. appointed by the KNF in 2013 to exercise ongoing supervision of KDPW_CCP S.A. in connection with the requirements of EMIR.

In 2018, the President of the NBP issued 1 opinion concerning the request for authorisation to provide payment services as a domestic payment institution, as the request pertained to the payment service referred to in Article 3(1) point 5 of the Act on payment services (acquiring). Such opinion is required in the course of the licensing procedure but it is not binding on the KNF Board.

Depending on the specific nature of each case, cooperation between the NBP and the KNF is based on both periodic (annual, quarterly, monthly) exchange of information and *ad hoc* contacts. In particularly important issues, such cooperation is continuous.

COOPERATION WITH INSTITUTIONS PROTECTING CLIENTS' RIGHTS

When implementing the provisions of the cooperation agreement concluded between the Polish Financial Supervision Authority and the President of the Office for Competition and Consumer Protection (UOKiK), the KNF undertook activities aimed at ensuring protection of the interests of financial market participants and preventing and counteracting the occurrence of financial practices that infringe the collective interests of consumers. In particular, these actions took the form of exchange of information with UOKiK regarding irregularities in the activities of financial market entities, as well as the provision of information relevant to the proceedings conducted by the President of UOKiK with respect to insurance undertakings.

The KNF also cooperated with the Financial Ombudsman, providing it with information which might have indicated irregularities in the operations of financial market entities in relation to failure to comply with the Act of 5 August 2015 on handling complaints by financial market entities and on the Financial Ombudsman (consolidated text in: Journal of Laws 2018, item 2038, as amended), and shared information on complaints regarding, for example, the activities of KNF-supervised entities.

COOPERATION WITH OTHER INSTITUTIONS

Within the period covered by this report, the KNF cooperated in particular with:

- the Bank Guarantee Fund (BGF, Fund) pursuant to the Banking Act and the Act on the Bank Guarantee Fund, the Deposit Guarantee Scheme and forced restructuring, as well as on the basis of the Agreement for Cooperation and Exchange of Information between the Polish Financial Supervision Authority and the BGF of 27 December 2016. Under the agreement, the KNF Board and the BGF provided each other with information necessary for the performance of their statutory tasks. With regard to banks, the KNF provided the BGF with, among other things, information on the scores assigned to banks under the Supervisory Review and Evaluation Process and quarterly assessments of the level of risk existing in banks' operations, as well as information on the economic and financial standing of banks, including their liquidity and capital position. One of important issues in

the cooperation between the KNF and the BGF was the issue of recovery plans drafted by banks and the plans for the forced restructuring of the banks drawn up by the Fund (the national forced restructuring authority). The KNF also provided information on the scores granted to brokerage houses in the supervisory review and evaluation process, information on the financial situation and capital adequacy;

- the General Inspector of Financial Information (GIFI), with regard to the performance of obligations resulting from the Act on the prevention of money laundering and terrorist financing;
- the Central Statistical Office of Poland (currently: Statistics Poland, Polish: GUS): regular transmission of data to GUS under the Programme of Statistical Surveys of Official Statistics: regarding the ownership structure of the national banking sector, the insurance and reinsurance sector, the pension sector, the investment fund market sector and the brokerage houses' sector; the KNF was also involved in work on research programmes for 2018, 2019 and 2020;
- the Insurance Guarantee Fund (UFG): the KNF obtained data from the UFG, in particular on average motor insurance premiums and claims, including benefits in the form of disability benefits and compensations, to analyse the adequacy of premiums and the effects of potential legal changes with respect to third party liability benefits for motor vehicle owners on the financial standing of insurance undertakings. Cooperation with the UFG also concerned the adopted assumptions of performance of the UFG's new tasks, namely the IT database, to the extent necessary to identify, verify and prevent violations of interests of the insurance market participants (Insurance Database) and the Tourist Guarantee Fund. The KNF also obtained data from the UFG on the quality of fulfilment of the obligation of undertakings operating in the Polish market to submit legally required information to the UFG databases;
- the Polish Bank Association (ZBP): a representative of the KNF is also a member of the Board of the Bank Arbitrator, which discusses comments on market practices followed by banks in relations with clients;
- the Human Rights, the Rule of Law and Petitions Committee (Senate): submission of data and information which may provide grounds for concluding whether it was necessary to undertake a legislative initiative concerning an amendment to the Act of 11 September 2015 on the business of insurance and reinsurance, to specify the option to withdraw from unit-linked insurance contracts. Considering a similar request from the Ministry of Finance, information covered by the above-mentioned petition was also submitted to the Ministry of Finance.

9. ORGANISATION OF THE KNF

Under Article 14 of the Act of 21 July 2006 on financial market supervision, the internal organisation of the KNF is defined in the statutes conferred by means of a regulation by the President of the Council of Ministers. In 2018, the statutes of the KNF, introduced by Order No 111 of the President of the Council of Ministers of 5 October 2017³⁵, was amended twice, by Orders No 1³⁶ and 175, respectively³⁷.

Order No 111 of the President of the Council of Ministers of 5 October 2017, which entered into force on 26 October 2017, has shaped new organisational solutions at the KNF by

³⁵ Order No 111 of the President of the Council of Ministers of 5 October 2017 on granting statutes to the Polish Financial Supervision Authority (Polish Official Gazette, item 947).

³⁶ Order No 1 of the President of the Council of Ministers of 15 January 2018 amending the Order on granting statutes to the Polish Financial Supervision Authority (Polish Official Gazette, item 103).

³⁷ Order No 175 of the President of the Council of Ministers of 17 October 2018 amending the Order on granting statutes to the Polish Financial Supervision Authority (Polish Official Gazette, item 1006).

introducing a vertical structure, essentially based on the division of functions, corresponding to the basic aspects of public supervision of the financial market. It has been a major change in the internal organisation of the KNF, which allowed for the codification of supervisory processes carried out in individual sectors of the financial market and the improvement of management efficiency in comparison with previous organisational solutions based on a flattened structure involving a relatively high number of organisational units not affiliated to task areas. According to the objective adopted, further organisational changes at the KNF should be of evolutionary nature and take place in line with the adopted solutions based on the vertical organisational structure.

Order No 1 of the President of the Council of Ministers, which entered into force on 22 February 2018, was aimed at making further changes to adjust the organisational structure of the KNF Board's auxiliary 'machinery' to the scope and structure of the KNF Board's statutory tasks. The changes in the organisational structure of the KNF involved:

- 1) the division of the former Cooperative Banking and Credit Unions Department into two separate departments: the Cooperative Banking Department, and the Credit Unions and Payment Institutions Department, which allows for a separation, within one department, of the scope of tasks relating to the supervision of the cooperative banking sector, and within the other department, for the inclusion of all the tasks relating to the credit unions and payment institutions sectors, performed so far by the Banking, Payment Institutions and Credit Unions Licensing Department and the Bank, Payment Institution and Credit Union Inspection Department; the last two departments changed their names into 'Bank Licensing Department' and 'Bank Inspection Department';
- 2) the new organisational structure within the Capital Market Supervision Division, which instead of the former five departments was now composed of four new departments with a different scope of tasks: new separate departments started to operate independently (departments responsible for the supervision on investment firms and public companies), the former Investment Funds Department expanded its remit to include the matters of pension funds, which resulted in the relevant change of the name, and the matters regarding the supervision of infrastructural entities (exchanges and the depository for securities) were combined with the supervision of compliance of trading within the Capital Market Infrastructure and Trading Supervision Department;
- 3) establishment of the Law and Enforcement Division, within which two departments were established following division of the former Legal Department, whose remit was too wide, as it encompassed (in addition to legal services and legislative work) the conduct of proceedings in respect of imposition of administrative penalties and preliminary investigations; the newly-established Enforcement and Market Practices Department assumed also the tasks of the former Market Practices Department;
- 4) establishment, within the Analysis Division, of a new department, whose tasks will include the development of financial innovations (fintech).

Moreover, the Insurance and Pension Licensing Department and the Insurance and Pension Inspection Departments were converted into the Insurance Licensing Department and the Insurance Inspection Department, respectively. That followed from the integration of tasks in the area of supervision of pension funds within the new Investment and Pension Funds Department, similarly to the organisational solutions for investment funds.

Order No 175 of the President of the Council of Ministers, which entered into force on 3 November 2018, represented another stage of changes aimed at adjusting the organisational structure of the KNF to the scope and structure of the statutory tasks of the KNF Board. The proposed changes in the organisational structure of the KNF involved removal of two out of eight former divisions (the Licensing Division and the Inspection Division). The change consisted in the integration of the licensing and inspection functions with the other supervisory functions carried out in relation to the banking sector within the Banking Supervision Division and the insurance market within the Insurance Market Supervision Division. Within the former organisational structure, the Licensing Division was composed of

the Bank Licensing Department and the Insurance Licensing Department, and the Inspection Division was composed of the Bank Inspection Department and the Insurance Inspection Department. Following the change, the Bank Licensing Department was placed in the Bank Licensing Division, and the Insurance Licensing Department was placed in the Insurance Market Supervision Division, and: the Bank Licensing Department in the Bank Inspection Division, and the Insurance Inspection Department in the Insurance Market Supervision Division. That change was to ensure better integration of supervisory functions, including exchange of information between departments performing supervisory tasks in relation to the same sectors of the financial market, as well as better coordination of activities. The removal of two divisions involved removal of two positions of managing directors, in the Licensing Division and in the Inspection Division, respectively. The change also involved the combination of the Banking, Payment Institutions and Credit Unions Regulations Department, the Analysis and International Cooperation Department, the Insurance Inspection Department, and the Risk Monitoring Department. The new Regulation, Analysis and International Cooperation Department was placed in the Analysis Division. Whereas the new Insurance Supervision and Risk Monitoring Department was placed in the Insurance Market Supervision Division, according to the tasks and arrangement of the two former departments, whose tasks were taken over by the new department. Such consolidation was determined by the similarity of tasks of former separate departments and ensured the expected effect of synergy following combination. The changes were also a consequence of the expectations as to the improvement of efficiency of the KNF and the reduction of job positions at the level of department directors.

In accordance with § 2 of the statutes of the, the KNF is managed by the Chair of the KNF Board, assisted by Deputy Chairs of the KNF Board, managing directors of divisions, and directors of organisational units. The detailed rules for the organisation and operation of the KNF and the arrangement of responsibilities between various organisational units are laid down in the organisational regulations of the KNF, conferred by Order of the Chair of the KNF Board. The regulations were amended according to the amendments in the statutes of the KNF and following the amendments to the legislation defining the tasks of the KNF Board.

The KNF has a system of management control, defined as all actions taken to ensure lawful, effective, efficient and timely performance of objectives and tasks. The purpose of management control is to ensure, in particular: compliance with the legislation and internal procedures, efficiency and effectiveness of operations, reliability of reports, protection of resources, compliance with and promotion of the principles of ethical behaviour, efficiency and effectiveness of information flow and risk management.

Moreover, to ensure the adequacy and effectiveness of the management control, the risk management principles have been implemented at the KNF. Their objective is to provide for mechanisms to identify risks that threaten the lawful, effective, economical and timely implementation of objectives and tasks of the KNF, to identify the effects and weights of these risks, and to take adequate remedies to mitigate the identified risks.

ACTIVITIES UNDERTAKEN TO PREVENT THE RISK OF CORRUPTION AND THE CONFLICT OF INTERESTS AND TO STRENGTHEN THE RULES OF CONDUCT FOR THE KNF STAFF

The KNF has internal regulations aimed at preventing corruption and eliminating the risk of a conflict of interests.

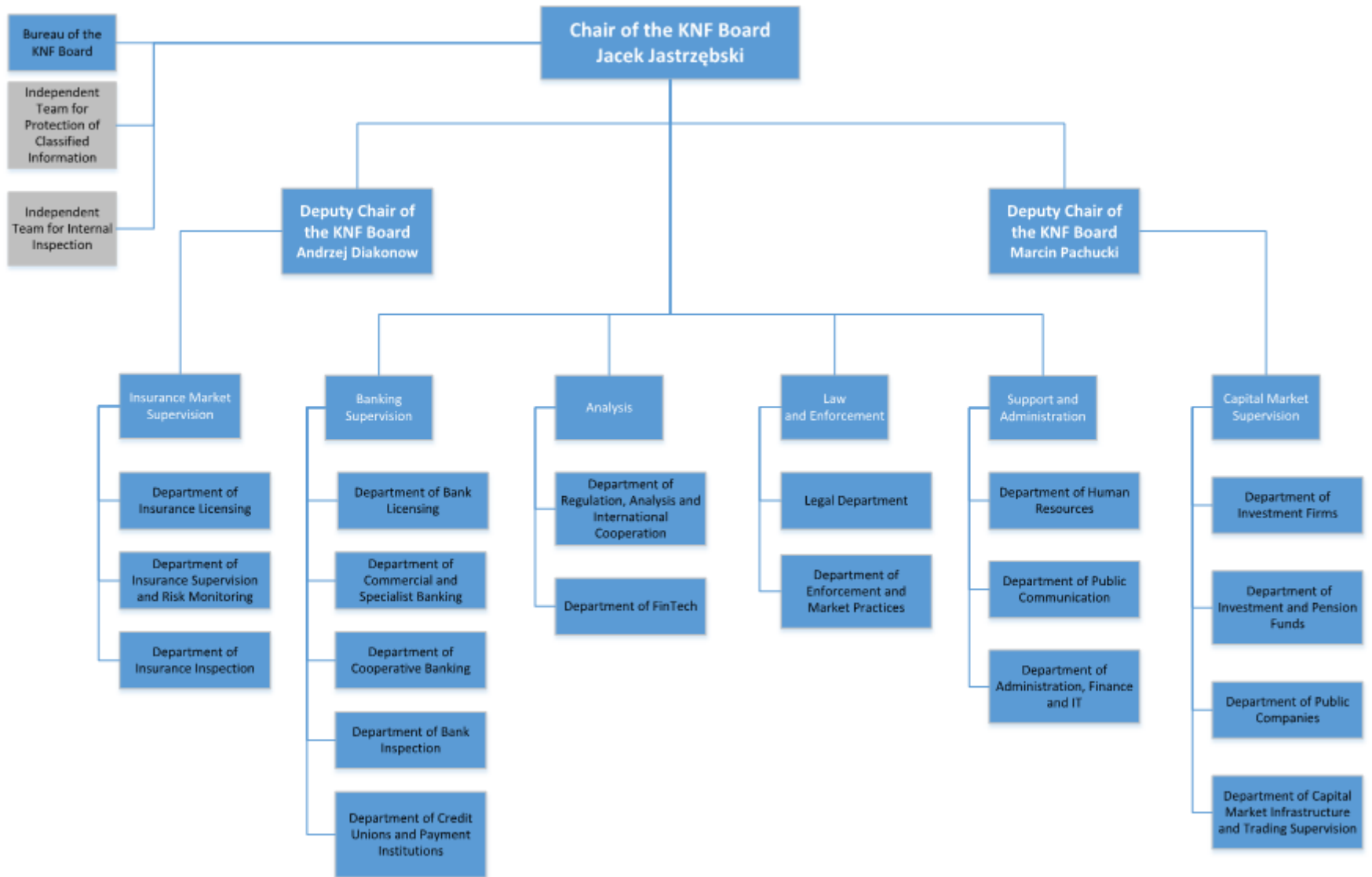
In that respect, two Orders of the Chair of the KNF Board were effective in 2018. They included: Order on the prevention of the risk of corruption at the KNF, and Order on the rules of conduct to be followed in the case of actual or suspected occurrence, at the KNF, of corruption, a conflict of interest or unwanted conduct associated with the risk of corruption.

The first Order defines the job positions and organisational units at the KNF which are particularly exposed to the risk of corruption and sets the tasks of organisational unit directors relating to the prevention of the risk of corruption at the KNF. Whereas the other Order defines standardised rules of procedure to be followed in the case of actual or suspected occurrence, at the KNF, of corruption, a conflict of interests and unwanted conduct associated with the risk of corruption and sets the tasks of the persons in charge of organisational units and other staff members of the KNF with respect to those matters.

The KNF is one of the entities participating in the Government's Anti-Corruption Programme. In 2018, the KNF had a team responsible for coordination of the implementation, at the KNF, of the Government's Anti-Corruption Programme for 2014-2019. The report on the implementation of the Government's Anti-Corruption Programme for 2014-2019 was submitted to the Chancellery of the Prime Minister in March 2018. Initially defined for 2014-2019, the programme was replaced in 2018 with the Government's Anti-Corruption Programme for 2018-2020, implemented from 27 July 2018 till the end of 2018. The KNF's team for coordination of the implementation of the Government's Anti-Corruption Programme for 2018-2020 was composed by directors of the key organisational units at the KNF and the team's activities were managed by Andrzej Diakonow, Deputy Chair of the KNF Board.

The solutions to prevent the risk of corruption and conflicts of interests are supplemented by internal regulation aimed at setting appropriate ethical standards for the KNF staff. The KNF applies the Code of Conduct for the KNF staff (drawn up in 2011), according to which all the employees of the KNF, regardless of their functions or positions, must endeavour to observe the universal ethical principles and understand that such principles serve as foundations for the supervision based on compliance with the law, professionalism, impartiality and readiness to engage in a dialogue. *The Code of conduct* requires that the KNF staff be guided by the public interest reflected in the statutory objectives of the financial market supervision, contribute to the effective, efficient and professional operation of the KNF and act diligently, to the best of their knowledge, ensuring top-quality expertise, as well as follow the procedures defined for each task. A separate *Code of conduct* was elaborated following the exclusion of the KNF staff from the Civil Service, which has its own Code of conduct. Regardless of specific ethical standards that each newly hired employee of the KNF must familiarise himself/herself with, the function of Ethics Officer was created at the KNF; the Ethics Officer is selected from among the employees; the current Officer serves the term for 2017-2019. The KNF also has an Ethics Committee, which decides, at the request of the Ethics Officer, on any case of potential violation of the ethical principles. Such arrangements have ensured that the KNF has defined its ethical standards and established a formal system to protect them.

Diagram 1: Organisational structure of the KNF as of 31/12/2018



BUDGET OF THE KNF

In 2018, the KNF was a state budget entity. The expenditures of the KNF were covered directly from the state budget, and the revenues of the KNF were non-tax revenues of the state budget, paid to the state budget account. As an entity of the public finance sector, the KNF carries out financial management in accordance with the law, in particular the Act of 27 August 2009 on public finance (consolidated text in: Journal of Laws 2016, item 1870), the Act of 29 January 2004—The Public Procurement Law (consolidated text in: Journal of Laws 2015, item 2164, as amended), the Budget Act, and in accordance with the financial plan for a given financial year.

While implementing the provisions of Regulation of the Minister of Finance of 13 June 2017 on detailed manner, mode and dates of preparing materials for the draft Budget Act and of the letter of the Minister of Finance on the preliminary expenditure limit for 2018, the KNF Board drafted and submitted to the Minister of Finance its draft budget for a given financial year in a traditional and task-based format.

As in many European countries, the costs of state financial market supervision are covered by obligatory payments made by supervised entities. The Act on financial market supervision stipulated by the end of 2018 that the expenditure representing operational costs of the KNF Board and the KNF, in the amount specified in the Budget Act, must be covered from the fees paid by supervised entities in the amount and on the terms specified in the statutory law defining the statutory tasks of the KNF Board.

The KNF also charged fees for official activities relating to examinations organised by the KNF. In addition, the KNF sought and collected revenues from administrative fines imposed by the KNF Board on supervised entities and on members of their bodies for illegal activities. These two groups of revenue are not intended to cover the costs of supervision and constitute revenue for the State budget for general purposes.

The budgetary revenue of the KNF for 2018 was planned at PLN 255 147 thousand, and implemented on an accruals basis in the amount of PLN 96 125 thousand, and cash – PLN 287 260 thousand.

Expenditure allocated in the budget for activities of the KNF in 2018 was planned in the amount of PLN 245 112 thousand, including:

- expenditure in section 758 Different settlements PLN 245 097 thousand,
- expenditure in section 752 National Defence PLN 15 thousand,

The plan after changes to the budget of the KNF concerning expenditure for 2018 was set at PLN 245 225 thousand. In relation to the budget after changes of 2017, it increased by PLN 10 213 thousand, i.e. by 4.34%, with a significant increase in supervisory obligations resulting from scaling up of the financial market and an increase in the number of supervised entities.

Tables 88 and 89 show in a traditional layout the plan and implementation of budget revenue and expenditure in 2018 compared to 2017.

Table 88. Implementation of the KNF plan of budget revenues in 2017 and 2018

| Budget revenue | 2017 plan | Implementation of the 2017 plan (on accrual basis) | | 2018 plan | Implementation of the 2018 plan (on accrual basis) | | Plan of 2018 compared to 2017 | Implementation for 2018 compared to 2017 | |
|--|-------------------|--|-------------|-------------------|--|-------------|-------------------------------|--|----|
| | (in PLN thousand) | (in PLN thousand) | (in %) | (in PLN thousand) | (in PLN thousand) | (in %) | (in %) | (in %) | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Payments from insurance undertakings to cover the costs of supervision of the insurance and brokerage businesses | 37 627 | 28 278 | 75% | 37 930 | 40 645 | 107% | 101% | 144% | |
| Payments from general pension societies to cover the costs of supervision of the activities of open pension funds | 14 323 | 14 624 | 102% | 14 031 | 12 680 | 90% | 98% | 87% | |
| Payments from capital market entities to cover the costs of supervision | 41 780 | 29 886 | 72% | 43 821 | 51 202 | 117% | 105% | 171% | |
| Payments from banking market entities (commercial banks, cooperative banks, credit unions, payment service officer, domestic payment institutions) | 141 067 | 121 178 | 86% | 149 315 | 160 822 | 108% | 106% | 133% | |
| Revenue representing payments to cover the cost of supervision | 234 797 | 193 966 | 83% | 245 097 | 265 348 | 108% | 104% | 137% | |
| Fees collected for activities related to exams and improving professional qualifications | 945 | 586 | 62% | 1 000 | 696 | 70% | 106% | 119% | |
| Fines imposed on the supervised entities | 9 000 | 19 871 | 221% | 9 000 | 26 625 | 296% | 100% | 134% | |
| Other | 50 | 2 768 | 5 535% | 50 | 3 457 | 6 914% | 100% | 125% | |
| Revenue not constituting payments to cover the cost of supervision | 9 995 | 23 225 | 232% | 10 050 | 30 777 | 306% | 101% | 133% | |
| Total revenue | 244 792 | 217 191 | 89% | 255 147 | 296 125 | 116% | 104% | 136% | |

Source: KNF's own calculations

Table 89. Implementation of the KNF Board's spending plan in 2018

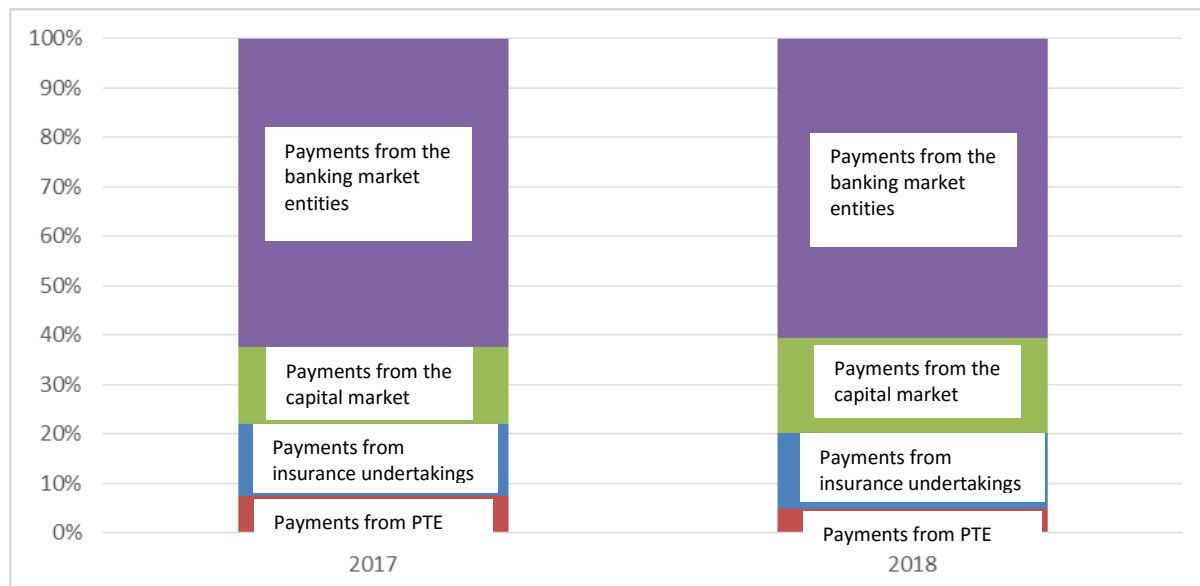
| Budgetary expenses | 2017 plan | Implementation of the 2017 plan | | 2018 plan | Implementation of the 2018 plan | | Plan for 2018 compared to 2017 | Implementation for 2018 compared to 2017 |
|--|---------------------------------|---------------------------------|------------|---------------------------------|---------------------------------|------------|--------------------------------|--|
| | (in PLN thousand) after changes | (in PLN thousand) | (in %) | (in PLN thousand) after changes | (in PLN thousand) | (in %) | (in %) | (in %) |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Expenditure relating to remuneration, including charges and derivatives for remuneration | 139 837 | 137 727 | 98% | 139 230 | 138 616 | 100% | 100% | 101% |
| Non-wage spending | 95 175 | 78 977 | 83% | 105 995 | 75 174 | 71% | 111% | 95% |
| - current expenses | 77 160 | 65 581 | 85% | 81 180 | 62 912 | 77% | 105% | 96% |
| - defence expenses | 15 | 13 | 87% | 15 | 12 | 80% | 100% | 92% |
| - asset expenditures | 18 000 | 13 383 | 74% | 24 800 | 12 250 | 49% | 138% | 92% |
| Total | 235 012 | 216 704 | 92% | 245 225 | 213 791 | 87% | 104% | 99% |

Source: KNF's own calculations

The main part of revenues from Table 88 were payments of the supervised entities to cover the supervision costs. Penalties imposed on the supervised entities and paid, and other revenues which are not supervision costs were executed in the amount of PLN 30 777 thousand. 2018 was another year when payments to the capital market were made by all capital market entities.

