

# REPORT ON THE ACTIVITIES OF THE POLISH FINANCIAL SUPERVISION AUTHORITY IN 2017

Pursuant to Article 4(2) of the Act of 21 July 2006 on financial market supervision, the Polish Financial Supervision Authority (PL: Komisja Nadzoru Finansowego–KNF) is required to submit an annual report on its activities to the Prime Minister by 31 July of the following year. Complying with the above-mentioned statutory requirement, the KNF adopted *the Report on the Activities of the Polish Financial Supervision Authority in 2017* at its 386th meeting on 10 April 2018.

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## LETTER FROM THE CHAIRMAN OF THE KNF

In 2017, the activities of the Polish Financial Supervision Authority (KNF) were primarily aimed at achieving the objectives set out in the Act on financial market supervision, such as e.g. ensuring the proper functioning stability, security and transparency of the financial market.

Last year, the process of implementing the modified organisational structure of the KNF Office was initiated. The main reason for the gradual change is to improve the functioning of the KNF Office. The organisational reshaping has prompted the standardisation of licensing and inspection processes in the financial market sectors supervised by the KNF, as well as the development of uniform supervisory standards for the entire market. The integration of the KNF Office and the ultimate elimination of divisions resulting from its creation in the process of merging separate institutions are also crucial from this point of view. The quality of work of the KNF Office determines to a large extent the results of the activities of the KNF, as the legislator has entrusted the KNF with extremely important tasks relating to the



security and stability of the financial market in Poland. A major change introduced last year with regard to the policy of the KNF and KNF Office is the launch of new activities in the area of development of the financial innovation sector (FinTech) in Poland. It has been acknowledged that the Polish sector of companies using modern technologies in the area of financial services is developing dynamically but it needs support in the process of creating a favourable economic microclimate. Therefore, on the initiative of the KNF Office, the Ministry of Finance and the former Ministry of Development, the Special Task Force for Financial Innovation (FinTech) was established, with the KNF Office as the coordinator. The objective of the Task Force was to identify legal, regulatory and supervisory barriers to the development of financial innovations in Poland and to propose solutions which could eliminate or reduce such barriers. The team comprised representatives of 22 institutions, including a broad representation of public institutions (regulators, supervisors) and representatives of the market (both supervised and non-supervised). In November, the Report on the activities of the Special Force was published, outlining the barriers to the development of the FinTech sector in Poland identified by the Task Force, the actions taken by the Task Force to eliminate them, and proposing solutions and recommendations for further activities to be undertaken by competent bodies and entities which will contribute to the creation of a favourable regulatory and supervisory environment for the development of the financial innovation sector in Poland. The Task Force concluded that supervisory and regulatory bodies should inform market participants as openly as possible about their positions on innovative products and services and maintain an effective dialogue with them. In response to that recommendation, the Management of the KNF Office initiated a number of measures to support the development of financial innovations through supervision aimed at implementing the Innovation Hub concept, i.e. an information and training procedure under which the supervisory authority will launch information initiatives in the legal and regulatory area for entities in the FinTech sector, and at establishing a new department (Department of FinTech) within the structure of the Office. The KNF website has also launched a sub-page devoted to FinTech, including links to descriptions of the licensing and registration processes.

Referring to the picture of the financial market that emerges from the summary of 2017, it should be pointed out that the assets of the financial system in Poland increased in 2017 by PLN 140.3 billion, i.e. by 5.7%, and at the end of the year amounted to PLN 2.6 trillion. Safety

indicators in the key market sectors remain stable: the solvency ratio in the banking sector at the end of 2017 was 19.0, the coverage of the Solvency Capital Requirement (SCR) with eligible own funds in the insurance sector at the end of 2017 was 272.3%, the coverage of net assets of open pension funds (PL: OFE) with liquid funds of general pension societies (PL: PTE) and the Guarantee Fund's resources was 1.6%\*, the equity coverage ratio of investment fund management companies (PL: TFI) was 503%\*\* , and the total capital ratio of brokerage houses was 24.6%. The situation of credit unions (PL: SKOK) remains complex: the capital ratio of SKOK, taking into account the findings of the KNF inspection, was 2.4% at the end of 2017.

The number of commercial banks subject to rehabilitation proceedings remained at a similar level – at the end of 2017 it reached 34 (including one affiliating bank), while the share of assets of commercial banks subject to rehabilitation proceedings in the banking sector assets amounted to 8.3% at the end of 2017.

The analysis of the situation of the cooperative banks sector allows to formulate general conclusions on the underused potential of this sector. Treating the cooperative sector as a whole, it is important to emphasise its significant share in the banking sector, which, depending on the adopted criteria, for example, in terms of the value of deposits collected, amounts to 10% of the entire banking sector. The scale of cooperative banks' operations should not be underestimated, i.e. a significant number of outlets located throughout the country. This is undoubtedly a potential which can and should be exploited when planning the development of this sector in the years to come. However, many of the current problems and risks that slow down this development are posing a challenge. The SKOK sector, on the other hand, has decreased significantly in the number of supervised entities, whereas the size of the sector of payment institutions has expanded. The combination of these two areas under the roof of a single department within the framework of the modification of the structure of the KNF Office will allow for flexible management of human resources in this area. Separating a special cooperative banking department will allow for a stronger focus on reforming the market segment, which contains one-tenth of the assets of the entire banking sector. The creation of a separate department, whose efforts will be devoted to this sector, is a promise of a new, coherent policy aimed at cooperative banks. Until now, the supervision of cooperative banks and credit unions has been concentrated in one unit. The changes introduced to the structure of the KNF Office will allow for a consistent and sequenced approach to both segments.

For the capital sector, 2017 was a year of intense preparation for the application of MiFIR. At the same time, legislative works were carried out for the implementation of the provisions of MiFID II into the Polish legal system. While MiFID II has not been implemented yet, in the last days of December 2017, national legislation entered into force facilitating the application of the MiFIR, including allowing investment firms to report transactions to the KNF through the national depository for securities (PL: Krajowy Depozyt Papierów Wartościowych–KDPW) and the Warsaw Stock Exchange (WSE) to benefit from exemptions from pre-trade transparency. In preparation for the application of MiFIR in 2017 the KNF Office cooperated with the market in preparations for the reporting of transactions by investment firms and for the reporting of reference data by trading venues. This resulted in the creation of an ICT system at the KNF Office, to be used by these entities to perform their duties.

A law entered into force in May 2017, adapting national legislation to MAR and implementing MAD II into Polish legal order. At the same time, in connection with the first anniversary of the Regulation's application, the KNF Office conducted a supervisory survey among issuers. In

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\* the arithmetic mean of indicators for individual entities

\*\*arithmetic mean of indicators for individual investment fund management companies

addition to meeting the supervisory objective, the results of the survey identified the areas of MAR that pose the most challenges to issuers. On that basis, it may be concluded that Polish issuers are satisfactorily coping with the new disclosure requirements.

While summarising the year 2017, it is impossible to ignore the issues relating to the challenges that the second year of operation of Solvency II brought to the activity of insurance and reinsurance undertakings. In 2017, insurance undertakings had to prepare annual reports for the first time based on the Solvency II requirements. The preparation of the reports has proved to be a major challenge for both insurance and reinsurance undertakings as well as for the supervisory authority. The significant improvements observed in the quality of the quarterly supervisory reporting compared to previous quarters, the timeliness of the information reported and the efficiency of the reporting of the corrections are the best evidence of the solid work done by insurance and reinsurance undertakings and the supervisory authority to ensure the quality of the reported data in the above-mentioned reports. This has been positively assessed by EIOPA in terms of quality of the reports submitted by the KNF Office.

In November 2017, the KNF approved the information concluding the work of the Compensation Forum, which was established in June 2016 as a continuation of the activities of the KNF Office relating to the presentation of supervisory expectations concerning motor insurance claims settlement by insurance undertakings operating in Poland, with particular emphasis on the settlement of motor insurance claims covered by the Compulsory Third Party Insurance. The Compensation Forum prepared a draft of legislative solutions and an analysis of final court judgments relating to the amount of compensation for non-material damage and its payment by insurance undertakings in connection with third party motor vehicle liability insurance. The solution took the form of tables on the basis of which it is possible to calculate, on a case-by-case basis, the amount of compensation to be granted. The proposed compensation tables include an authorisation mechanism by linking the amounts to the national average salary level. The results of the work of the Compensation Forum were forwarded to the Ministry of Justice, the Ministry of Finance, and the Financial Ombudsman.

As far as OPFs are concerned, in 2017 they reached their historically highest average annual rate of return of 18.8%. Such an outcome was possible due to the good economic situation on the equity instruments market, with a significant involvement of OPFs in these instruments as a result of changes in the system in 2014.

During its twenty years of operation, the Polish supervisors have developed a leading position in Central and Eastern Europe, both in terms of experience, particularly in the period of economic transformation, as well as the regulatory, inspection and analytical standards introduced and a code of good practice. The KNF has a high position in the international environment and recognition of the high qualifications of its financial supervisors. This was confirmed by the allocation of funds by the European Commission for the EU's twinning project and the successful implementation of the third two-year comprehensive project by the KNF Office, this time for the benefit of non-bank supervisory partnership in Moldova.

2017 was another year of intensive development of the Arbitration Court at the KNF. The Court received over 2 900 requests for mediation (60% more than the year before). This indicates that this form of dispute resolution is becoming increasingly popular. In addition, it is worth noting that mediation conducted within the framework of the Arbitration Court is highly effective. In more than 80% of these cases, the mediation resulted in a settlement agreement. The advantage of amicable dispute resolution through mediation is not only the possibility of settling disputes through settlement but also the possibility of mutual clarification of any disputed issues and resolution of any problems arising, which allows the parties to maintain contractual or business relations between them. The subject of disputes referred to mediation are, in particular, claims of persons injured in accidents (mainly traffic accidents),

claims relating to life insurance contracts connected with insurance capital funds or disputes concerning credits indexed/denominated in foreign currencies. It is worth noting that in an increasing number of cases financial institutions take the initiative of mediating with their clients. The KNF Office also carries out activities relating to the fulfilment of the statutory task of the supervisory authority in terms of dissemination of knowledge on the functioning of the financial market. In 2017, the Education Centre for Market Participants (CEDUR) project focused primarily on the training and publishing activities. In 2017, 84 training seminars, workshops and meetings were organised by the employees of the KNF Office, addressed mainly to KNF-supervised entities, representatives of the judiciary and law enforcement agencies, consumer protection institutions, as well as representatives of education, attended by a total of over 6.6 thousand listeners.

*Marek Chrzanowski*  
*Chairman of the Polish Financial Supervision Authority (KNF)*

# 1. POLISH FINANCIAL SUPERVISION AUTHORITY

## LEGAL BASIS OF ACTIVITIES OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

The Polish Financial Supervision Authority (hereinafter: 'Authority', 'KNF' or 'supervisory authority') operates pursuant to the Act of 21 July 2006 on financial market supervision (Journal of Laws of 2017, item 196, as amended, hereinafter: 'the Act on financial market supervision'). In accordance with the said Act, the KNF supervises the financial market, which as at 31 December 2017 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 forming part of 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 the proper functioning of this market, its stability, security and transparency, confidence in the financial market, and protection of the interests of market participants.

Supervision of the activities of the Authority is exercised by the Prime Minister.

## COMPOSITION OF THE POLISH FINANCIAL SUPERVISION AUTHORITY (KNF)

The KNF is a collegial body. As at 31 December 2017, the KNF was composed of: the Chairman, two Vice-Chairmen, and five 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 or member of the Management Board of the NBP delegated by him/her, and a representative of the President of the Republic of Poland.

In 2017, the KNF was composed of the following members:

### **Chairman of the KNF**

Marek Chrzanowski

### **Vice-Chairman of the KNF**

Lesław Gajek - until 15 February 2017

Marcin Pachucki - since 16 February 2017

### **Vice-Chairman of the KNF**

Wojciech Kwaśniak - until 15 February 2017

Filip Świtłała - since 16 February until 23 June 2017

Andrzej Diakonow - since 25 July 2017

### **Members of the KNF:**

#### **Representative of the minister competent for financial institutions**

Piotr Nowak

#### **Representative of the minister competent for social security**

Jan Wojtyła



**Member of the Management Board of the National Bank of Poland delegated by the President of the NBP**  
Andrzej Kaźmierczak

**Representative of the President of the Republic of Poland**  
Zdzisław Sokal

**Representative of the minister competent for economy**  
Armen Artwich

**COMPOSITION OF THE POLISH FINANCIAL SUPERVISION AUTHORITY  
AS AT 31 DECEMBER 2017**

**Chairman of the Polish Financial Supervision Authority**



**Marek Chrzanowski**

**Vice-Chairmen of the Polish Financial Supervision Authority**

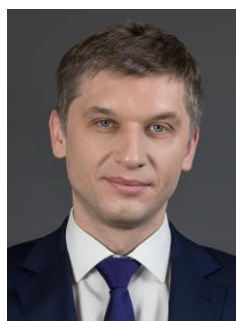


**Marcin Pachucki**



**Andrzej Diakonow**

## Other Members of the Polish Financial Supervision Authority as at 31 December 2017



Piotr Nowak

Jan Wojtyła

Andrzej Kaźmierczak

Zdzisław Sokal

Armen Artwich

Representative of the minister competent for financial institutions

Representative of the minister competent for social security

Member of Management Board of the National Bank of Poland

Representative of the President of the Republic of Poland

Representative of the minister competent for economy

## MEETINGS AND RESOLUTIONS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

The KNF, within its remit, adopts resolutions, including the issuance of administrative decisions and orders. The KNF adopts resolutions by a simple majority of votes by open vote, in the presence of at least four members, including the Chairman of the KNF or Vice-Chairman. In the case of an equal number of votes, the Chairman of the KNF decides, and in the event of his absence, the vote of the Vice-Chairman authorised to direct the work of the KNF.

In 2017, 39 meetings of the KNF were held at which a total of 620 resolutions were adopted, of which 536 were in the form of decisions and orders.

**Table 1. Number of resolutions adopted by the KNF in 2014-2017**

Subject of resolution	Number of adopted resolutions			
	2014	2015	2016	2017
Matters concerning the banking sector	76	71	95	102
Matters concerning the SKOK sector	47	74	93	47
Matters concerning the payment service sector	10	312	355	79
Matters concerning the insurance sector	54	46	57	58
Matters concerning the pension sector	71	53	47	47
Matters concerning the capital and commodity markets	153	155	212	284
Cross-sectoral matters and matters concerning internal organisation of the KNF's work	4	7	5	3

<b>Total</b>	<b>415</b>	<b>718</b>	<b>864</b>	<b>620</b>
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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.

## ORDERS ISSUED BY THE CHAIRMAN OF THE KNF

In 2017, the Chairman of the KNF issued 139 orders to institute *ex officio* proceedings or to extend the scope of the proceedings – under Article 13 of the Act of 29 July 2005 on capital market supervision (Journal of Laws of 2017, item 1480, as amended, hereinafter: 'Act on capital market supervision').

## ORDERS AND ADMINISTRATIVE DECISIONS ISSUED ON THE BASIS OF AN AUTHORISATION GRANTED BY THE KNF

According to Article 12(1) of the Act on financial market supervision, the KNF may authorise the Chairman of the KNF, the Vice-Chairmen, and employees of the KNF to act within the remit of the KNF, including to issue orders and administrative decisions.

In 2017, 3 099 decisions and/or orders were issued on the basis of an authorisation granted by the KNF.

**Table 2. Number of decisions and orders issued on the basis of an authorisation granted by the KNF in 2014-2017**

Subject of decisions and orders	Number of decisions and orders			
	2014	2015	2016	2017
Matters concerning the banking sector	563	959	2 380	1 200
Matters concerning the SKOK sector	95	214	230	88
Matters concerning the payment service sector	102	260	110	291
Matters concerning the insurance sector	424	412	390	349
Matters concerning the pension sector	357	236	342	294
Matters concerning the capital and commodity markets	686	885	894	825
Matters concerning mortgage loan intermediaries	-	-	-	49
Matters of a cross-sectoral nature	19	0	0	0
Matters concerning other areas	0	9	9	3
<b>Total</b>	<b>2 246</b>	<b>2 975</b>	<b>4 355</b>	<b>3 099</b>

Source: KNF's own calculations

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

## OFFICIAL JOURNAL OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

Pursuant to Article 4(3) of the Act on financial market supervision, the KNF issues the Official Journal of the Polish Financial Supervision Authority. The Official Journal of the KNF contains publications of acts for which the obligation to officially publish arises from the provisions of law – these are, first of all, various types of announcements by the KNF or its Chairman, and the announcements made by examination boards conducting professional examinations for

securities brokers and investment advisers, as well as the resolutions of the KNF which the KNF decides to announce, including in particular resolutions regarding the issuance of a recommendation, and a resolution on the 'Regulations of the Arbitration Court at the Polish Financial Supervision Authority' or a resolution on the manner of exercising banking supervision. The KNF's administrative decisions to impose sanctions on supervised entities are also published in the KNF's Official Journal on the basis of separate regulations.

In 2017, a total of 29 items were published in the Official Journal of the Polish Financial Supervision Authority. The list of items of the Official Journal of the Polish Financial Supervision Authority in 2017 is included in Appendix 3.

## 2. FINANCIAL MARKET IN POLAND: OVERVIEW

According to preliminary estimates, Poland's GDP growth throughout 2017 amounted to 4.6%. Thus, the positive trend from previous years was maintained (an increase of 2.9% in 2016 and 3.9% in 2015), and the growth rate may still be considered high compared to other European countries. Between 2007 and 2016, the average annual growth rate of our economy was 3.55% and it was the second result among the EU countries in that period. The average annual growth over the same period was 0.87% for the entire EU28 and 0.65% for the euro area. In the first three quarters, the economic growth in Poland resulted from an increase in individual consumption, and in the second quarter also from an increase in gross fixed capital formation. The cumulative balance of the current account from the previous twelve months amounted to PLN +1.85 billion in December 2017 (compared to PLN -5.37 billion in December 2016). The labour market continued its positive trend from 2013, with the unemployment rate declining to 6.6% at the end of November 2017 (from 8.2% at the end of the previous year). No deflation was recorded in any of the months of this year. The average annual inflation in the entire 2017 was 2.0%. 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 2017, the exchange rate of the Polish Zloty (PLN) against the main currencies strengthened significantly on the currency market. At the end of the year, the average PLN/EUR exchange rate was 4.17 against 4.42 at the beginning of the year, the average PLN/CHF exchange rate was 3.57 (against 4.12) and the average PLN/USD exchange rate was 3.48 (against 4.21). At the end of 2017, the interest rate on 10-year Treasury bonds amounted to 3.29% and was higher than the year before (3.89%). In 2017, the budget deficit was under-implemented (42.7% of the annual plan) and the deficit reached PLN 25.4 billion. The budget revenues were implemented in 107.7% and amounted to PLN 350 billion. In turn, according to the data as at the end of Q3 2017, the public debt represented 52% of GDP and did not exceed the reference value for one of the fiscal criteria included in the Treaty of Maastricht, equal to 60%.

The balance sheet total of the banking sector at the end of December 2017 amounted to PLN 1.78 trillion and was higher than in the previous year by 4.1%. In the period concerned, the banks generated a profit of PLN 13.6 billion, which was approximately 2% lower than in the previous year (PLN 13.9 billion). Similarly to the previous year, the Bank Guarantee Fund paid out the guaranteed funds to the depositors. The payments covered the following credit unions (SKOKs): Wybrzeże, Nike, Twoja SKOK, Wielkopolska SKOK and the Cooperative Bank in Nadarzyn.

At the end of Q4 2017, the assets of SKOKs amounted to over PLN 10.2 billion. Moreover, according to the reporting data, the SKOK sector recorded a net profit of PLN 42.3 million. As at the end of 2017, the amount of own funds of the unions was PLN 227 million. The presented data is preliminary and it has not been audited by a certified auditor.