Diagram 24 shows costs of supervision of individual markets in 2018, and Table 90 shows the division of costs of supervision of individual markets into indirect and indirect costs.

Diagram 24. Payments to cover the cost of supervision of individual markets in 2018 compared to 2017 (in PLN thousand)



Source: KNF's own calculations

Table 90. Division of supervision costs into direct and indirect costs in 2017-2018 (in PLN thousand) in comparative terms

| Name of the market | 2017 | | | | 2018 | | | |
|----------------------------------|--------------------|-----------------|--------------------------|------------------------------|---------------------|-----------------|--------------------------|------------------------------|
| | plan after changes | impleme ntation | including: | | plan after change s | impleme ntation | including: | |
| | | | Direct supervision costs | Indirect supervis ion costs* | | | Direct supervision costs | Indirect supervis ion costs* |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Capital market | 50 951 | 48 019 | 27 091 | 20 928 | 55 735 | 49 535 | 27 091 | 22 444 |
| Insurance sector | 36 863 | 32 568 | 18 627 | 13 941 | 38 309 | 32 768 | 19 110 | 13 658 |
| Pension market | 14 323 | 12 923 | 6 913 | 6 010 | 13 235 | 11 341 | 6 913 | 4 429 |
| Banking market** | 132 860 | 123 181 | 69 887 | 53 294 | 137 818 | 120 144 | 69 887 | 50 257 |
| including: | | | | | | | | |
| - banks | | 109 293 | 62 007 | 47 285 | | 109 979 | 63 974 | 46 005 |
| - BUP | | 1 010 | 573 | 437 | | 1 026 | 597 | 429 |
| - KIP | | 3 962 | 2 248 | 1 714 | | 3 541 | 2 060 | 1 481 |
| - credit unions | | 8 530 | 4 839 | 3 690 | | 3 889 | 2 262 | 1 627 |
| - mortgage credit intermediaries | | 387 | 220 | 167 | | 1 709 | 994 | 715 |
| Total | 234 997 | 216 691 | 122 517 | 94 173 | 245 097 | 213 788 | 123 001 | 90 788 |

Source: KNF's own calculations

* administrative costs

** Costs of supervision of the banking market are planned on an aggregated basis.

A breakdown of the KNF Board and the KNF operating costs incurred in 2018, divided into areas of supervision defined in Article 1(2) of the Act on financial market supervision, together with the number and scope of supervisory activities, including administrative costs, is presented in Appendix 10.

According to Regulation of the Minister of Finance of 13 June 2017 on detailed manner, mode and dates for preparing materials for the draft Budget Act, the KNF also drew up a draft of the budget in a task-based format. The amount planned to carry out task 4.3. Supervision of the capital, insurance, pension and banking markets in 2018, in line with the 'Catalogue of functions, tasks, sub-tasks and activities for 2018', is PLN 245 097 thousand. The amount planned to implement measure 11.4.2.4.W Defence training of public administration and entrepreneurs is PLN 15 thousand. The performance budget system of the KNF is presented in Table 91.

Table 91. Expenditures of the State budget in performance system for part 70: Komisja Nadzoru Finansowego in 2018 (in PLN thousand)

| Item | Name of the function/task/sub-task/action | Plan for 2018 | Implementation of the plan as of 31 Dec 2018 |
|------------|--|----------------|--|
| 4. | Management of State finances | 245 097 | 213 788 |
| 4.3. | Supervision of the capital, insurance, pension and banking markets | 245 097 | 213 788 |
| 4.3.2. | Supervision of the capital, insurance, pension and banking markets | 245 097 | 213 788 |
| 4.3.2.1. | Supervision of the capital market entities | 55 735 | 49 535 |
| 4.3.2.2. | Supervision of operations of insurance undertakings | 38 309 | 32 768 |
| 4.3.2.3. | Supervision of activities of the pension market | 13 235 | 11 341 |
| 4.3.2.4. | Banking supervision | 137 818 | 120 144 |
| 11. | External security and inviolability of borders | 15 | 12 |
| 11.4.2.4.W | Defence training for public administration and entrepreneurs | 15 | 12 |

Source: KNF's own calculations

Task 4.3. Supervision of the capital, insurance, pension and banking markets

The purpose of the task was to ensure compliance of the proceedings of the supervised entities with financial market regulations and protection of the interests of financial market participants. This goal was achieved by:

- conducting inspection proceedings (comprehensive and targeted inspections) in the supervised entities, with the manner of conduct depending on the inspection activities selected in a given case, the provisions of law related to inspection and the complexity of the problem, and thus affected the amount of dedicated resources,
- conducting administrative proceedings consisting in the examination of applications submitted by the supervised entities and issuing decisions which were proceeded depending on the complexity of a case and the quality and completeness of documentation submitted by a party.

The following measures were used to monitor the performance of task 4.3.:

- the number of completed administrative proceedings related to the financial market in relation to the number of requests for conducting these proceedings submitted by the supervised entities. The measure was planned at the level of 89%.
- the number of completed inspection proceedings in the supervised entities in relation to the number of planned inspection proceedings. The value of the measure was planned at 100%.

The adopted measures were implemented in the performance system for 2018, and the values reached were 99% and 99%, respectively.

Positive deviation from the planned value of the measure concerning the effectiveness of handling administrative proceedings results from the involvement and professionalism of the employees of the KNF, and the high efficiency and high quality of administrative proceedings and inspections carried out in the supervised entities.

The failure to reach the 1 p.p. measure concerning inspections was caused by the failure to conduct one of the inspections planned for 2018.

Table 92 shows the planned and achieved values of measures at the level of activities (concerning individual markets) and sub-tasks.

Table 92. Classification of the performance-based budget: implementation of measures of 2018

| Item | Name of the function/task/sub-task/action | Objective | Measure | | |
|-----------|---|--|--|------|---|
| | | | Name | 2018 | |
| | | | | Plan | Implementation of the measure 31.12. 2018 |
| 4. | Management of State finances | | | | |
| 4.3. | Supervision of the financial market | Ensuring compliance of the proceedings of the supervised entities with financial market regulations and protection of the interests of financial market participants | The number of completed administrative proceedings related to the financial market in relation to the number of requests for conducting these proceedings submitted by the supervised entities | 89% | 99% |
| | | | The number of completed inspection proceedings in relation to the planned inspection proceedings | 100% | 99% |
| 4.3.2. | Supervision of the financial market | Ensuring compliance of the proceedings of the supervised entities with financial market regulations and protection of the interests of financial market participants | The number of completed administrative proceedings related to the financial market in relation to the number of requests for conducting these proceedings submitted by the supervised entities | 89% | 99% |
| | | | The number of completed inspection proceedings in relation to the planned inspection proceedings | 100% | 99% |
| 4.3.2.1. | Supervision of the capital market | Ensuring compliance of the proceedings with the capital market regulations | The number of completed administrative proceedings related to the capital market in relation to the number of requests for conducting these proceedings submitted by the supervised entities | 86% | 86% |

| | | | | | |
|----------|-------------------------------------|--|--|------|------|
| | | | The number of completed inspection proceedings in relation to the planned inspection proceedings | 100% | 88% |
| 4.3.2.2. | Supervision of the insurance market | Ensuring compliance of the proceedings with the insurance market regulations | The number of completed administrative proceedings related to the insurance market in relation to the number of requests for conducting these proceedings submitted by the supervised entities | 90% | 107% |
| | | | The number of completed inspection proceedings in relation to the planned inspection proceedings | 100% | 104% |
| 4.3.2.3. | Supervision of the pension market | Ensuring compliance of the proceedings with the pension market regulations | The number of completed administrative proceedings related to the pension market in relation to the number of requests for conducting these proceedings submitted by the supervised entities | 90% | 80% |
| | | | The number of completed inspection proceedings in relation to the planned inspection proceedings | 100% | 100% |
| 4.3.2.4. | Supervision of the banking market | Ensuring compliance of the proceedings with the banking market regulations | The number of completed administrative proceedings related to the banking market in relation to the number of requests for conducting these proceedings submitted by the supervised entities | 85% | 115% |
| | | | The number of completed inspection proceedings in relation to the planned inspection proceedings | 100% | 100% |

Source: KNF's own calculations

Implementation of the State budget in part 70: the Polish Financial Supervision Authority is audited by the Supreme Audit Office (PL: *Najwyższa Izba Kontroli*–NIK) annually. Information on the results of the inspections and follow-up statements are published on the website Public Information Bulletin of NIK. Moreover, under Article 182 of the Act of 27 August 2009 on public finance, the report on the implementation of the budget of the KNF is submitted in a tabular and descriptive form to the Ministry of Finance, and the report on the implementation of the budget of the KNF for the Public Finance Committee of the Sejm and for the Budget and Public Finance Committee of the Senate is prepared by the end of the second quarter of each year.

PUBLIC PROCUREMENT

All current and asset expenses at the KNF are executed in accordance with the Public Procurement Plan, pursuant to the provisions of the Public Procurement Law (Journal of Laws 2018, item 1986, as amended) and in accordance with the KNF's internal regulations on public procurement. In 2018, the KNF signed 43 public procurement contracts under the procedures provided for by the Public Procurement Law, including: 10 delivery contracts and 33 service contracts.

Table 93. The number of awarded public procurement contracts in 2018 by the mode

| Mode | Number of awarded public procurement contracts |
|--|--|
| Open tender with a contract value exceeding the amounts specified in the regulations issued pursuant to Article 11(8) of the Public Procurement Act | 17 |
| Open tender with a contract value smaller than the amounts specified in the regulations issued pursuant to Article 11(8) of the Public Procurement Act. | 24 |
| Direct contracts with a contract value exceeding the amounts specified in the regulations issued pursuant to Article 11(8) of the Public Procurement Act | 1 |
| Direct contracts with a contract value smaller than the amounts specified in the regulations issued pursuant to Article 11(8) of the Public Procurement Act. | 1 |
| Total number of public procurement contracts awarded in the modes provided for by the Public Procurement Act in 2018 | 43 |

Source: KNF's own calculations

DEVELOPMENT OF INFORMATION TECHNOLOGIES

In the area of insurance, the Solvency II project adapted the SNU Reporting Application to the management of statements compliant with Solvency II, including management of new Solvency II reporting packages 2.3.0.

In the area of capital market supervision, systems were developed and implemented to enable the KNF to fulfil its obligations under EU regulations, including:

- the reporting forms and the analytical environment in the ESPI system were modified in connection with:
 - the Act on statutory auditors, audit firms and public supervision (Journal of Laws 2017, item 1089),
 - Regulation of the Minister of Development and Finance of 28 June 2017 on periodic reports and current information concerning the activity and financial standing of investment fund management companies and investment funds provided by such entities to the Polish Financial Supervision Authority,
 - Regulation of the Minister of Development and Finance on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a country other than a Member State may be recognised as equivalent,
 - Regulation of 29 March 2018 on current and periodic information provided by issuers of securities,
 - Draft Regulation of the Minister of Finance on the scope, procedure, form and time limits for submission of information by investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks,
- the FIRDS/TREM projects involved delivery of:
 - feeding the glossaries and reference data within the FIRDS,
 - launching of the modules RDS, Transparency, and DVC,
 - launching of the feeding of transactions to ARM, FIN within TREM,
 - launching of a feedback channel for confirmation files.

In the area of banking supervision:

- the BIONB information system supporting the process of audit and supervisory assessment was adapted to the current methodology, which enabled the assessment to be carried out in 2018,

- following the entry into force of Regulation of the Minister of Development and Finance of 28 June 2017 on the reports of credit unions and the National Association of Credit Unions:
 - the SASSKOK system was adapted to the requirements resulting from the said Regulation,
 - the mechanism for the export of reporting data of the SASSKOK system to the NBP and BFG was delivered.

In 2018, as part of the plans to expand and upgrade the IT infrastructure, projects were implemented to increase the safety of that infrastructure. The key project was the design and construction of a safe local network at the new head office of the KNF, based on the most recent technological solutions. The network expansion project was delivered by applying the WAF cluster (Web Application Firewall) to all web services and applications. Based on highly-specialised multi-layer security devices, WAF protects web applications against cyberattacks, information leakage, identity theft and any other attack. A redundant solution called Load Balancer was implemented to balance the load in the network and ensure continuity of access for the KNF's critical systems. A highly efficient cluster for security devices (NGX and Proxy firewall) was purchased and implemented to effectively protect the production systems and user stations against attacks from the Internet or LAN. As part of the activities in the area of FinTech, an information website (www.fintech.gov.pl) was launched. In 2018, to increase the safety of the entire IT environment at the KNF, modernisation work was carried out to upgrade the protection of the server infrastructure and the employees' work stations.

MANAGEMENT OF HUMAN RESOURCES

In 2018, the activities undertaken by the KNF in the area of management of human resources focused on ensuring appropriate resources for the purpose of supervisory tasks. Those activities included the process of managing funds for staff remuneration and the process of planning, acquiring and allocating human resources within the KNF's organisational structure. That involved consideration of various levels of management, ensuring conditions for personal development and retention of the most qualified personnel.

The employment plan for 2018 was 1 017 jobs. The employment level as at 31 December 2018 amounted to 972 43 jobs (excluding substitution agreements).

The fluctuation rate in 2018 was 12.87%. For comparison, in the years 2012-2017, it was: 8.24%, 7.25%, 8.86%, 9.77%, 9.93% and 10.99%, respectively. Despite the evident increase in the fluctuation rate, reflecting the high demand for experts in finance due to the situation in the labour market, the turnover remained at an acceptable level.

In 2018, as part of the training and development activities, a total of 137 group training projects were completed, on 81 topics. 129 out of 137 training projects were specialist training, mostly in the following fields:

- banking,
- financial market and capital market,
- reporting and accounting,
- audit and internal control,
- insurance,
- payment services,
- MiFID II/MiFIR
- legal issues.

As a result of the ongoing training needs analysis, the group training processes were supported by individual training, in which 383 employees took part in 2018, including 285 participants of domestic training and 98 participants of international training.

Overall, 5 441.03 training 'man-days' were completed in 2018. For comparison, in the years 2016-2017 the figures were 5 735.84 and 5 396.41 training 'man-days', respectively. The intensity of participation of the KNF staff in the training in 2018 is reflected by the rate of 5.6 training day, which represents 45 hours of training per employee. For comparison, in the years 2016-2017, the respective rates were: 48 and 44 hours.

TASKS IMPLEMENTED IN THE FIELD OF SECURITY AND PROTECTION OF INFORMATION PROCESSED AT THE KNF

In 2018, tasks related to security and protection of information, physical protection, fire protection and defence preparations were carried out. The most important tasks were:

- fulfilment of obligations resulting from the provisions of the Act on the protection of classified information, the Act on the protection of personal data, the Act on the protection of persons and property, the Act on fire protection, and other industry acts,
- performance of tasks to provide expertise and organisational support to the Data Protection Officer from 15 September 2018 in connection with Article 39 of Regulation (EU) No 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC,
- activities relating to defence tasks of the KNF,
- ensuring the security of the processing of information protected by law or on the basis of internal regulations of the KNF,
- ongoing cooperation with the National Crime Information Centre (PL: *Krajowe Centrum Informacji Kryminalnych*–KCIK),
- fulfilment of the obligation resulting from Article 47 of the Act on the organisation and operation of pension funds,
- cooperation with authorities and institutions operating in the field of state security in the area of counteracting threats to the security of the financial system, protection of personal data, security of the critical infrastructure, and cybersecurity,
- supervision and monitoring of ICT security systems,
- supervision and monitoring of the physical protection systems, supervision and monitoring of tasks in the area of crisis management, contingency liquidity planning and business continuity.

In the period covered by this report, the above-mentioned tasks involved:

- participation in legislative work on the national cybersecurity system and the Act on the protection of personal data,
- initiation of introduction of provisions with regard to the new Act on the protection of personal data and the Act on the national cybersecurity system,
- appointment of the cybersecurity team and selection (under the Act on the national cybersecurity system) of the entities to act as key service operators,
- preparation and development of the concept of physical protection of the building at 20 Piękna street,
- information security audits were carried out, implementing the provisions of the Information Security Policy,
- development and implementation of security plans for the KNF facilities, in particular obligatory protection plan for the facility at 6e Niedźwiedzia street,
- provision of theoretical and practical training on fire protection to the employees designated for firefighting and evacuation operations in the facilities of the KNF,
- provision of basic and specialised training in first aid to persons assigned to the above-mentioned operations in the facilities of the KNF,
- performance of security audits of ICT systems,
- reinforcement of classified information protection system at the KNF, in particular through the construction of the 2nd protection zone at 20 Piękna street,

- raising awareness of classified information protection through the training for the KNF's management,
- a series of defence training courses, which used the training base in the Military Unit proposed by the Armed Forces of the Republic of Poland, were implemented,
- the National Questionnaire of Non-Military Defence Preparations for the KNF was updated.

INTERNAL CONTROLS AND COMPLAINTS ABOUT THE ACTIVITY OF THE KNF AND THE CONDUCT OF THE KNF EMPLOYEES

In 2018, the KNF carried out internal control tasks, which were aimed at, inter alia:

- ongoing check of the effectiveness of performing functional control at the KNF,
- control of compliance of the organisational units, working groups or committees, as well as persons performing business duties in them with the applicable legislation and internal regulations of the KNF,
- examination of the functioning of the KNF in terms of legality, purposefulness and timeliness in the tasks being carried out, and indication of the manner and means to be used to remove and prevent irregularities.

Between 1 January 2018 and 31 December 2018, the KNF's internal control unit carried out 5 planned targeted controls and 3 *ad hoc* problem targeted controls.

In 2018, explanatory actions related to handling complaints and applications concerning work of the KNF and the conduct of employees of the KNF were also taken. 39 complaints in that respect were examined.

EXTERNAL CONTROLS

The Supreme Audit Office (NIK) positively assessed the implementation of the State budget in 2017 in part 70 - the Polish Financial Supervision Authority. The Supreme Audit Office positively assessed the planning and implementation of budgetary revenue, the actions taken to recover receivables, and positively assessed the implementation of expenditure under the KNF's budget. The post-control statement for 2017 addressed to the Chair of the KNF Board did not contain any post-control requests. The post-control statement indicates that:

- the expenditure in Part 70–Polish Financial Supervision Authority have been incurred in accordance with the rules for the management of public funds, defined in the Act on public finance and implementing acts,
- no case of unjustified or wasteful spending of public funds has been identified,
- as a result of the spending, the activity-based business objectives have been achieved,
- the supervision and control of the execution of the budget in Part 70 has been carried out fairly, in accordance with Article 175(1) and (2) of the Act on public finance,
- the management control arrangements ensured reasonable control of budget reports and reports on financial operations.

The Supreme Audit Office continued its control 'Protection of consumers using loans subject to foreign exchange risk', whose purpose was to determine how competent authorities (including: KNF, UOKiK, and Financial Ombudsman) supervise banks and protect borrowers. The control results indicate that the KNF was first to identify the risks associated with loans subject to foreign exchange risk but the measures of the KNF Board were prudent and limited. The second factor resulted from the unspecific description of the KNF Board's tasks in the area of protection of interests of financial market participants (the Act on financial market supervision assigned tasks in that respect on the KNF Board but failed to provide it with effective tools to perform them).

In the third quarter of 2018, the Supreme Audit Office also initiated the control 'The activities of authorities, state institutions and organisers of the financial market towards GetBack S.A., entities offering its securities and its audit firms.'

A control was also conducted at the KNF by the National Labour Inspectorate in the area of legal protection of employment and ensuring occupational health and safety.

10. APPENDICES

APPENDIX 1. RESOLUTIONS AND FINAL AND INTERIM ADMINISTRATIVE DECISIONS ISSUED BY THE KNF BOARD IN 2018, INTERIM DECISIONS INITIATED *EX OFFICIO* UNDER ARTICLE 13 OF THE ACT ON CAPITAL MARKET SUPERERVISION, AND INTERIM DECISIONS INITIATED UPON REQUEST UNDER ARTICLE 11(7) ON FINANCIAL MARKET SUPERVISION

Table 1.1. Number of resolutions adopted by the KNF Board in 2018

| Subject-matter of resolution | Number of adopted resolutions |
|---|-------------------------------|
| Matters concerning the banking sector | |
| Approval of appointment of a president of the management board of a bank | 33 |
| Approval of appointment of a president of the management board of a bank | 6 |
| Approval of bank merger | 8 |
| Approval of bank division | 2 |
| Statement of no grounds for objecting to the planned acquisition of shares | 4 |
| Approval of the bank's recovery plan | 6 |
| Refusal to approve the appointment of the president of the bank's management board | 4 |
| Refusal to grant authorisation to establish a bank | 1 |
| Refusal to authorise a bank to commence the activity | 1 |
| Indication of conditions to be met by a branch of a credit institution when operating in the territory of the Republic of Poland in the interest of the general good | 3 |
| Upholding a final decision | 3 |
| Discontinuation of proceedings | 5 |
| Authorisation to establish a bank | 1 |
| Repeal of a final decision | 4 |
| Refusal to express consent for a bank to conduct its activity outside the group of affiliated banks | 1 |
| Approval of the bank's group recovery plan | 2 |
| Acceptance of the capital conservation plan | 1 |
| Restriction on bank's operations, | 2 |
| Suspension of a member of a bank's supervisory board from their duties | 4 |
| Addressing a bank with a demand to convene a general meeting | 1 |
| Imposition on a bank of the obligation to reimburse the KNF for the costs paid to an audit firm for the examination of correctness and accuracy of financial statements | 2 |
| Refusal to approve the recovery plan | 6 |
| Other | 16 |
| Total: | 116 |
| Matters concerning the sector of credit unions | |

| | |
|---|-----------|
| Approval of the appointment of a president/vice president of the management board | 1 |
| Approval of the appointment of a president/vice president of the management board of the National Association of Credit Unions | 2 |
| Repeal of a decision | 1 |
| Discontinuation of administrative proceedings | 5 |
| Upholding a final decision | 2 |
| Upholding an interim decision | 1 |
| Take-over of a credit union by a bank | 2 |
| Approval of merger with another credit union | 3 |
| Other | 7 |
| Total: | 24 |
| Matters concerning the payment service sector | |
| Authorisation to provide payment services as a domestic payment institution, including an amendment to the KNF Board's decision | 1 |
| Imposition of fines on the BUP | 7 |
| Repeal of a decision | 2 |
| Prohibition of the conduct of business | 2 |
| Withdrawal of authorisation to provide payment services as a domestic payment institution | 4 |
| Statement of no grounds for objecting to the planned acquisition of shares of a domestic payment institution | 3 |
| Discontinuation of administrative proceedings | 4 |
| Total: | 23 |
| Matters concerning the insurance sector | |
| Approval of appointment of a member of the management board of an insurance undertaking responsible for risk management | 15 |
| Approval of appointment of a president of the management board of an insurance undertaking | 5 |
| Imposition of a fine on the insurance undertaking | 18 |
| Discontinuation of proceedings | 1 |
| Upholding a final decision | 3 |
| Repeal of a final decision | 6 |
| Lack of grounds for filing the objection against the acquisition of shares of a domestic insurance undertaking | 5 |
| Lack of grounds for objecting to a merger between insurance undertakings | 1 |
| Interim decision on upholding an interim decision appealed against | 1 |
| Approval of a change in the material scope of business of a society | 1 |
| Other | 1 |
| Total: | 57 |
| Matters concerning the pension sector | |
| Approval of an amendment to the articles of association of a general pension society | 4 |
| Approval of an amendment to the articles of association of an open pension fund | 3 |

| | |
|---|-----------|
| Authorisation to shorten the deadline for entry into force of amendments to the articles of association of an open pension fund | 3 |
| Approval of appointment of a member of the management board of a general pension society | 2 |
| Approval of appointment of a member of the management board of an occupational pension society | 3 |
| Approval of an amendment to the articles of association of an occupational pension society | 1 |
| Approval of an amendment to the articles of association of the voluntary pension fund | 1 |
| Authorisation to shorten the deadline for entry into force of amendments to the articles of association of a voluntary pension fund | 1 |
| Withdrawal of authorisation to establish a general pension society | 1 |
| Authorisation to take over the management of an open pension fund (OFE) | 1 |
| Authorisation to take over the management of a voluntary pension fund (DFE) | 1 |
| Approval of acquisition of shares of an occupational pension company | 4 |
| Upholding a final decision | 1 |
| Other | 1 |
| Total: | 27 |
| Matters concerning the capital and commodity markets | |
| Authorisation to convert shares into certified form (dematerialisation of shares) | 22 |
| Withdrawal of authorisation to conduct brokerage activities | 2 |
| Limitation of authorisation to conduct brokerage activities | 3 |
| Imposition of fines on an investment fund management company (TFI) | 3 |
| Imposition of fines on entities (issuers, shareholders being legal persons, investment firms) | 8 |
| Imposition of fines on entities and indefinite exclusion of a company's shares from trading on a regulated market | 1 |
| Imposition of fines on natural persons | 15 |
| Imposition of a fine on a depositary of investment funds | 5 |
| Upholding a final decision | 32 |
| Repeal of a final decision | 21 |
| Financial penalty waiver | 2 |
| Discontinuation of proceedings | 1 |
| Refusal to enter a company in the register of AICMs | 10 |
| Refusal to make an entry in the register of tied agents of investment firms | 1 |
| Removal of an investment firm's tied agent | 2 |
| Removal from the list of securities brokers | 1 |
| Lack of grounds for objecting to the planned acquisition of shares in a TFI | 1 |
| Lack of grounds for objecting to an entity becoming a direct parent undertaking of a TFI | 1 |
| Resolution on making information available to the public | 67 |
| Approval of changes in the composition of the management board of the WSE | 2 |
| Approval of changes in the composition of the management board of BondSpot S.A. | 1 |
| Authorisation to change the depositary | 13 |

| | |
|--|------------|
| Approval of changes in the composition of the management board of TGE S.A. | 1 |
| Order for the transfer of financial instruments | 1 |
| Lack of grounds for objecting to the planned acquisition of shares | 2 |
| Consent to the payment of the fine in instalments | 1 |
| Amendment to a final decision of the KNF Board | 1 |
| Notification of a competent supervisory authority of an intention to conduct brokerage business without a opening a branch | 5 |
| Definition of the content of a notice on the rules for conducting brokerage business in the territory of the Republic of Poland for foreign investment firms operating through a branch or without the need to open a branch | 1 |
| Authorisation of an issuer being a credit institution to delay public disclosure of inside information–Article 17(6) of MAR | 2 |
| Other | 9 |
| Total: | 237 |
| Cross-sectoral matters and matters concerning internal organisation of the KNF's work | |
| Report on the activities of the Polish Financial Supervision Authority in 2017 | 1 |
| Other | 2 |
| Total: | 3 |
| TOTAL | 487 |

Source: KNF's own calculations

Table 1.2. The number of final and interim decisions issued in 2018 on the basis of the authorisation granted by the KNF Board

| Subject-matter of final and interim decisions | The number of final and interim decisions issued |
|--|--|
| Matters concerning the banking sector | |
| Authorisation to include profit for a given period in the Tier I core capital | 38 |
| Authorisation to classify the issued shares to the Tier I core capital | 17 |
| Granting permission to reduce own funds | 424 |
| Granting permission to reduce own funds–prior consent | 21 |
| Final decision on a request for authorisation to apply an individual model of loan classification and provision calculation | 1 |
| Authorisation to classify cash of a bank gained from the issue of long-term bonds and subordinated loans as instruments to the Tier II capital | 27 |
| Authorisation of early redemption of subordinated bonds included in Tier 2 capital. | 8 |
| Authorisation to classify shares contributed after 28 June 2013 to the Tier I capital | 83 |
| Decision on the Institutional Protection Schemes (IPS) (including: giving up, on an individual basis, the application of the provisions of Articles 412 and 414 of the CRR (in part relating to Article 412 of the CRR) by banks, which authorise them not to apply the requirements of Article 113(1) of the CRR in respect of exposures to banks with which banks joined the Institutional Protection Scheme, allowing banks not to deduct participations in the Affiliating Bank held by them for the purpose of calculating own funds on an individual basis) | 28 |
| The KNF Board's approval of a (group) recovery plan | 20 |
| Discontinuation of proceedings | 8 |
| Refusal to initiate proceedings | 1 |

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|---|--------------|
| Recommendation to a bank to maintain an additional own funds requirement in accordance with Article 138(1)(2a) | 13 |
| Authorisation of early return of the funds deriving from the subordinated loan included in the Tier 2 capital | 1 |
| Authorisation to exempt from the obligation to provide translation of the financial statements of the parent company into Polish | 2 |
| Authorisation to limit the scope of the translation of consolidated financial statements | 6 |
| Authorisation to entrust performance, by business owners indicated in the decision, of activities other than those specified in Article 6a(1) point 1(a) of the Banking Act for and on behalf of a bank | 8 |
| Authorisation to conclude a contract with a foreign business owner who does not have a registered office in the territory of a Member State or an agreement providing for the performance of activities outside the territory of a Member State | 26 |
| The KNF's order to prepare a recovery plan for a bank operating in one of the holding companies referred to in Article 141f(1) of the Banking Act or for a significant branch of a credit institution | 3 |
| Decision on the expiration of a final decision on the recommendation to maintain own funds for covering additional capital requirement to safeguard against the risk resulting from mortgage-secured foreign currency credit facilities and loans for | 1 |
| Approval of a buy-back of own shares from a parent undertaking | 1 |
| Agreement to an opt-out from the requirements laid down in Article 113(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and | 3 |
| Approval of the rules for establishing the mortgage lending value of real property | 1 |
| Authorisation to amend the articles of association of a bank operating as a joint-stock | 50 |
| Authorisation to amend the articles of association of a cooperative bank | 261 |
| Consent to the expansion of the territorial scope of operations of a cooperative bank | 1 |
| Interim decision in administrative proceedings relating to licensing | 5 |
| Discontinuation of proceedings in respect of establishment of a bank in the form of a | 1 |
| Discontinuation of proceedings relating to the approval of appointment of presidents and members of management boards | 10 |
| Interim decisions on the explanation of the substance of final decisions of the KNF Board on authorisation to establish a bank in the form of a joint-stock company | 1 |
| Interim decision on an obvious typographical error | 2 |
| Refusal to initiate proceedings in respect of the consent to the classification of an issue of equity instruments as instruments in Tier 1 capital in the calculation of prudential ratios on the basis of the consolidated financial standing of a group | 1 |
| Other final and interim decisions | 33 |
| Total | 1 106 |
| Matters concerning the sector of credit unions | |
| Approval of an amendment to the articles of association of a credit union | 4 |
| Correction of typographical errors and other obvious errors | 1 |
| Approval of amendments to the articles of association of a credit union | 1 |
| Upholding an interim decision to stay proceedings | 1 |
| Interim decision on the resumption of suspended proceedings | 1 |
| Other | 8 |

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| Total | 16 |
| Matters concerning the payment service sector | |
| Suspension of proceedings for granting authorisation to provide payment services as a domestic payment institution | 1 |
| Discontinuation of the procedure for authorisation of provision of payment services as a national payment institution in its entirety | 1 |
| Suspension of proceedings for granting authorisation to provide payment services as a domestic payment institution | 1 |
| Discontinuation of proceedings concerning the expiry of authorisation to provide payment services as a national payment institution | 1 |
| Refusal to initiate proceedings for granting authorisation to provide payment services as a domestic payment institution | 1 |
| Discontinuation of proceedings | 63 |
| Other | 1 |
| Total | 69 |
| Matters concerning the insurance sector | |
| Final decision on the repayment of a subordinated loan | 3 |
| Final decision pursuant to Article 374(5) point 2 of the Act on the business of insurance and reinsurance | 1 |
| Suspension of proceedings | 2 |
| Resumption of suspended proceedings | 3 |
| Setting a new date to deal with the case | 25 |
| Discontinuation of proceedings | 19 |
| Upholding a final decision appealed against | 1 |
| Final decision pursuant to Article 402(3) in conjunction with Article 419(2) of the Act on the business of insurance and reinsurance | 1 |
| Interim decision setting a new date to deal with a case | 2 |
| Authorisation to extend the maximum duration of a contract with an audit firm | 5 |
| Approval of amendments to the articles of association of an insurance undertaking | 20 |
| Entry in the register of actuaries | 5 |
| Authorisation to conduct brokerage in the area of insurance | 79 |
| Authorisation to conduct brokerage in the area of reinsurance | 5 |
| Withdrawal of authorisation to conduct brokerage | 48 |
| Notice of initiation of administrative proceedings | 3 |
| Refusal to take into account requests to provide evidence | 6 |
| Other | 5 |
| Total | 233 |
| Matters concerning the pension sector | |
| Authorisation to appoint a member of the supervisory board of a general pension society | 13 |
| Authorisation to appoint a member of the supervisory board of an occupational pension society | 2 |
| Authorisation to amend the agreement on the safekeeping of assets of an open pension fund | 1 |
| Approval of amendments to the agreement on the safekeeping of assets of a voluntary pension fund | 2 |
| Entry of an occupational pension scheme in the register | 206 |

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| Inclusion of an employer in an inter-company scheme | 64 |
| Entry of changes to the occupational pension scheme in the register | 164 |
| Removal of the occupational pension scheme from the register | 27 |
| Entry of an agreement on limiting the amount of premiums charged into the register | 2 |
| Entry of an agreement on suspension of charging and transferring premiums into the | 1 |
| Resumption of suspended proceedings | 8 |
| Suspension of proceedings | 14 |
| Discontinuation of proceedings | 6 |
| Extension of the time for removal of formal defects/irregularities | 42 |
| Setting a new date to deal with the case | 1 |
| Conducting one set of proceedings concerning requests for review of a case | 2 |
| Determining the weighted average rate of return of pension funds | 2 |
| Notification of irregularities identified in the activities of a pension fund, a pension society or a depositary's bank | 8 |
| Approval of the report on activities of KDPW S.A. in respect of management of the Guarantee Fund for 2017 | 1 |
| Other | 1 |
| Total | 567 |
| Matters concerning the capital and commodity markets | |
| Approval of a prospectus | 25 |
| Approval of an information memorandum | 2 |
| Approval of an annex to the prospectus | 62 |
| Approval of an annex to an information memorandum | 9 |
| Suspension of administrative proceedings | 50 |
| Initiation of administrative proceedings | 24 |
| Discontinuation of administrative proceedings | 139 |
| Authorisation to keep registers or accounts of commodities | 3 |
| Correction of an obvious error | 3 |
| Refusal to take into account requests to provide evidence | 5 |
| Refusal to suspend the enforcement of a final decision | 5 |
| Upholding an interim decision on the refusal to resume proceedings | 3 |
| Refusal to give consent | 1 |
| Refusal to initiate administrative proceedings | 2 |
| Demand to suspend trading in shares of a public company | 16 |
| Repeal of a final decision | 8 |
| Final decision under Article 17(5) and (6) of MAR | 4 |
| Refusal to issue a certified copy of a file of proceedings | 1 |
| Refusal to stay administrative proceedings | 2 |
| Granting or refusing to grant the costs of appearance of a witness or party | 4 |
| Declaring a final decision to be expired | 8 |
| Authorisation of an investment fund management company to extend its activities to include the management of portfolios composed of one or more financial instruments | 1 |
| Authorisation to merge internally two sub-funds of an open-end investment fund or a specialised open-end investment fund | 14 |
| Authorisation to manage the securitised loans of the securitisation fund by an entity other than a company | 2 |
| Approval of amendments to the articles of association of an investment fund, including the shortening of the deadline for the entry into force of amendments to the fund's articles of association | 50 |

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| Authorisation to establish a public closed-end investment fund, which corresponds to the approval of a prospectus for investment certificates | 2 |
| Approval of a prospectus for closed-end investment fund certificates | 2 |
| Authorisation to set up a specialised open-ended investment fund | 1 |
| Approval of an annex to the investment certificates prospectus of a closed-end investment fund | 26 |
| Authorisation to act as an agent in selling and redeeming participation units in investment funds or participation units in foreign funds | 4 |
| Approval of conclusion, by an investment fund management company, of the agreement referred to in Article 46(3a) of the Act on investment funds and the management of alternative investment funds | 5 |
| Raising an objection referred to in Article 61b(3) of the Act on investment funds and the management of alternative investment funds | 1 |
| Inclusion in the list of investment advisers | 51 |
| Inclusion in the list of securities brokers | 63 |
| Decision on obligatory participation in adaptation training or a competence test in relation to the pursuit of a regulation profession | 1 |
| Inclusion in the register of investment firms' tied agents | 76 |
| Removal of an investment firm's tied agent | 12 |
| Decision on an objection to a transfer, to another entity, of authorisation to conduct brokerage business to another entity | 2 |
| Recovery plan of a brokerage house | 2 |
| Exemption from certain provisions of CRR | 2 |
| Inclusion of shares in Tier I core capital | 12 |
| Authorisation of a buy-back of bonds issued by a brokerage house | 2 |
| Approval of amendments to the Rules of operation of the compensation scheme of KDPW S.A. | 1 |
| Authorisation of KDPW S.A. to provide the Approved Reporting Mechanism (ARM) service | 1 |
| Approval of the amendments to the Regulations for the settlement of KDPW_CCP | 2 |
| Approval of amendments to the articles of association of Towarowa Giełda Energii | 2 |
| Approval of trading conditions for the forward contracts scheme of Towarowa Giełda Energii S.A. | 1 |
| Approval of changes in the composition of the management board of Towarowa Giełda Energii S.A. | 1 |
| Approval of amendments to the Trading Rules for the regulated market of BondSpot | 1 |
| Approval of amendments to the articles of association of BondSpot S.A. | 1 |
| Approval of changes in the composition of the management board of BondSpot S.A. | 1 |
| Approval of amendments to the Regulations of the Clearing and Settlement House operated by IRGiT S.A. | 1 |
| Approval of amendments to the Rules of the Warsaw Stock Exchange | 2 |

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| Approval of changes in the composition of the management board of the Warsaw Stock Exchange | 2 |
| Exemption from the requirements concerning transparency for trading systems provided for in Regulation (EU) No 600/2014 | 9 |
| Interim decision on the refusal to allow a civil society organisation to act as a party to proceedings | 1 |
| Refusal to suspend a final administrative decision | 1 |
| Refusal to grant a fine reduction, | 4 |
| Refusal to refer a case for mediation | 6 |
| Allowing a civil society organisation to act as a party to proceedings | 4 |
| Refusal to conduct an administrative hearing | 1 |
| Authorisation to extend cooperation with an audit firm | 2 |
| Other | 0 |
| Total | 751 |
| Matters concerning mortgage loan intermediaries | |
| Authorisation to carry on business as a mortgage credit intermediary and entry in the Register of Credit Intermediaries (in Section I) | 250 |
| Withdrawal of authorisation to carry on business as a mortgage credit intermediary and removal from the Register of Credit Intermediaries (from Section I) | 9 |
| Discontinuation of proceedings in respect of authorisation to carry on business as a mortgage credit intermediary | 12 |
| Correction of typographical errors and other obvious errors | 2 |
| Total | 273 |
| Matters concerning consumer credit intermediaries | |
| Refusal to enter a credit intermediary in the Register of Credit Intermediaries (Section II) | 24 |
| Refusal to initiate proceedings in respect of entry of a credit intermediary in the Register of Credit Intermediaries (in Section II) | 2 |
| Discontinuation of proceedings with respect of entry of a credit intermediary in the Register of Credit Intermediaries (in Section II) | 1 |
| Total: | 27 |
| Matters concerning non-bank lending institutions | |
| Refusal to make an entry in the Register of Non-Bank Lending Institutions | 7 |
| Total | 7 |
| Matters concerning other areas | |
| Decision under Article 49a (11) and (13) of the Geological and Mining Law | 1 |
| Recognition of an entity as a key service operator pursuant to the Act of 5 July 2018 on the national cybersecurity system | 19 |

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| Other | 72 |
| Total | 92 |
| TOTAL | 3141 |

Source: KNF's own calculations

Table 1.3. Number of *ex officio* interim decisions under Article 13 of the Act on capital market supervision

| Subject-matter of the interim decision | Number of interim decisions |
|--|-----------------------------|
| initiation of <i>ex officio</i> administrative proceedings | 31 |

Source: KNF's own calculations

Table 1.4 Number of *ex officio* interim decisions under Article 11(7) of the Act on financial market supervision

| Subject-matter of the interim decision | Number of interim decisions |
|--|-----------------------------|
| Exclusion of a member of the KNF Board from administrative proceedings | 8 |

Source: KNF's own calculations

APPENDIX 2. ISSUERS WHOSE PROSPECTUSES WERE APPROVED BY THE KNF BOARD IN 2017, ISSUERS WHOSE MEMORANDA WERE APPROVED AND IN RESPECT OF WHOM EQUIVALENCE TO THE PROSPECTUS REQUIREMENTS WAS STATED IN 2017, AND CLOSED-END PUBLIC INVESTMENT FUNDS WHOSE PROSPECTUSES WERE APPROVED BY THE KNF BOARD IN 2017

Table 2.1. Issuers whose prospectuses were approved by the KNF Board in 2018

| Item | Issuer | Date |
|------|--|------------|
| 1. | Getin Noble Bank S.A. | 10/01/2018 |
| 2. | Selvita S.A. | 31/01/2018 |
| 3. | Sescom S.A. | 31/01/2018 |
| 4. | LS Tech-Homes S.A. | 14/03/2018 |
| 5. | OncoArendi Therapeutics S.A. | 15/03/2018 |
| 6. | Ten Square Games S.A. | 10/04/2018 |
| 7. | Danwood Holding S.A. | 11/04/2018 |
| 8. | Kruk S.A. | 16/04/2018 |
| 9. | Echo Investment S.A. | 16/04/2018 |
| 10. | ML System S.A. | 17/05/2018 |
| 11. | i2 Development S.A. | 25/05/2018 |
| 12. | ZPC Otmuchów S.A. | 29/05/2018 |
| 13. | T-Bull S.A. | 22/06/2018 |
| 14. | PCC Rokita S.A. | 25/06/2018 |
| 15. | Miraculum S.A. | 25/06/2018 |
| 16. | Silvair Inc. | 25/06/2018 |
| 17. | „Biomed-Lublin” Wytwórnia Surowic i Szczepionek S.A. | 20/07/2018 |
| 18. | PCC Exol S.A. | 23/07/2018 |
| 19. | Enter Air S.A. | 27/07/2018 |
| 20. | Ghelamco Invest sp. z o.o. | 09/08/2018 |

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| 21. | Comperia.pl S.A. | 11/09/2018 |
| 22. | Bank Ochrony Środowiska S.A. | 11/09/2018 |
| 23. | Zakłady Magnetyzowe „Ropczyce” S.A. | 08/10/2018 |
| 24. | Pragma Faktoring S.A. | 14/12/2018 |
| 25. | DataWalk S.A. | 21/12/2018 |

Source: KNF's own calculations

Table 2.2. Issuers whose memoranda were approved by the KNF Board and whose equivalence to the prospectus was stated by the KNF Board in 2018

| Item | Issuer | Date |
|------|--------------------|------------|
| 1. | Famur S.A. | 08/02/2018 |
| 2. | Vistula Group S.A. | 08/10/2018 |

Source: KNF's own calculations

Table 2.3. Closed-end public investment funds whose prospectuses were approved by the KNF Board in 2018

| Item | Name of the fund | Date of approval of the prospectus |
|------|---------------------------------|------------------------------------|
| 1. | PZU Akord FIZ | 13/04/2018 |
| 2. | Ipopema Benefit 3 FIZ AN | 18/06/2018 |
| 3. | Trigon Polskie Perły FIZ | 18/06/2018 |
| 4. | BETA ETF WIG20TR Portfelowy FIZ | 29/10/2018 |