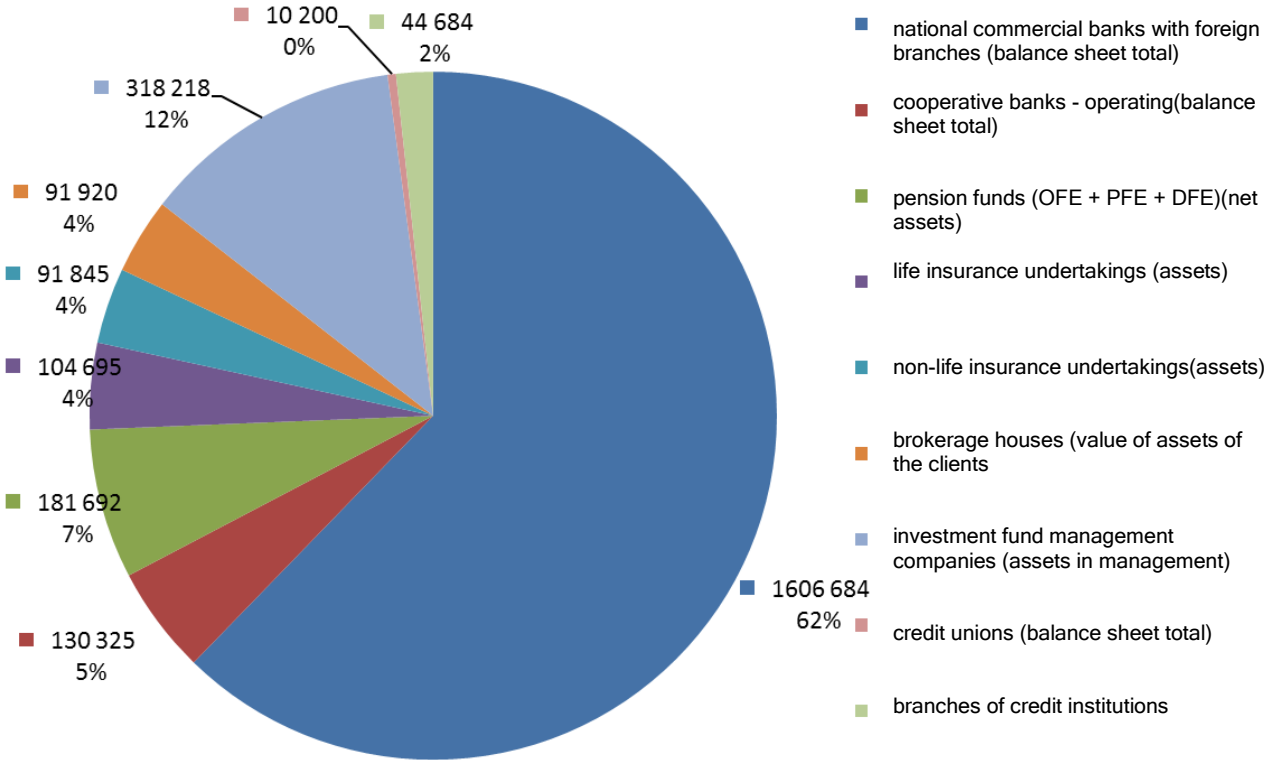
The balance sheet total of the insurance sector increased by 6% during the year and amounted to nearly PLN 197 billion at the end of December 2017, of which about PLN 105 billion was allocated to the life insurance undertakings, and about PLN 92 billion to the non-life insurance undertakings – other personal insurance and property insurance. In the period concerned, insurers generated a profit of PLN 5.7 billion (of which PLN 2.3 billion was attributable to the life insurance sector, and PLN 3.4 billion to the non-life insurance sector) and it was higher by 39% than in the previous year.

The total value of net assets of open pension funds (OFE), voluntary pension funds (DFE) and occupational pension funds (PFE) as at 31 December 2017 amounted to PLN 181.7 billion and was higher by 17% than at the end of the previous year (PLN 155 billion).

In 2017, the Warsaw Stock Exchange recorded a significant increase in indices. During the year, WIG gained 23% and WIG20 26%. The value of trading in shares amounted to PLN 261 billion and was nearly 30% higher than in the previous year, whereas the value of trading in bonds remained at the same level as in the previous year and reached PLN 1.4 billion. At the end of the year, the capitalisation of domestic companies amounted to PLN 671 billion (a 20% increase compared to the previous year), and of foreign companies to PLN 709 billion (a 27% increase). In the period concerned, 15 initial offerings and 20 delistings were recorded; in consequence, the number of listed companies did not increase during the year for the second consecutive year.

The value of assets of investment funds managed by investment fund management companies at the end of 2017 amounted to PLN 318.2 billion and was about 8.4% higher 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 2017 amounted to PLN 91.9 billion and was 11% higher than the year before (PLN 82.8 billion).

**Diagram 1. Asset structure of the Polish financial sector in 2017 (in PLN million)\***



Source: KNF's own calculations.  
 \*Presented data for 2017 has not been audited.

**Table 3. The number of entities supervised by the KNF as at 31 December 2017**

Type of entity	Number of entities
Commercial banks (including 1 state bank and 2 affiliating banks)	35
Cooperative banks	553
Representative offices of foreign banks and credit unions	12
Institutional Protection System (IPS)	2
Credit unions, National Association of Credit Unions	35
Domestic payment institutions	44
Payment service offices	1 320
Brokerage houses	44
Banks providing investment services	11
Tied agents of investment firms	223
Custodian banks	13
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	483
Investment funds	905
Investment fund management companies	62
Managers of alternative investment companies/partnerships	4
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)**	197
Entities of the commodity market infrastructure (Towarowa Giełda Energii S.A., Izba Rozliczeniowa Giełd Towarowych S.A.)	2
Commodity brokerage houses	1
Energy undertakings maintaining accounts or registers of exchange commodities	53
Open pension funds	11
General pension societies	11
Occupational pension funds	3
Occupational pension societies	3
Depositaries of pension funds	6
Transfer agents of pension funds	8
Voluntary pension funds	8
Life insurance undertakings	27
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 notified operation as a branch in Poland as at 31 December 2017**

Type of entity	Number of entities
Credit institutions <sup>i</sup>	28
Payment institutions <sup>i</sup>	6
Electronic money institutions <sup>i</sup>	3

Insurance undertakings <sup>i i</sup>	27
Reinsurance undertakings <sup>i i</sup>	1
Investment firms <sup>i</sup>	14
Management companies <sup>i *</sup>	0

Source: KNF's own calculations

<sup>i</sup> 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.

<sup>i i</sup> 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.

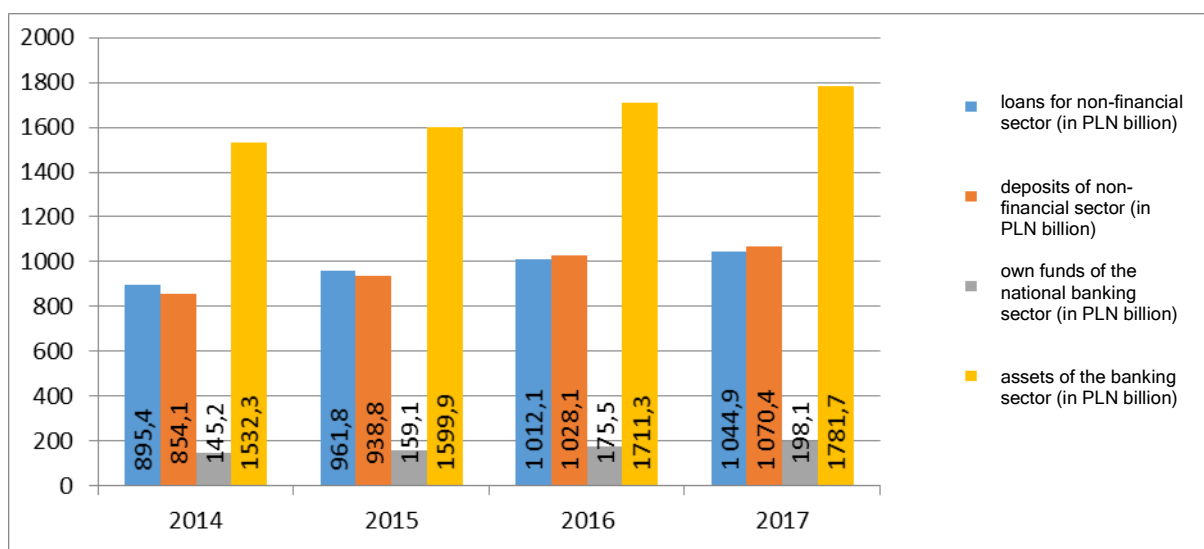
\*Entity authorised by a competent authority in a Member State to carry out activity relating to the management of funds operating in accordance with the Community law governing the rules of collective investment in securities.

## 2.1. BANKING SECTOR

At end of 2017, the Polish Financial Supervision Authority supervised 35 commercial banks (including 1 state bank and 2 affiliating banks), 2 institutional protection systems, 553 cooperative banks, and 28 branches of credit institutions.

As at 31 December 2017, cooperative banks were associated in Bank Polskiej Spółdzielczości S.A. in Warsaw (352) and SGB-Bank S.A. in Poznań (199). Two cooperative banks operated on their own (KBS in Krakow and BS in Brodnica). In 2017, the Polish Financial Supervision Authority approved the merger processes for six cooperative banks.

**Diagram 2. Basic data of the banking sector in Poland in the years 2014-2017**



Source: KNF's own calculations

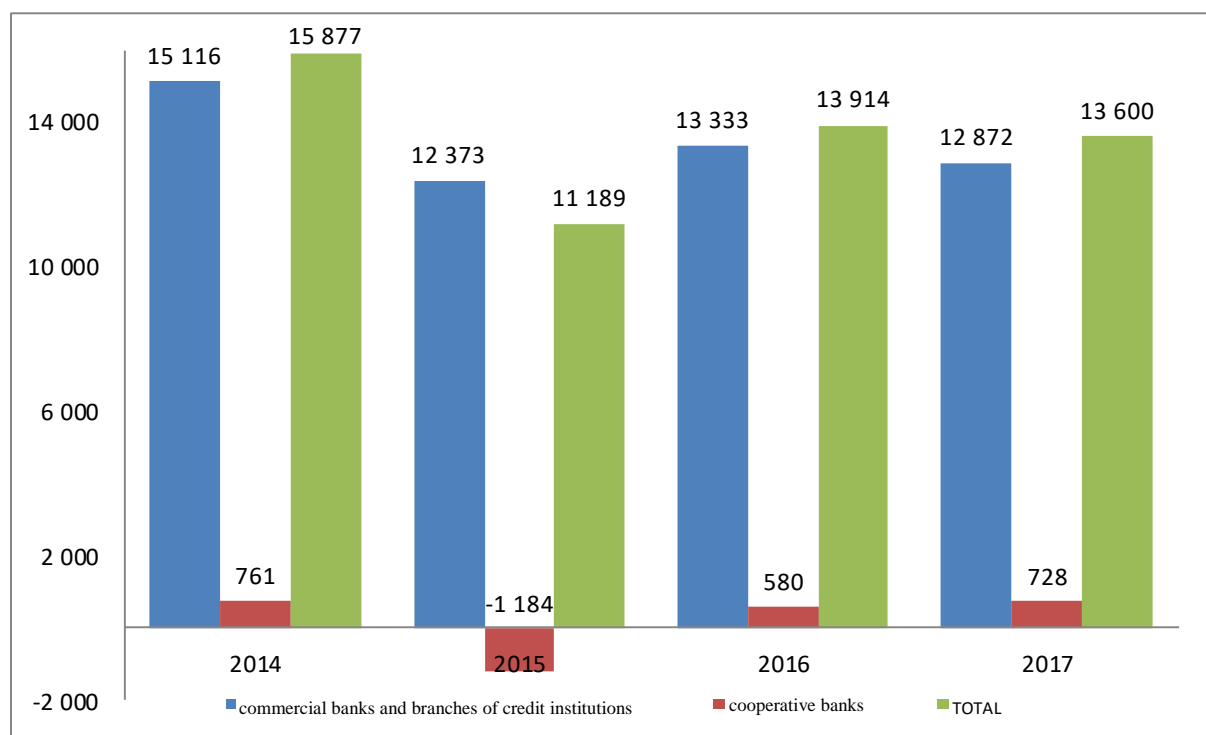
Presented data for 2017 comes from the monthly bank reporting for December 2017 and it has not been audited. Data for previous years may differ from data published in previous reports due to corrections made by the banks as well as the subsequent audit process.

The balance sheet total of the Polish banking sector at the end of December 2017 amounted to PLN 1 781.7 billion (an increase of 4.1% as compared to the end of December 2016). Domestic commercial banks (with foreign branches) account for 90.2% of the sector's assets, 2.5% for branches of credit institutions and 7.3% for cooperative banks.

In the structure of assets, 69.7% (PLN 1 241.5 billion) were loans and other receivables, 18.4% (PLN 328.2 billion) were available-for-sale financial assets, 1.3% (PLN 23.7 billion) were held-for-trading financial assets and 3.2% (PLN 57.4 billion) were cash and operations with central banks. As for liabilities, deposits accounted for 71.4% of total liabilities (PLN 1 272.3 billion), and equity for 11.5% (PLN 204.3 billion). In 2017, gross receivables from the non-financial sector increased by 3.2%, reaching PLN 1 044.9 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 2017, for another year, there was a clear decrease in the volume of loans in CHF; their sum decreased from CHF 32.6 billion at the end of December 2016 to CHF 30.0 billion at the end of December 2017, i.e. a decrease of 7.9% and 29.6% over the next five years (from CHF 42.7 billion at the end of December 2012). At the same time, the quality of housing loans, including those denominated in CHF, remains good: in 2017 it was at a level similar to 2016, 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 2014-2017 (in PLN million)**



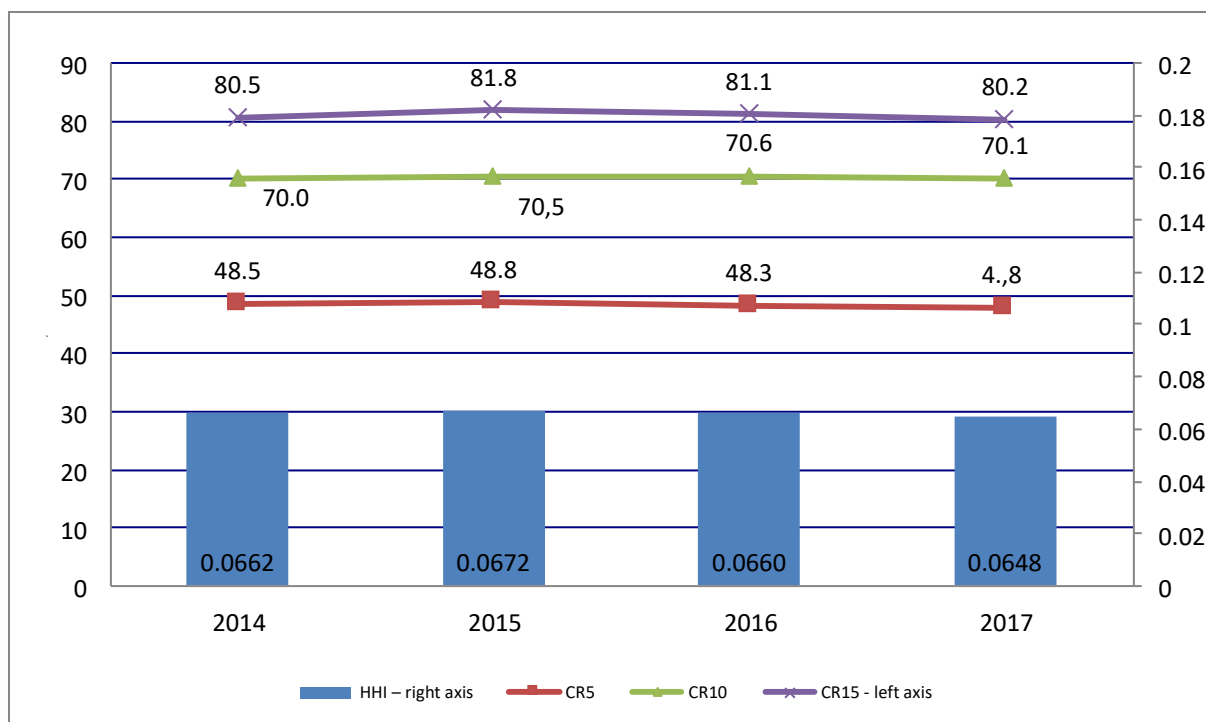
Source: KNF's own calculations

Presented data for 2017 comes from the monthly bank reporting for December 2017 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 2017, the net financial result of the banking sector amounted to PLN 13.6 billion and was lower by 2.3% as compared to 2016. The result was lower than in 2016 due to an additional month of the banking tax (11 months in 2016 and 12 months in 2017) and the disposal of Visa Europe shares, which improved the result in 2016. In 2017, 18 banks and 2 branches of credit unions paid a total of PLN 3.6 billion on account of the banking tax. It is by PLN 0.4 billion (11.9%) more than in 2016. The net interest income amounted to PLN 42.6 billion (+12.1% YOY), of which the interest income amounted to PLN 58.2 billion (+7.9% YOY), and interest expenses to PLN 15.5 billion (-2.1%). The commission income remained at PLN 13.7 billion (+9.1% YOY). The result on banking activity increased by 4.1% to PLN 61.8 billion in the period under assessment. Bank's operating expenses were 4.3% higher than in the previous year and amounted to PLN 33.0 billion, and impairment write-offs of financial assets increased by 7.8% YOY to PLN 8.3 billion.

**Diagram 4. Concentration of assets in the years 2014-2017**





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 0.0648 describes a competitive market.

Presented data for 2017 comes from the monthly bank reporting for December 2017 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 (SKOK)

At the end of 2017, the Polish Financial Supervision Authority supervised 34 credit unions (SKOK), and the National Association of Credit Unions (KSKOK). In 2017, the KNF appointed receivers at two credit unions, and in the case of two unions decided on their take-over by domestic banks.

At the end of Q4 2017, the assets of SKOKs amounted to over PLN 10.2 billion. Moreover, according to the reporting data, the SKOK sector recorded a net profit of PLN 42.3 million. As at the end of 2017, the amount of own funds of the unions was PLN 227 million. Presented data is preliminary as it has not been audited by a certified auditor, and it may change.

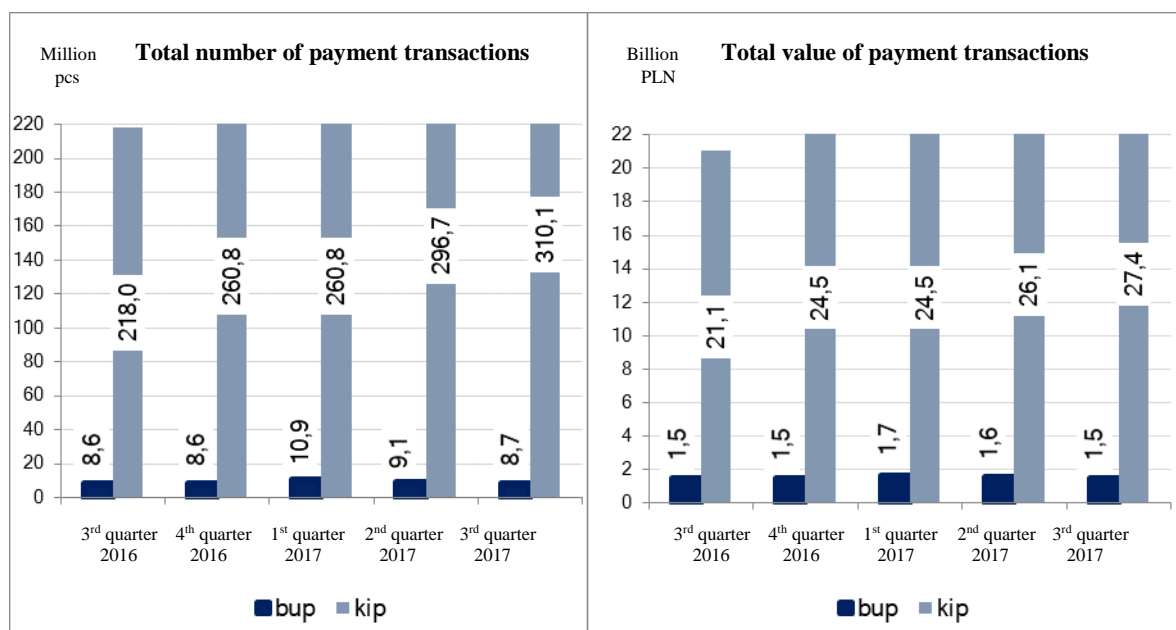
## 2.3. SECTOR OF PAYMENT SERVICES

As at 31 December 2017, 44 domestic payment institutions were authorised. As at 31 December 2017, 1 320 payment service offices were included in the register of payment service offices.

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 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 Q1, Q2 and Q3 2017.