Source: KNF's own calculations

APPENDIX 3. LIST OF ITEMS OF THE OFFICIAL JOURNAL OF THE POLISH FINANCIAL SUPERVISION AUTHORITY ISSUED IN 2018

| Item in the OJ of the KNF Board | Announcement date | Title of the act |
|---------------------------------|-------------------|--|
| 1. | 25/01/2018 | Communication from the KNF Board of 19 January 2018 on the amount of the maximum actuarial interest rate |
| 2. | 20/02/2018 | Communication No 214 from the Examination Board for Investment Advisers of 19 February 2018 on the date, scoring rules and completing tasks of the third stage of the examination for investment advisers |
| 3. | 08/03/2018 | Communication from the KNF Board of 8 March 2018 on the suspension of rights to pursue the profession of securities broker |
| 4. | 30/03/2018 | Communication No 217/2018 from the Examination Board for Investment Advisers of 29 March 2018 on the dates of competence tests |
| 5. | 30/03/2018 | Communication No 218/2018 from the Examination Board for Investment Advisers of 29 March 2018 on the thematic scope of the competence test |
| 6. | 30/03/2018 | Communication from the Chair of the KNF Board of 29 March 2018 on the amount of costs of supervision of payment service offices in 2017 and the maximum amount due from all payment service offices in 2017 |
| 7. | 09/05/2018 | Communication No 219/2018 from the Examination Board for Investment Advisers of 7 May 2018 on the date, the content of problem-related tasks, the scoring rules and completion of tasks of the second stage of the examination for investment advisers |
| 8. | 30/05/2018 | Communication from the Chair of the KNF Board of 29 May 2018 on the costs of supervision of mortgage credit intermediaries in 2017 and the amount of advance payments due from mortgage credit intermediaries in 2017 |
| 9. | 20/07/2018 | Communication No 1/2018 from the Examination Board for Securities Brokers of 10 July 2018 on the date of the examination for securities |

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| | | brokers and the supplementary examination |
| 10. | 20/07/2018 | Communication No 2/2018 from the Examination Board for Securities Brokers of 10 July 2018 on the thematic scope of the examination for securities brokers and the supplementary examination |
| 11. | 20/07/2018 | Communication No 221/2018 from the Examination Board for Investment Advisers of 18 July 2018 on the date of the first stage of the examination for investment advisers |
| 12. | 20/07/2018 | Communication No 222/2018 from the Examination Board for Investment Advisers of 18 July 2018 on the thematic scope of the examination for investment advisers |
| 13. | 20/07/2018 | Communication No 223/2018 of the Examination Board for Investment Advisers of 10 February 2018 on the date, scoring rules and completing tasks of the third stage of the examination for investment advisers |
| 14. | 30/07/2018 | Communication from the Chair of the KNF Board of 27 July 2018 on the value of total balance sheet assets of all credit unions and the amount of costs of supervising credit unions and the National Association of Credit Unions in 2017 |
| 15. | 20/08/2018 | Communication from the Chair of the KNF Board 18 August 2018 on the costs of supervision of payment institutions in 2017, the total fees paid by all domestic payment institutions in 2017 and the maximum amount due from all domestic payment institutions for 2017 |
| 16. | 29/08/2018 | Communication from the KNF Board of 21 August 2018 on changing the details to be entered on the list of securities brokers |
| 17. | 30/08/2018 | Communication from the Chair of the KNF Board of 30 August 2018 on the amount of rates and the value of correction coefficients for groups referred to in § 22 of Regulation of the Minister of Finance on payments to cover the costs of capital market supervision and the value of the coefficient of change of the costs of capital market supervision in 2018 |
| 18. | 03/09/2018 | Announcement of the decision of the KNF Board on the imposition of fines on Mebis Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw (Ref. No DPS-WPO.456.28.2018) |
| 19. | 25/09/2018 | Resolution No 352/2018 of the KNF Board of 14 September 2018 amending the resolution to issue Recommendation T on good practices in risk management for retail credit exposures |
| 20. | 27/09/2018 | Communication from the Chair of the KNF Board of 27 September 2018 on the weighted average rate and the value of the correction coefficient to be used in the calculation of the financial contribution from banks to cover the cost of supervision in 2018 |
| 21. | 27/09/2018 | Communication from the Chair of the KNF Board of 27 September 2018 on the weighted average value and the value of the correction coefficient to be used in the calculation of the contribution from insurance and reinsurance undertakings to cover the costs of supervision in 2018 |
| 22. | 15/11/2018 | Communication No 226/2018 from the Examination Board for Investment Advisers of 9 November 2018 on the date, the content of problem-related tasks, the scoring rules and completion of tasks of the second stage of the examination for investment advisers |
| 23. | 23/11/2018 | Announcement of the decision of the KNF Board on the imposition of fines on Mebis Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw (Ref. No DPS-WPAII.456.10.2018.KE) |
| 24. | 23/11/2018 | Announcement of the decision of the KNF Board on the imposition of a fine by means of a decision Ref. No DPS-WPO.450.30.2018 |
| 25. | 23/11/2018 | Announcement of the decision of the KNF Board on the imposition of fines on Copernicus Capital Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw (Ref. No DPS-WPO.456.14.2018.JP) |
| 26. | 23/11/2018 | Communication from the KNF Board of 23 November 2018 on the removal from the list of securities brokers |

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| 27. | 21/12/2018 | Communication No 228 from the Examination Board for Investment Advisers of 20 December 2018 on the date of the first stage of the examination for investment advisers |
| 28. | 21/12/2018 | Communication No 229 from the Examination Board for Investment Advisers of 20 December 2018 on the thematic scope of the examination for investment advisers |
| 29. | 21/12/2018 | Communication No 3/2018 from the Examination Board for Securities Brokers of 20 December 2018 on the date of the examination for securities brokers and the date of the competence test |
| 30. | 21/12/2018 | Communication No 4/2018 from the Examination Board for Securities Brokers of 20 December 2018 on the thematic scope of the examination for securities brokers and the competence test |
| 31. | 31/12/2018 | Resolution No 474/2018 of the KNF Board of 18 December 2018 on Recommendation L on the role of statutory auditors in the supervision of banks and credit unions |

Source: KNF's own calculations

APPENDIX 4. LIST OF REGULATIONS AND DRAFT REGULATIONS BEING THE SUBJECT-MATTER OF WORK OR OPINIONS OF THE KNF IN 2018

Table 4.1. List of regulations being the subject-matter of work or opinions of the KNF in 2018

| Item | Regulations |
|------|--|
| 1. | Regulation of the Minister of Finance of 23 February 2018 amending the Regulation on the detailed scope and time limits for submission to the National Bank of Poland of information necessary to define the monetary policy, the periodic assessment of the State's monetary situation, and the analysis of systemic risk (Journal of Laws, item 443) |
| 2. | Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by security issuers and on conditions under which information required by the legislation of a non-Member State may be recognised as equivalent (Journal of Laws, item 757) |
| 3. | Regulation of the Minister of Finance of 7 May 2018 on the detailed scope of tasks of Committee for nominations at brokerage houses (Journal of Laws, item 878) |
| 4. | Regulation of the Minister of Finance of 7 May 2018 on the detailed scope of tasks of the Committee for nominations at brokerage houses (Journal of Laws, item 883) |
| 5. | Regulation of the Minister of Finance of 18 May 2018 on the minimum amount of insurance guarantees on account of performance of agency tasks by ancillary insurance agents (Journal of Laws, item 1006) |
| 6. | Regulation of the Minister of Finance of 18 May 2018 on the compulsory third party liability insurance on account of the conduct of brokerage business (Journal of Laws, item 1085) |
| 7. | Regulation of the Minister of Finance of 29 May 2018 on detailed technical and organisational conditions for investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks (Journal of Laws, item 1111) |
| 8. | Regulation of the Minister of Finance of 30 May 2018 on the procedure and conditions to be followed by investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks (Journal of Laws, item 1112) |
| 9. | Regulation of the Minister of Finance of 21 August 2018 on the examination for candidates who wish to perform agency activities, distribution activities of an insurance undertaking and/or distribution activities of a reinsurance undertaking (Journal of Laws, item 1746) |
| 10. | Regulation of the Minister of Finance of 6 September 2018 on the list of documents to be enclosed to the application for authorisation to conduct brokerage business (Journal of Laws, item 1757) |
| 11. | Regulation of the Minister of Finance of 20 June 2018 amending the Regulation on the scope of operation and organisation of the Accounting Standards Committee (Journal of Laws, item 1765) |
| 12. | Regulation of the Council of Ministers of 11 September 2018 on the list of key services and materiality thresholds of the disturbing effect of an incident on the provision of key services (Journal of Laws, item 1806) |
| 13. | Regulation of the Minister of Family, Employment and Social Policy of 18 September 2018 on the investment of funds of the Demographic Reserve Fund (Journal of Laws, item 1920) |

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| 14. | Regulation of the Minister of Finance of 2 October 2018 on the scope of activities and operation of the College for Cybersecurity (Journal of Laws, item 1952) |
| 15. | Regulation of the Minister of Digitisation of 12 October 2018 on the list of certificates required to perform an audit (Journal of Laws, item 1999) |
| 16. | Regulation of the Council of Ministers of 31 October 2018 on the thresholds to be used to treat an incident as a serious incident (Journal of Laws, item 2180) |
| 17. | Regulation of the Minister of Finance of 10 December 2018 on requests for a change in an entry in the Register of Brokers (Journal of Laws, item 2371) |
| 18. | Regulation of the Minister of Finance of 13 December 2018 on the maximum amount of fixed remuneration for the management of an open-end investment fund and a specialised open-end investment fund (Journal of Laws, item 2380) |
| 19. | Regulation of the Minister of Finance of 12 December 2018 on requests for an entry in the Register of Insurance Agents and Ancillary Insurance Agents (Journal of Laws, item 2417) |
| 20. | Regulation of the Minister of Finance of 27 December 2018 on keeping the Register of Insurance Intermediaries and on making available information from that Register (Journal of Laws, item 2467) |

Source: KNF's own calculations

Table 4.2. List of draft regulations being the subject-matter of work or opinions of the KNF in 2018

| Item | Draft regulation |
|------|---|
| 1. | Draft Regulation of the Minister of Finance on periodic reports and current information concerning the activity and financial standing of investment fund management companies and investment funds provided by such entities to the Polish Financial Supervision Authority |
| 2. | Draft Regulation of the Minister of Finance on the specific criteria for compliance by members of the management board and supervisory board of a company operating a regulated market with the requirements on unblemished reputation, knowledge, competence, and experience |
| 3. | Draft Regulation of the Minister of Finance on the scope, procedure, form and time limits for submission of information by investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks |
| 4. | Draft Regulation of the Minister of Finance on the requirements for alternative trading systems and/or organised trading platforms operated by investment firms |
| 5. | Draft Regulation of the Minister of Finance on the documents to be enclosed to the statement on compliance with the requirements for inclusion in the Records of Employees' Capital Pension Schemes |
| 6. | Draft Regulation of the Minister of Finance on compulsory third party liability insurance of court-appointed enforcement officers |
| 7. | Draft Regulation of the Minister of Finance on the reports on the brokerage business |
| 8. | Draft Regulation of the Minister of Finance on compulsory third party liability insurance on account of performance of agency activities |
| 9. | Draft Regulation of the Minister of Sport and Tourism on the scope of quarterly information about the status and use of funds of the Tourist Guarantee Fund |
| 10. | Draft Regulation of the Minister of Finance on the examination for insurance and reinsurance brokers and the Examination Board for Insurance and Reinsurance Brokers |
| 11. | Draft Regulation of the Minister of Infrastructure and Construction on the financial support for the creation of housing units for lease, protected accommodation, night shelters, homeless shelters, 'warm-up' shelters, and temporary accommodation |
| 12. | Draft Regulation of the Minister of Finance on authorisation of other bodies of the National Revenue Administration to perform certain tasks of the Head of the National Revenue Administration in relation to an account block for qualified entities |
| 13. | Draft Regulation of the Minister of Finance on the detailed method and procedure of performing inspection activities at domestic payment institutions |
| 14. | Draft Regulation of the Minister of Finance on the annual reports of EU payment institutions and providers referred to in Article 96(2) of the Act on payment services which provide payment services in the territory of the Republic of Poland through a branch or agent |
| 15. | Draft Regulation of the Minister of Finance on the scope of information and documents to be enclosed to the request for authorisation to conduct activity as a domestic payment institution |
| 16. | Draft Regulation of the Minister of Finance on quarterly and additional annual financial statements and statistical reports of a domestic payment institution |

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| 17. | Draft Regulation of the Minister of Finance on the documents to be enclosed to the notification of the intention to acquire or take up shares of a domestic payment institution |
| 18. | Draft Regulation of the Minister of Finance on the method of calculating the amount referred to in Article 76(4) point 2 of the Act on payment services |
| 19. | Draft Regulation of the Minister of Finance on the documents to be enclosed to the notification of the intention to acquire or take up shares of a domestic payment institution |
| 20. | Draft Regulation of the Minister of Finance on the higher amount of the minimum average loss on default |
| 21. | Draft Regulation of the Minister of Finance amending the Regulation on the conditions and procedure of refundable financing in the performance by Bank Gospodarstwa Krajowego of the government's programme of support for residential housing and minimum requirements for units created through such financing |
| 22. | Draft Regulation of the Minister of Finance on the procedure and rules to be followed by banks providing services in relation to structured deposits |
| 23. | Draft Regulation of the Minister of Finance on the methods of creating, recording, submitting, storing and securing documents pertaining to banking activities, made on electronic data carriers |
| 24. | Draft Regulation of the European Parliament and of the Council on the law applicable to the third-party effects of assignments of claims |
| 25. | Draft Regulation of the Minister of Finance on the procedures to be followed by entities operating in the area of intermediation in the disposal and repurchase of units and participation titles, and investment advisory services in relation to such instruments |
| 26. | Draft Regulation of the Minister of Finance on the method, procedure and conditions for conducting business activity by investment fund management companies |
| 27. | Draft Regulation of the President of the Council of Ministers on payments to cover the costs of bank supervision |
| 28. | Draft Regulation of the President of the Council of Ministers on payments to cover the costs of supervision of the insurance, reinsurance and insurance mediation activities |

Source: KNF's own calculations

APPENDIX 5. PROTECTION OF MARKET PARTICIPANTS: ANALYTICAL WORK CARRIED OUT BY THE KNF IN 2018

| Banking sector |
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| Analysis concerning a failure to execute a standing order following merger of banks |
| Analysis concerning improper dispatch of bank statements to bank's clients |
| Analysis of a practice used by a bank to prepare letters ordered by a bank from a third party |
| Analysis of a bank's practice with respect to incorrect conclusion of contracts for savings deposit |
| Analysis of a bank's practice with respect to unjustified delivery of requests for security for mortgage credit |
| Analysis of a bank's practice with respect to customer service for borrowers following bank division |
| Analysis of a bank's practice of opening accounts for companies in the process of organisation (not entered in the National Court Register) |
| Analysis of a bank's advertising message concerning a special offer of a cash loan |
| Analysis of a bank's practice with respect to authorisation hold for transactions carried out using cards (double charge) |
| Analysis of irregularities in the execution of orders in online banking |
| Analysis of an irregularity in online banking consisting in an incorrect presentation of the total/minimum outstanding amount on credit card accounts |
| Analysis of a notification concerning a 'text message with an account password' received by a person other than a client of a domestic payment institution and generated during registration of a payment processing application |
| Analysis of irregularities in the making of deposits of coins in foreign currencies in bank outlets |
| Analysis of irregularities consisting in an account being opened at a bank by a third party claiming to be the bank's client |
| Analysis of irregularities in the execution of orders to close a bank account |
| Analysis of irregularities consisting in the presentation of outdated information (price list) on a bank's website |
| Analysis of irregularities in the payment of funds collected in an individual retirement account (IKE) to an authorised person after the death of the saver |

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| Analysis of a bank's practice allowing consumers to withdraw from a consolidation loan agreement |
| Analysis of a bank's practice of not disclosing bank accounts of a person who has declared consumer bankruptcy to a trustee in bankruptcy |
| Analysis of irregularities consisting in a bank collecting excessive interest on a consumer credit |
| Analysis of irregularities consisting in a bank collecting excessive fees from a bank account |
| Analysis of irregularities consisting in charging a double annual fee for the credit card |
| Analysis of irregularities consisting in entering, in the BIK Register, of a heir who accepted succession under benefit of inventory |
| Analysis of irregularities in relation to the execution of an authorised payment transaction |
| Analysis of irregularities in relation to wrongfully obtaining consumer credit on the basis of an invalid ID card |
| Analysis of irregularities in relation to the failure to implement a valid notice of termination of a bank account |
| Analysis of irregularities consisting in a bank granting loan to a person who has not applied for it |
| Analysis of irregularities relating to changes in the interest rate of a promotional term deposit |
| Analysis of irregularities consisting in the collection of fees for an account which, under the agreement, was supposed to be unconditionally free |
| Analysis of irregularities consisting in a bank's delay in the disbursement of an estate of a deceased person |
| Analysis of irregularities consisting in the execution of unauthorised payment transactions using a cancelled debit card |
| Analysis of irregularities consisting in interest being charged at the time of harmonisation of the bank's systems |
| Analysis of irregularities in the form of misselling |
| Insurance sector |
| Analysis of a practice consisting in one insurance undertaking increasing the value of the wrecked vehicle, determined for the purpose of calculation of the value of compensation on account of a total loss in the vehicle, by the amount of the margin of a business owner acting as agent in the trading in damaged vehicles, and thus in a reduction of the compensation under the third party liability insurance of motor vehicle holders |
| Analysis of cases of unjustified collection of debts on account of premiums by one of the insurance undertakings under the third party liability insurance of motor vehicle holders |
| Analysis of cases of incorrect submission, by insurance undertakings to the Information Centre of the Insurance Guarantee Fund, of information about participants of events resulting in liability under the third party liability insurance of motor vehicle holders |
| Analysis of rules and conditions for providing borrowers with insurance cover under group life insurance contracts in which the policyholder was a non-bank lending institution with which borrowers concluded loan agreements |
| Analysis of a case where an insurance undertaking refused to make a performance for a beneficiary on account of death of the insured person, after the insurance undertaking ceased to provide insurance cover, although the insured person continued to pay the premiums and was unaware that their insurance cover had expired |
| Analysis of cases where one insurance undertaking, as part of the settlement of claims under third party liability insurance of motor vehicle holders, reduced the prices of spare parts included in cost estimates made by workshops outside the undertaking's repair network by the discount negotiation by the undertaking with another distributor of parts |
| Analysis of an offer of group insurance presented by an insurance broker to kindergartens, indicating the existence of a link between the transfer, by an insurance undertaking, of funds under a prevention fund to a given kindergarten and the policyholder's choice of one of the options of the offer with a higher premium, financed by parents of the insured children, with an unchanged scope of the insurance cover |
| Analysis of a case where one insurance undertaking provided information about a debtor to the economic information office despite the lack of prerequisites for providing such information |
| Analysis regarding the settlement of claims under third party liability insurance of motor vehicle holders by a foreign insurance undertaking from an EU Member State other than the Republic of Poland operating in the Republic of Poland otherwise than through a branch, under the freedom to provide services |
| Analysis of irregularities in the operation of a helpline of one of insurance undertakings, designed to provide legal information under the legal assistance insurance |

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| Analysis of the performance, by an insurance agent, of insurance activities consisting in attracting clients, performance of preparatory tasks aimed at concluding insurance contracts, and in concluding insurance contracts |
| Analysis of cases of failure by one of insurance undertakings to provide assignees with information and documents collected to establish the liability of the insurance undertaking and/or the amount of compensation or benefit |
| Analysis of cases of a delay, on the part of an insurance undertaking, in making available information and documents collected to establish the liability of the insurance undertaking and/or the amount of compensation or benefit |
| Capital market |
| Analysis of the practice of an entity managing securitised receivables of a securitised fund with respect to the rules of debt collection for securitised receivables |
| Analysis of the activity of foreign investment firms and other entities (both domestic and foreign) providing services relating to transactions on the OTC market, in terms of possible violation of law in connection with the activities conducted by those entities |

Source: KNF's own calculations

APPENDIX 6. NOTIFICATIONS SUBMITTED TO THE KNF (BY SUBJECT-MATTER)

Table 6.1. Notifications received by the KNF and relating to the activities of commercial banks in the years 2017-2018 (by subject-matter)

| Subject-matter of notification | 2017 | % | 2018 | % |
|--------------------------------|--------------|----------------|--------------|----------------|
| Maintenance of accounts | 899 | 37.35% | 893 | 33.09% |
| Other activities of the bank | 141 | 5.86% | 636 | 23.56% |
| Loans and consumer credits | 547 | 22.73% | 500 | 18.53% |
| Quality of service | 414 | 17.20% | 374 | 13.86% |
| Mortgages | 292 | 12.13% | 211 | 7.82% |
| Payment instruments | 114 | 4.74% | 85 | 3.15% |
| Total | 2 407 | 100.00% | 2 699 | 100.00% |

Source: KNF's own calculations

Table 6.2. Notifications received by the KNF and relating to the activities of cooperative banks in the years 2017-2018 (by subject-matter)

| Subject-matter of notification | 2017 | % | 2018 | % |
|--------------------------------|------------|----------------|------------|----------------|
| Maintenance of accounts | 45 | 36.29% | 38 | 31.67% |
| Other activities of the bank | 26 | 20.97% | 36 | 30.00% |
| Credits and loans | 24 | 19.35% | 28 | 23.33% |
| Quality of service | 10 | 8.06% | 11 | 9.17% |
| Mortgages | 16 | 12.90% | 6 | 5.00% |
| Payment instruments | 3 | 2.42% | 1 | 0.83% |
| Total | 124 | 100.00% | 120 | 100.00% |

Source: KNF's own calculations

Table 6.3. Notifications received by the KNF and relating to the activities of credit unions (SKOK) in the years 2017-2018 (by subject-matter)

| Subject-matter of notification | 2017 | % | 2018 | % |
|-----------------------------------|-----------|----------------|-----------|----------------|
| Credits and loans | 45 | 57.69% | 32 | 56.14% |
| Maintenance of accounts | 17 | 21.79% | 12 | 21.05% |
| Other activities of credit unions | 12 | 15.38% | 7 | 12.28% |
| Quality of service | 3 | 3.85% | 5 | 8.77% |
| Mortgages | 0 | 0.00% | 1 | 1.75% |
| Payment instruments | 1 | 1.28% | 0 | 0.00% |
| Total | 78 | 100.00% | 57 | 100.00% |