The KNF'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 effected by BUP and KIP in the period from Q3 2016 to Q3 2017**



Source: KNF's own calculations

## 2.4. INSURANCE SECTOR<sup>1</sup>

### ENTITIES OF THE INSURANCE SECTOR

As at the end of 2017, 61 domestic insurance undertakings were authorised to operate in Poland (27 life insurance undertakings and 34 other personal and property insurance undertakings, including 1 reinsurance undertaking, respectively). In 2017, all authorised insurance undertakings pursued insurance and reinsurance activities.

On 28 April 2017, the merger of two domestic insurance undertakings was recorded in the National Court Register: AXA TUIR S.A. (the company being acquired) and AXA UBEZPIECZENIA TUIR S.A. (the acquiring company) styled AXA UBEZPIECZENIA TUIR S.A. In addition, in 2017, the insurance activity was undertaken by Nationale-Nederlanden Towarzystwo Ubezpieczeń S.A., which was authorised to conduct business activity in the fourth quarter of 2016.

### BALANCE SHEET OF INSURANCE UNDERTAKINGS

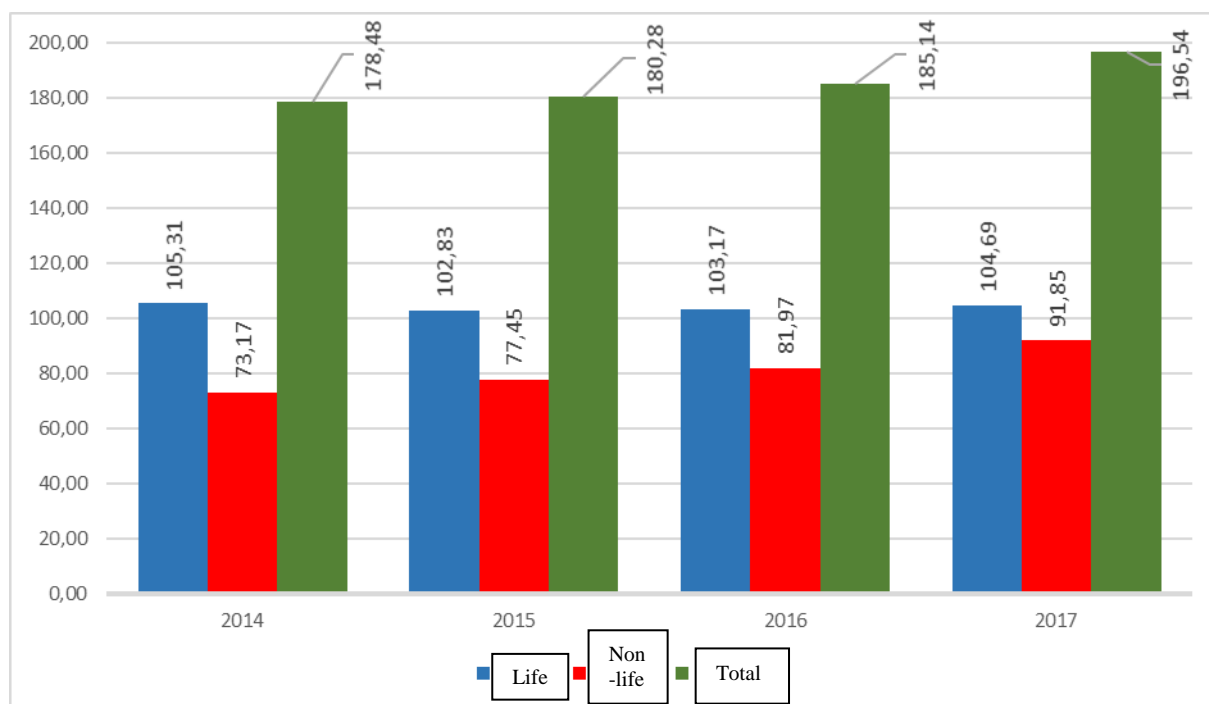
The value of assets of insurance undertakings in 2017 amounted to PLN 196.54 billion and increased as compared to the previous year by 6.16%, i.e. by PLN 11.40 billion.

<sup>1</sup> Presented data for 2017 comes from the financial statements of insurance and reinsurance undertakings for Q4 2017 and it should be treated as preliminary. Data for previous years may differ from data published in previous reports due to corrections made by undertakings.

Assets of life insurance undertakings, equal to PLN 104.69 billion, increased by 1.48% (i.e. by PLN 1.53 billion) in comparison with the previous period.

In non-life insurance undertakings, the value of assets amounted to PLN 91.85 billion, which represented an increase by 12.04%, i.e. by PLN 9.87 billion, as compared to the corresponding period of the previous year.

**Diagram 6. The balance sheet total in the years 2014-2017 (in PLN billion)**



Source: KNF's own calculations

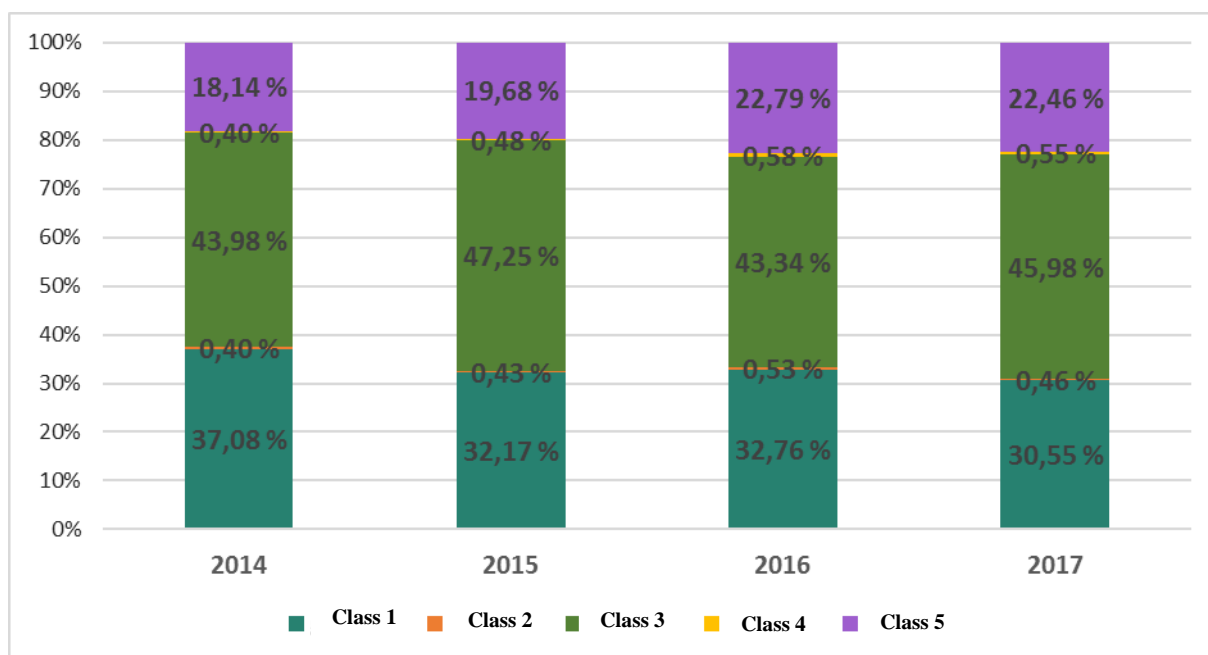
The main item of insurance undertakings is represented by deposits (investments), which represent 57.33% of the balance sheet total, and net assets of life insurance (where the investment risk is borne by the policy holder) whose share in the balance sheet total amounts to 30.08%. The structure of liabilities was dominated by net technical and insurance provisions, which accounted for 69.78% of liabilities, and capital and reserves of 18.54%.

## REVENUE OF INSURANCE UNDERTAKINGS

In 2017, the gross written premium, being the main source of income of insurance undertakings, amounted to PLN 62.29 billion, which means that the insurance market recorded an increase of 11.33% as compared to 2016. The increase was mainly due to the increase in premiums of personal and property (non-life) insurance undertakings by PLN 5.63 billion, i.e. by 17.53% (premium of PLN 37.73 billion). For life undertakings, the gross written premium reached the value of PLN 24.56 billion and increased by PLN 0.71 billion, i.e. by 3.00%.

The direct insurance portfolio of life sector was dominated by class 3 insurance products (unit-linked life insurance products, and insurance in which benefits are determined based on specific indices or other underlying values) with a premium of PLN 11.28 billion, and accounted for 45.98% of the total gross written premium from life direct insurance undertakings. The class recorded an increase of gross written premium by PLN 0.96 billion. Class 1 insurance (life insurance) with a premium of PLN 7.50 billion (annual decrease by PLN 0.31 billion) accounted for 30.55% of direct life insurance.

**Diagram 7. Structure of the life insurance portfolio in the years 2014-2017**



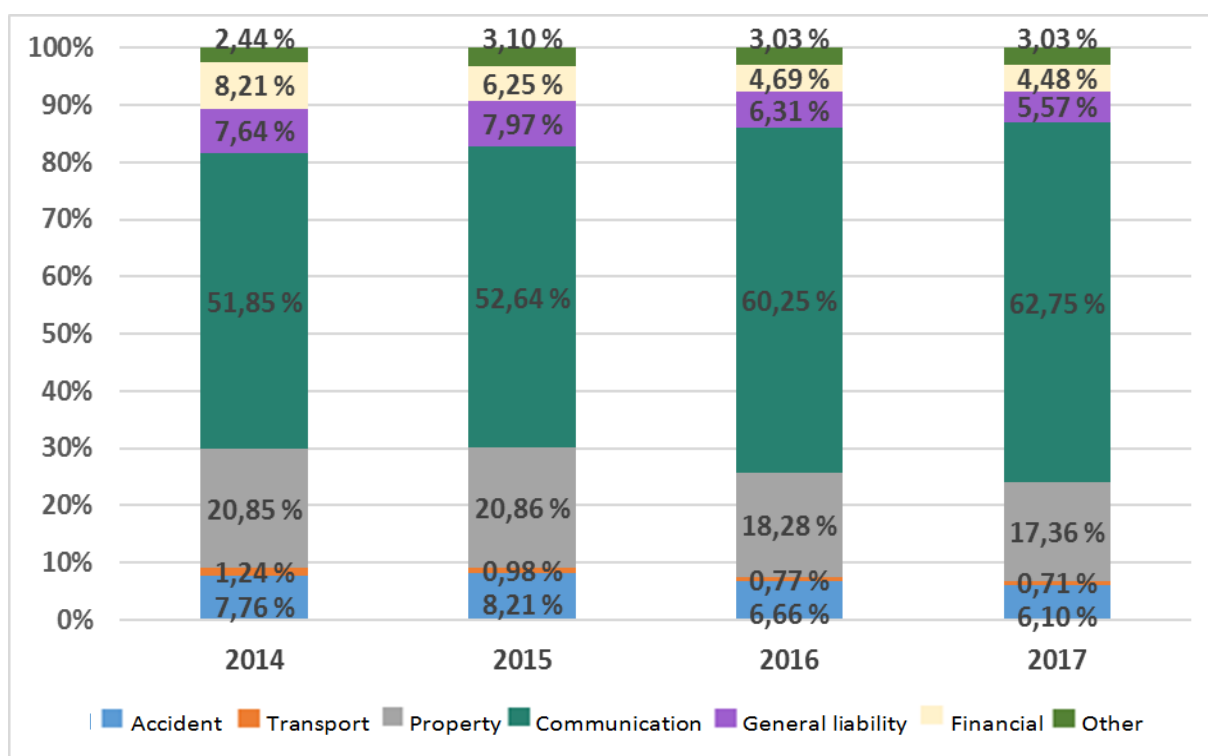
Source: KNF's own calculations

In the case of personal and property insurance undertakings, the highest increase in the gross written premium was recorded in motor vehicle insurance, i.e. in class 10 (MTPL insurance), by PLN 3.13 billion to the value of PLN 14.79 billion (26.84% YOY) and in class 3 (accident and theft insurance), by PLN 1.06 billion to PLN 7.63 billion (16.08% YOY). It should also be noted that the increase in property insurance, i.e. in class 9 (insurance against other property damage not included in classes 3-7 but caused by natural forces other than those in class 8), by PLN 0.48 billion to PLN 3.04 billion (18.92% YOY) and in class 8 (insurance against losses not included in classes 3-7) by PLN 0.19 billion to PLN 3.16 billion (6.26% YOY).

Out of 18 classes of non-life insurance, the premium decreased in 4 classes (6, 11, 12 and 14) by PLN 0.04 billion in total, with the largest decrease recorded in class 14 (credit insurance), where the gross written premium amounted to PLN 0.39 billion and was lower compared to the previous year by PLN 0.03 billion (by 1.09%) and in class 6 (maritime and inland navigation insurance), where the premium decreased by PLN 0.01 billion (by 13.26%) and amounted to PLN 0.06 billion.

The structure of non-life insurance is still dominated by motor vehicle insurance (MTPL, and accident and theft insurance), which accounts for 62.75% of the direct insurance portfolio.

Diagram 8. Structure of the non-life insurance portfolio in the years 2014-2017



Source: KNF's own calculations

## RESULTS OF INSURANCE UNDERTAKINGS

Overall, the insurance market recorded a technical profit of PLN 5.13 billion (55.22% higher than in 2016) and a financial profit of PLN 5.70 billion (38.94% higher than in the previous year).

The life insurance sector generated a technical profit of PLN 3.06 billion (3.94% higher than in the corresponding period of the previous year) and a financial profit of PLN 2.29 billion (5.66% 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 those in which the benefit is calculated on the basis of specific indices or other underlying values) – by PLN 0.16 billion (65.41%).

Other personal and property insurance products (the non-life insurance sector) generated a technical profit of PLN 2.08 billion (466.64% higher than in the corresponding period of the previous year) and a net financial profit of PLN 3.40 billion (76.39% 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 10 (MTPL insurance) – the largest increase in the non-life sector by PLN 1.57 billion (from a loss of PLN 1.08 billion to a profit of PLN 0.48 billion) and in class 3 (accident and theft insurance) – an increase by PLN 0.41 billion compared to 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 0.14 billion over the course of the year.

**Table 5. Basic figures characterising the activities of life insurance undertakings in the years 2014-2017 (financial data in PLN billion)**

Detailed list	2014	2015	2016	2017
<b>Selected balance sheet items</b>				
Deposits (item B)	45.18	41.78	40.84	40.65
Net assets of life insurance where the investment risk is borne by the policy holder	53.99	55.44	56.99	59.13
Equity capital	12.98	12.43	12.22	11.95
Gross technical provisions	86.56	86.52	87.36	88.83
Balance sheet total	105.31	102.83	103.17	104.69
<b>Selected items of profit and loss accounts</b>				
Gross written premiums	28.67	27.53	23.85	24.56
Gross claims incurred	20.36	19.36	18.28	20.35
Costs of insurance activities	6.38	6.25	5.42	5.34
Acquisition costs	4.91	4.72	3.93	3.87
Administrative costs	1.68	1.76	1.71	1.65
Technical result	3.28	2.84	2.94	3.06
Net profit (loss)	2.96	3.05	2.17	2.29

Source: KNF's own calculations

**Table 6. Basic figures characterising the activities of non-life insurance undertakings in the years 2014-2017 (financial data in PLN billion)**

Detailed list	2014	2015	2016	2017
<b>Selected balance sheet items</b>				
Deposits (item B)	59.12	61.93	63.13	72.02
Equity capital	21.58	21.65	21.98	24.49
Gross technical provisions	46.45	50.65	55.29	60.81
Balance sheet total	73.17	77.45	81.97	91.85
<b>Selected items of profit and loss accounts</b>				
Gross written premiums	26.26	27.29	32.10	37.73
Gross claims incurred	13.81	15.49	18.39	19.49
Costs of insurance activities	7.34	7.63	7.95	8.42
Acquisition costs	6.21	6.50	7.11	7.96
Administrative costs	1.81	1.86	1.99	2.04
Technical result	0.79	0.25	0.37	2.08
Net profit (loss)	3.72	2.57	1.93	3.40

Source: KNF's own calculations

## 2.5. PENSION SECTOR

### OPEN PENSION FUNDS AND GENERAL PENSION SOCIETIES

As at the end of 2017, 11 open pension funds (PL: OFE) and the same number of general pension societies (PL: PTE) managing them had authorisations to operate. As a result of Aegon PTE taking over the management of Nordea OFE in 2017, the assets of the fund were transferred to Aegon OFE, and consequently the number of OFEs decreased from 12 to 11. 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. At the end of 2017, contributions to OFEs were paid for only 15.9% of OFE members.

**Table 7. Value of net assets of open pension funds (OFEs) at the end of the period 2014-2017**

Open pension fund	Net value of assets (PLN million)				Market structure (%)
	2014	2015	2016	2017	
Aegon OFE	6 329.6	5 812.5	6 312.0	15 479.4	8.6
Allianz Polska OFE	6 669.3	6 343.8	6 964.6	8 090.6	4.5
Aviva OFE Aviva BZ WBK	33 285.2	30 935.6	33 682.2	39 468.9	22.0
AXA OFE	9 490.3	9 072.0	9 867.1	11 555.5	6.4
Generali OFE	7 500.7	6 905.2	7 483.0	8 803.8	4.9
MetLife OFE	11 836.7	11 228.2	12 326.6	14 256.7	7.9
Nationale-Nederlanden OFE	35 862.2	34 265.8	37 556.3	44 576.6	24.8
Nordea OFE	6 882.5	6 435.2	7 154.3	-	-
Pekao OFE	2 217.6	2 046.5	2 262.6	2 655.2	1.5
PKO BP Bankowy OFE	6 645.3	6 344.5	7 015.0	8 074.9	4.5
OFE Pocztylion	2 781.5	2 605.1	2 831.5	3 234.2	1.8
OFE PZU „Złota Jesień”	19 553.7	18 501.7	19 979.3	23 333.5	13.0
<b>Total</b>	<b>149 054.6</b>	<b>140 496.1</b>	<b>153 434.5</b>	<b>179 529.5</b>	<b>100.0</b>

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

At the end of 2017, net assets of open pension funds reached PLN 179.5 billion and increased by 17% (PLN 26.1 billion) during the year. This was the major increase in assets since the changes in the pension system in 2014.

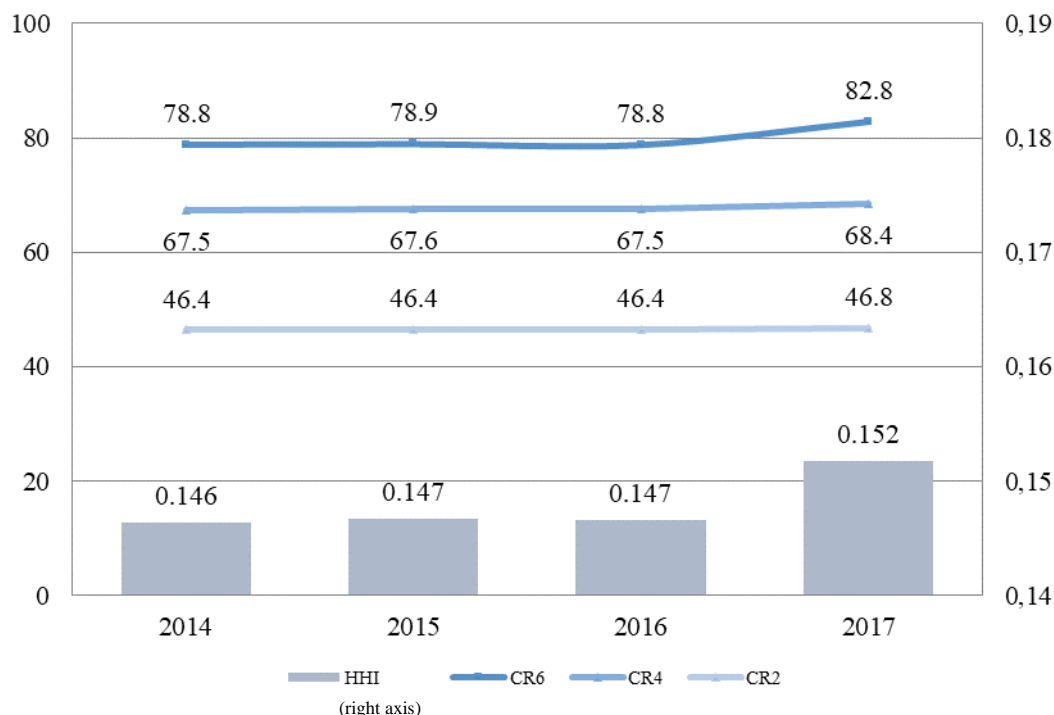
The increase in the value of net assets of OFEs in 2017 resulted mainly from the following factors:

- positive financial result of OFEs: PLN 29.5 billion
- transfer of contributions to OFEs effected by the Social Insurance Institution (ZUS): PLN 3.3 billion.

The main factor hindering the growth in the value of assets was the so-called safety slider, i.e. the transfer of funds from OFEs to ZUS from the accounts of members who would reach the pensionable age in less than 10 years. For that reason, OFEs transferred PLN 6.1 billion to ZUS in 2017, an amount which was higher by almost 75% compared to the previous year. The large increase in the amount of funds transferred to ZUS under the safety slider was a result of the reduction in the retirement age from October 2017.

The liquidation of Nordea OFE, which was the 7th largest market player at the end of 2016, and the transfer of its assets to Aegon OFE (the 10th largest market player in terms of value of assets) only moderately increased the concentration of assets. The market share of the four largest pension funds measured by the value of assets in 2017 increased by less than 1 percentage point (to 68.4%). The decrease in the number of entities had a greater impact on the CR6 index – an increase by 4 percentage points, whereas the HHI index reached 0.152.

**Diagram 9. Concentration of net assets of open pension funds in the years 2014-2017**



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 2017, OFEs had 16.1 million members. Throughout the year, the number of members decreased by more than 322 thousand as a result of the higher number of OFE members retiring than the number of people joining OFE for the first time. The total market share of the 3 largest funds measured by the number of members did not change and remained at 48.0%. As a result of ownership changes that took place in 2017, the fourth position was taken by Aegon OFE, which at the end of the year had more than 1.8 million members.

**Table 8. The number of members of open pension funds at the end of the period 2014-2017**

Open pension fund	Number of members (in thousand)				Market structure (%)
	2014	2015	2016	2017	
Aegon OFE	929.0	921.4	913.9	1 829.7	11.4
Allianz Polska OFE	1 082.5	1 077.0	1 072.2	1 059.6	6.6
Aviva OFE Aviva BZ WBK	2 667.0	2 649.3	2 631.0	2 577.2	16.0
AXA OFE	1 158.2	1 152.2	1 146.7	1 130.8	7.0
Generali OFE	1 005.9	1 000.5	995.0	980.4	6.1
MetLife OFE	1 601.1	1 591.6	1 581.4	1 554.2	9.7
Nationale-Nederlanden OFE	3 081.5	3 077.8	3 061.7	3 013.5	18.7
Nordea OFE	994.5	989.9	982.2	-	-
Pekao OFE	338.4	335.5	332.9	327.0	2.0
PKO BP Bankowy OFE	949.9	943.2	937.4	922.9	5.7
OFE Pocztylion	589.4	585.5	582.3	573.4	3.6
OFE PZU „Złota Jesień”	2 224.3	2 208.4	2 188.1	2 133.9	13.3
<b>Total</b>	<b>16 621.7</b>	<b>16 532.1</b>	<b>16 424.8</b>	<b>16 102.6</b>	<b>100.0</b>

Source: The Polish Social Insurance Institution (ZUS)



In 2017, the average rate of return generated by open pension funds reached 18.8%, which was the highest average rate of return in the history of the open pension fund sector. In addition, 8 out of 12 funds operating at the end of the year achieved the highest rates of return in history. Extremely high investment results were the effect of strong involvement of funds in domestic equity instruments (which is an effect of the 2014 ban on investing by open pension funds in securities issued by the State Treasury, and the simultaneous abolition of the exposure limit to equity instruments) and a good economic situation on the financial market. A high proportion of shares in pension funds' portfolios entails the risk of a significant deterioration of investment results, in the event of a possible downturn in the equity market.

**Table 9. Rates of return of open pension funds in the years 2014-2017 (in %)**

Open pension fund	2014	2015	2016	2017
Aegon OFE	1.9	-6.3	10.0	16.4
Allianz Polska OFE	1.6	-4.2	9.9	17.8
Aviva OFE Aviva BZ WBK	1.7	-5.8	9.7	19.8
AXA OFE	2.3	-3.5	9.1	18.8
Generali OFE	0.3	-7.2	8.4	19.4
MetLife OFE	0.6	-2.9	11.5	19.4
Nationale-Nederlanden OFE	-0.9	-4.7	8.9	19.6
Nordea OFE	1.7	-5.8	11.7	-
Pekao OFE	-0.7	-6.4	11.3	19.6
PKO BP Bankowy OFE	1.5	-3.2	11.4	17.5
OFE Pocztylion	-0.6	-3.9	10.7	17.8
OFE PZU „Złota Jesień”	-0.2	-2.9	10.2	20.9
<b>Average</b>	<b>0.8</b>	<b>-4.7</b>	<b>10.2</b>	<b>18.8</b>

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

In 2017, 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 (78.5% of revenues),
- revenue from contributions to OFE (4.8% of revenues),
- revenues from the use of the reserve account of the OFE – additional remuneration of PTE for good investment results (5.1% of revenues),

and expenses of:

- general management of PTE (30.5% of expenses),
- a transfer agent of OFE and DFE (23.9% of expenses),
- acquisition services for OFE and DFE (7.0% of expenses).

## OCCUPATIONAL PENSION FUNDS AND SOCIETIES

As at 31 December 2017, 3 occupational pension societies managed 3 occupational pension funds (PL: PFE). In 2017, the shareholders of Pracownicze Towarzystwo Emerytalne UNILEVER POLSKA S.A., managing the occupational pension fund UNILEVER POLSKA,

decided to change the form of operation of the occupational pension scheme from a pension fund to an agreement on the payment by the employer of employees' contributions to an investment fund.

At the end of 2017, occupational pension funds had 34.9 thousand members. This represents a 11.4% decrease compared to the previous year. In the reporting period, basic and additional contributions in the amount of PLN 115.6 million were transferred to the accounts of PFE members. The value of net assets accumulated in occupational pension funds amounted to PLN 1 862.4 million at the end of 2017. Compared to 2016, the value of net assets of PFE increased by PLN 90.9 million, i.e. by 4.9%. An increase in the aggregate value of assets was recorded in both occupational pension funds operating at the end of the year: the increase by PLN 127.8 million in PFE Orange Polska, and the increase by PLN 40.3 million in PFE Nowy Świat. The increase in the value of assets of the sector was adversely affected by the transfer of assets of PFE UNILEVER POLSKA to Ipopema SFIO in the amount of PLN 81.5 million (in PFE UNILEVER POLSKA only the funds to be settled in full with some members of the fund remained).

**Table 10. Net assets of occupational pension funds in the years 2014-2017 (as at 31 December)**

Occupational pension fund	Net assets (PLN million)				Share in the market (in %)
	2014	2015	2016	2017	
PFE NESTLE POLSKA	50.7	55.4	0	-	-
PFE "Nowy Świat"	405.1	408.9	426.1	466.4	25.0
PFE Orange Polska	1 258.1	1 262.8	1 268.2	1 396.0	74.9
PFE UNILEVER POLSKA	60.9	67.3	77.2	0.6	0
<b>Total</b>	<b>1 774.8</b>	<b>1 794.5</b>	<b>1 771.5</b>	<b>1 863.0</b>	<b>100.0</b>

Source: occupational pension funds

In 2017, occupational pension funds achieved positive rates of return: PFE Orange Polska 8.2%, and PFE Nowy Świat 8.9%. The increase in the value of units of account was influenced by the good economic situation in the financial market.

**Table 11. Rates of return of occupational pension funds in the years 2014-2017 (in %)**

Occupational pension fund	2014	2015	2016	2017
PFE NESTLE POLSKA	4.4	-1.2	-	-
PFE "Nowy Świat"	2.6	-1.3	3.9	8.9
PFE Orange Polska	3.9	-2.7	3.2	8.2
PFE UNILEVER POLSKA	4.9	-1.0	4.9	-

Source: occupational pension funds

## VOLUNTARY PENSION FUNDS

As at 31 December 2017, 8 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 four of them (Allianz DFE, MetLife DFE, Nationale-Nederlanden DFE and PKO DFE) had funds within individual retirement accounts (PL: IKE).

At the end of 2017, voluntary pension funds had 97.4 thousand members (an increase of 7.9% compared to 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 292.9 million, which represented an increase by over 60% as compared to the previous year.

**Table 12. Net assets of DFEs in the years 2014-2017 (in PLN million)**

Voluntary pension fund	2014	2015	2016	2017
Allianz Polska DFE	3.6	5.5	8.0	11.7
Generali DFE	0.05	0.1	0.2	0.3
MetLife DFE	18.6	23.8	28.1	33.4
Nationale-Nederlanden DFE	4.9	12.9	33.6	69.5
Nordea DFE	1.5	2.8	-	-
DFE Pekao	12.8	27.9	51.2	82.0
PKO DFE	5.9	15.7	34.0	55.0
DFE Pocztynion Plus	0.5	0.8	1.1	1.4
DFE PZU	8.8	14.3	26.4	45.6
<b>Total</b>	<b>56.65</b>	<b>103.8</b>	<b>182.6</b>	<b>298.9</b>

Source: Voluntary pension funds

In 2017, all voluntary pension funds, except for DFE Pocztynion Plus, achieved positive rates of return. They ranged from 6.3% to 14.7%, except for DFE Pocztynion Plus, which achieved a rate of return of -1%. Large diversification of investment results was largely the consequence of different active investment strategies used by the funds, which was also facilitated by the fact that the funds had relatively low assets.

**Table 13. Rates of return of DFEs in the years 2014-2017 (in %)**

Voluntary pension fund	2014	2015	2016	2017
Allianz Polska DFE	* 4.0	* 1.6	* 7.8	* 11.5
Generali DFE	4.3	3.4	18.3	6.4
MetLife DFE	6.1	-1.9	3.8	6.6
Nationale-Nederlanden DFE	-0.7	* 16.2	* 13.3	* 9.0
Nordea DFE	10.8	-2.5	-	-
DFE Pekao	1.3	3.3	4.9	6.8
PKO DFE	2.5	-0.9	5.7	8.6
DFE Pocztynion Plus	-2.2	2.6	3.6	-1.0
DFE PZU	3.6	9.1	16.2	14.7

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 2014-2017 is presented in Table 14.

**Table 14. Development of occupational pension schemes in the years 2014-2017**

Detailed list	2014	2015	2016	2017
Number of PPEs	1 064	1 054	1 036	1 054
Number of participants (in thousand)	381	393	396	396
Value of accumulated assets (in PLN million)	10 259	10 623	11 394	12 643

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

1 054 occupational pension schemes were operating as at 31 December 2017, including:

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

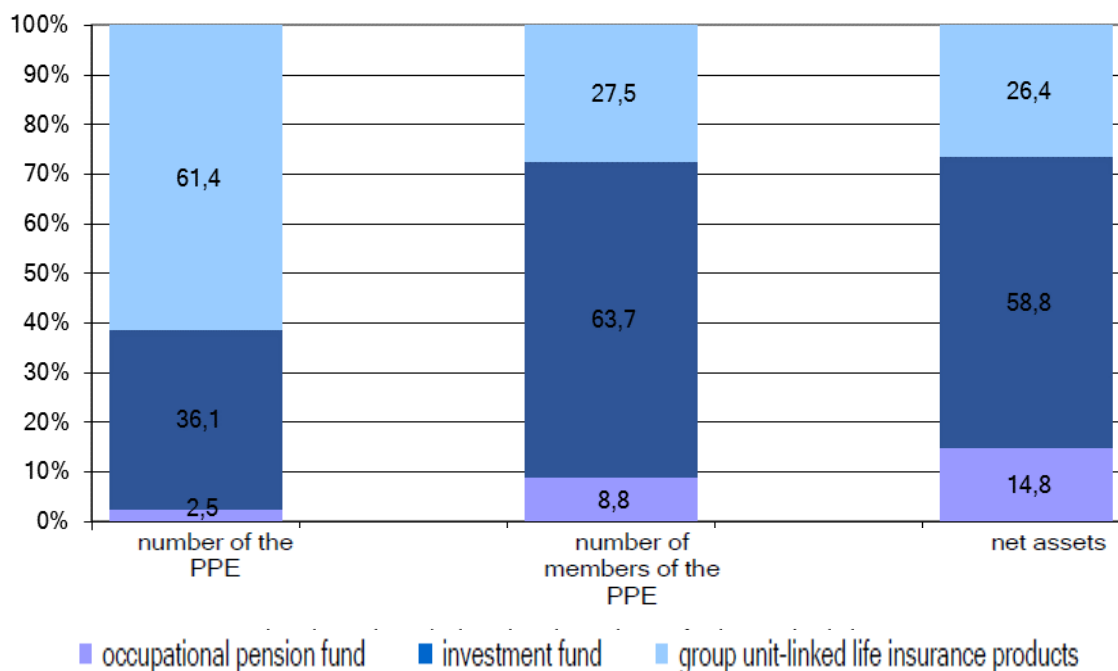
In 2017, among employers hiring a larger number of employees, the scheme of Volkswagen Motor Polska sp. z o.o. and the scheme of Orange Szkolenia sp. z o.o., available to approx. 1 000 members, were registered.

Additionally, in 2017, 26 employers joined an inter-company scheme registered in the PPE register.

At the end of 2017, PPE had 396 thousand participants, and the value of collected assets amounted to PLN 12 643 million, which means an increase in the value of assets collected on accounts of PPE participants by PLN 1 249 million as compared to 2016 (by approx. 11%).

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

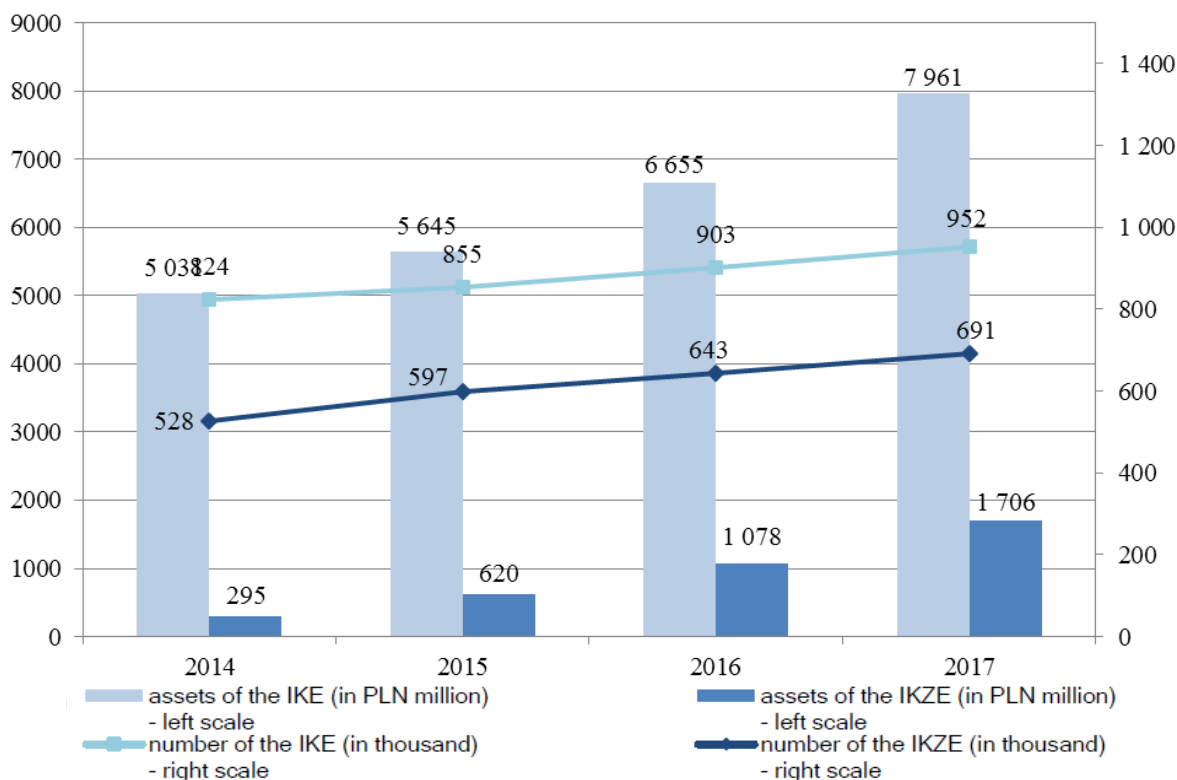
**Diagram 10. Structure of the PPE market in 2017 (in %)**



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

The report 'Occupational pension schemes in 2016' was presented at the KNF's meeting.

**Diagram 11. The value of assets and the number of IKE and IKZE accounts in the years 2014-2017**



Source: own calculations of the KNF, 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 period of their functioning is different: IKEs have been operating since 2004 and IKZEs since 2012. As at the end of 2017, entities authorised to operate IKE or IKZE handled 951.6 thousand IKEs and 691.0 thousand IKZEs, which generated assets of PLN 7 961.3 million and PLN 1 706.2 million, respectively. In 2017, the savers contributed PLN 1 205.4 million to IKE accounts, and PLN 608.2 million to IKZE accounts.

**Table 15. The number of accounts and the value of assets of IKE and IKZE accounts broken down by maintaining institutions, as at 31 December 2017**

Entities maintaining IKE and/or IKZE	Number of accounts				Value of assets			
	IKE		IKZE		IKE		IKZE	
	thousand	%	thousand	%	million	%	million	%
Insurance undertakings	568.5	59.7	448.9	65.0	2 591.9	32.6	545.4	32.0
Investment funds	275.8	29.0	121.3	17.6	2 447.0	30.7	719.6	42.2
Entities conducting brokerage	30.4	3.2	8.5	1.2	1 285.1	16.1	93.8	5.5
Banks	71.9	7.6	18.1	2.6	1 581.2	19.9	106.7	6.3
Voluntary pension funds	4.9	0.5	94.3	13.6	56.1	0.7	240.7	14.1
<b>Total</b>	<b>951.6</b>	<b>100.0</b>	<b>691.0</b>	<b>100.0</b>	<b>7 961.3</b>	<b>100.0</b>	<b>1 706.2</b>	<b>100.0</b>

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

## 2.6. CAPITAL AND COMMODITY MARKETS

The capital and commodity markets supervised by the Polish Financial Supervision Authority 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.

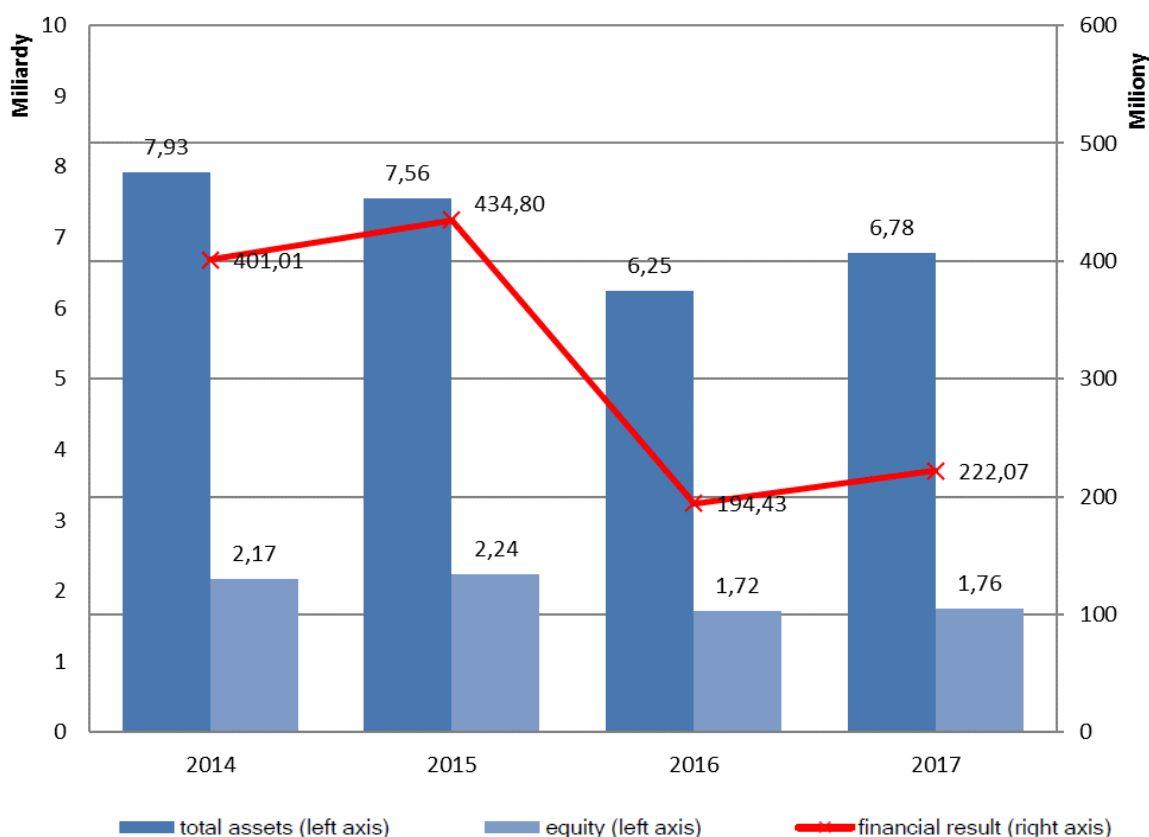
### ENTITIES PROVIDING INVESTMENT AND FIDUCIARY SERVICES

**Table 16. The number of entities providing investment and fiduciary services in the years 2014-2017**

Type of entity	2014	2015	2016	2017
Brokerage houses	53	52	46	44
Commodity brokerage houses	1	1	1	1
Banks providing investment services	13	12	11	11
Custodian banks	13	13	13	13
<b>Total</b>	<b>80</b>	<b>78</b>	<b>71</b>	<b>69</b>

Source: KNF's own calculations

**Diagram 12. Basic data of the sector of brokerage houses in the years 2014-2017**



Source: KNF's own calculations

Data for 2014-2016 comes from the audited financial statements, data for 2017 is derived from monthly MRF reports as at 31 December 2017.