Source: KNF's own calculations

Table 6.4. Notifications received by the KNF and relating to the activities of life insurance undertakings in the years 2017-2018 (by subject-matter)

| Subject-matter of notification | 2017 | % | 2018 | % |
|--|------------|----------------|------------|----------------|
| Refusal of payment | 56 | 24.03% | 45 | 21.53% |
| Redemption value | 26 | 11.16% | 26 | 12.44% |
| Contract performance | 26 | 11.16% | 25 | 11.96% |
| Valuation of units of a unit-linked insurance product or IMC investment method | 34 | 14.59% | 25 | 11.96% |
| Tardiness | 12 | 5.15% | 22 | 10.53% |
| Objections to the claims settlement process | 3 | 1.29% | 17 | 8.13% |
| The amount of compensation | 21 | 9.01% | 11 | 5.26% |
| Information policy of insurance undertakings | 7 | 3.00% | 7 | 3.35% |
| Problems with termination of contract | 3 | 1.29% | 7 | 3.35% |
| Premium rate | 0 | 0.00% | 5 | 2.39% |
| Problems with making damage files available | 6 | 2.58% | 4 | 1.91% |
| Interpretation of General Terms and Conditions of Insurance | 1 | 0.43% | 3 | 1.44% |
| Challenging a power of attorney by an insurance undertaking | 0 | 0.00% | 2 | 0.96% |
| Withdrawal from a contract | 0 | 0.00% | 2 | 0.96% |
| Problems with conclusion of contract | 3 | 1.29% | 2 | 0.96% |
| Sum insured | 0 | 0.00% | 2 | 0.96% |
| Breach of insurance secrecy | 1 | 0.43% | 1 | 0.48% |
| Unreliability of an agent | 14 | 6.01% | 1 | 0.48% |
| Unauthorised debt collection | 2 | 0.86% | 1 | 0.48% |
| Protection of personal data | 1 | 0.43% | 1 | 0.48% |
| Indexation of the premium | 2 | 0.86% | 0 | 0.00% |
| IKE transfer | 1 | 0.43% | 0 | 0.00% |
| Change of contractual terms and conditions | 3 | 1.29% | 0 | 0.00% |
| Return of premium | 11 | 4.72% | 0 | 0.00% |
| Total | 233 | 100.00% | 209 | 100.00% |
| Refusal of payment | 56 | 24.03% | 45 | 21.53% |

Source: KNF's own calculations

Table 6.5. Notifications received by the KNF and relating to the activities of non-life insurance undertakings in the years 2017-2018 (by subject-matter)

| Subject-matter of notification | 2017 | % | 2018 | % |
|--|------|--------|------|--------|
| Objections to the claim settlement process | 118 | 6.04% | 360 | 22.44% |
| Tardiness | 581 | 29.75% | 323 | 20.14% |
| The amount of compensation | 517 | 26.47% | 312 | 19.45% |

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|---|-------------|----------------|-------------|----------------|
| Refusal of payment | 277 | 14.18% | 193 | 12.03% |
| Problems with making damage files available | 171 | 8.76% | 173 | 10.79% |
| Contract performance | 64 | 3.28% | 63 | 3.93% |
| Unauthorised debt collection | 61 | 3.12% | 53 | 3.30% |
| Premium rate | 35 | 1.79% | 35 | 2.18% |
| Problems with termination of contract | 49 | 2.51% | 34 | 2.12% |
| Information policy of the undertaking | 21 | 1.08% | 19 | 1.18% |
| Return of premium | 16 | 0.82% | 13 | 0.81% |
| Sum insured | 3 | 0.15% | 8 | 0.50% |
| Problems with conclusion of contract | 5 | 0.26% | 6 | 0.37% |
| Withdrawal from a contract | 4 | 0.20% | 4 | 0.25% |
| Protection of personal data | 4 | 0.20% | 3 | 0.19% |
| Interpretation of General Terms and Conditions of Insurance | 4 | 0.20% | 2 | 0.12% |
| Change of contractual terms and conditions | 3 | 0.15% | 2 | 0.12% |
| Breach of insurance secrecy | 5 | 0.26% | 1 | 0.06% |
| Unreliability of an agent | 10 | 0.51% | 0 | 0.00% |
| Refusal to accept for insurance | 3 | 0.15% | 0 | 0.00% |
| Challenging a power of attorney by an insurance undertaking | 2 | 0.10% | 0 | 0.00% |
| Total | 1953 | 100.00% | 1604 | 100,00% |

Source: KNF's own calculations

Table 6.6. Notifications received by the KNF and relating to the activities of branches of insurance undertakings of EU Member States in the years 2017-2018 (by subject-matter)

| Subject-matter of notification | 2017 | % | 2018 | % |
|---|-----------|----------------|-----------|----------------|
| Refusal of payment | 8 | 26.67% | 10 | 45.45% |
| Tardiness | 4 | 13.33% | 4 | 18.18% |
| The amount of compensation | 9 | 30.00% | 3 | 13.64% |
| Withdrawal from a contract | 1 | 3.33% | 1 | 4.55% |
| Premium rate | 1 | 3.33% | 1 | 4.55% |
| Protection of personal data | 0 | 0.00% | 1 | 4.55% |
| Return of premium | 0 | 0.00% | 1 | 4.55% |
| Information policy of the insurance undertaking | 0 | 0.00% | 1 | 4.55% |
| Contract performance | 3 | 10.00% | 0 | 0.00% |
| Unreliability of an agent | 2 | 6.67% | 0 | 0.00% |
| Problems with termination of contract | 1 | 3.33% | 0 | 0.00% |
| Complaint of an agent about an undertaking | 1 | 3.33% | 0 | 0.00% |
| Total | 30 | 100.00% | 22 | 100.00% |

Source: KNF's own calculations

Table 6.7. Notifications received by the KNF and relating to the activities of notified insurance undertakings in EU Member States in the years 2017-2018 (by subject-matter)

| Subject-matter of notification | 2017 | % | 2018 | % |
|---|-----------|----------------|------------|----------------|
| Tardiness | 15 | 62.50% | 165 | 82.50% |
| The amount of compensation | 0 | 0.00% | 14 | 7.00% |
| Refusal of payment | 6 | 25.00% | 7 | 3.50% |
| Objections to the claims settlement process | 0 | 0.00% | 7 | 3.50% |
| Unreliability of services provided | 1 | 4.17% | 2 | 1.00% |
| Contract performance | 1 | 4.17% | 2 | 1.00% |
| Problems with making damage files available | 0 | 0.00% | 2 | 1.00% |
| Problems with termination of contract | 1 | 4.17% | 1 | 0.50% |
| Total | 24 | 100.00% | 200 | 100,00% |

Source: KNF's own calculations

Table 6.8. Notifications received by the KNF and relating to the activities of Open Pension Funds (OFE) in the years 2017-2018 (by subject-matter)

| Subject-matter of notification | 2017 | % | 2018 | % |
|--|-----------|----------------|-----------|----------------|
| Irregularities in the division and payment of funds collected in the account | 10 | 58.82% | 3 | 30.00% |
| Fund's investment policy | 0 | 0.00% | 2 | 20.00% |
| Fund's information activity | 4 | 23.53% | 2 | 20.00% |
| Complaints about data in the register of OFE members and their changes | 1 | 5.88% | 2 | 20.00% |
| Irregularities relating to the funds deposited in the OFE account | 1 | 5.88% | 1 | 10.00% |
| Transfers to other OFE | 1 | 5.88% | 0 | 0.00% |
| Total | 17 | 100.00% | 10 | 100.00% |

Source: KNF's own calculations

Table 6.9. Notifications received by the KNF and relating to public companies and other financial market participants in the years 2017-2018 (by subject-matter)

| Subject-matter of notification | 2017 | % | 2018 | % |
|---|------------|----------------|------------|----------------|
| Financial instrument quotation rate | 153 | 48.11% | 91 | 31.82% |
| Corporate rights of shareholders | 66 | 20.75% | 50 | 17.48% |
| Disclosure requirements of companies listed on the regulated market | 24 | 7.55% | 42 | 14.69% |
| Disclosure requirements of NewConnect listed companies | 15 | 4.72% | 31 | 10.84% |
| Management of a public company | 13 | 4.09% | 25 | 8.74% |
| Other | 8 | 2.52% | 24 | 8.39% |
| Private issue of financial instruments | 31 | 9.75% | 17 | 5.94% |
| Companies withdrawn from official trading | 8 | 2.52% | 6 | 2.10% |
| Total | 318 | 100.00% | 286 | 100.00% |

Source: KNF's own calculations

Table 6.10. Notifications received by the KNF and relating to the activities of investment firms in the years 2017-2018 (by subject-matter)

| Subject-matter of notification | 2017 | % | 2018 | % |
|---|-----------|----------------|-----------|----------------|
| Quality of services | 28 | 43.08% | 22 | 27.50% |
| Other | 8 | 12.31% | 18 | 22.50% |
| The amount of fees and commissions | 5 | 7.69% | 15 | 18.75% |
| Execution of orders | 15 | 23.08% | 12 | 15.00% |
| Distribution of investment certificates | 2 | 3.08% | 3 | 3.75% |
| Management result | 2 | 3.08% | 3 | 3.75% |
| Provision of on-line services | 2 | 3.08% | 2 | 2.50% |
| Recommendations | 1 | 1.54% | 2 | 2.50% |
| Service of public issue | 1 | 1.54% | 1 | 1.25% |
| Collection of a capital gains tax | 1 | 1.54% | 1 | 1.25% |
| Maintaining the individual retirement account (IKE) | 0 | 0.00% | 1 | 1.25% |
| Total | 65 | 100.00% | 80 | 100,00% |

Source: KNF's own calculations

Table 6.11. Notifications received by the KNF and relating to the activities of foreign investment firms in the years 2017-2018 (by subject-matter)

| Subject-matter of notification | 2017 | % | 2018 | % |
|--------------------------------|-----------|----------------|-----------|----------------|
| Quality of services | 24 | 68.57% | 12 | 57.10% |
| Other | 2 | 5.71% | 6 | 28.60% |
| Execution of orders | 3 | 8.57% | 2 | 9.50% |
| Provision of on-line services | 5 | 14.29% | 1 | 4.80% |
| Recommendations | 1 | 2.86% | 0 | 0.00% |
| Total | 35 | 100.00% | 21 | 100,00% |

Source: KNF's own calculations

Table 6.12. Notifications received by the KNF and relating to the activities of investment fund management companies in the years 2017-2018 (by subject-matter)

| Subject-matter of notification | 2017 | % | 2018 | % |
|--|------------|----------------|------------|----------------|
| Liquidation of a fund | 11 | 6.47% | 23 | 18.70% |
| Implementation of an investment policy | 79 | 46.47% | 21 | 17.07% |
| Quality of service provision | 23 | 13.53% | 18 | 14.63% |
| Deadline for the execution of orders (regarding investment certificates) | 22 | 12.94% | 12 | 9.76% |
| Transfer of receivables to the securitisation closed-end investment fund | 5 | 2.94% | 11 | 8.94% |
| Other | 8 | 4.71% | 10 | 8.13% |
| Valuation of investment certificates | 7 | 4.12% | 10 | 8.13% |
| Deadline for the execution of orders (regarding participation units) | 9 | 5.29% | 3 | 2.44% |
| Valuation of participation units | 0 | 0.00% | 3 | 2.44% |
| Maintaining the individual retirement account (IKE) | 2 | 1.18% | 2 | 1.63% |
| Informing a participant of a change in the articles of association | 0 | 0.00% | 2 | 1.63% |
| Collection of a capital gains tax | 0 | 0.00% | 2 | 1.63% |
| Provision of on-line services | 0 | 0.00% | 2 | 1.63% |
| Combination of investment funds | 0 | 0.00% | 2 | 1.63% |
| The amount of fees and commissions | 2 | 1.18% | 1 | 0.81% |
| Pledge on participation units | 0 | 0.00% | 1 | 0.81% |
| Succession of participation units | 2 | 1.18% | 0 | 0.00% |
| Total | 170 | 100.00% | 123 | 100,00% |

Source: KNF's own calculations

APPENDIX 7. LIST OF EVENTS ORGANISED BY THE KNF AS PART OF THE CEDUR PROJECT IN 2018

Table 7.1. Training seminars addressed to the representatives of KNF-supervised entities (by sector)

| Item | Topic | Date |
|-----------------------|---|------------|
| Banking sector | | |
| 1. | Explanation of doubts concerning amendments to the legislation in the area of accounting at cooperative banks | 27/04/2018 |
| 2. | The new Act on the prevention of money laundering and terrorist financing: the perspective of cooperative banks | 10/05/2018 |
| 3. | The new Act on the prevention of money laundering and terrorist financing: the perspective of commercial banks | 14/05/2018 |

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|--------------------------------|---|------------|
| 4. | The Accounting Act: reserved interest, changes in records, and provisions* | 17/05/2018 |
| 5. | Responsibility of management board and supervisory board for financial statements of cooperative banks* | 17/05/2018 |
| 6. | Requirements for banks in relation to dormant accounts and identification of performances which are not subject to enforcement | 26/07/2018 |
| 7. | Asset quality indicator: differences between the definition of impaired credit (under IFRS) and the definition of non-performing exposure (of the European Banking Authority) | 17/10/2018 |
| 8. | The necessary adaptation at cooperative banks following the implementation of PSD2 | 22/10/2018 |
| 9. | Recommendation W: experience and comments following implementation | 13/11/2018 |
| 10. | Prevention of money laundering and terrorist financing at commercial banks. Results of related inspections and market practices | 23/11/2018 |
| 11. | Basic account and transfer of accounts** | 07/12/2018 |
| 12. | Prevention of money laundering and terrorist financing at cooperative banks Results of related inspections and market practices | 10/12/2018 |
| 13. | Practical aspects of implementation of EBA guidelines, including guidelines on the development of PD/LGD models and application of the definition of default | 14/12/2018 |
| Sector of credit unions | | |
| 1. | New reporting requirements for credit unions | 14/02/2018 |
| 2. | Credit unions' new reporting to the KNF: overview of the new reporting sheets | 12/04/2018 |
| 3. | The new Act on the prevention of money laundering and terrorist financing: the perspective of credit unions | 16/05/2018 |
| 4. | National Accounting Standards and their practical application in the activities of credit unions | 25/06/2018 |
| 5. | Deferred tax | 26/10/2018 |
| 6. | Responsibility of management board and supervisory board for financial statements of credit unions* | 30/10/2018 |
| 7. | Prevention of money laundering and terrorist financing at credit unions. Results of related inspections and market practices | 16/11/2018 |
| 8. | Changes in the legislation on the accounting and audit of financial statements | 23/11/2018 |
| 9. | Basic account and transfer of accounts*** | 07/12/2018 |
| Capital market | | |
| 1. | ICT security at TFIs. Comments on the implementation of Guidelines on the management of information technology and ICT environment security at investment fund management companies | 27/03/2018 |
| 2. | Operational risk management at TFIs | 17/04/2018 |
| 3. | Supervisory review and evaluation process at brokerage houses | 25/04/2018 |
| 4. | The new Act on the prevention of money laundering and terrorist financing: the perspective of the capital market | 08/05/2018 |
| 5. | Supervisory Review and Evaluation Process (SREP) for investment fund management companies | 22/06/2018 |
| 6. | Practical aspects of the fulfilment, by alternative investment fund managers, including investment fund management companies, of the obligation to submit to the KNF Board periodic reports referred to in Article 110 of Regulation 231/2013 | 27/06/2018 |
| 7. | Information requirements for alternative investment company managers | 03/07/2018 |
| 8. | Requirements for investment fund management companies and investment funds in the area of mitigation of investment risk, following from the legislation and regulations | 05/07/2018 |
| 9. | Important issues relating to the offering of investment certificates of closed-end investment funds | 19/07/2018 |

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|-----------------------------------|--|------------|
| 10. | Ensuring continuity of operation of TFIs. Critical processes at TFIs and entities carrying out processes through outsourcing | 25/07/2018 |
| 11. | The effect of Regulation (EU) 2017/1131 of 14 June 2017 on money market funds on the regulatory status of Polish investment firms | 30/07/2018 |
| 12. | Commodity derivatives following the implementation of MiFID II | 13/09/2018 |
| 13. | The risk management system at brokerage houses | 19/09/2018 |
| 14. | Prevention of money laundering and terrorist financing at investment firms. Results of related inspections and market practices | 14/11/2018 |
| 15. | Obligations of shareholders relating to trading in qualifying holdings | 03/12/2018 |
| 16. | Issuers' periodical reporting: compliance with the applicable financial framework, in particular IAS/IFRS | 06/12/2018 |
| Insurance sector | | |
| 1. | The new Act on the prevention of money laundering and terrorist financing: the perspective of the insurance market | 18/05/2018 |
| 2. | Complaint handling in the light of the Act on insurance distribution | 30/05/2018 |
| 3. | Conclusions following an inspection in relation to the implementation of Recommendation of 22 March 2016 on product adequacy testing | 16/10/2018 |
| 4. | Audit committees: requirements resulting from the Act on on statutory auditors, audit firms and public supervision | 25/10/2018 |
| 5. | Prevention of money laundering and terrorist financing at life insurance undertakings: related market practices | 30/11/2018 |
| Sector of payment services | | |
| 1. | The new Act on the prevention of money laundering and terrorist financing: the perspective of the payment services market | 24/05/2018 |
| 2. | Prevention of money laundering and terrorist financing at domestic payment institutions. Results of related inspections and market practices | 05/11/2018 |
| Cross-sectoral | | |
| 1. | Mediation in administrative proceedings conducted by the KNF Board and administrative court proceedings in which the KNF Board participates | 26/06/2018 |
| 2. | The mandatory basic accounting principles laid down in the Accounting Act | 21/09/2018 |
| 3. | Supervision exercised by the KNF Board over the conversion of ownership at supervised entities operating as a joint-stock company | 06/11/2018 |
| 4. | The new Business Law and the exercise of financial supervision | 27/11/2018 |

Source: KNF's own calculations

* A seminar addressed also to statutory auditors

** A seminar addressed also to the entities in the credit unions sector

*** A seminar addressed also to representatives of cooperative banks

Table 7.2. Seminars and lectures addressed to representatives of the judiciary and law enforcement agencies

| Item | Topic | Date |
|------|--|------------|
| 1. | ICT security and cybercrime | 24/04/2018 |
| 2. | Analysis of bank accounts** | 22/05/2018 |
| 3. | Threats associated with crypto-currencies** | 22/05/2018 |
| 4. | Activity of investment funds. Rules of operation of closed-end investment funds. Operation of investment fund management companies: types of funds, information requirements, acquisition of participation units in funds, obtaining information about owners of participation units in investment funds | 19/06/2018 |

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| 5. | Forms, methods and scope of capital market supervision | 12/09/2018 |
| 6. | Requirements in the area of accounting for entities in the process of liquidation** | 09/10/2018 |
| 7. | The operation of the credit unions sectors, its restructuring and forecasts for the future** | 10/10/2018 |
| 8. | System of prevention of money laundering and terrorist financing at financial institutions (AML/CFT): the supervisor's experiences. Overview of the KNF's AML/CFT activities and the possible uses of information collected under the AML/CFT system for the purpose of cases conducted by the judiciary and law enforcement agencies | 20/11/2018 |
| 9. | Cooperation and exchange of information with foreign supervisory authorities in terms of the capital market** | 11/12/2018 |
| 10. | Obligations concerning the acquisition and disposal of shares in public companies** | 11/12/2018 |
| 11. | Financial statements, accounting errors and manipulation | 13/12/2018 |

Source: KNF's own calculations

* Seminars organised in cooperation with the Internal Security Agency, the Central Anti-Corruption Bureau, the Central Investigation Bureau of the Police, the Central Police Headquarters, the Border Guard Headquarters

** Seminars organised also in cooperation with the National Prosecutor's Office

Table 7.3. Seminars addressed to the representatives of consumer protection institutions

| Item | Topic | Date |
|------|---|------------|
| 1. | Consumer credit | 11/09/2018 |
| 2. | Mortgage credit insurance | 27/09/2018 |
| 3. | Profit and loss account: definitions and content of each item of the account | 12/10/2018 |
| 4. | New technologies used in banking services (e.g. contactless payments, the HCE technology) | 04/12/2018 |

Source: KNF's own calculations

Table 4. Seminars addressed to statutory auditors

| Item | Topic | Date |
|------|---|------------|
| 1. | Responsibility of management board and supervisory board for financial statements of cooperative banks* | 17/05/2018 |
| 2. | The Accounting Act: reserved interest, changes in records, and provisions* | 17/05/2018 |
| 3. | Responsibility of management board and supervisory board for financial statements of credit unions** | 30/10/2018 |

Source: KNF's own calculations

* A seminar addressed also to representatives of cooperative banks

** A seminar addressed also to the entities in the credit unions sector

Table 5. Seminars, workshops, lectures and conferences addressed to schools and academic community

| Item | Topic | Date |
|------|--|------------|
| 1. | The system of protection of users of financial services in Poland* | 04/10/2018 |

Source: KNF's own calculations

* A seminar organised as part of World Investor Week 2018 in cooperation with the Centre for the Development of Education, Office of the Financial Ombudsman, Office of Competition and Consumer Protection

APPENDIX 8. CONTENT OF THE LIST OF PUBLIC WARNINGS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY AS AT 31 DECEMBER 2018

Pursuant to Article 6b(1) of the Act of 21 July 2006 on financial market supervision (Journal of Laws 2016, item 174, as amended), the KNF Board publishes information on its notifications of suspected criminal offences specified in Articles 215 and 216 of the Act of 28 August 1997 on the organisation and operation of pension funds, Article 171(1-3) of the Banking Law, Articles 56a and 57 of the Act of 26 October 2000 on commodity exchanges, Article 430 of the Act on the business of insurance and reinsurance (before 1 January 2016—Article 225 of the Act on the insurance activity) Articles 47 and 48 of the Act of 22 May 2003 on insurance mediation, Article 50(1) and (2) of the Act of 20 April 2004 on occupational pension schemes, Article 40 of the Act of 20 April 2004 on individual retirement accounts and individual retirement protection accounts, Articles 287 and 290-296 of the Act on investment funds, Article 178 of the Act of 29 July 2005 on trading in financial instruments, Articles 99 and 99a of the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies, and/or Articles 150 and 151 of the Act of 19 August 2011 on payment services.

Under Article 6b(6) of the Act of 21 July 2006 on financial market supervision, the KNF Board also reports on criminal proceedings conducted *ex officio* or following notification by an entity other than the KNF Board where the Chair of the KNF Board exercised his right as an aggrieved party in criminal proceedings.