Data does not include data of one brokerage house whose financial year does not coincide with the calendar year.

**Table 17. Data on the number of client accounts of brokerage firms in the years 2014-2017**

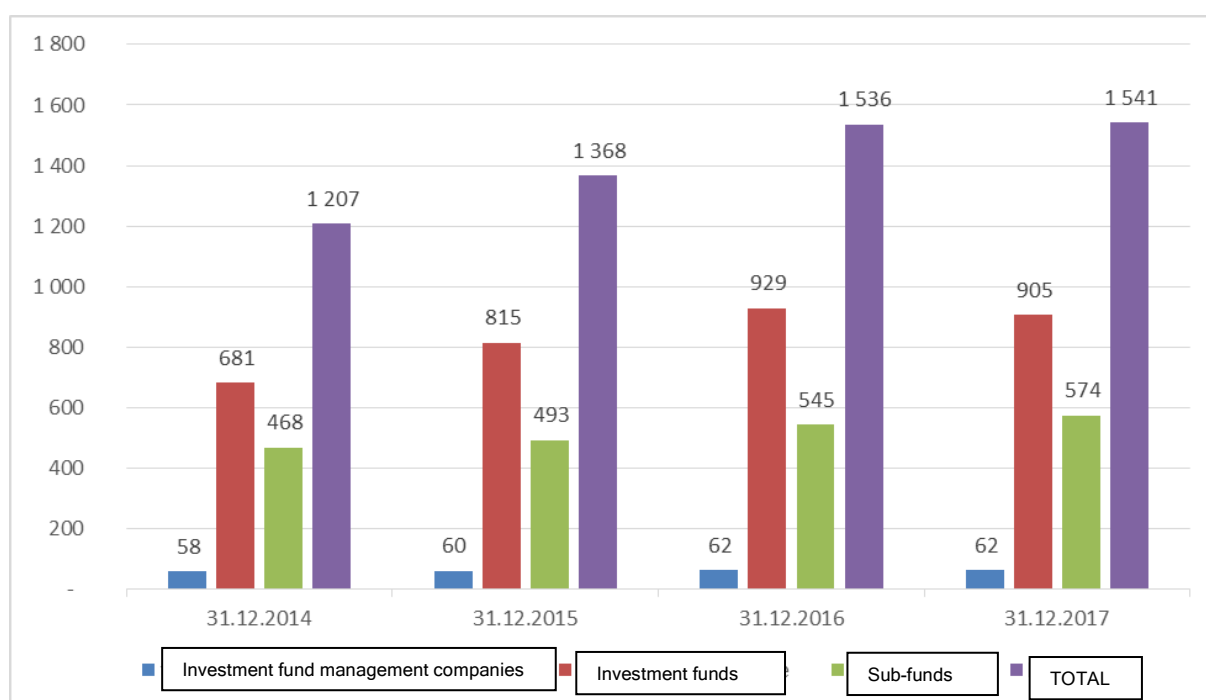
Detailed list	Number of client accounts				Share in total value (in %)
	2014	2015	2016	2018	2017
Brokerage houses	1 089 443	1 129 648	838 793	744 399	38.43
Banks providing investment services	811 029	793 733	1 187 939	1 192 413	61.57
<b>Total</b>	<b>1 900 472</b>	<b>1 923 381</b>	<b>2 026 732</b>	<b>1 936 812</b>	<b>100</b>

Source: KNF's own calculations

## INVESTMENT FUND MANAGEMENT COMPANIES AND INVESTMENT FUNDS

2017 was a year in which a slight increase in the number of supervised domestic entities in the investment fund sector was observed, as shown in the diagram below (cumulatively).

**Diagram 13. Total number of supervised investment fund management companies, and investment funds and sub-funds at the end of 2014-2017 (cumulatively, by type)**

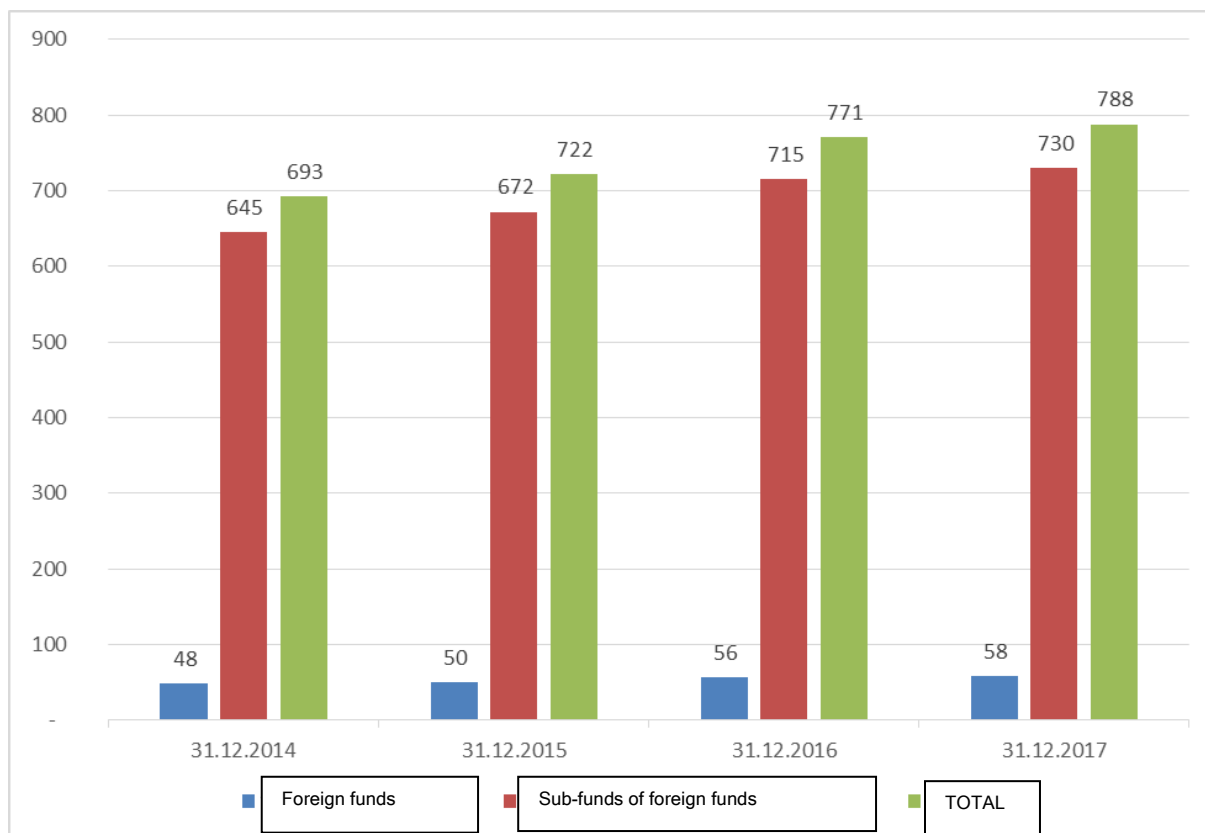


Source: KNF's own calculations

As at 31 December 2017, 62 investment fund management companies, managing a total of 905 investment funds, were authorised by the Polish Financial Supervision Authority, including: 44 open-end investment funds, 55 specialised open-end investment funds, and 806 closed-end investment funds.

The Polish Financial Supervision Authority supervises the sale in the territory of the Republic of Poland of participation units issued by foreign funds. Moreover, an increase in the number of entities in the segment was recorded in 2017.

**Diagram 14. Total number of supervised foreign investment funds (UCITS type) and sub-funds included in foreign investment funds (UCITS) at the end of 2014-2017 (cumulative, by type)**

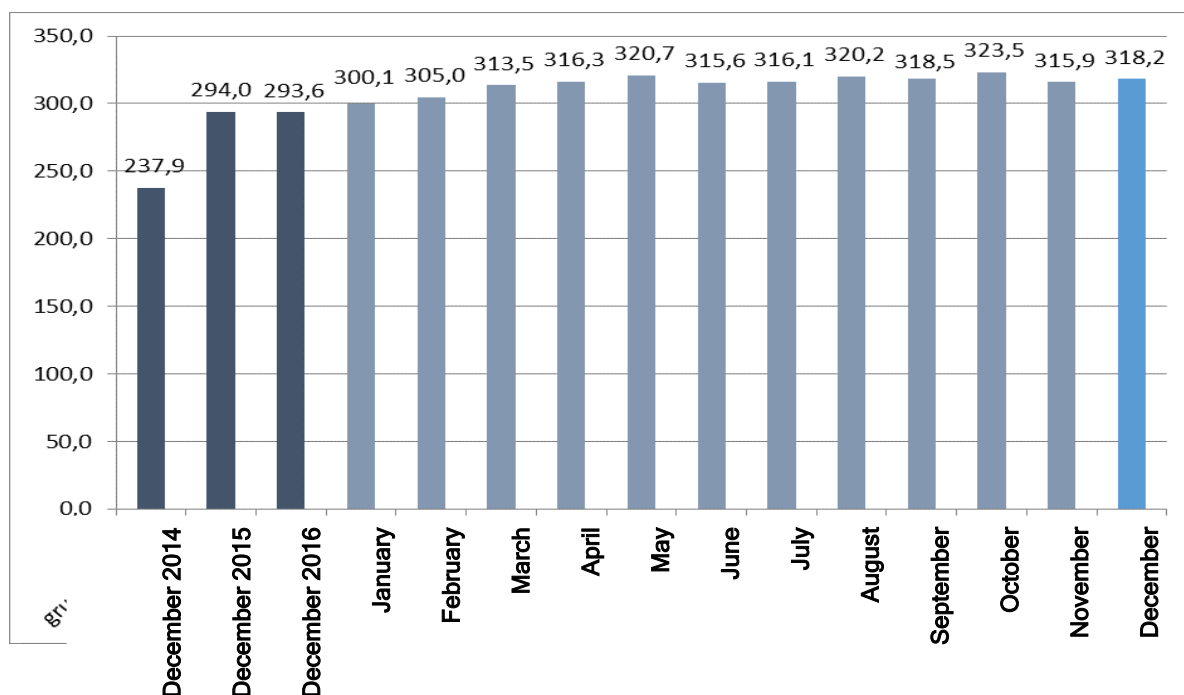


Source: KNF's own calculations

In 2017, there was an increase in the value of assets of investment funds. Compared to the end of December 2016, their value increased by PLN 24.6 billion, and as at 31 December 2017 the value of assets of investment funds amounted to PLN 318.2 billion. Diagram 15 shows the value of assets of investment funds managed by TFIs at the end of 2014-2015 and in particular months of 2017.



**Diagram 15. Assets of investment funds at the end of 2014-2016 and in 2017 (in PLN billion)<sup>2</sup>**



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 months of 2017, whereas between June and December 2017 both increases and decreases in their value could be observed. As at 31 December 2017, the value of assets of investment funds amounted to PLN 318.2 billion and exceeded their respective level of December 2016 by PLN 24.6 billion (i.e. by 8.38%). The largest increases in the value of assets were recorded in January and March, while their lowest point was noted in June and November.

In connection with the increase in the value of assets of investment funds, the revenues generated by TFIs in 2017 were by PLN 643 million, i.e. by 19.84%, higher in comparison to their value in 2016, and totalled PLN 3 884 million. On the other hand, total costs increased by PLN 426 million (16.32%) to PLN 3 036 million. Moreover, the aggregate financial result of TFIs increased: it was PLN 546 million at the end of December 2017, i.e. PLN 48 million (9.64%) higher than in the previous year.<sup>3</sup>

<sup>2</sup> 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.

<sup>3</sup> 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 18. Aggregate costs, revenues and net financial result of investment fund management companies in the years 2014-2017 (in PLN million)<sup>4</sup>**

Detailed list	2014	2015	2016	2017	
Total revenues	2 834	3 234	3 241	3 884	-
Total costs, including:	2 249	2 551	2 610	3 036	100.00%
– overhead costs	592	804	986	1 158	38.14%
– variable costs, including:	1 657	1 747	1 624	1 878	61.86%
o variable distribution costs*	1 160	1 306	1 213	1 398	46.05%
Net financial result	477	550	498	546	-

\* Costs directly related 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 AND MANAGERS OF ALTERNATIVE INVESTMENT COMPANIES/PARTNERSHIPS

As regards Alternative Investment Companies (AICs) and AIC managers, 2017 was a year of full implementation of the regulations on alternative investment company managers into the Polish legal system, as the one-year transition period for such entities, already operating in the Polish market at the time of the entry into force of the regulations amending the Act on investment funds in 2016, had expired. In consequence, the KNF supervised a new group of entities, originating from the environment of private equity and venture capital funds, operating in the forms of commercial-law companies or partnerships, whose activities were not previously supervised by the KNF.

The past year was connected with the final organisation of new supervisory duties, focused mainly on the consideration of numerous applications submitted to the KNF for an entry in the KNF's register of AIC managers. Special attention was also paid to identifying and resolving legal and factual issues in the functioning of AICs and AIC managers, as well as to developing mechanisms for exercising day-to-day supervision with respect to such entities. All KNF-supervised entities operating as AIC managers were entered in the register of AIC managers in 2017. 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.

Therefore, there is no historical information on the value of assets managed by AIC managers prior to 2017, as AIC managers will provide the KNF with their first interim reports for 2017 in 2018.

## ORGANISED SECURITIES MARKETS

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

#### *Regulated market*

The core activity of the Warsaw Stock Exchange ('WSE') is to operate the regulated market. The regulated market is a permanent, organised trading system for financial instruments which provides investors with a universal and equal access to market information when associating offers of purchase and sale of financial instruments, and the same terms and conditions of purchase and sale of such instruments. The regulated market operates

<sup>4</sup> 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.

according to the Warsaw Stock Exchange Rules, amendments to which are approved by the KNF, 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.

#### *Alternative trading system of the Warsaw Stock Exchange*

In addition to the regulated market, the WSE also operates an organised financial instruments market under the alternative trading system (ATS). As assumed by the organisers, the market is dedicated to emerging and young companies with a relatively small capitalisation expected. Compared to the regulated market, formalities related to the introduction of financial instruments to trading are simplified and the cost of market entry is lower.

**Table 19. Rates of returns on the WSE indices in the years 2014-2017 (in %)**

Detailed list	2014	2015	2016	2017
WIG	0.26	-9.62	11.38	23.17
WIG20	-3.5	-19.72	4.77	26.35
mWIG40	4.13	2.40	18.18	14.99
sWIG80	-15.55	9.11	7.93	2.36

Source: [http://www.gpw.pl/analizy\\_i\\_statystyki](http://www.gpw.pl/analizy_i_statystyki)

**Table 20. The number of instruments listed on the WSE in the years 2014-2017**

Detailed list	2014	2015	2016	2017
Companies	471	487	487	482
- including foreign	51	54	53	50
Number of initial offerings	28	30	19	15
Number of delistings	7	13	20	20
Bonds	105	122	153	178
- including foreign	1	1	4	4
Futures	220	144	166	174
Options	129	266	228	218

Source: [http://www.gpw.pl/analizy\\_i\\_statystyki](http://www.gpw.pl/analizy_i_statystyki)

**Table 21. Capitalisation of the WSE at the end of 2014-2017 (in PLN million)**

Detailed list	2014	2015	2016	2017
Domestic companies	591 165	516 785	557 124	710 336
Foreign companies	661 793	566 077	558 596	708 882
Polish bonds	531 983	583 185	617 985	652 524
Foreign bonds	98	98	3 122	8 207
<b>Total</b>	<b>1 785 039</b>	<b>1 666 145</b>	<b>1 736 827</b>	<b>2 079 949</b>

Source: [http://www.gpw.pl/analizy\\_i\\_statystyki](http://www.gpw.pl/analizy_i_statystyki)  
[https://www.gpw.pl/analizy\\_i\\_statystyki\\_pelna\\_wersja](https://www.gpw.pl/analizy_i_statystyki_pelna_wersja)

**Table 22. Value of trading on the WSE in the years 2014-2017 (in PLN million)**

Detailed list	2014	2015	2016	2017
Shares	232 864	225 287	202 293	260 979
Bonds	992	904	1 426	1 447
Futures	230 148	216 746	188 439	230 203
Options	11 584	9 679	6 833	7 072

Source: [http://www.gpw.pl/analizy\\_i\\_statystyki](http://www.gpw.pl/analizy_i_statystyki)  
[https://www.gpw.pl/analizy\\_i\\_statystyki\\_pelna\\_wersja](https://www.gpw.pl/analizy_i_statystyki_pelna_wersja)

### Alternative trading system (NewConnect)

In addition to the regulated market, the WSE operates an organised market of shares under an alternative trading system called NewConnect.

**Table 23. Data on the NewConnect alternative trading system in the years 2014-2017**

Detailed list	2014	2015	2016	2017
Value of the NCIndex at the end of the year	290.36	278.37	306.50	278.22
Rate of return of the NCIndex in the current year (%)	-20.68	-4.13	10.11	-9.23
Capitalisation of companies at the end of the year (PLN million)	8 752.35	8 416.54	9 799	9 408
Number of companies at the end of the year	431	418	414	401
Number of initial offerings	22	19	16	19
Number of sessions	249	251	251	250
Trading volume (in PLN million)	1 220	1 722	1 360	1 322
Number of transactions per session	3 474	4 381	3 417	3 401
Average trading value per session (PLN million)	4.89	6.86	5.41	5.28

Source: [http://newconnect.pl/index.php?page=statystyki\\_rynku\\_roczne](http://newconnect.pl/index.php?page=statystyki_rynku_roczne)

### BondSpot SA

#### *Regulated market*

The regulated OTC market in Poland is operated by BondSpot S.A., a company supervised by the KNF. The main financial instruments traded on the BondSpot S.A. platform are treasury bonds, corporate bonds, cooperative bonds and other debt securities listed under the Catalyst system<sup>5</sup>.

#### *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 24. Data on the regulated market and the ATS in the years 2014-2017**

Detailed list	2014	2015	2016	2017
<b>Regulated OTC Market of BondSpot</b>				

<sup>5</sup> 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.

Session trading volume (PLN million)	2.84	58.77	12.36	0.52
Number of session transactions	9	26	12	3
Number of instruments	103	115	130	144
<b>ATS BondSpot</b>				
Session trading volume (PLN million)	591.02	404.61	122.33	175.36
Number of session transactions	405	404	371	341
Number of instruments	183	189	214	237

Source: [http://www.gpwcatalyst.pl/statystyki\\_roczne](http://www.gpwcatalyst.pl/statystyki_roczne)

## CLEARING AND DEPOSIT SYSTEM

*KRAJOWY DEPOZYT PAPIERÓW WARTOŚCIOWYCH S.A.* (hereinafter: 'National Depository for Securities' or 'KDPW') is the central institution responsible for maintaining and supervising the deposit and settlement system for trading in financial instruments in Poland. 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, i.e. 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 accordance with 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 and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 (OJ L 257, 28.08.2014, p. 1; 'CSD Regulation'), each CSD (Central Securities Depository) was required to apply to its competent authority for authorisation necessary for the purposes of the said Regulation by 30 September 2017. Therefore, on 29 September 2017, the Polish Financial Supervision Authority 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.

*KDPW\_CCP S.A.* is a clearing house in which KDPW holds a 100% share in the initial 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 EU 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.

On 30 June 2017, the Polish Financial Supervision Authority approved amendments to the Rules for Settlement of Transactions (organised trading), under which the RMA (Risk

Management Access) service was offered to clearing members of KDPW\_CCP S.A., and the entities acting as payers were enabled define limits for payments resulting from the participation of a clearing member designated by them.

In July 2017, the Polish Financial Supervision Authority, as the competent supervisory authority of KDPW\_CCP S.A., has completed the supervisory questionnaire prepared and submitted by ESMA – Questionnaire 2017 EMIR Peer Review on Default Management Procedures.

The document provided ESMA with details regarding the supervision exercised by KNF over KDPW\_CCP S.A. with respect to the procedures applied by the company in the event of default by a member of KDPW\_CCP S.A.

**PUBLIC OFFERING OF FINANCIAL INSTRUMENTS OTHER THAN INVESTMENT CERTIFICATES**

In 2017, there was an increase in the value of public offerings compared to the previous year. The total value of public offerings amounted to nearly PLN 17.5 billion, which represents an increase by more than 59% compared to the previous year. However, the most important segment of raising capital through public offering of shares (the so-called primary market) has not improved. Although the number of subscriptions increased to 66, their value decreased (by nearly 40%).

The number of public offerings of shares in 2017 was the highest in the last 4 years, and their value increased more than elevenfold compared to 2016. The number of initial public offerings fell from 46 in 2016 to 45 in 2017, but increased almost fivefold compared to the previous year. The largest segment of the public offer market in terms of value was the public bond offering market, which recorded a further increase in value (by more than 13%), to over PLN 7.7 billion. On the other hand, the number of bond offerings decreased from 74 to 72.

In total, in 2017 issuers conducted 234 public offerings, the structure of which is presented in Table 25.

**Table 25. Characteristics of public offerings carried out in 2017**

<b>234 public offerings, including: those carried out by foreign issuers</b>			
<b>232 cash offerings</b>			<b>2 non-cash offerings</b>
<b>117 public offerings of shares</b>  <i>including:</i>  <i>74 offerings carried out without the need for preparing and approving the prospectus</i>  <i>63 offerings carried out by a foreign issuer</i>	<b>43 public offerings of structured products</b>	<b>72 public offerings of bonds</b>  <i>including:</i>  <i>31 offerings carried out without the need for preparing and approving the prospectus</i>  <i>1 offering carried out by a foreign issuer</i>	
<b>53 public offers for sale</b>	<b>64 public subscriptions</b>		

Source: KNF's own calculations

The total value of public offers in 2017 in cash amounted to PLN 17 476.3 million, including the value of share subscription of PLN 2 179.3 million, the value of public offers of shares of PLN 7 047.8 million, the value of offers of bonds of PLN 7 759.1, and the value of offers of structured products of PLN 490.1 million.

**Table 26. The value and the number of public offerings in cash in the years 2014-2017**

Year	2014		2015		2016		2017	
	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	50	2 181.65	55	363.61 <sup>2</sup>	63	3 561.62	66	2 179.31
Public offerings of bonds	46	3 517.31	63	462.24 <sup>6</sup>	73	6 620.93	72	7 759.08
Public sale of shares	30	918.73	33	785.26	38	579.80	51	7 047.82
Public offerings of structured products	9	86.81	1	12.79	0	-	43	490.07
<b>Total public offerings</b>	<b>135</b>	<b>6 704.5</b>	<b>152</b>	<b>9 623.9</b>	<b>174</b>	<b>10 762.35</b>	<b>232</b>	<b>17 476.28</b>
Including:								
Initial public offerings	43	1 881.1	57	2 590.3	46	1 322.5	45	7 775.4

Source: KNF's own calculations

\*in 2014, 2 non-cash public offerings were also carried out

\*\* 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

## EXCHANGE COMMODITY MARKET

### Towarowa Gielda Energii S.A.

#### *Commodity exchange*

Beside the capital market, there is also the exchange commodity market functioning in Poland, including the market for electricity and natural gas operated by the Polish Power Exchange (Towarowa Gielda Energii S.A., hereinafter: 'TGE S.A.'). TGE S.A. operated nine markets in 2017, whose subjects of trade may 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 a part of the GPW S.A. Group.

At the end of 2017, 72 entities were members of the Exchange Commodity Market operated by TGE and 3 444 were members of the Certificate of Origin Register maintained by TGE (an increase in the number of participants by 474 over the year), 330 entities were members of the Guarantee of Origin Register and 7 entities were members of the Financial Instruments Market.

## Regulated market

The regulated market is operated by Towarowa Giełda 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 on the basis of the Trading Regulations of the Financial Instruments Market of TGE S.A., amendments to which are approved by the KNF, 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.

## Izba Rozliczeniowa Giełd Towarowych S.A.

The Commodity Clearing House (hereinafter: '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 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 Towarowa Giełda Energii S.A. (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.

## Electricity

The total trading volume on electricity markets of TGE S.A. in 2017 amounted to 111.7 TWh (a decrease of 11.8% compared to 2016).

On the spot market (the Day-Ahead Market – DAM, and the Intraday Market), the volume of trading was 25.3 TWh (a decrease of 8.6% compared to 2016). The weighted average electricity price for 24 hours, of all transactions entered into on the DAM in 2017, amounted to PLN 157.96 per MWh. This represents an increase of PLN 6.07 per MWh compared to 2016.

Total trading on the Commodity Forward Instruments Market for electricity reached 99.03 TWh (a decrease of 3.8% compared to 2016). The volume-weighted average price of the annual contract BASE\_Y-18 in 2017 was PLN 167.5 per MWh (an increase of PLN 8.24 compared to the corresponding contract in 2016 in the previous year).

## Natural gas

On markets for natural gas, the total trading volume reached 138.65 TWh, which represents an increase of 21.1% compared to 2016.

On the gas spot market (Gas Day-Ahead and Intraday markets), the trading volume was 23.99 TWh (a decrease of 2.5% compared to 2016). The volume-weighted average price of gas for 24 hours, of all transactions entered into on the spot market in 2017, amounted to PLN 83.66 per MWh (a YOY increase of PLN 12.50 per MWh).

Trading on the Commodity Forward Instruments Market amounted to 89.87 TWh (a decrease of 3.3% compared to 2016). The volume-weighted average price of the annual contract GAS\_BASE\_Y-18 in 2017 was PLN 81.79 per MWh and was higher than the price of the contract GAS\_BASE\_Y-17 in 2016 by PLN 7.29 per MWh.



## Property rights market

Total trading in property rights to electricity in 2017 amounted to 59.09 TWh (a YOY increase of 16%).

The volume of trading in green certificates for electricity generated from renewable energy sources (PMOZE and PMOZE\_A) reached 30.05 TWh (a YOY increase of 23.6%), of which 10.03 TWh was recorded on the spot market and 1.07 TWh on the forward market in session transactions. The weighted average price in session transactions on the spot market was PLN 38.83 per MWh (a YOY decrease of PLN 34.80 per MWh).

The weighted average session price for the PMOZE-BIO instrument in 2017 – the first full year of trading in the instrument – was PLN 333.97 per MWh. In December, the price increased by PLN 1.47 per MWh and reached PLN 317.95 per MWh.

The volume of trading in property rights for energy efficiency in 2017 was 399.863 tonnes of oil equivalent (toe). This means the best result in the history of trading on TGE and a 27% YOY increase. Session trading in the PMEF was 235.853 toe and the weighted average annual price in sessions decreased by PLN 283.99 per toe to PLN 693.36 per toe.

## 3. LICENSING

### 3.1. BANKS AND CREDIT INSTITUTIONS

#### ESTABLISHMENT OF A BANK

In 2017, the Polish Financial Supervision Authority adopted a resolution on the authorisation to establish a bank in the form of a joint-stock company styled: 'Polski Bank Apeksowy Spółka Akcyjna' and on the approval of the articles of association and the first composition of the management board.

#### TASKS RELATING TO CHANGES IN THE GOVERNING BODIES OF BANKS

In 2017, the Polish Financial Supervision Authority adopted 41 decisions in the form of resolutions on approval of the appointment of members of management boards, including presidents, including:

- 8 decisions on approval of the appointment of presidents of management boards of banks operating as joint-stock companies,
- 25 decisions on approval of the appointment of presidents of management boards of cooperative banks,
- 6 decisions on approval of the appointment of members of management boards of banks operating as joint-stock companies,
- 2 decisions on the refusal of consent to the appointment of the president of the management board of a cooperative bank, including 1 decision on the review of an application.

In the above-mentioned cases, 7 decisions to discontinue proceedings were issued. In 2017, a decision was also issued to discontinue proceedings in respect of approval of performance by a member of a bank's supervisory board of an additional function of a member of a bank's supervisory board. In 2017, the Polish Financial Supervision Authority made 1 decision in the form of a resolution on approval of the appointment of a member of the management board of the protection scheme.

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

By its decision of 29 August 2017, the Polish Financial Supervision Authority upheld its decision of 6 December 2016, declaring the Treasury of the Republic of Poland the parent entity of Alior Bank S.A. as defined in Article 4(1) point 8 letter (b) and in Article 4(1) point 14 of the Banking Act.

In 2017, the Polish Financial Supervision Authority adopted 3 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 bank's parent undertaking. In addition, one proceeding in the above-mentioned cases was discontinued.

In 2017, the Polish Financial Supervision Authority issued 1 decision on a cross-border merger.

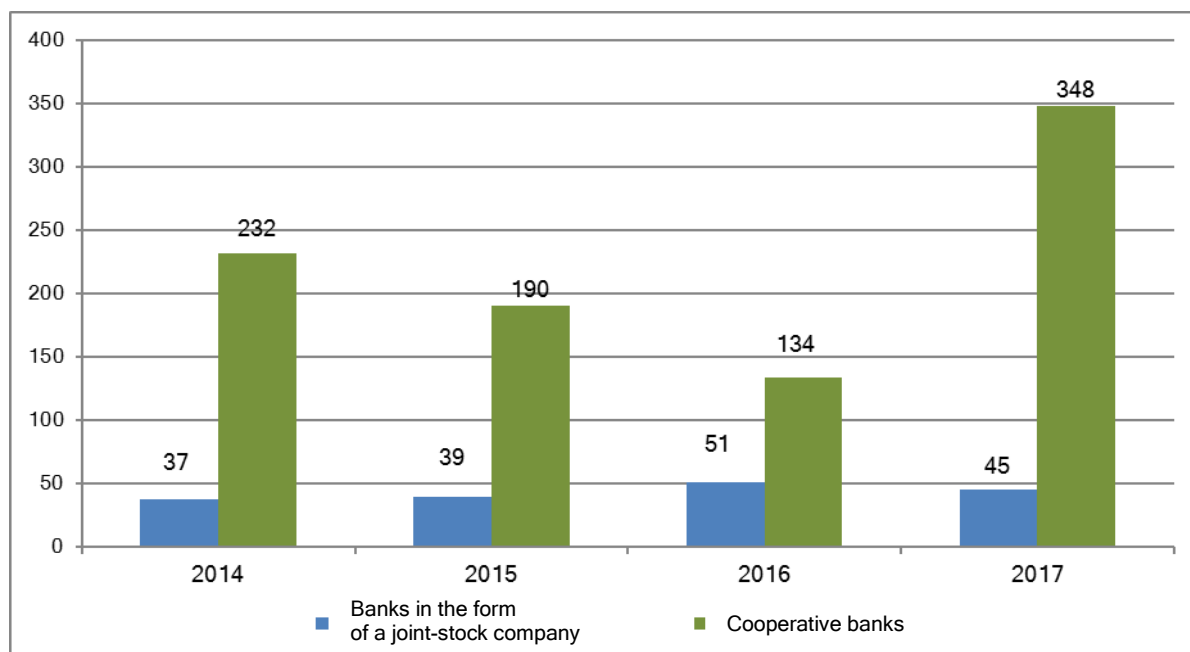
## AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF BANKS

In 2017, following examination of applications for amendments to the articles of association of banks, the Polish Financial Supervision Authority issued 393 decisions, including :

- 45 decisions on the authorisation to make amendments to the articles of association of banks operating as joint-stock companies, including 3 in respect of MiFID,
- 348 decisions on the authorisation to make amendments to the articles of association of cooperative banks.

The Polish Financial Supervision Authority issued 4 decisions amending the decision on the authorisation to amend the articles of association of a bank. In addition, the Polish Financial Supervision Authority discontinued 1 set of proceedings initiated on the basis of an application for a review of the case concerning the amendment to the articles of association of a cooperative bank and discontinued 1 entire set of proceedings in respect of approval of the amendment to the articles of association. In the period covered by this report, the KNF Board issued 6 decisions to correct an obvious typographical error. In 2017, the KNF Board issued 3 decisions approving the extension of the area of activity of a cooperative bank.

**Diagram 16. The number of actual decisions to approve amendments to the articles of association of commercial banks and cooperative banks in the years 2014-2017**



Source: KNF's own calculations

## OPENING AND OPERATING OF REPRESENTATIVE OFFICES OF FOREIGN BANKS AND CREDIT INSTITUTIONS

In 2017, the Polish Financial Supervision Authority issued 1 decision on the authorisation to open a representative office of a foreign bank or credit institution. The Polish Financial Supervision Authority also issued 1 decision on the expiration of the authorisation to open a representative office of a foreign bank.

## OPERATING AS PART OF CROSS-BORDER ACTIVITY

In 2017, the Polish Financial Supervision Authority accepted:

- 3 notifications from credit institutions on the taking-up of activity in the territory of the Republic of Poland through a branch,
- 18 notifications of changes in the notification of credit institutions concerning activities carried out in the territory of the Republic of Poland through a branch,
- 35 notifications from credit institutions on their intention to pursue cross-border activity in the territory of the Republic of Poland,
- 28 notifications of changes in notifications concerning cross-border activities of credit institutions in the territory of the Republic of Poland,
- 1 notification of the intention to cease cross-border activity by a national financial institution in the territory of a member state of the European Economic Area,
- 1 notification from a Polish financial institution of its intention to pursue cross-border activity in the territories of 26 member states of the European Economic Area,
- 1 notification from a financial institution on the taking-up of cross-border activity in the territory of the Republic of Poland,
- 5 notifications of changes in the notification of domestic banks operating in the European Economic Area through a branch,
- 1 notification from a national bank of an intention to pursue cross-border activity in the territory of a member state of the European Economic Area.

### 3.2. CREDIT UNIONS (PL: SKOK)

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

In 2017, the Polish Financial Supervision Authority issued 12 decisions on approval of amendments to the articles of association of credit unions, and 1 decision on approval of amendments to the articles of association of the National Association of Credit Unions. The Polish Financial Supervision Authority filed 3 applications for initiation of proceedings to remove data in the National Court Register which is unacceptable due to the binding provisions of law concerning amendments to the articles of association of credit unions.

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

In 2017, the Polish Financial Supervision Authority issued 2 decisions on approval of the appointment of the president of the management board of a credit union, 1 decision to discontinue proceedings in respect of approval/appointment of the president of the management board of a credit union, and 1 decision to discontinue proceedings in respect of appointment of a member of the management board of the National Association of Credit Unions. In 2 cases, the Polish Financial Supervision Authority repealed decisions refusing the

approval of the president of the management board of a credit union, discontinuing proceedings for a review of the case.

## ORDERS IN OTHER CASES

In the course of proceedings for a review of a case, the KNF issued 3 orders refusing to admit a civil society organisation to administrative proceedings.

In addition, the following orders were issued in 2017:

- 1 order refusing to allow a civil society organisation to participate in administrative proceedings,
- 9 orders rejecting the application for taking of evidence,
- 5 orders rejecting the application for a hearing,
- 2 orders suspending the proceedings,
- 1 order refusing to stay the proceedings,
- 1 order to correct typographical or other obvious errors.

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

### PAYMENT INSTITUTIONS

In the performance of tasks of supervision of payment institutions, in 2017 the Polish Financial Supervision Authority examined 14 applications for permissions to provide payment services as a domestic payment institution, including 3 applications to change such permission, whereas 2 proceedings for permission to provide payment services were suspended, and due to the time limit specified in the Administrative Proceedings Code one of them was discontinued. During that period, the KNF issued 6 permissions to provide payment services as a domestic payment institution. The Polish Financial Supervision Authority discontinued 1 set of proceedings in respect of the expiry of the decision on the authorisation to provide payment services as a domestic payment institution. The Polish Financial Supervision Authority deleted 1 domestic payment institution from the Register of Payment Services following the withdrawal of the authorisation to provide payment services.

### PAYMENT SERVICE OFFICES

As part of its duties relating to supervision of payment service offices (hereinafter: 'BUP'), the Polish Financial Supervision Authority keeps the Register of Payment Services (hereinafter: 'RUP'), in which, among others, payment service offices are entered.

Since the activity of a payment service office constitutes an activity regulated under the Act on freedom of economic activity, it is not necessary to hold a permission of the Polish Financial Supervision Authority to carry out such activity but only to obtain an entry in the RUP, which is available through the KNF website (<https://erup.knf.gov.pl/View/>). In 2017, 151 new BUPs were entered, 141 changes to entries were made, and 150 BUPs were deleted. As at the end of 2017, 1 320 BUPs were entered in the RUP.

It should be emphasised that payment service offices may only provide the money transfer service. In addition to the provision of payment services, both payment institutions and payment service offices may also carry out other business activities and then be awarded the status of hybrid payment institutions or hybrid payment service offices.

## OPENING AND OPERATION OF BRANCHES OF PAYMENT INSTITUTIONS AND ELECTRONIC MONEY INSTITUTIONS, THE ACTIVITIES OF AGENTS AND DISTRIBUTORS, AND CROSS-BORDER ACTIVITY OF SUCH INSTITUTIONS

In 2017, the Polish Financial Supervision Authority accepted:

- 123 notifications of activities carried out by EU payment institutions through agents,
- 61 notifications of activities carried out by EU payment institutions in the Republic of Poland,
- 2 notifications from EU electronic money institutions of activities carried out in the Republic of Poland through a distributor,
- 37 notifications of cross-border activity pursued by EU electronic money institutions in the Republic of Poland,
- 6 notifications of cross-border activity of Polish financial institutions in member states of the European Economic Area
- 1 notification from a Polish payment institution that a branch has been established in the territory of member state of the European Economic Area through an agent,
- 1 notification from a Polish payment institution on the pursuit of business in a member state of the European Economic Area through an agent.

### 3.4. INSURANCE SECTOR ENTITIES

#### AUTHORISATION TO PURSUE THE BUSINESS OF INSURANCE AND REINSURANCE

In 2017, two sets of proceedings were conducted to extend the material scope of business activities.

#### NOTIFICATIONS OF PURSUIT OF THE INSURANCE BUSINESS IN POLAND

At the end of 2017, 685 insurance undertakings from EU Member States and other member states of the European Economic Area had been notified for the purpose of performance of insurance activity in Poland under the freedom to provide services, while 28 insurance undertakings had been notified as branches, including 1 reinsurance undertaking.

In 2017, the KNF received 29 notifications from foreign insurance undertakings of their intention to pursue the insurance business – according to the principle of cross-border activity (including 2 notifications of the intention of foreign insurance undertakings in EU Member States to establish a branch in Poland under the freedom of establishment). In addition, 12 insurance undertakings in EU Member States notified their intention to change the scope of the insurance business pursued in the territory of the Republic of Poland under the freedom to provide services and 11 insurance undertakings in EU Member States ceased to pursue the insurance business in the territory of the Republic of Poland. In addition, in 2017, the KNF received 17 notifications concerning insurance undertakings in EU Member States in relation to notification of the intention to transfer or take over an insurance portfolio in whole or in part, and 3 notifications regarding merger of insurance undertakings notified in Poland under the freedom to provide services. In this respect, a report is prepared after every six months. The report is presented at the meeting of the KNF.

## CHANGES IN THE GOVERNING BODIES OF INSURANCE AND REINSURANCE UNDERTAKINGS

In 2017, the KNF issued 31 decisions on approval of the appointment of members of the management board of insurance and reinsurance undertakings (12 decisions on approval of the appointment of the president of the management board of an insurance undertaking, and 19 decisions on approval of the appointment of a member of the management board of an insurance undertaking responsible for risk management). In 15 cases concerning approval of the appointment of a member of the management board, the proceedings were discontinued at the request of a party, and KNF issued two decisions to discontinue proceedings initiated on the basis of an application for a review of the case.

## AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF SUPERVISED ENTITIES

In 2017, the KNF issued 38 decisions on approval of amendments to the articles of association of domestic insurance undertakings, including 3 decisions on the expiration of the decision on approval of amendments to the articles of association.

## ACQUISITION OR TAKING UP OF SHARES AND/OR RIGHTS IN SHARES

In 2017, the KNF issued 3 decisions in the proceedings in question. In one case, no grounds have been found for objecting to the direct acquisition of shares and in one case to the indirect acquisition of shares in two national insurance undertakings. In one case, the KNF discontinued the proceedings in respect of the intention to acquire shares in a domestic insurance undertaking.

## MERGER OF DOMESTIC INSURANCE UNDERTAKINGS

In 2017, the Polish Financial Supervision Authority issued 1 decision of no objections to the notification of the merger plan for two domestic insurance undertakings.

## ENTRY IN THE REGISTER OF ACTUARIES

During the period covered by this report, 19 applications for entry in the register of actuaries were submitted and 20 decisions on entry in the register of actuaries were issued. In addition, in 2017, 1 decision was issued to recognise a qualification to practise as an actuary and 1 order to make the decision to recognise a qualification to practise as an actuary conditional on completing an adaptation period or sitting an aptitude test.

## INSURANCE AGENTS

In 2017, 104 969 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 deletion from the register. There were 81 110 changes in the agents' data and 389 272 changes relating to persons providing agency services. 4 574 insurance agents and 32 437 persons providing agency services were removed from the register.

As at 31 December 2017, 31 873 insurance agents and 233 402 persons providing agency services performing agency functions were entered in the register.

**Table 27. The number of registered insurance agents and persons performing agency services in the years 2014-2017**

Detailed list		2014	2015	2016	2017
Agents	exclusive	7 301	5 540	5 696	6 172
	multiagents	3 523	3 417	3 916	2 968
	<b>Total</b>	<b>10 824</b>	<b>8 957</b>	<b>9 612</b>	<b>9 140</b>
Persons providing services as insurance agent	working for one agent	63 167	109 626	74 420	64 539
	working for at least two agents	11 174	14 144	17 450	14 961
	<b>Total</b>	<b>74 341</b>	<b>123 770</b>	<b>91 870</b>	<b>79 500</b>

Source: KNF's own calculations

In 2017, the register of insurance agents also included 30 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 :

- 9 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,
- 21 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 2017, as part of their supervisory activities, authorised representatives of the KNF participated as observers in 10 examinations for persons applying for a licence to provide agency services, in accordance with the Regulation of the Minister of Finance on the examination for persons applying for a licence to provide agency services, issued to the Act on insurance mediation.

## INSURANCE AND REINSURANCE BROKERS

**Table 28. Register of brokers at the end of 2014-2017**

Brokers		2014	2015	2016	2017
Insurance	natural persons	801	830	842	869
	legal persons	395	449	481	505
	<b>Total</b>	<b>1 196</b>	<b>1 279</b>	<b>1 323</b>	<b>1 374</b>
Reinsurance	natural persons	10	10	10	12
	legal persons	23	29	32	37
	<b>Total</b>	<b>33</b>	<b>39</b>	<b>42</b>	<b>49</b>

Source: KNF's own calculations

In 2017, 2 701 changes were made to the data entered in the register of insurance and reinsurance brokers, including changes to brokers' personal and address data, changes in the management boards of brokerage firms, changes concerning persons performing brokerage activities, and changes concerning civil liability coverage.

As at 31 December 2017, 1 374 insurance brokers and 49 reinsurance brokers were entered in the register.

In 2017, the Polish Financial Supervision Authority issued 85 authorisations to pursue brokerage activities in the field of insurance and reinsurance, including 46 authorisations for natural persons and 39 authorisations for legal persons.

In the period covered by this report, proceedings were conducted to withdraw an authorisation to pursue brokerage activities in the field of insurance and reinsurance, and all of them, i.e. 29 proceedings, were conducted at the request of a party.

**Table 29. The number of authorisations to pursue brokerage activities in the field of insurance issued by the KNF in the years 2014-2017**

Detailed list	2014	2015	2016	2017
Natural persons	57	61	36	32
Legal persons	35	67	50	44
<b>Total (excluding reinsurance)</b>	<b>92</b>	<b>128</b>	<b>86</b>	<b>76</b>

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, 410 candidates took the exams (including 22 for reinsurance brokers). 204 candidates obtained a positive result (including 18 for reinsurance brokers).

**Table 30. Statistics on candidates taking the examination for insurance brokers in the years 2014-2017**

Detailed list	2014	2015	2016	2017
All candidates taking the exam	497	468	402	388
Successful candidates of the brokerage exam	370	393	133	186

Source: KNF's own calculations

**Table 31. Statistics on candidates taking the examination for reinsurance brokers in the years 2014-2017**

Detailed list	2014	2015	2016	2017
All candidates taking the exam	19	37	17	22
Successful candidates of the brokerage exam	18	34	13	18

Source: KNF's own calculations

## NOTIFIED INSURANCE INTERMEDIARIES

In 2017, 271 insurance intermediaries intending to pursue activities 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 128 notifications of the intermediaries were withdrawn.

## ANALYSIS OF THE STATUS OF IMPLEMENTATION OF THE KNF'S RECOMMENDATIONS ON PRODUCT ADEQUACY



In 2017, as part of the second round of self-assessment carried out by insurance undertakings, an analysis was conducted in respect of the state of implementation of Recommendations on product adequacy assessment issued by the Polish Financial Supervision Authority on 22 March 2016. According to the information provided, as at 31 January 2017, 37% of undertakings fully complied with the Recommendations, 30% of entities reported that they did not offer products to which the Recommendations would apply, and 33% of entities declared that they partially complied with the Recommendations, including:

- 3 undertakings declared to have implemented all the Recommendations in the current year,
- 1 undertaking declared it would comply with the Recommendations in 2018.

The above-mentioned exercise resulted in the preparation of a document entitled 'Notice on the implementation of the Recommendations for insurance undertakings on product adequacy assessment' presented at the KNF's meeting on 25 April 2017.

In 2017, one supervisory visit was conducted with regard to the implementation of Recommendations on product adequacy assessment issued in 2016.

## 3.5. PENSION SECTOR ENTITIES

### PENSION FUNDS AND PENSION SOCIETIES

In the area of licensing functions, 2017 was marked by administrative proceedings which resulted in 73 administrative decisions. In addition, 8 orders were issued in relation to pension market entities. The number and subject of decisions and orders issued are presented in Tables 1.1 and 1.2. in Appendix 1.

#### Management of Nordea Otwarty Fundusz Emerytalny taken over by Aegon Powszechne Towarzystwo Emerytalne S.A.

On 1 August 2017, the Polish Financial Supervision Authority authorised Aegon Powszechne Towarzystwo Emerytalne S.A. to take over the management of Nordea Otwarty Fundusz Emerytalny. The take-over involved acquisition of a part of the enterprise Nordea Powszechne Towarzystwo Emerytalne S.A. as defined in Article 55<sup>1</sup> of the Civil Code. The opening of liquidation of Nordea OFE and the actual takeover of the Fund's management by Aegon PTE S.A. began on 1 September 2017. The liquidation of Nordea OFE and the transfer of its assets to Aegon OFE were completed on 17 November 2017.

Following the takeover of the management and the completion of liquidation of Nordea OFE, the respective market will now consist of 11 open pension funds and 8 voluntary pension funds.

#### Liquidation of Pracowniczy Fundusz Emerytalny Nestle Polska

On 20 December 2016, the Polish Financial Supervision Authority ordered the liquidation of the occupational pension fund (PFE) Nestle Polska, and set the start date of liquidation for 11 January 2017 and the completion date of liquidation for 11 April 2017. At the same time, the Authority appointed PTE Nestle Polska S.A. in liquidation as the liquidator of PFE Nestle Polska. The liquidation of the occupational pension fund PFE Nestle Polska resulted in the withdrawal of the authorisation to establish the occupational pension society (PTE) Nestle Polska S.A., effected on 30 June 2017.

Following the completion of the liquidation process of PFE Nestle Polska, the market of occupational pension funds will consist of 3 entities.

## OCCUPATIONAL PENSION SCHEMES (PPE)

### Entries in the register

In 2017, the KNF Office recorded:

- an increase of more than 220% in the number of applications for registration of a scheme (77 in 2017 and 24 in the previous year),
- a decrease of more than 20% in the number of applications for entry of changes to a scheme in the register (115 in 2017 and 149 in the previous year),
- a 45% decrease in the number of applications for removal of a scheme from the register (28 in 2017 and 51 in the previous year),
- an increase of approx. 42% in the number of notifications of changes in the details of an employer or manager (94 notifications in 2017 and 66 in the previous year).

In addition, in 2017, the KNF Office received 70 applications for inclusion of an employer in an inter-company scheme registered in the PPE register.

The number and the subject of PPE-related decisions issued in 2017 on the basis of an authorisation granted by the KNF are presented in Table 1.2. in Appendix 1.

### Supervision of occupational pension schemes (PPE)

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.

1 054 PPEs were in operation at the end of 2017, some of them being of an inter-company nature, with more than one employer involved, which means that 1 153 employers who were operating a PPE as at 31 December 2017 were required to submit the report for 2017.

In 2017, the supervisory authority conducted 2 indirect supervisory proceedings in relation to employers operating a PPE and 137 proceedings in relation to employers who failed to comply with the requirement to submit a report on their PPE for 2016 within the set time limit.

## 4. INSPECTION ACTIVITIES

### 4.1. BANKS AND THEIR ORGANISATIONAL UNITS

#### INSPECTIONS OF COMMERCIAL BANKS: GENERAL INFORMATION

In 2017, inspection activities at 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.

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

#### Table 32. Inspection activities carried out by the KNF Office at commercial banks in 2017

Inspection activities	Number
Comprehensive inspections at commercial banks	4
Targeted inspections at commercial banks	14
Validation proceedings at commercial banks	2
Investigations at commercial banks	3

Source: KNF's own calculations

Inspections of the correctness of calculating and transferring the required amount of the statutory reserve were carried out as part of cooperation between the KNF Office and the NBP during 4 comprehensive inspections at commercial banks.

## INSPECTIONS AT COOPERATIVE BANKS: GENERAL INFORMATION

In 2017, 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.

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

**Table 33. Inspection activities carried out by the KNF Office at cooperative banks in 2017**

Inspection activities	Number
Comprehensive inspections at cooperative banks	4
Targeted inspections at cooperative banks	30
Investigations at cooperative banks	3

Source: KNF's own calculations

Taking into account the conditions relating to the functioning of the cooperative banks sector, after 2014 the allocation of the KNF's inspection resources to the sector has been systematically increasing with a view to intensifying the frequency of inspections at individual banks. However, it should be stressed that a further increase in the number of inspections at cooperative banks will not be possible without increasing the number of inspection staff at the KNF Office. A similar position is also taken by external institutions, including the Supreme Audit Office and the World Bank together with the International Monetary Fund, which – in connection with its research relating to, *inter alia*, the activities of the KNF Office - point to the need to increase human resources to intensify the frequency and extend the scope of inspections at cooperative banks.

## 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 articles of association, and compliance with the requirements set out in the authorisation to establish a bank.

Inspection activities carried out as part of targeted inspections usually had the form of the so-called thematic reviews, i.e. targeted at examining the same set of issues at systemically important banks. The scope of thematic reviews at commercial banks included topics such as:

- the extent to which banks are prepared for IFRS 9, which fundamentally changes the requirements for the classification and measurement of financial instruments and introduces an impairment model based on expected losses,

- the degree of implementation of the KNF Recommendation C on the management of concentration risk (hereinafter: ‘Recommendation C’),
- the degree of implementation of the KNF Recommendation W on model risk management at banks (hereinafter: Recommendation W),

The following areas/issues were covered by the remaining targeted inspections:

- implementation of selected recommendations issued following inspections carried out in 2016 and in previous years,
- selected issues in the area of information technology management and security of the ICT environment in banks,
- liquidity risk management, including compliance with the KNF Recommendation P on bank liquidity risk management (hereinafter: ‘Recommendation P’)
- selected elements in the area of market risk management:
  - supervision exercised by the bank’s management over treasury activities, including:
    - ✓ the effectiveness of the first line of defence,
    - ✓ the process of assessing the marketability of transaction prices,
    - ✓ selected elements of investment activities,
  - the process of offering derivative instruments to non-financial customers, in particular, verification of the implementation of the KNF Guidelines on the provision of brokerage services on the OTC market (hereinafter: ‘OTC Guidelines’),
  - the quality of the management of the overall interest rate risk in the banking book (selected guidelines in EBA/GL/2015/08 on the management of interest rate risk that arises from non-trading book activities).

The findings from the inspection activities were included in the official inspection reports, and information on the results of inspection at banks with foreign capital was also submitted to the home supervisory authority of the bank’s parent undertaking.

Tables 34-38 provide summary information on the material irregularities (concerning to varying degrees the entities under inspection) identified with respect to the most frequently checked areas at commercial banks.

**Table 34. Material irregularities identified during inspection activities at commercial banks in 2017 in relation to the assessment of the degree of implementation of Recommendation C**

Concentration risk management	
1.	Irregularities relating to the manner in which banks analysed the gap in connection with the implementation of Recommendation C, due to the failure to provide details on the identified gaps to the technical units responsible for the implementation of particular recommendations and due to the lack of definition of their tasks, role and functions in the implementation of Recommendation C, taking into account the identified gaps.
2.	Irregularities relating to the stress testing area (hereafter: ‘ST’), mainly due to: <ul style="list-style-type: none"> <li>– the failure to develop an ST procedure for concentration risk in the area of credit risk, including standards for reverse tests, tests at the consolidated level, and to the failure to include exposures to entities belonging to the group in the tests,</li> <li>– the failure to address possible interactions between concentrations within the same and different risks in the conduct of ST,</li> <li>– outdated assumptions of ST in internal procedures, i.e. deviating from the rules applied in practice,</li> <li>– assuming incorrect values of changes in particular parameters.</li> </ul>
3.	Incompleteness and/or discrepancies (inconsistency) in internal regulations, in particular regarding the definition of a group of related entities and internal rules for identification, control and mitigation of risk associated with exposures to affiliated entities.
4.	Failure to ensure the compliance by banks with the rules of concentration risk management within particular risk areas, due to the lack of : <ul style="list-style-type: none"> <li>– an appropriate distribution of responsibilities,</li> <li>– verification of application of procedures,</li> </ul>

	<ul style="list-style-type: none"> <li>– verification of the type and level of internal limits mitigating the concentration risk,</li> <li>– effective control mechanisms ensuring concentration risk management which would take into account the occurrence of stress conditions in the market,</li> <li>– effective mechanisms of control of the second line of defence.</li> </ul>
5.	<p>Irregularities relating to the system of internal limits, including:</p> <ul style="list-style-type: none"> <li>– failure to introduce limits for the concentration risk of exposures resulting from dealings with specific customers or related groups,</li> <li>– no reference to own funds has been made to limits set for individual customers,</li> <li>– no limits have been set for exposures excluded from the regulatory limits for large exposures.</li> </ul>
6.	Banks' failure to assess the materiality of concentration risk or to perform analyses in terms of the need to take such risk into consideration when estimating internal capital.
7.	<p>Irregularities relating to the prevention and mitigation of concentration risk, including:</p> <ul style="list-style-type: none"> <li>– lack of escalation rules for information on exceeding internal limits,</li> <li>– lack of measures to prevent the limits from being exceeded,</li> <li>– reporting overruns without providing reasons for overruns,</li> <li>– lack of warning thresholds for individual limits, or warning thresholds set too high in terms of the ability to prevent the occurrence of overruns,</li> <li>– lack of correlation between the sector concentration ratios (the amount of exposure in the industry) and the sector concentration limit (10%).</li> </ul>

Source: KNF's own calculations

**Table 35. Material irregularities identified during inspection activities at commercial banks in 2017 in relation to model risk management in line with Recommendation W**

<b>Model risk management</b>	
1.	Inadequacy of the level of human resources involved in model risk management in relation to the size and scale of banks' operations, in particular in relation to the internal validation unit.
2.	Incorrect identification of models, resulting in the failure to include in model risk management certain models that are consistent with an internal definition of a model.
3.	<p>Weaknesses in the measurement of the model risk level, including, but not limited to:</p> <ul style="list-style-type: none"> <li>– lack of objectivity of measurement,</li> <li>– failure to consider material risk factors, e.g. the results of the ongoing assessment of the quality of the model,</li> <li>– failure to include all material models in the risk assessment,</li> <li>– failure to ensure that the measurement is up to date,</li> <li>– failure to maintain consistency with risk tolerance.</li> </ul>
4.	Unclear classification criteria regarding model materiality .
5.	<p>Weaknesses in the functioning of model logs<sup>6</sup> and in the model register due to lack of:</p> <ul style="list-style-type: none"> <li>– data completeness,</li> <li>– the validity of data in the logs,</li> <li>– data consistency between model logs and the register.</li> </ul>
6.	Failure to apply regular quality assessment (monitoring) to certain models.
7.	Incomplete verification of data quality at the stage of development of certain models, and incomplete cyclical assessment of data at the stage of model use.
8.	<p>Weaknesses resulting from incompleteness and/or excessive level of generality of the documentation, including:</p> <ul style="list-style-type: none"> <li>– methodologies for model development, monitoring and validation,</li> <li>– documentation concerning models, monitoring and implementation.</li> </ul>
9.	Weaknesses in the process of escalation of negative results of model performance verification, including failure to define a precise escalation path, failure to develop a detailed catalogue of remedial, corrective, potential and obligatory measures.
10.	Failure to include material models in the validation process from the outset and to include certain material models in the cyclical validation process.

Source: KNF's own calculations

<sup>6</sup> According to Recommendation W, a model log is a set of information used to obtain key information about the model, arranged so as to enable third parties to fully reproduce the history and logic of activities relating to a given model.

**Table 36. Material irregularities identified during inspection activities at commercial banks in 2017 in the area of liquidity risk management, including adaptation of banks to Recommendation P**

<b>Liquidity risk management</b>	
1.	Irregularities relating to liquidity risk tolerance, including exceeding the risk tolerance level specified by the supervisory board, and inconsistency of liquidity risk tolerance provisions in internal regulations.
2.	Irregularities relating to the calculation of the liquidity coverage ratio (LCR), including : <ul style="list-style-type: none"> <li>– lack of a detailed methodology for calculating the LCR,</li> <li>– incorrect determination of funds which may be treated as the transaction account,</li> <li>– failure to analyse retail deposits to determine whether the criteria for qualifying for an appropriate higher deposit outflow rates are met,</li> <li>– inappropriate exclusion of retail term deposits from the calculation of outflows,</li> <li>– classification of instruments which do not meet the criteria set out in Regulation No 2015/61 as Level 1 assets<sup>7</sup>,</li> <li>– failure to include, in inflows and outflows, interest due within 30 days,</li> <li>– insufficient frequency of LCR calculation.</li> </ul>
3.	Insufficient range of the internal limits system, including: <ul style="list-style-type: none"> <li>– lack of certain limits, e.g. the intraday liquidity limit, product and entity concentration limit, long-term liquidity limit,</li> <li>– failure to apply limits to off-balance sheet commitments,</li> <li>– lack of analyses to justify the adopted level of limits.</li> </ul>
4.	Irregularities relating to stress testing, including: <ul style="list-style-type: none"> <li>– insufficient range of tests, e.g. no reverse tests,</li> <li>– insufficient coverage of certain items, e.g. electronic deposits, off-balance sheet commitments,</li> <li>– failure to document selected scenarios and to assess the adequacy of the adopted assumptions,</li> <li>– insufficiently conservative test assumptions, e.g. overestimation of contingent funding sources, insufficient treatment of concentration risk,</li> <li>– insufficient frequency of tests,</li> <li>– inadequate use of test results in liquidity risk management, including when setting internal limits.</li> </ul>
5.	Irregularities relating to contingency liquidity planning, including: <ul style="list-style-type: none"> <li>– failure to identify clear symptoms and the triggers of the contingency plan, insufficient range of symptoms or delayed identification of an emergency by means of indicators,</li> <li>– bank’s insufficient preparation for liquidity assistance from the NBP in the form of a refinance loan,</li> <li>– failure to identify key intraday payments and their priority,</li> <li>– failure to define and document possible actions for funding within the group, support from a strategic investor,</li> <li>– insufficient testing of the contingency plan,</li> <li>– lack of detailed rules for managing press and public relations, e.g. rules on methods and timing of communication.</li> </ul>
6.	Irregularities relating to the management information system, including: <ul style="list-style-type: none"> <li>– insufficient scope of reports submitted,</li> <li>– significant delays in the submission of reports,</li> <li>– failure to prepare reports required by internal regulations.</li> </ul>

Source: KNF’s own calculations

**Table 37. Material irregularities identified during inspection activities at commercial banks in 2017 with respect to selected elements in the area of market risk management**

<sup>7</sup> 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 (OJ L 11 of 2015, p. 1-36).