Notification of suspected criminal offence punishable under Article 171(1-3) of the Banking Law (engaging in banking activities, in particular accepting cash contributions to expose them to risk, without the consent of the KNF Board)

| Name of the entity whose activity led to notification of suspected criminal offence | Entity's identification number (KRS, NIP or REGON) | Competent prosecutor's office | Information on all final and binding rulings issued in the course of criminal proceedings* | Other relevant information |
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| Alkor Trade sp. z o.o. with its registered office in Józefów (currently: JW Investments sp. z o.o.) | KRS 371362 | Regional Prosecutor's Office in Warsaw (case transferred to the Regional Prosecutor's Office in Ostrołęka) | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Amber Gold sp. z o.o. with its registered office in Gdańsk (in liquidation) | KRS 322228 | District Prosecutor's Office for Gdańsk-Oliwa (case transferred to the Regional Prosecutor's Office in Lodz) | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Anderson Holding Polska sp. z o.o. with its registered office in Katowice | KRS 416988 | Regional Prosecutor's Office in Warsaw | | Notification under Article 171(3) in conjunction with Article 171(1) of the Banking Law. Notification made by the KNF. |

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| ARTGOL Mobilny Serwis Komputerowy Artur Golo | NIP 9531580331 | District Prosecutor's Office for Bydgoszcz-Północ | On 31 December 2015, the Prosecutor of the District Prosecutor's Office for Bydgoszcz Północ issued the decision to discontinue the proceedings. | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Atlantic Global Asset Management SA with its registered office in the Republic of Cabo Verde | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Auron Group sp. z o.o. with its registered office in Warsaw | KRS 392274 | District Prosecutor's Office for Warszawa Praga-Północ (case transferred to the Regional Prosecutor's Office for Warszawa Praga) | The decision to discontinue the proceedings issued by the Prosecutor of the Regional Prosecutor's Office for Warszawa Praga on 25 September 2014 became final and binding on 22 December 2014. | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| BANK-SYSTEM Agnieszka Nowicka with its registered office in Duszniki | NIP 7881440150 | District Prosecutor's Office in Szamotuły | By its decision of 20 December 2017, the District Court in Szamotuły, the 2nd Criminal Division upheld the decision approved at the District Prosecutor's Office in Szamotuły on 19 October 2017 to discontinue the investigation. | Notification under Article 171(2) of the Banking Law. Notification made by the KNF. |
| Bezpieczne Inwestycje sp. z o.o. with its registered office in Warsaw | KRS 391211 | Regional Prosecutor's Office in Warsaw | The decision to discontinue the investigation issued by the Regional Prosecutor's Office in Warsaw on 30 June 2015 became final and binding on 7 September 2015. | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Bio-Investor Ltd | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | On 21 January 2016, the Prosecutor of the Regional | Notification under Article 171(1) of the Banking |

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| | | | Prosecutor's Office in Warsaw issued the decision to discontinue the investigation. | Law. Notification made by the KNF. |
| The personal data have been erased following a request under Article 17(1)(a) of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) (GDPR). | | | | |
| CareCash sp. z o.o. with its registered office in Wrocław | KRS 350638 | District Prosecutor's Office for Wrocław Stare Miasto | On 25 September 2014, the Regional Court in Wrocław (Case File No IV Ka 343/14) upheld the judgment of conviction of 18 February 2014 issued by the District Court for Wrocław-Śródmieście. | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Carwash Investment sp. z o.o. with its registered office in Katowice | KRS 327890 | District Prosecutor's Office in Katowice | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Centrum Inwestycyjno-Oddłużeniowe sp. z o.o. with its registered office in Stargard Szczeciński in liquidation | KRS 384178 | Regional Prosecutor's Office in Szczecin | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Chrześcijańska Wspólnota Edukacyjno-Inwestycyjna sp. z o.o. with its registered office in Rzeszów / running the portal kupweksel.pl/ | KRS 525329 | Regional Prosecutor's Office in Rzeszów | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Clear Hands Bt. with its registered office in Hungary | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | On 29 December 2015, the Regional Prosecutor's Office in Tarnów completed the investigation and submitted a request to initiate the proceedings to the Public Prosecutor's | Notification under Article 171(3) in conjunction with Article 171(1) of the Banking Law. Notification made by the KNF. |

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| | | | Office in Budapest. | |
| CO.NET | The entity is not registered in Poland. | District Prosecutor's Office for Warszawa-Sródmieście Północ (case transferred to the Regional Prosecutor's Office in Warsaw) | | Notification under Article 171(3) in conjunction with Article 171(1) of the Banking Law. Notification made by the KNF. |
| Compass Money sp. z o.o. with its registered office in Legnica | KRS 479887 | Regional Prosecutor's Office in Legnica | | Notification under Article 171(1) in conjunction with Article 171(3) of the Banking Law. Notification made by the KNF. |
| Dagmara Dziubyna G & Dinvest i Wspólnicy Spółka jawna with registered office in Wrocław | KRS 421019 | Regional Prosecutor's Office in Legnica | On 14 January 2016, the Regional Court in Wrocław (Case File No IV Ka 1039/15) upheld the judgment of conviction of 10 June 2015 issued by the District Court for Wrocław-Śródmieście. | Proceedings in respect of an act punishable under Article 171(1) of the Banking Law. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Dagmara Dziubyna G & Dinvest with its registered office in Wrocław | NIP 6912419080 | Regional Prosecutor's Office in Legnica | On 14 January 2016, the Regional Court in Wrocław (Case File No IV Ka 1039/15) upheld the judgment of conviction of 10 June 2015 issued by the District Court for Wrocław-Śródmieście. | Proceedings in respect of an act punishable under Article 171(1) of the Banking Law. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| DOBRAŁOKATA sp. z o.o. | KRS 342885 | District Prosecutor's Office for Wrocław Psie Pole (case transferred to the Regional Prosecutor's Office in Wrocław) | On 19 January 2015, the District Court for Wrocław Fabryczna issued the final judgment of conviction (Case File No XII K 669/14). | Notification under Article 171(1-3) of the Banking Law. Notification made by the KNF. |
| Dom Inwestycyjny „Taurus” S.A. with its registered office in Częstochowa | KRS 425814 | Regional Prosecutor's Office in Warsaw (case transferred to the Regional Prosecutor's Office in Częstochowa) | | Notification under Article 171(3) in conjunction with Article 171(1) of the Banking Law. Notification |

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| EMG Capital Partners S.A. with its registered office in Geneva, 1204 Geneva (Branch in Warsaw, Śródziemnomorska Str.) | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | The decision to discontinue the investigation issued by the Regional Prosecutor's Office in Warsaw on 30 June 2015 became final and binding on 7 September 2015. | Proceedings in respect of an act punishable under Article 171(1) of the Banking Law. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| EMG Finance Michał Grabowski | NIP 8181549632 | Regional Prosecutor's Office in Warsaw | The decision to discontinue the investigation issued by the Regional Prosecutor's Office in Warsaw on 30 June 2015 became final and binding on 7 September 2015. | Proceedings in respect of an act punishable under Article 171(1) of the Banking Law. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Europol Insurance Consulting Group Ertanowski Mariusz Ireneusz with its registered office in Mielec | NIP 8171692799 | Regional Prosecutor's Office in Warsaw | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Fast Invest Ltd with its registered office in the United Kingdom | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Fenka Rafał Trytko with its registered office in Nysa | NIP 7532325479 | District Prosecutor's Office in Nysa (case transferred to the Regional Prosecutor's Office in Opole) | | Notification under Article 171(1) in conjunction with Article 171(3) of the Banking Law. Notification made by the KNF. |
| Finroyal FRL Capital Limited | The entity is not registered in Poland. | District Prosecutor's Office for Warszawa-Wola (case transferred to the Regional Prosecutor's Office in Warsaw) | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Firma Handlowo-Usługowa Abiko Katarzyna Smolec with its registered office in Tychy | NIP 6462738329 | District Prosecutor's Office in Tychy (case transferred to the Regional Prosecutor's Office in Katowice) | By its judgment of 5 October 2017, the Court of Appeals in Katowice, the 2nd Criminal Division (Case File No II Aka | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |

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| | | | 334/17) upheld the judgment of conviction issued by the Regional Court in Katowice, the 21st Criminal Division (Case File No XXI K 107/14). | |
| For Direct S.R.L. Representative office in Poland | No data available | District Prosecutor's Office in Biała Podlaska | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Fortress Holdings Ltd. with its registered office in Malta | The entity is not registered in Poland. | Regional Prosecutor's Office in Tarnów | On 29 December 2015, the Regional Prosecutor's Office in Tarnów completed the investigation and submitted a request to initiate proceedings to the Prosecutor's Office in Budapest. | Notification under Article 171(3) in conjunction with Article 171(1) of the Banking Law. Notification made by the KNF. |
| Four Gates Polska sp. z o.o. | KRS 313810 | District Prosecutor's Office for Katowice-Wschód (case transferred to the Regional Prosecutor's Office in Katowice) | On 22 December 2015, the Prosecutor of the Regional Prosecutor's Office in Katowice issued the decision to discontinue the investigation. | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| FSM Polska sp. z o.o. | KRS 242904 | Regional Prosecutor's Office in Warsaw | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Fundacja Castellum with its registered office in Poznań | KRS 411357 | District Prosecutor's Office for Poznań Stare Miasto (case transferred to the Regional Prosecutor's Office in Poznań) | On 30 March 2015, the Regional Court in Poznań issued a final and binding judgment of conviction (Case File No XVI K 8/15). | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Galleri New Form (www.timelessgallerygroup.com) | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw (the proceedings were transferred to the Regional Prosecutor's Office in Kielce) > | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |

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| | | (the proceedings were transferred to the Provincial Prosecutor's Office in Białystok) | | |
| Grand Capital sp. z o.o. with its registered office in Katowice | KRS 347126 | Regional Prosecutor's Office in Warsaw | On 23 May 2014, the Regional Court in Katowice issued a final and binding judgment of conviction (Case File No V K 440/13). | Notification under Article 171(1-3) of the Banking Law. Notification made by the KNF. |
| GryfBank S.A. Adam Karaczun with registered office in Gryfino | NIP 8581688596 | District Prosecutor's Office in Gryfino | On 2 March 2015, the District Court in Gryfino issued a final and binding decision upholding the appealed decision to discontinue the proceedings. | Notification under Article 171(2) in conjunction with Article 171(3) of the Banking Law. Notification made by the KNF. |
| Helix Capital Investments Ltd | The entity is not registered in Poland. | Regional Prosecutor's Office in Kielce | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| http://lokaty-inwestycje.com.pl/ | No data available | Regional Prosecutor's Office in Warsaw (the proceedings were transferred to the District Prosecutor's Office for Warszawa-Mokotów) | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Infineo24 with its registered office in Skwierzyna | NIP 5961525025 | District Prosecutor's Office in Międzyrzecze | On 19 June 2017, the Regional Prosecutor's Office in Gorzów Wielkopolski reported that the judgment of acquittal issued by the Court of Appeal in Szczecin, the 2nd Criminal Division on 26 April 2017 (Case File No AKa 31/17) had become final and binding. | Notification under Article 171(1) in conjunction with Article 171(3) of the Banking Law. Notification made by the KNF. |
| Innovative Securities Limited with its registered office in New Zealand | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 171(3) in conjunction with |

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| | | | | Article 171(1) of the Banking Law. Notification made by the KNF. |
| IPI CAPITAL S.A. with its registered office in Warsaw (currently: Vibemo S.A. in liquidation) | KRS 304375 | District Prosecutor's Office for Warszawa-Śródmieście | On 22 December 2014, the Prosecutor of the Regional Prosecutor's Office in Warsaw issued the decision to discontinue the investigation. | Notification under Article 171(1-3) of the Banking Law. Notification made by the KNF. |
| Jarosław K. (a natural person not included in the Central Register of Business Activity) | No data available | Regional Prosecutor's Office in Cracow | | Proceedings in respect of an act punishable under Article 171(1) of the Banking Law. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Kancelaria Finansowa AWB sp. z o.o. with its registered office in Kamionki | KRS 196754 | District Prosecutor's Office in Środa Wielkopolska | | Proceedings in respect of an act punishable under Article 171(1) of the Banking Law. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Klub Inwestorów sp. z o.o. with its registered office in Częstochowa | KRS 533328 | Regional Prosecutor's Office in Częstochowa | | Proceedings in respect of an act punishable under Article 171(1) of the Banking Law. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Klub Zamożnego Inwestora (the entity is not included in the National Court Register or the Central Register of Business Activity) | No data available | Regional Prosecutor's Office in Warsaw | | Notification under Article 171(3) in conjunction with Article 171(1) of the Banking Law. Notification made by the KNF. |
| Lago sp. z o.o. with its registered office in Zielona Góra | KRS 328581 | District Prosecutor's Office in Zielona Góra (case transferred to | | Notification under Article 171(1) of the Banking |

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| | | the Regional Prosecutor's Office in Zielona Góra) | | Law. Notification made by the KNF. |
| Makler Company Sebastian Toczek | NIP 7732373968 | Regional Prosecutor's Office in Warsaw | On 7 June 2017, the decision to discontinue the investigation was issued. | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Mart Diamonds SA with its registered office in Warsaw | KRS 510690 | Regional Prosecutor's Office in Katowice (proceedings combined with the proceedings of the Branch Office of the Regional Prosecutor's Office in Lublin with its registered office in Biała Podlaska) | | Proceedings in respect of an act punishable under Article 171(1) of the Banking Law. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Miceolution | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Mintan sp. z o.o. with its registered office in Warsaw (currently: Nobel Credit sp. z o.o.) | KRS 457780 | District Prosecutor's Office for Warsaw-Mokotów (case transferred to the Regional Prosecutor's Office in Warsaw) | On 12 March 2015, the Prosecutor of the Regional Prosecutor's Office in Warsaw discontinued the investigation. | Notification under Article 171(1) in conjunction with Article 171(3) of the Banking Law. Notification made by the KNF. |
| Mizar Profit | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw (case transferred to the Regional Prosecutor's Office in Ostrołęka) | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| MY-1STEP sp. z o.o. with its registered office in Częstochowa | KRS 382534 | Regional Prosecutor's Office in Częstochowa | | Proceedings in respect of an act punishable under Article 171(1) of the Banking Law. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Opulentia SA with its registered office in Warsaw in liquidation | KRS 383825 | Regional Prosecutor's Office in Warsaw | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |

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| Orcan Software Investments SA | KRS 329338 | District Prosecutor's Office for Gdańsk-Wrzeszcz (case transferred to the Regional Prosecutor's Office in Gdańsk) | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| OTTO INVESTMENTS Rafał Otto with its registered office in Warsaw | NIP 9521945676 | Regional Prosecutor's Office in Warsaw | On 30 June 2016, the Regional Prosecutor's Office in Warsaw issued the decision to discontinue the investigation. | Notification under Article 171(3) in conjunction with Article 171(1) of the Banking Law. Notification made by the KNF. |
| P.U.H. „NOBILES 2” S.C. ZAWISZA ADAM, GORZAWSKA ANNA, CZEBOTAR GRZEGORZ with its registered office in Tychy (organiser of a system called „Pro-Zysk”, formerly „Pożyczkoposiadacz”) | NIP 6462494850 | Regional Prosecutor's Office in Katowice | | Notification under Article 171(1) of the Banking Law. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Pareto Invest sp. z o.o. with its registered office in Poznań | KRS 351038 | Regional Prosecutor's Office in Warsaw | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Pay Trade Polska sp. z o.o. with its registered office in Warsaw | KRS 435300 | District Prosecutor's Office for Warszawa Śródmieście-Północ (case transferred to the Regional Prosecutor's Office in Warsaw) | On 4 February 2015, the District Court for Warszawa-Śródmieście decided not to consider the KNF Office's appeal and upheld the decision of the Regional Prosecutor's Office in Warsaw of 5 November 2014 to discontinue the investigation. | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Power House Private Banking with its registered office in Poznań (the entity is not listed in the National Court Register or the Central Register of Business Activity) | No data available | Regional Prosecutor's Office in Warsaw | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Pozabankowe Centrum Finansowe | KRS 293707 | Regional Prosecutor's Office in | On 30 June 2017, the | Notification under Article |

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| sp. z o.o. | | Warsaw | Regional Prosecutor's Office in Warsaw issued the decision to discontinue the investigation; the decision is final and binding. | 171(1) of the Banking Law. Notification made by the KNF. |
| Pośrednictwo Finansowe „Kredyty-Chwilówki” sp. z o.o. with its registered office in Tychy | KRS 293981 | District Prosecutor's Office in Tychy (case transferred to the Regional Prosecutor's Office in Katowice) | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| ProGold sp. z o.o. with its registered office in Warsaw | KRS 413857 | Regional Prosecutor's Office in Warsaw | The decision to discontinue the investigation issued by the Regional Prosecutor's Office in Warsaw on 30 June 2015 became final and binding on 7 September 2015. | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| PROMOTOR-FINANSE sp. z o.o. with its registered office in Wrocław | KRS 383409 | Regional Prosecutor's Office in Wrocław | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Przedsiębiorstwo Usługowo-Handlowe „PI” Piotr Pisarek | NIP 5361146130 | Regional Prosecutor's Office in Ostrów Wielkopolski | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Questra Holding Inc. with its registered office in the British Virgin Islands | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Questra World Global S.L. with its registered office in Spain | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Remedium – Doradcy Finansowi sp. z o.o. with its registered office in Olsztyn in liquidation | KRS 280476 | District Prosecutor's Office in Olsztyn | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |

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| Safe Invest sp. z o.o. with its registered office in Sopot | KRS 362080 | District Prosecutor's Office for Warszawa Śródmieście-Północ in Warsaw | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Socket Resources GmbH | The entity is not registered in Poland. | Regional Prosecutor's Office in Płock | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| SouthBanco – www.southbanco.com | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| Spółeczne Towarzystwo Inwestycyjne Lew sp. z o.o. with its registered office in Częstochowa | KRS 390667 | Regional Prosecutor's Office in Częstochowa | | Proceedings in respect of an act punishable under Article 171(1) of the Banking Law. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Szymon M. (a natural person not included in the Central Register of Business Activity) | No data available | District Prosecutor's Office for Bydgoszcz-Północ | On 29 September 2014, the District Court in Bydgoszcz issued the final judgment of conviction (Case File No IX K 1084/14). | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |
| The Reserve Bank of Poland | No data available | District Prosecutor's Office for Warszawa-Śródmieście in Warsaw | | Notification under Article 171(2) of the Banking Law. Notification made by the KNF. |
| Touchwood Ltd with its registered office in Hong Kong | The entity is not registered in Poland. | District Prosecutor's Office for Warszawa-Mokotów (case transferred to the Regional Prosecutor's Office in Warsaw) | By its decision of 14 October 2014 to discontinue the investigation, the Regional Prosecutor's Office in Warsaw concluded the preparatory proceedings. | Notification under Article 171(3) in conjunction with Article 171(1) of the Banking Law. Notification made by the KNF. |
| Traveled Enterprises Limited z with its registered office in Nicosia, | The entity is not registered in Poland. | District Prosecutor's Office for Warszawa Śródmieście-Północ | By its decision of 9 May 2014, the Regional | Notification under Article 171(1) of the Banking |

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| Republic of Cyprus | | (case transferred to the Regional Prosecutor's Office in Gdańsk) | Prosecutor's Office in Gdańsk discontinued the investigation. | Law. Notification made by the KNF. |
| Uinvest LLC | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | On 22 January 2015, the District Court for Warszawa- Mokotów issued the final decision dismissing the appeal filed by the Chair of the KNF Board against the Prosecutor's decision to discontinue the proceedings | Notification under Article 171(3) in conjunction with Article 171(1) of the Banking Law. Notification made by the KNF. |
| Universum Business Consulting sp. z o.o. with its registered office in Cracow | KRS 426060 | District Prosecutor's Office for Kraków-Śródmieście Zachód | On 15 July 2014, the District Court for Kraków Śródmieście, the 2nd Criminal Division issued a judgment of conditional discontinuation (Case File No II K 606/14/S). | Notification under Article 171(3) in conjunction with Article 171(2) of the Banking Law. Notification made by the KNF. |
| Usługi Konsultingowe Artur Swendrak | NIP 7691760207 | Regional Prosecutor's Office in Warsaw (case transferred to the Regional Prosecutor's Office in Płock) | | Proceedings in respect of an act punishable under Article 171(1) of the Banking Law. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Witold Witczak, a business styled FACTOR, with its registered office in Radomsko | NIP 7721398060 | Regional Prosecutor's Office in Piotrków Trybunalski | | Notification under Article 171(1) in conjunction with Article 171(3) of the Banking Law. Notification made by the KNF. |
| Zakra Corp sp. z o.o. with its registered office in Poznań | KRS 352191 | Regional Prosecutor's Office in Poznań | On 22 September 2016, the District Court for Poznań Nowe Miasto and Wilda in Poznań issued a final judgment of conviction | Notification under Article 171(1) of the Banking Law. Notification made by the KNF. |

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Notification of suspected criminal offence punishable under Article 178 of the Act on trading in financial instruments (engaging in trading in financial services without the required consent or authorisation from the KNF Board)

| Name of the entity whose activity led to notification of suspected criminal offence | Entity's identification number (KRS, NIP or REGON) | Competent prosecutor's office | Information on all final and binding rulings issued in the course of criminal proceedings* | Other relevant information |
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| ADVICE Łukasz Gołowski | NIP 5372358284 | Regional Prosecutor's Office in Warsaw | The decision to discontinue the investigation issued by the Regional Prosecutor's Office in Warsaw on 12 November 2014 became final and binding on 9 January 2015. | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Aforti Securities S.A. (currently: Aforti Factor S.A.) | KRS 274431 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(4) point 1 of the Act on trading in financial instruments (only with respect to managing cash accounts without the KNF's consent). Notification made by the KNF. |
| Alpha Advanced Innovation Limited with its registered office in London | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by |

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| | | | | another entity. |
| Alpha Finex Ltd with its registered office in Roseau | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Bezpieczne Inwestycje sp. z o.o. with its registered office in Warsaw | KRS 391211 | Regional Prosecutor's Office in Warsaw | On 30 June 2015, the Prosecutor of the Regional Prosecutor's Office in Warsaw issued the decision to discontinue the investigation. | Notification under Article 178 in conjunction with Article 69(2) point 4 of the Act on trading in financial instruments. Notification made by the KNF. |
| Biuro Maklerskie Alior Bank S.A. – a separate organisational unit of Alior Bank S.A. | KRS 305178 | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments – (only with respect to suspected offence of aiding and abetting third parties in the activities of trading in financial instruments without the KNF's consent by managing portfolios of third party financial instruments between 15 March 2012 and 15 March 2013). The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Bloomfx sp. z o. o. with its registered office in Warsaw | KRS 491536 | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial |

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| | | | | instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Blue Lion sp. z o.o. with its registered office in Warsaw | KRS 472547 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 of the Act on trading in financial instruments. Notification made by the KNF. |
| Blue Sky Trade Limited with its registered office in the Republic of Vanuatu – www.tradereu.com | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 of the Act on trading in financial instruments. Notification made by the KNF. |
| Blue Sky Trade Services Limited with its registered office in the United Kingdom – www.tradereu.com | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 of the Act on trading in financial instruments. Notification made by the KNF. |
| mySafety sp. z o.o. with its registered office in Warsaw | KRS 663054 | National Prosecutor's Office | | Notification under Article 178 of the Act on trading in financial instruments. Notification made by the KNF. |
| Cezar Grupa sp. z o.o. with its registered office in Warsaw (currently: Ritorma sp. z o.o.) | KRS 529535 | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| CFD 1000 Limited with its registered office in the Commonwealth of Dominica | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) points 1 and 5 of the Act on trading in financial instruments. |

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| Comfort Capital sp. z o.o. | KRS 363926 | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Conor Capital Invest sp. z o.o. with its registered office in Warsaw | KRS 459334 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) point 6 of the Act on trading in financial instruments. Notification made by the KNF. |
| Coverdeal Holdings Limited with its registered office in Cyprus and Coverdeal Holdings Limited sp. z o.o. Branch in Poland | KRS 550215 (Coverdeal Holdings Limited sp. z o.o. Branch in Poland) | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) point 5 of the Act on trading in financial instruments. Notification made by the KNF. |
| DanexZ Limited Liability Company with its registered office in the USA—Reg. No 2012-000624290 | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | On 18 June 2015, the District Court in Bolesławiec, the 2nd Criminal Division issued a judgment to conditionally discontinue the proceedings (Case File No II K 271/15). | Notification under Article 178 in conjunction with Article 69(2) point 4 of the Act on trading in financial instruments. Notification made by the KNF. |
| EMG Finance Michał Grabowski | NIP 8181549632 | Regional Prosecutor's Office in Warsaw | On 30 June 2015, the Prosecutor of the Regional Prosecutor's Office in Warsaw issued the decision to discontinue the investigation. | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |

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| ESTI Group (the entity is not included in the National Court Register or the Central Register of Business Activity) | No data available | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) point 6 of the Act on trading in financial instruments. Notification made by the KNF. |
| Eubi Investments sp. z o.o. with its registered office in Warsaw | KRS 485342 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) points 5 and 6 of the Act on trading in financial instruments. Notification made by the KNF. |
| eXbino.com—a brand owned by Seymour BV registered in Curacao (formerly: Seymour Marketing Ltd registered in the United Kingdom) | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| First International Traders Dom Maklerski SA with its registered office in Warsaw | KRS 245555 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) point 3 of the Act on trading in financial instruments. Notification made by the KNF. |
| FX Global Asset Management Ltd registered in Belize | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Gawel K. | No data available | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under |

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| | | | | Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| GKFX Financial Services Ltd. sp. z o.o., a Polish branch with its registered office in Warsaw | KRS 466373 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) point 5 of the Act on trading in financial instruments. Notification made by the KNF. |
| Global Markets OOD sp. z o.o. Branch in Poland | KRS 397516 | Regional Prosecutor's Office in Warsaw | On 16 June 2016, the District Court for Warszawa-Wola in Warsaw issued the final decision upholding the decision of the Regional Prosecutor's Office in Warsaw to discontinue the proceedings. | Notification under Article 178 of the Act on trading in financial instruments. Notification made by the KNF. |
| GO FINANCE SA subGo Energia 1 SKA | KRS 348645 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) point 7 of the Act on trading in financial instruments. Notification made by the KNF. |
| GO FINANCE SA subGo Energia 1A SKA | KRS 338651 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) point 7 of the Act on trading in financial instruments. Notification made by the KNF. |
| GO FINANCE SA subGo Energia 2A SKA | KRS 348578 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) point 7 of the Act on trading in financial instruments. Notification |

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| Helena Knapczyk-Trzmielewska CFO 24, Psychoterapia ku zyciu with its registered office in Cracow | NIP 6771668064 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(1) and Article 69(2) point 6 of the Act on trading in financial instruments. Notification made by the KNF. |
| HossaFX (operator of the website hossafx.com) | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) points 2 and 5 of the Act on trading in financial instruments. Notification made by the KNF. |
| http://www.binarino.com/ | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | The decision to discontinue the investigation issued by the Regional Prosecutor's Office in Warsaw on 29 May 2015 became final and binding on 10 June 2015. | Notification under Article 178 in conjunction with Article 69(2) point 2 of the Act on trading in financial instruments. Notification made by the KNF. |
| Idea Bank S.A. with its registered office in Warsaw | KRS 26052 | Provincial Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) points 5 and 6 of the Act on trading in financial instruments. Notification made by the KNF. |
| IL Trade sp. z o. o. with its registered office in Warsaw | KRS 573293 | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Imperium Ltd (FXImperium) | The entity is not | Regional Prosecutor's Office in | | Notification under Article |

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| operating through the website www.fximperium.com | registered in Poland. | Warsaw | | 178 in conjunction with Article 69(2) points 2 and 5 of the Act on trading in financial instruments. Notification made by the KNF. |
| Infinite Investment Wójcik i Wspólnicy sp. k. (currently: W & Associates J. Wójcik Sp. k.) with its registered office in Gdynia | KRS 377746 | Regional Prosecutor's Office in Warsaw | On 20 December 2016, the Regional Prosecutor's Office in Warsaw issued the final decision to discontinue the proceedings. | Notification under Article 178 in conjunction with Article 69(2) points 1, 5 and 6 of the Act on trading in financial instruments. Notification made by the KNF. |
| Innovative Securities Limited with its registered office in New Zealand | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) point 4 of the Act on trading in financial instruments. Notification made by the KNF. |
| Integral 2DJ sp. z o.o. with its registered office in Warsaw | KRS 544334 | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| International Payments 5000 Ltd. with its registered office in Estonia (operating through the Trade5000 platform) | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Investo Kancelaria Inwestycyjna Sp. z o. o. with its registered office | KRS 414890 | Regional Prosecutor's Office in Warsaw | On 2 May 2017, the Warsaw Warsaw | Notification under Article 178 in conjunction with |

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| in Warsaw | | | Metropolitan Police issued the decision to discontinue the investigation. | Article 69(2) points 1, 4, 5 and 6 of the Act on trading in financial instruments. Notification made by the KNF. |
| Iron Eagle sp. z o.o. with its registered office in Cracow | KRS 559035 | Regional Prosecutor's Office in Kielce | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Jacek K., Kacper K., Maciej M., Marek P. (natural persons not included in the Central Register of Business Activity) | No data available | Regional Prosecutor's Office in Warsaw | On 18 October 2016, the District Court for Warszawa-Wola issued the final decision to uphold the decision of the Warsaw Metropolitan Police to discontinue the proceedings. | Notification under Article 178 in conjunction with Article 69(2) point 5 of the Act on trading in financial instruments. Notification made by the KNF. |
| Jan T. | No data available | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Joshua Consulting Ltd with its registered office in London | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |

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| JW. Capital Management Corporation with its registered office at: Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | On 16 September 2016, the District Court for Lublin Zachód issued a summary judgment. | Notification under Article 178 in conjunction with Article 69(2) point 4 of the Act on trading in financial instruments. Notification made by the KNF. |
| Kamil M. (a natural person not included in the Central Register of Business Activity) | No data available | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) point 6 of the Act on trading in financial instruments. Notification made by the KNF. |
| Kancelaria Finansowa Pyffel & Partners sp. z o.o. (currently: Finansowa Kancelaria sp. z o.o.) with its registered office in Warsaw | KRS 319529 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) point 6 of the Act on trading in financial instruments. Notification made by the KNF. |
| Labor Poland sp. z o.o. with its registered office in Warsaw | KRS 491246 | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Logic Invest sp. z o.o. with its registered office in Warsaw | KRS 359026 | Regional Prosecutor's Office in Warsaw | By its decision of 18 June 2014, the Regional Prosecutor's Office in Warsaw discontinued the proceedings. | Notification under Article 178 in conjunction with Article 69(2) point 6 of the Act on trading in financial instruments. Notification made by the KNF. |
| Makler Company Sebastian Toczek | NIP 7732373968 | Regional Prosecutor's Office in Warsaw | On 7 June 2017, the decision to discontinue the investigation was issued. | Notification under Article 178 in conjunction with Article 69(2) points 4 and 5 of the Act on trading in financial instruments. |

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| Mane Marketing sp. z o.o. with its registered office in Warsaw | KRS 595602 | National Prosecutor's Office | | Notification under Article 178 of the Act on trading in financial instruments. Notification made by the KNF. |
| Marcin Jerzy P. (a natural person not included in the Central Register of Business Activity) | No data available | Regional Prosecutor's Office in Warsaw | On 1 September 2017, the Court of Appeal in Warsaw, the 2nd Criminal Division (Case File No II AKa 228/17) upheld the judgment of conviction issued by the Regional Court in Warsaw, the 12th Criminal Division (Case File No XII K 50/15). | Notification under Article 178 in conjunction with Article 69(2) point 4 and Article 178 in conjunction with Article 79(1-2) and Article 81(1) of the Act on trading in financial instruments. Notification made by the KNF. |
| Marek Grabowski FX Zone | NIP 9581476452 | Regional Prosecutor's Office in Warsaw | On 28 October 2016, the District Court for Gdańsk Północ in Gdańsk issued the final decision to discontinue the proceedings. | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| MarketOnUs Ltd with its registered office at Ajeltake Road, Ajeltake Island, MH 96960 Majuro, Republic of Marshall Islands (website: fxonus.com) | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) points 2, 4 and 5 of the Act on trading in financial instruments. Notification made by the KNF. |
| Marshall Advanced Innovation with its registered office in London (operating also under the business name 'KSF Trade') | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of |

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| | | | | the KNF Board joined the proceedings initiated by another entity. |
| Marshall Software with its registered office in Anquilla (operating also under the business name 'KSF Trade') | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Master Class Investments sp. z o.o. with its registered office in Warsaw | KRS 603627 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) point 5 of the Act on trading in financial instruments. Notification made by the KNF. |
| MIB 700 managed by Blue Seal Limited with its registered office in the Republic of Vanuatu | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| MoneyNetInt based In Great Britain – www.tradereu.com | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 of the Act on trading in financial instruments. Notification made by the KNF. |
| My Height sp. z o.o. (in the KRS as Fawis sp. z o.o. with its registered office in Szczecin) | KRS 424373 | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by |

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| | | | | another entity. |
| Nescom Polska sp. z o.o. with its registered office in Warsaw | KRS 550956 | National Prosecutor's Office | | Notification under Article 178 of the Act on trading in financial instruments. Notification made by the KNF. |
| Netmore sp. z o.o. with its registered office in Lublin | KRS 575952 | National Prosecutor's Office | | Notification under Article 178 of the Act on trading in financial instruments. Notification made by the KNF. |
| Noble Brothers sp. z o.o. with its registered office in Warsaw – www.tradereu.com | KRS 603971 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 of the Act on trading in financial instruments. Notification made by the KNF. |
| Nomos Wealth Management sp. z o.o. Spółka komandytowa with its registered office in Warsaw | KRS 373509 | Regional Prosecutor's Office in Warsaw | On 9 February 2015, the Prosecutor of the Regional Prosecutor's Office in Warsaw issued the decision to discontinue the investigation. | Notification under Article 178 in conjunction with Article 69(2) points 4 and 6 of the Act on trading in financial instruments. Notification made by the KNF. |
| Nomos Wealth Management sp. z o.o. with its registered office in Warsaw | KRS 364175 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) points 4 and 6 of the Act on trading in financial instruments. Notification made by the KNF. |
| Nova Gielda Inwestycje sp. z o.o. with its registered office in Płock /general partner of Nova Gielda Inwestycje Limited Partnership with its registered office in Larnaca, entered in the Commercial Register of the Republic of Cyprus under the | KRS 596730 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 of the Act on trading in financial instruments. Notification made by the KNF. |

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| number HE 12535/ | | | | |
| Nova Gięda sp. z o.o. with its registered office in Warsaw / operating through websites novagięda.pl and giędain.pl/ | KRS 556560 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 of the Act on trading in financial instruments. Notification made by the KNF. |
| Nuntius Chrimatistiriaki Anonimos Eteria Parochis Ependitikon Ipiresion SA Odział w Polsce (branch in Poland) – business name: Nuntius Brokerage&Investment Services SA (operating through platforms: www.keystock.com, www.fxglobal24.com, www.keyoption.com) | KRS 576636 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) point 5 of the Act on trading in financial instruments. Notification made by the KNF. |
| Olesiński Piotr with his registered office in Kutno | NIP 7751047342 | Regional Prosecutor's Office in Warsaw (case transferred to the District Prosecutor's Office in Kutno) | | Notification under Article 178 in conjunction with Article 69(2) point 4 of the Act on trading in financial instruments. Notification made by the KNF. |
| OTTO INVESTMENTS Rafał Otto with its registered office in Warsaw | NIP 9521945676 | Regional Prosecutor's Office in Warsaw | On 17 December 2015, the Internal Security Agency issued the decision to discontinue the investigation. | Notification under Article 178 in conjunction with Article 69(2) points 4 and 5 of the Act on trading in financial instruments. Notification made by the KNF. |
| Pareto Invest sp. z o.o. with its registered office in Poznań | KRS 351038 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) point 4 of the Act on trading in financial instruments. Notification made by the KNF. |
| Paulina B. (a natural person not included in the Central Register of | No data available | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 of the Act on trading in |

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| Business Activity) | | | | financial instruments. Notification made by the KNF. |
| Paweł J. (a natural person not included in the Central Register of Business Activity) | No data available | Regional Prosecutor's Office in Warsaw | On 27 July 2016, the Regional Prosecutor's Office in Warsaw approved the decision to discontinue the investigation. | Notification under Article 178 in conjunction with Article 69(2) point 5 of the Act on trading in financial instruments. Notification made by the KNF. |
| Piotr G. (a natural person not included in the Central Register of Business Activity) | No data available | Regional Prosecutor's Office in Warsaw | By its judgment of 30 October 2018, the District Court for Poznań-Stare Miasto conditionally discontinued the criminal proceedings. | Notification under Article 178 of the Act on trading in financial instruments. Notification made by the KNF. |
| The 'Trade XI' trading platform operated by Black Parrot Limited with its registered office in Marshall Islands | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Polska Grupa Inwestycyjna with its registered office in Poznań – operating through the website pginwest.pl / the entity is not included in the National Court Register or the Central Register of Business Activity/ | No data available | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 of the Act on trading in financial instruments. Notification made by the KNF. |
| Power House Private Banking with its registered office in Poznań (the entity is not listed in the National Court Register or the Central Register of Business Activity) | No data available | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 of the Act on trading in financial instruments. Notification made by the KNF. |
| Quantum Consulting with its registered office in Poznań (the | No data available | Regional Prosecutor's Office in Warsaw | On 10 October 2016, the Regional Prosecutor's | Notification under Article 178 of the Act on trading in |

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| entity is not included in the National Court Register or the Central Register of Business Activity) | | | Office in Warsaw approved the decision to discontinue the investigation. | financial instruments. Notification made by the KNF. |
| Rafał K. (a natural person not included in the Central Register of Business Activity) | No data available | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| RDP Media Ltd sp. z o.o. with its registered office in Warsaw acting for Blue Seal Ltd with its registered office in the Republic of Vanuatu | KRS 634786 | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Regium Asset Management AG with its registered office in Switzerland | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | On 5 December 2016, the District Court for Łódź-Śródmieście in Lodz issued the final decision upholding the decision of 5 October 2016 to discontinue the investigation. | Notification under Article 178 of the Act on trading in financial instruments. Notification made by the KNF. |
| Seremar sp. z o.o. z with its registered office in Gdańsk | KRS 575855 | National Prosecutor's Office | | Notification under Article 178 of the Act on trading in financial instruments. Notification made by the KNF. |
| Simple Assets Towarzystwo Funduszy Inwestycyjnych SA (the entity is not included in the National Court Register or the Central Register of Business Activity) | No data available | Regional Prosecutor's Office in Warsaw | On 29 October 2015, the Regional Prosecutor's Office in Warsaw issued the decision to discontinue the investigation. | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the |

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| | | | | proceedings initiated by another entity. |
| Spot Capital Markets Ltd (activities carried out through the website https://nobleoption.com/pl) | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 in conjunction with Article 69(2) point 5 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| TJB Trading Ltd z with its registered office in Luxembourg | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | On 28 April 2015, the Regional Prosecutor's Office in Warsaw issued the decision refusing to initiate an investigation. | Notification under Article 178 in conjunction with Article 69(2) point 2 of the Act on trading in financial instruments. Notification made by the KNF. |
| Tomasz I. (a natural person not included in the Central Register of Business Activity) | No data available | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) point 4 of the Act on trading in financial instruments. Notification made by the KNF. |
| Top Forex – a brand the investment firm Goldenburg Group Limited with its registered office in Limassol, Cyprus (the entity is not included in the National Court Register or the Central Register of Business Activity) | No data available | Regional Prosecutor's Office in Warsaw | On 20 December 2017, the Regional Prosecutor's Office in Warsaw issued the decision to discontinue the pre-trial proceedings. | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Total Investments sp. z o.o. z with its registered office in Gdańsk | KRS 418015 | Regional Prosecutor's Office in Warsaw | On 21 December 2016, the District Court for Gdańsk - Północ in Gdańsk issued the judgment of conviction. | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the |

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| | | | | proceedings initiated by another entity. |
| Trademarkers Cyprus Ltd with its registered office in Limassol | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| U Trade sp. z o.o. with its registered office in Warsaw | KRS 535840 | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Usługi Konsultingowe Artur Swendrak with its registered office in Warsaw | NIP 7691760207 | Regional Prosecutor's Office in Warsaw (case transferred to the Regional Prosecutor's Office in Płock) | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. Notification made by the KNF (resumption of finally discontinued proceedings). |
| Violet Earl Asset Management Ltd (website: violetearl.com) | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) point 4 of the Act on trading in financial instruments. Notification made by the KNF. |
| Vortex Assets – Black Parrot Limited with its registered office in Marshall Islands | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial |

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| | | | | instruments. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Waluciarz.pl S.A. with its registered office in Warsaw | KRS 386709 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) points 5 and 6 of the Act on trading in financial instruments. Notification made by the KNF. |
| WGT S.A. | KRS 75360 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 25(1) point 4 of the Act on trading in financial instruments. Notification made by the KNF (the new notification was made by the KNF due to the fact the entity continues its activities). |
| WGT S.A. | KRS 75360 | Regional Prosecutor's Office in Warsaw | On 12 May 2017, the judgment of conviction issued by the District Court for Warszawa-Śródmieście in Warsaw became final and binding. | Notification under Article 178 of the Act on trading in financial instruments. Notification made by the KNF. |
| Zakład Ekspertyz Gospodarczych sp. z o.o. with its registered office in Katowice | KRS 247827 | Regional Prosecutor's Office in Warsaw | On 1 September 2016, the District Prosecutor's Office in Warsaw issued the decision to discontinue the investigation. | Notification under Article 178 in conjunction with Article 69(2) points 8 and 6 of the Act on trading in financial instruments. Notification made by the KNF. |
| Łukasz S. and Maciej D. | No data available | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 69(2) point 5 of the |

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| | | | | Act on trading in financial instruments. Notification made by the KNF. |
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Notification of suspected criminal offence punishable under Article 178 in conjunction with Article 79 of the Act on trading in financial instruments (engaging in activities without an entry in the Register of Tied Agents of Investment Firms)

| Name of the entity whose activity led to notification of suspected criminal offence | Entity's identification number (KRS, NIP or REGON) | Competent prosecutor's office | Information on all final and binding rulings issued in the course of criminal proceedings* | Other relevant information |
|---|--|--|--|---|
| Innovative Securities Limited with its registered office in New Zealand | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 79 of the Act on trading in financial instruments. Notification made by the KNF. |
| Master Class Investments sp. z o.o. with its registered office in Warsaw | KRS 603627 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 79(2a) of the Act on trading in financial instruments. Notification made by the KNF. |
| MIA sp. z o.o. with its registered office in Warsaw | KRS 617435 | Provincial Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 79(2) of the Act on trading in financial instruments. Notification made by the KNF. |
| Noble Global Investments sp. z o.o. with its registered office in Warsaw | KRS 619562 | Regional Prosecutor's Office in Warsaw | | Notification under Article 178 in conjunction with Article 79(2a) of the Act on trading in financial instruments. Notification made by the KNF. |
| Regium Commodity Trading Advisor | KRS 312968 | Regional Prosecutor's Office in | The decision refusing to | Notification under Article |

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| sp. z o.o. with its registered office in Lodz (since 1 April 2011, under the name Regium Financial Consulting Services sp. z o.o.) | | Warsaw | initiate investigation issued on 18 December 2013 by the Regional Prosecutor's Office in Warsaw became final and binding on 11 April 2014. | 178 in conjunction with Article 79 of the Act on trading in financial instruments. Notification made by the KNF. |
|--|--|--------|--|--|

Notification of suspected criminal offence punishable under Article 287 and Articles 290-296 of the Act on investment funds

| Name of the entity whose activity led to notification of suspected criminal offence | Entity's identification number (KRS, NIP or REGON) | Competent prosecutor's office | Information on all final and binding rulings issued in the course of criminal proceedings* | Other relevant information |
|---|--|--|---|--|
| Atlantic Global Asset Management SA with its registered office in the Republic of Cabo Verde | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 287 of the Act on investment funds. Notification made by the KNF. |
| Bezpieczne Inwestycje sp. z o.o. with its registered office in Warsaw | KRS 391211 | Regional Prosecutor's Office in Warsaw | On 30 June 2015, the Prosecutor of the Regional Prosecutor's Office in Warsaw issued the decision to discontinue the investigation. | Notification under Article 287 of the Act on investment funds. Notification made by the KNF. |
| Europol Insurance Consulting Group Ertanowski Mariusz Ireneusz with its registered office in Mielec | NIP 8171692799 | Regional Prosecutor's Office in Warsaw | | Notification under Article 287 of the Act on investment funds. Notification made by the KNF. |
| First International Traders Dom Maklerski S.A. with its registered office in Warsaw | KRS 245555 | Regional Prosecutor's Office in Warsaw | | Notification under Article 287 of the Act on investment funds. |

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| | | | | Notification made by the KNF. |
| Philson Spółdzielnia Inwestycyjna with its registered office in Szczecin | KRS 561816 | Regional Prosecutor's Office in Warsaw | | Notification under Article 287 of the Act on investment funds. Notification made by the KNF. |
| Questra Holding Inc. with its registered office in the British Virgin Islands | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 287 of the Act on investment funds. Notification made by the KNF. |
| Questra World Global S.L. with its registered office in Spain | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 287 of the Act on investment funds. Notification made by the KNF. |
| Simple Assets Towarzystwo Funduszy Inwestycyjnych SA (the entity is not included in the National Court Register or the Central Register of Business Activity) | No data available | Regional Prosecutor's Office in Warsaw | On 29 October 2015, the Regional Prosecutor's Office in Warsaw issued the decision to discontinue the investigation. | Notification under Article 296 in conjunction with Article 41(2) of the Act on investment funds. Notification made by the KNF. |

Notification of suspected criminal offence punishable under Articles 99 and 99a of the Act of 29 July 2005 on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies (making a public offering of securities without the prospectus/information memorandum/information document required by statutory law and approved by the KNF Board and/or issuing bonds without observing statutory requirements)

| Name of the entity whose activity led to notification of suspected criminal offence | Entity's identification number (KRS, NIP or REGON) | Competent prosecutor's office | Information on all final and binding rulings issued in the course of criminal proceedings* | Other relevant information |
|---|--|--|--|--|
| Anderson Holding sp. z o.o. with its registered office in Katowice | KRS 416988 | Regional Prosecutor's Office in Warsaw | | Notification under Article 99(2a) in conjunction with Article 99(1) points 1 and 2 of the Act on public offering |

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| | | | | and conditions governing the introduction of financial instruments to organised trading, and public companies. Notification made by the KNF. |
| Andrzej G. (a natural person not included in the Central Register of Business Activity) | No data available | Regional Prosecutor's Office in Warsaw | On 9 December 2014, the District Court for Warszawa Wola in Warsaw issued the decision to discontinue the proceedings. | Proceedings in respect of an act punishable under Article 99(2) of the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Atlantic Gaming Partners with its registered office in Spain (Tenerife) | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | | Notification under Article 99 of the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies. Notification made by the KNF. |
| Bio-Investor Ltd | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | On 21 January 2016, the Prosecutor of the Regional Prosecutor's Office in Warsaw issued the decision to discontinue the investigation. | Notification under Article 99(1) in conjunction with Article 99(3) of the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies. Notification made by the KNF. |
| Dom Inwestycyjny „Taurus” S.A. | KRS 425814 | Regional Prosecutor's Office in | | Notice under Article 99(2a) |

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| with its registered office in Częstochowa | | Warsaw (case transferred to the Regional Prosecutor's Office in Częstochowa) | | in conjunction with Article 99(1) of the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies. Notification made by the KNF. |
| Eques Investment Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Gdańsk | KRS 251346 | Regional Prosecutor's Office in Warsaw | | Notification under Article 99(1) of the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies. Notification made by the KNF. |
| Grupa Produkcyjna Adrenalina SA with its registered office in Warsaw | KRS 389933 | Regional Prosecutor's Office in Warsaw | The decision to discontinue the investigation issued by the Regional Prosecutor's Office in Warsaw on 08 May 2015 became final and binding on 20 May 2015. | Notification under Article 99(2) in conjunction with Article 99(3) of the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies. Notification made by the KNF. |
| Investo Kancelaria Inwestycyjna sp. z o.o. with its registered office in Warsaw | KRS 414890 | Regional Prosecutor's Office in Warsaw | On 2 May 2017, the Warsaw Warsaw Metropolitan Police issued the decision to discontinue the investigation. | Notification under Article 99(3) and Article 99(2) in conjunction with Article 53(1) of the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies. Notification made by the |

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|--|------------|--|--|---|
| | | | | KNF. |
| Nomos Wealth Management sp. z o.o. Spółka komandytowa with its registered office in Warsaw | KRS 373509 | Regional Prosecutor's Office in Warsaw | On 9 February 2015, the Prosecutor of the Regional Prosecutor's Office in Warsaw issued the decision to discontinue the investigation. | Notification under Article 99(1) in conjunction with Article 99(3) of the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies. Notification made by the KNF. |
| Nomos Wealth Management sp. z o.o. with its registered office in Warsaw | KRS 364175 | Regional Prosecutor's Office in Warsaw | | Notification under Article 99(1) in conjunction with Article 99(3) of the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies. Notification made by the KNF. |
| Nova Gielda Inwestycje sp. z o.o. with its registered office in Płock /general partner of Nova Gielda Inwestycje Limited Partnership with its registered office in Larnaca, entered in the Commercial Register of the Republic of Cyprus under the number HE 12535/, operating through the website gieldain.pl | KRS 596730 | Regional Prosecutor's Office in Warsaw | | Notification under Article 99(3) in conjunction with Article 99(1) of the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies. Notification made by the KNF. |
| Opulentia S.A. with its registered office in Warsaw in liquidation | KRS 383825 | Regional Prosecutor's Office in Warsaw | | Notification under Article 99(2a) in conjunction with Article 99(1) points 1 and 2 of the Act on public offering and conditions governing the introduction of financial instruments to organised |

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| | | | | trading, and public companies. Notification made by the KNF. |
| Platynowe Inwestycje SA with its registered office In Płock | KRS 126288 | Regional Prosecutor's Office in Warsaw | | Notification under Article 99(1) point 1 of the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies. Notification made by the KNF. |
| Zbigniew S. (a natural person not included in the Central Register of Business Activity) | No data available | Regional Prosecutor's Office in Warsaw | The decision to discontinue the investigation issued by the Regional Prosecutor's Office in Warsaw on 20 November 2015 became final and binding on 03 December 2015. | Notification under Article 99(3) in conjunction with Article 99(1) point 2 and in conjunction with Article 3(1) of the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies. Notification made by the KNF. |
| Zenith Fund SA-SICAV-SIF with its registered office in Luxembourg and branch office in Warsaw | The entity is not registered in Poland. | Regional Prosecutor's Office in Warsaw | The decision to discontinue the investigation issued by the Regional Prosecutor's Office in Warsaw on 12 May 2014 became final and binding on 22 May 2014. | Notification under Article 99(3) in conjunction with Article 99(2) in conjunction with Article 3(2) of the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies. Notification made by the KNF. |

Notification of suspected criminal offence punishable under Articles 56a and 57 of the Act on commodity exchanges (running commodity exchanges without the licence)

| Name of the entity whose activity led to notification of suspected criminal offence | Entity's identification number (KRS, NIP or REGON) | Competent prosecutor's office | Information on all final and binding rulings issued in the course of criminal proceedings* | Other relevant information |
|---|--|--|--|---|
| WGT S.A. | KRS 75360 | Regional Prosecutor's Office in Warsaw | On 29 February 2008, the District Court for Warszawa-Śródmieście issued the final decision to discontinue the investigation. | Notifications under Article 57 of the Act on commodity exchanges. Notification made by the KNF. |

Notification of suspected criminal offence punishable under Article 430 of the Act on the business of insurance and reinsurance (prior to 1 January 2016: Article 225 of the Act on insurance activity) (engaging in insurance and/or reinsurance activities without authorisation)

| Name of the entity whose activity led to notification of suspected criminal offence | Entity's identification number (KRS, NIP or REGON) | Competent prosecutor's office | Information on all final and binding rulings issued in the course of criminal proceedings* | Other relevant information |
|---|--|---|--|--|
| „OMAR” Marek Orzechowski with its registered office in Białystok | NIP 5421018939 | District Prosecutor's Office for Białystok-Południe | | Proceedings in respect of an act punishable under Article 430 of the Act on the business of insurance and reinsurance. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Związek Zawodowy Pracowników Zakładu Ubezpieczeń Społecznych with its registered office in Warsaw | KRS 163975 | District Prosecutor's Office for Warszawa-Żoliborz | | Proceedings in respect of an act punishable under Article 430(1) of the Act on the business of insurance and reinsurance. The Chair of the KNF Board joined the proceedings initiated by another entity. |

Notification of suspected criminal offence punishable under Articles 47 and 48 of the Act on insurance mediation (unauthorised performance of agency activities, activities of an insurance agent and conducting brokerage in the field of insurance and/or reinsurance without the required authorisation)

| Name of the entity whose activity led to notification of suspected criminal offence | Entity's identification number (KRS, NIP or REGON) | Competent prosecutor's office | Information on all final and binding rulings issued in the course of criminal proceedings* | Other relevant information |
|---|--|--|---|---|
| Council sp. z o. o. with its registered office in Wrocław | KRS 534300 | District Prosecutor's Office for Wrocław Stare Miasto | | Notification under Article 47(1) point 1 in conjunction with Article 47(2) of the Act on insurance mediation. Notification made by the KNF. |
| Insurance Link sp. z o.o. with its registered office in Warsaw | KRS 669690 | District Prosecutor's Office for Warszawa-Praga Południe | | Notification under Articles 47 and 48 of the Act on insurance mediation. Notification made by the KNF. |
| LYNX sp. z o. o. with its registered office in Warsaw | KRS 438782 | District Prosecutor's Office for Warszawa-Śródmieście | On 2 June 2015, the District Court for Warszawa-Śródmieście in Warsaw issued the final decision refusing to initiate the investigation. | Notification under Article 47(2) in conjunction with Article 47(1) point 1 of the Act on insurance mediation. Notification made by the KNF. |

Notification of suspected criminal offence punishable under Articles 150 and 151 of the Act on payment services (unauthorised provision of payment services and/or issuance of electronic money)

| Name of the entity whose activity led to notification of suspected criminal offence | Entity's identification number (KRS, NIP or REGON) | Competent prosecutor's office | Information on all final and binding rulings issued in the course of criminal proceedings* | Other relevant information |
|---|--|---|--|---|
| Abucoins sp. z o.o. with its registered office in Poznań | KRS 689296 | Regional Prosecutor's Office in Poznań | | Notification under Article 150(1) of the Act on payment services. Notification made by the KNF. |
| Amaro Kasprowicz Robert with its registered office in Bydgoszcz | NIP 9531435652 | District Prosecutor's Office for Bydgoszcz-Północ | On 15 March 2016, the District Court in Bydgoszcz, | Notification under Article 150(1) of the Act on |

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| | | | the 3rd Criminal Division conditionally discontinued the criminal proceedings. | payment services. Notification made by the KNF. |
| Bezpieczny Przelew sp. z o.o. with its registered office in Poznań | KRS 448689 | District Prosecutor's Office for Poznań-Grunwald | | Notification under Article 150(1) in conjunction with Article 150(3) of the Act on payment services. Notification made by the KNF. |
| BitBay sp. z o.o. with its registered office in Katowice | KRS 373405 | Regional Prosecutor's Office in Katowice | | Notification under Article 150(1) of the Act on payment services. Notification made by the KNF. |
| Donata Lewandowska Agencja Finansowa Tanie Oplaty | NIP 6441624744 | District Prosecutor's Office for Sosnowiec Południe (case transferred to the District Prosecutor's Office for Sosnowiec-Północ in Sosnowiec) | By its decision of 27 November 2014, the District Prosecutor's Office for Sosnowiec-Północ in Sosnowiec discontinued the preparatory proceedings. | Notification under Article 150(1) of the Act on payment services. Notification made by the KNF. |
| Homepay sp. z o. o. with its registered office in Warsaw | KRS 406590 | District Prosecutor's Office for Warszawa-Wola | | Notification under Articles 150 and 151 of the Act on payment services. Notification made by the KNF. |
| International Transfer Arkadiusz Radwański – „Intransfer24” | NIP 6871869247 | District Prosecutor's Office for Kraków-Podgórze | | Notification under Article 150(1) of the Act on payment services. Notification made by the KNF. |
| IWISHER sp. z o. o. with its registered office in Lublin | KRS 550086 | District Prosecutor's Office in Lublin | By its judgment of 27 February 2017, the District Court for Lublin-Wschód (Case File No III K 1109/16) conditionally discontinued the criminal | Notification under Article 150(3) in conjunction with Article 150(1) of the Act on payment services. Notification made by the KNF. |

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| | | | proceedings. | |
| Monetivo sp. z o.o. with its registered office in Poznań | KRS 592145 | District Prosecutor's Office for Poznań-Grunwald | | Notification under Article 150(1) of the Act on payment services. Notification made by the KNF. |
| My Paid sp. z o.o. with its registered office in Szczecin | KRS 404168 | District Prosecutor's Office for Szczecin-Zachód (case transferred to the Regional Prosecutor's Office in Szczecin (case transferred to the Regional Prosecutor's Office in Poznań) | | Proceedings in respect of an act punishable under Article 151(1) of the Act on payment services. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| Oleh V. (a natural person not included in the Central Register of Business Activity) | No data available | Regional Prosecutor's Office in Cracow | | Proceedings in respect of an act punishable under Article 150(1) of the Act on payment services. The Chair of the KNF Board joined the proceedings initiated by another entity. |
| TNN Finance S.A. with its registered office in Sosnowiec | KRS 411953 | District Prosecutor's Office in Sosnowiec | | Notification under Article 150(1) of the Act on payment services. Notification made by the KNF. |
| TrustFund.pl (the entity is not included in the National Court Register or the Central Register of Business Activity) | No data available | District Prosecutor's Office for Łódź-Górna | On 26 April 2015, the District Court for Łódź-Widzew upheld the decision to discontinue the proceedings. | Notification under Article 150(3) in conjunction with Article 150(2) of the Act on payment services. Notification made by the KNF. |

* Pursuant to Article 6b(5) and Article 6b(6) *in fine* of the Act of 21 July 2006 on financial market supervision, information about the notifications of suspected criminal offence and on the proceedings which the Chair of the KNF Board joined as an aggrieved party must be supplemented with information about the final refusal to initiate preparatory proceedings or the final discontinuation of preparatory proceedings, and—where a bill of indictment has been filed—with information about the final court ruling.

APPENDIX 9. LIST OF RECOMMENDATIONS AND STATEMENTS OF THE KNF BOARD AND THE KNF AND COMMUNICATIONS FROM THE KNF IN 2018

Table 9.1. Recommendations of the KNF Board issued in 2018

| Item | Subject-matter of the recommendation | Date |
|-----------------------|---|------------|
| Banking sector | | |
| 1. | Amendment to <i>Recommendation T on good practices in risk management for retail credit exposures</i> | 14/09/2018 |
| 2. | <i>Recommendation L on the role of statutory auditors in the supervision of banks and credit unions</i> | 18/12/2018 |

Source: KNF's own calculations

Table 9.2. Positions of the Polish Financial Supervision Authority and the Office of the Polish Financial Supervision Authority and circular letters presented in 2018

| Item | Subject-matter of the statement/communication/circular letter | Date |
|-----------------------------------|---|------------|
| Banking sector | | |
| 1. | Statement of the KNF Board on the applicable capital requirements in 2018 | 12/01/2018 |
| 2. | Statement on the review of information on the links of banks' clients | 16/01/2018 |
| 3. | Statement of the KNF Board on the supervisor's position on the objectives of the medium-term dividend policy of commercial banks | 14/03/2018 |
| 4. | Letter of 28 September 2018 addressed to presidents of management boards of banks and directors of branches of credit institutions, concerning the reasons for amendments to <i>Recommendation T on good practices in risk management for retail credit exposures</i> | 28/09/2018 |
| 5. | KNF Statement addressed to supervisory boards of banks concerning compliance in terms of suitability of members of management boards | 29/10/2018 |
| 6. | Statement of the KNF Board on the applicable capital requirements in 2019 | 26/11/2018 |
| 7. | Statement on the Act on payment services | 03/12/2018 |
| Sector of payment services | | |
| 1. | Communication from the KNF of 12 January 2018 on certain supervisory expectations as to the transition period relating to the implementation of PSD2 | 12/01/2018 |
| 2. | Communication from the KNF Board on the supervision of payment service offices | 06/06/2018 |
| 3. | Communication on re-authorisation of domestic payment institutions | 23/08/2018 |
| 4. | Communication of the KNF on the obligation of payment service providers to report incidents under PSD2 | 31/10/2018 |
| 5. | Communication on the exemption under Article 6 point 11 of the Act on payment services | 24/12/2018 |
| Insurance sector | | |
| 1. | Communication on the role and importance of implementation of a compliance function at insurance/reinsurance undertakings | 20/08/2018 |
| 2. | KNF Statement on the application of Article 21 of the Act on the business of insurance and reinsurance | 23/10/2018 |
| Capital market | | |
| 1. | KNF Statement on the method of definition of activities by AICMs involved in external management and internal management and the method of definition of activities of AICs | 24/01/2018 |
| 2. | KNF Statement on the contents of documents of the investment policy and investment strategy of AICs | 05/03/2018 |

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| 3. | KNF Statement on the provision of services relating to the mediation in the disposal and repurchase of participation units in collective investment undertakings by banking sector entities | 22/03/2018 |
| 4. | KNF Statement on the offering of investment certificates of closed-end investment funds | 29/03/2018 |
| 5. | Communication from the KNF Board on the compliance with information and reporting requirements | 29/03/2018 |
| 6. | Communication from the KNF Board on new legislation on the offering of financial instruments | 27/04/2018 |
| 7. | KNF Statement on the outsourcing, by investment fund management companies, of the management of investment portfolios of closed-end investment funds | 15/05/2018 |
| 8. | KNF Statement on guarantee contracts concluded by management companies with third parties for the benefit of participants of closed-end investment funds | 25/05/2018 |
| 9. | Communication from the KNF Board on offering bonds | 29/05/2018 |
| 10. | KNF Statement on public offerings of securities conducted on the basis of a prospectus and on offerings to which the requirement to publicly disclose a prospectus does not apply | 28/06/2018 |
| 11. | Communication from the KNF on Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds | 07/08/2018 |
| 12. | KNF Statement on the rules of supervision of AICMs entered in the Register of AICMs | 27/08/2018 |
| 13. | Communication from the KNF on trading in ETFs in view of the requirements under the Regulation on PRIIPs | 02/10/2018 |
| 14. | KNF Statement on managers of securitised receivables of securitisation funds | 23/10/2018 |
| 15. | KNF Statement on accepting and giving 'incentives' in connection with the provision of services of acceptance and transmission of orders pertaining to participation units in investment funds | 21/12/2018 |
| 16. | KNF Statement on the interpretation of Article 83a(1) of the Act on investment funds and management of alternative investment funds | 27/12/2018 |
| Matters of a cross-sectoral nature | | |
| 1. | Statement of the KNF Board on the medium-term dividend policy (for cooperative banks, affiliating banks, brokerage houses, investment fund management companies, general pension societies and insurance/reinsurance undertakings) | 22/05/2018 |
| 2. | Communication from the KNF of 17 August 2018 on the obligatory rotation of statutory auditors and audit firms ('cooling-off period') | 17/08/2018 |

Source: KNF's own calculations

APPENDIX 10. LIST OF COSTS OF THE ACTIVITIES OF THE KNF BOARD AND THE KNF PAID IN 2018, DIVIDED INTO AREAS OF SUPERVISION DEFINED IN ARTICLE 1 SECTION 2 OF THE ACT ON FINANCIAL MARKET SUPERVISION, TOGETHER WITH THE NUMBER AND SCOPE OF SUPERVISORY ACTIVITIES, INCLUDING ADMINISTRATIVE COSTS

| Area | Cost of supervision (in PLN thousand) | Supervisory activities | |
|---|--|--|------------------------------|
| | | Type of activity | Number of activities |
| bank supervision | PLN 109 979 thousand, including administrative costs*: PLN 46 005 thousand | Resolutions adopted by the KNF Board, | Total: 116 |
| | | including in particular: | |
| | | approval of appointment of a president of the management board of a bank | 33 |
| | | authorisation to establish a bank | 1 |
| | | approval of appointment of a president of the management board of a bank | 6 |
| | | approval of bank merger | 8 |
| | | approval of bank division | 2 |
| | | statement of no grounds for objecting to the planned acquisition of shares | 4 |
| | | refusal to approve the recovery plan | 6 |
| | | approval of the bank's recovery plan | 6 |
| | | refusal to approve the appointment of the president of the bank's management board | 4 |
| | | Final and interim decisions issued on the basis of authorisation granted by the KNF Board, | Total: 1 106 |
| | | including in particular: | |
| | | decision to authorise a reduction in own funds | 424 |
| | | authorisation to amend the articles of association of a bank | 311 |
| | | Inspection/control/preliminary investigation and validation proceedings | Total: 102** |
| | | Other supervision activities, | Total: approx. 39.5 thousand |
| | | including in particular: | |
| | | assigning a SREP score. | 922 |
| | | analysis of reports of malfunctioning of the banking sector entities | 2 919 |
| analysis of financial reports and reporting information | approx. 35.5 thousand | | |
| TOTAL | approx. 40.8 thousand | | |
| pension supervision | PLN 11 341 thousand, including administrative costs*: PLN 4 429 thousand | Resolutions adopted by the KNF Board, | Total: 27 |
| | | including in particular: | |
| | | approval of an amendment to the articles of association of a general pension society | 4 |
| | | approval of an amendment to the articles of association of an open pension fund | 3 |

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| | | authorisation to shorten the deadline for entry into force of amendments to the articles of association of an open pension fund | 3 |
| | | approval of appointment of a member of the management board of a general pension society | 2 |
| | | approval of appointment of a member of the management board of an occupational pension society | 3 |
| | | Final and interim decisions issued on the basis of authorisation granted by the KNF Board, | Total: 567 |
| | | including in particular: | |
| | | entry of an occupational pension scheme in the register | 206 |
| | | inclusion of an employer in an inter-company scheme | 64 |
| | | entry of changes to the occupational pension scheme in the register | 164 |
| | | removal of the occupational pension scheme from the register | 27 |
| | | Inspections | Total: 5 |
| | | Other supervision activities, | Total: approx. 51.7 thousand |
| | | including in particular: | |
| | | analysis of financial reports and reporting information | approx. 51 thousand |
| | | assigning a SREP score to general pension societies | 11 |
| | | acts performed in the Register of Occupational Pension Schemes | 520 |
| | | analysis of reports of malfunctioning of the pension sector entities | 13 |
| | | TOTAL | approx. 52.3 thousand |
| Insurance supervision | PLN 32 768 thousand, including administrative costs*: PLN 13 658 thousand | Resolutions adopted by the KNF Board, | Total: 57 |
| | | including in particular: | |
| | | approval of appointment of a president of the management board of an insurance undertaking | 5 |
| | | approval of appointment of a member of the management board of an insurance undertaking responsible for risk management | 15 |
| | | imposition of a fine on the insurance undertaking | 18 |
| | | Final and interim decisions issued on the basis of authorisation granted by the KNF Board, | Total: 233 |
| | | including in particular: | |
| | | entry in the register of actuaries | 5 |
| | | withdrawal of authorisation to conduct brokerage business | 48 |
| | | approval of amendments to the articles of association of an insurance undertaking | 20 |
| | | granting authorisation to conduct brokerage activity in the field of insurance | 79 |

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| | | Controls and supervisory visits | Total: 36 |
| | | Other supervision activities, | Total: approx. 178.4 thousand |
| | | including in particular: | |
| | | acts performed in the Register of Insurance Agents | 158 293 |
| | | acts performed in the Register of Brokers | 2 988 |
| | | analysis of reports of malfunctioning of the insurance sector entities | 2 067 |
| | | assigning a SREP score to insurance undertakings | 61 |
| | | analysis of financial reports and reporting information | approx. 10.4 thousand |
| | | TOTAL | approx. 178.8 thousand |
| capital market supervision | PLN 49 535 thousand, including administrative costs*: PLN 22 444 thousand | Resolutions adopted by the KNF Board, | Total: 237 |
| | | including in particular: | |
| | | granting authorisation to convert shares into certified form (dematerialisation of shares) | 22 |
| | | imposition of fines on TFI | 3 |
| | | imposition of fines on entities (issuers, shareholders being legal persons, investment firms) | 8 |
| | | imposition of fines on natural persons | 15 |
| | | upholding a final decision | 32 |
| | | repeal of a decision | 21 |
| | | granting authorisation to change the depositary | 13 |
| | | Final and interim decisions issued on the basis of authorisation granted by the KNF Board, | Total: 751 |
| | | including in particular: | |
| | | approval of a prospectus | 25 |
| | | approval of an annex to the prospectus | 62 |
| | | entry on the list of investment advisers | 51 |
| | | entry on the list of securities brokers | 63 |
| | | entry in the Register of Tied Agents | 76 |
| | | approval of amendments to the articles of association of an investment fund, including the shortening of the deadline for the entry into force of amendments to the fund's articles of association | 50 |
| | | Inspections | Total: 23 |
| | | Other supervision activities, | Total: approx. 84.8 thousand |
| | | including in particular: | |
| | | assigning a SREP score to brokerage houses | 40 |
| | | assigning a SREP score to investment fund management companies | 61 |
| analysis of financial reports and reporting information | approx. 75.9 thousand | | |
| analysis of reports of malfunctioning of the capital market entities | 593 | | |

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| | | Inspection/control | Total: 2 |
| | | Other supervision activities, | Total: 238 |
| | | including in particular: | |
| | | analysis of financial reports and reporting information | 177 |
| | | analysis of reports of malfunctioning of entities in the credit unions sector | 57 |
| | | TOTAL | 280 |
| supervision of mortgage credit intermediaries and their agents | PLN 1 709 thousand, including administrative costs*: PLN 715 thousand | Final and interim decisions issued on the basis of authorisation granted by the KNF Board, | Total: 273 |
| | | including in particular: | |
| | | authorisation to carry on business as a mortgage credit intermediary and entry in the Register of Credit Intermediaries (in Section I) | 250 |
| | | Other supervision activities | Total: approx. 8.3 thousand |
| | | including in particular: | |
| | | entering mortgage credit intermediaries at the request of lenders | 736 |
| | | entering an agent in the Section on credit intermediaries | 6 706 |
| | | TOTAL | approx. 8.6 thousand |

Source: KNF's own calculations

*Administrative costs must be understood as so-called indirect costs, i.e. operating costs of the KNF Board and the KNF, which are not directly related to individual costs assigned separately. Such costs are allocated proportionally to individual, separately settled sectors.

**Including 37 inspections carried out by the KNF Board at supervised entities in the area of prevention of money laundering and terrorist financing. Such activities concern all sectors supervised by the KNF Board.

*** The provisions of the financial market cost financing regime do not require a distinction to be made between the costs of supplementary supervision and the costs of supervision of credit rating agencies. Due to the organisational solutions adopted at the KNF, the cost of supplementary supervision and the costs of supervision over credit rating agencies are treated as costs not directly assigned to the separated sectors (they are treated as indirect costs).

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