Selected elements in the area of market risk management	
1.	<p>Irregularities relating to the supervision of treasury activities by the bank's management, including:</p> <ul style="list-style-type: none"> <li>– failure to include certain transactions in the assessment of marketability of transaction prices, failure to analyse the acceptable level of deviations in the assessment of marketability of transaction prices, and failure to provide periodic management information,</li> <li>– insufficient supervision of treasury activities by the bank's management board, in particular due to the lack of full separation of risk measurement in the banking and trading portfolios, including the combination of risk monitoring and operational functions,</li> <li>– failure to define the market risk appetite, rules for setting and updating internal limits, and lack of written analyses of the set limits.</li> </ul>
2.	<p>Irregularities in the offering of derivative instruments to non-financial customers, in particular, failure to comply with the OTC Guidelines defining the necessity of:</p> <ul style="list-style-type: none"> <li>– conducting an adequacy test of the offered derivative instruments based on the client's knowledge and self-assessment,</li> <li>– defining the duties of the bank's management board and supervisory board regarding supervision of the activities relating to the sale of derivative instruments to retail customers, including significant information on the sale of derivative instruments in management reports submitted to the management board and the supervisory board,</li> <li>– providing training to employees who offer derivative transactions and training in the area of derivative transactions entered into on the OTC market,</li> <li>– clear and comprehensible presentation of information on the extent of hedging of positions by individual instruments in advertising and information materials, including precise information on costs borne by customers.</li> </ul>
3.	<p>Irregularities regarding consideration of the European Banking Authority's <i>Guidelines on the management of interest rate risk arising from non-trading activities</i> (hereinafter: EBA Guidelines), including the failure to:</p> <ul style="list-style-type: none"> <li>– carry out formal assessment of the bank's compliance with the EBA Guidelines,</li> <li>– develop a separate strategy for interest rate risk in the banking book and to indicate the methods of risk measurement, and/or to apply correct identification and measurement of interest rate risk,</li> <li>– tailor the stress tests to the EBA Guidelines.</li> </ul>

Source: KNF's own calculations

**Table 38. Material irregularities identified during inspection activities at commercial banks in 2017 in relation to selected issues in the area of IT management and ICT environment security**

Selected issues in the area of IT management and ICT environment security	
1.	<p>Irregularities in the organisational and operational aspects of IT management and ICT environment security:</p> <ul style="list-style-type: none"> <li>– frequent organisational changes and insufficient human resources in the area of IT security,</li> <li>– no specification of Key Risk Indicators (KRI) or Key Performance Indicators (KPI) for many important aspects of IT management and IT security,</li> <li>– lack of comprehensive audits of the IT security area.</li> </ul>
2.	<p>Irregularities in the management of incidents in the IT environment and e-banking:</p> <ul style="list-style-type: none"> <li>– no continuous monitoring or analysis of events and responses to incidents by the Security Operations Centre (SOC) (24/7/365),</li> <li>– no implementation (or only the initial phase of implementation) of systems to support incident management in the area of automatic analysis and correlation of events recorded by the monitoring systems,</li> <li>– delays in the recording of operational events beyond the deadlines set in internal procedures,</li> <li>– no adaptation of tools used in IT management and IT security monitoring after the merger of the banks,</li> <li>– no monitoring of logs of application servers and operating systems as well as workstations,</li> <li>– lack of control mechanisms of proper identification of events which meet the bank's criteria</li> </ul>

	<p>for an incident, and no inclusion of such events in the incident register,</p> <ul style="list-style-type: none"> <li>– ineffective rules for Data Leak Prevention (DLP), which normally should reduce the risk of outflow of sensitive data outside the bank's ICT environment,</li> <li>– lack of scenarios of materialisation of risks relating to security breaches in the bank's ICT environment.</li> </ul>
3.	<p>Irregularities in the process of monitoring the activity of privileged users:</p> <ul style="list-style-type: none"> <li>– lack of formalised process of monitoring the activities of privileged users,</li> <li>– lack of monitoring or control of the activity of privileged users (including external providers who gain remote access to bank's systems in connection with the provision of services),</li> <li>– lack of solutions which normally ensure correlation of entries in server logs with the logs of individual applications running on those servers,</li> <li>– lack of solutions which normally ensure integrity of stored logs recording the activities of administrators,</li> <li>– lack of effective control over the process of managing privileged user accounts.</li> </ul>
4.	<p>Irregularities in the security management of virtual environments:</p> <ul style="list-style-type: none"> <li>– lack of up-to-date risk analyses of the virtual environment in terms of specific risks in that environment,</li> <li>– no detailed standards for configuring and hardening the virtual environment (including descriptions of the configuration parameters of all components of the virtual device environment),</li> <li>– lack of cyclical, comprehensive security assessments/reviews of virtual environments for compatibility of configurations with good practice and manufacturer's guidelines.</li> </ul>
5.	<p>Irregularities in vulnerability management:</p> <ul style="list-style-type: none"> <li>– no procedures or rules for vulnerability management have been developed and implemented,</li> <li>– limited scope of resources/components of the ICT environment covered by vulnerability scanning,</li> <li>– incorrect preparation of the test environment for penetration tests,</li> <li>– cases of critical vulnerabilities in the bank's data communication environment persisting for more than 90 days,</li> <li>– failure to record recommendations following from penetration tests,</li> <li>– insufficient monitoring of the effectiveness of the corrective actions taken for the identified vulnerabilities (e.g. lack of KRIs, or failure to apply KRIs to the vulnerabilities identified during penetration tests),</li> <li>– no documented risk analysis of identified vulnerabilities,</li> <li>– lack of formal procedures for addressing vulnerabilities, e.g. procedures for the management of installation of critical security patches,</li> <li>– no documentation of analyses of scanning results or mitigation actions taken,</li> <li>– no definition of maximum deadlines for addressing vulnerabilities or taking action to mitigate risks relating to vulnerabilities,</li> <li>– incorrect reporting of KRIs as part of the cyclical survey <i>Key risk indicators for the IT area and IT security relating to the number of vulnerabilities</i>.</li> </ul>
6.	<p>Irregularities in control mechanisms for unsupported software:</p> <ul style="list-style-type: none"> <li>– extensive use of components with not support provided by the manufacturer,</li> <li>– no analysis of the risk of using components with no support provided by the manufacturer,</li> <li>– acceptance of risk despite the lack of risk analysis.</li> </ul>
7.	<p>Irregularities in the management of outsourcing of IT services:</p> <ul style="list-style-type: none"> <li>– no review of contracts with external providers of IT services relating to identification of activities carried out in the area of information technology,</li> <li>– no implementation of processes of managing relations with external providers or services of such providers as part of activities performed in the area of information technology.</li> </ul>
8.	<p>Insufficient risk management solutions for online payments:</p> <ul style="list-style-type: none"> <li>– lack of a 3D-Secure mechanism which normally ensures strong cardholder authentication when making online payments with debit cards,</li> <li>– lack of solutions for monitoring the infrastructure of e-banking clients in terms of identifying them with malicious software,</li> </ul>



	<ul style="list-style-type: none"> <li>– lack of detailed analyses of risk assessment for the security of online payments and related services,</li> <li>– lack of rules for immediate notification of the KNF of major payment security incidents affecting the payment services provided,</li> <li>– lack of solutions in anti-fraud systems to monitor transactions before they are executed,</li> <li>– lack of monitoring of mobile banking transactions in anti-fraud mechanisms,</li> <li>– lack of solutions to prevent encryption of electronic banking communication in mobile channels by means of weak, insufficiently secure encryption algorithms,</li> <li>– failure to apply online payment card limits to all card types and customer groups.</li> </ul>
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Source: KNF's own calculations

## THEMATIC INSPECTIONS OF THE DEGREE OF IMPLEMENTATION OF IFRS 9

In connection with the implementation of IFRS 9<sup>8</sup>, significant changes entered into force as of 1 January 2018 with respect to the rules of classification and presentation of financial instruments and, in the context of impairment recognition, the key change in the approach consisting in the estimation of expected credit losses. In view of the foregoing, as part of the inspection activities carried out in 2017, the status of preparation of large banks for the implementation of IFRS 9 was also analysed, with particular emphasis on the following aspects:

- management of the IFRS 9 implementation project,
- solutions implemented and internal regulations developed by banks in that respect,
- changes in IT systems related to the implementation of IFRS 9,
- the extent to which banks are prepared for compilation of financial statements and supervisory reporting after the implementation of IFRS 9.

The inspection findings supplemented the responses to the survey conducted by the KNF Office regarding the effect of implementation of IFRS 9 on banks' results and balance sheet items. As a result of supervisory activities, issues requiring a coherent approach to be developed within the banking sector were identified, including, among others, the classification and determination of the valuation method for selected credit products, the determination of materiality levels for the results of the 'benchmark test', quantitative and qualitative criteria for the recognition of a significant increase in credit risk from the moment of initial recognition, the definition of non-performance, quantitative and qualitative criteria for determining the materiality of modifications resulting in the exclusion of assets from the balance sheet and their re-recognition, the use of macroeconomic factors in the valuation process. The standards with respect to the above-mentioned components of classification and measurement of financial instruments will be adequately taken into account in the KNF's new *Recommendation R on the principles of identification of balance sheet impaired credit exposures, determination of impairment losses on balance sheet credit exposures, and provisions for off-balance sheet credit exposures*.

## INSPECTIONS AT BRANCHES OF CREDIT INSTITUTIONS

In 2017, 2 inspections were carried out at branches of credit institutions in connection with notifications of the intention to establish branches of credit institutions in the territory of the Republic of Poland. The inspections focused on the compliance with the requirements which, in the interests of the general good, the above-mentioned branches of credit institutions should fulfil in the territory of the Republic of Poland (under Article 48l(2) of the Banking Act of 29 August 1997). The outcome of the inspection activities confirmed the compliance with

<sup>8</sup> 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 (OJ L 323 of 2016, p. 1-164).

the KNF's recommendation that the branches should operate in accordance with the interest of the general good. Cases of incomplete or overly general presentation of certain information on the operations of branches have been identified, in particular with regard to legal regulations governing branches in Poland, and in terms of good banking practices.

## COMPREHENSIVE AND TARGETED INSPECTIONS AT COOPERATIVE BANKS

In the case of inspection activities at cooperative banks, the main focus of the inspection was on credit risk, as well as on the implementation of selected recommendations issued by the KNF as part of the supervisory review and evaluation process (SREP) and as a result of inspection activities carried out in earlier years.

The findings from the inspection activities were included in the inspection reports.

Table 39 provides summary information on the material irregularities (concerning to varying degrees the entities under inspection) identified with respect to the area of credit risk at cooperative banks.

**Table 39. Material irregularities identified during inspection activities at cooperative banks in 2017 in the area of credit risk management**

Credit risk management	
1.	<p>Irregularities in credit risk identification with respect to the assessment of creditworthiness in relation to:</p> <ul style="list-style-type: none"> <li>– retail customers, including in particular: <ul style="list-style-type: none"> <li>✓ establishing living expenses below the minimum subsistence level,</li> <li>✓ incorrect verification of the income declared by natural persons and persons running business activity,</li> <li>✓ no verification of debt and credit history of borrowers running business activity on the basis of information from external databases,</li> <li>✓ no differentiation in the level of DTI applied by: income level, repayment period, product type, etc.,</li> <li>✓ lack of creditworthiness after taking into account the living expenses of a household as declared by the borrower,</li> <li>✓ no differentiation in the living expenses by place of residence,</li> </ul> </li> <li>– economic operators, including in particular: <ul style="list-style-type: none"> <li>✓ granting loans to entities which are not creditworthy and despite non-compliance with Article 70(1-2) of the Banking Act (consolidated text in: Journal of Laws (Dziennik Ustaw) of 2017, item 1876, as amended),</li> <li>✓ failure to obtain information necessary for a reliable assessment of creditworthiness (including financial plans for the entire credit period),</li> <li>✓ lack of a full assessment of the investment project.</li> </ul> </li> </ul>
2.	<p>Irregularities in the review and classification of credit exposures and in the creation of specific provisions, consisting in:</p> <ul style="list-style-type: none"> <li>– failure to assess the implementation of financial forecasts and to address financial difficulties in the assessment of economic operators,</li> <li>– incorrect classification of credit exposures according to the economic and financial situation and timeliness of repayments,</li> <li>– determining the annual (instead of quarterly) frequency of monitoring of credit exposures classified as 'watch-list' exposures,</li> <li>– failure to specify criteria (other than timely repayment of receivables), for classifying credit exposures into particular risk categories,</li> <li>– failure to take restructuring into account when classifying exposures.</li> </ul>
3.	<p>Failure to ensure adequate valuation, updating and monitoring of accepted collateral, in particular due to the lack of:</p> <ul style="list-style-type: none"> <li>– verification by the bank of real estate valuations made by external experts,</li> <li>– monitoring of the value of real property used as collateral during the loan term on the basis</li> </ul>

	<p>of reliable databases,</p> <ul style="list-style-type: none"> <li>– development of rules for using the real estate base and rules and methods for applying corrections to the value of real properties.</li> </ul>
4.	<p>Reservations as to the manner of implementation of the KNF Recommendation S <i>on good practices in the management of credit exposures secured by mortgages</i>, arising from:</p> <ul style="list-style-type: none"> <li>– lack of separation of sales, risk acceptance and risk control functions,</li> <li>– lack of procedures for assessing and monitoring the value of real property and for assessing the use of collateral as a possible source of legal claims,</li> <li>– failure to conduct analyses and determine adjustment indicators in the case of estimating the value of real property,</li> <li>– lack of adequate reporting on the current value of real property,</li> <li>– no collection of data on recoveries by source,</li> <li>– incorrect determination of the level of LtV and weaknesses in its monitoring, related <i>inter alia</i> to: <ul style="list-style-type: none"> <li>✓ no reduction in the value of real property by mortgage entries,</li> <li>✓ accepting the value of real property from a mortgage entry,</li> <li>✓ accepting overestimated values of real property,</li> <li>✓ determination of LtV in a manner which is inconsistent with the definition adopted.</li> </ul> </li> </ul>
5.	<p>Reservations as to the manner of implementation of the KNF Recommendation J <i>on the principles of collection and processing of real property data by banks</i>:</p> <ul style="list-style-type: none"> <li>– lack of the bank's participation in the interbank database, in the absence of a reliable internal database on real property,</li> <li>– failure to systematically feed the interbank database with data,</li> <li>– lack of criteria for recognising the reliability of the database or rules of procedure in the case where the base is found to be unreliable,</li> <li>– incomplete internal regulations concerning updating, verification and valuation of real property using databases.</li> </ul>
6.	<p>Reservations concerning the assessment of the status of implementation of the KNF Recommendation C:</p> <ul style="list-style-type: none"> <li>– no ST methodology in the area of concentration risk,</li> <li>– failure to adjust the system of concentration limits to the scale of the bank's operations, e.g. failure to develop a set of early warning indicators or a warning level for the limits introduced,</li> <li>– insufficient reporting on large exposures and on the use of exposure limits.</li> </ul>
7.	<p>Reservations concerning the assessment of the status of implementation of the KNF Recommendation T <i>on good practices in risk management for retail credit exposures</i>:</p> <ul style="list-style-type: none"> <li>– lack of separation between the sales function and the power to accept and control risks,</li> <li>– excessive level of DTI,</li> <li>– ineffective system of internal inspection with regard to the review of compliance with the standards resulting from the said Recommendation.</li> </ul>
8.	<p>Irregularities in the restructuring and recovery of loans, including the lack of:</p> <ul style="list-style-type: none"> <li>– definition (in internal regulations) of restructuring and prerequisites for recognising a loan as effectively restructured,</li> <li>– treating the application of multiple types of relief from repayment as a prerequisite for restructuring,</li> <li>– assessment of the borrower's financial standing prior to loan restructuring,</li> <li>– review of the effectiveness of the restructuring and recovery process.</li> </ul>
9.	<p>Irregularities in the conduct of ST, consisting in the lack of:</p> <ul style="list-style-type: none"> <li>– defined rules for selection of exposures and defined size of the sample to be tested,</li> <li>– detailed assumptions for ST reflecting the effect of an interest rate increase of 200 bps on the adequacy of the maximum level of DTI for the portfolio of retail exposures and exposures secured by mortgages,</li> <li>– ST to examine the effect of a decrease in the value of real property on the risk of a representative sample of exposures secured by a mortgage,</li> <li>– a practice of using the ST results to manage credit risk,</li> <li>– a defined threshold which, if exceeded, would trigger the action specified in the risk management strategy,</li> <li>– inclusion – in the presentation of ST results in relation to the effect of changes in interest rates on the levels of DTI and LtV indices – of information on the level of those indices prior</li> </ul>

	to the tests.
10.	<p>Insufficient scope and quality of credit risk management information, including:</p> <ul style="list-style-type: none"> <li>– incomplete scope of information in the reports for the bank’s management,</li> <li>– lack of reports on the structure of the credit portfolio according to the DTI level for retail customers and reports on the applied deviations and their scale,</li> <li>– lack or insufficient information regarding restructured exposures, balloon payment exposures and the effectiveness of debt collection,</li> <li>– insufficient information on the evaluation of ST results and on exceedance of limits.</li> </ul>

Source: KNF’s own calculations

As a result of the findings from comprehensive and targeted inspections carried out both in commercial banks and cooperative banks, if a breach of laws or prudential regulations and/or irregularities in risk management was identified in a given bank, the relevant bank received appropriate recommendations from the KNF and was obliged to prepare and submit to the KNF a detailed schedule of activities for the implementation of the recommendations. Recommendations issued to banks following inspections are discussed with the bank’s management and consolidating supervision, and are regularly monitored as part of an off-site analysis, and their implementation is verified in the course of subsequent inspection activities.

## OTHER SUPERVISORY ACTIVITIES IN THE AREA OF INFORMATION TECHNOLOGY AND SECURITY OF THE ICT ENVIRONMENT CARRIED OUT AT BANKS

In 2017, under the supervision exercised by the KNF in the area of information technology and security of the ICT environment, a number of activities were completed with respect to banks, in particular:

- as part of the activities of the KNF's Special Task Force for Financial Innovation (FinTech), the KNF's position on the use of cloud computing services by supervised entities was developed,
- in support of the activities carried out by the Polish Bank Association (PL: Związek Banków Polskich–ZBP) as part of the initiative for cooperation of banks within the framework of the Banking Cybersecurity Centre (hereinafter: BCC) aimed at reducing the risk of systemic cyberattacks and providing the banking sector with systemic solutions to maintain an appropriate level of cybersecurity, a letter was sent to the banks to draw their attention to the initiative and to present the opinion of the supervisory authority that the effectiveness of the BCC activities aimed at ensuring the security of the banking sector requires participation of all commercial banks, affiliating banks (representing affiliated cooperative banks), and independent cooperative banks,
- a letter was sent to the banks which, despite offering their customers the service of 'opening an account via transfer', did not join the systemic solution for feeding the RRB database (the database of bank accounts opened via transfer developed by the ZBP in cooperation with the National Clearing House (PL: Krajowa Izba Rozliczeniowa–KIR), and to the banks which did not feed the RRB database with any historical data on the accounts opened by those banks,
- quarterly analyses were conducted regarding the banks' exposure to the risks relating to the information technology and ICT security areas, and the extent to which the banks were prepared to manage those risks properly, on the basis of the results of cyclical questionnaires *Key risk indicators for the IT area and IT security* addressed to banks, as well as on the basis of the results of analyses in the above-mentioned areas; a letter was sent to the banks in order to determine the channel of fast communication with the banks which would be used in particular by the supervisory authority to obtain information in case of ICT security breach at banks (or reasonable grounds for suspecting actual occurrence of such incidents) and the above-mentioned contact database was created,
- a letter was sent to the managers of institutional protection schemes with regard to application of exclusions or interpretation of selected detailed recommendations of the KNF Recommendation D on the *management of information technology and ICT security areas in banks*, by group of banks, taking into account the principle of proportionality,
- the process of monitoring the financial markets in terms of implementation of new products and technological solutions and in terms of ICT security incidents and downtime in e-banking operations was carried out,
- participation in conferences and workshops aimed at presenting detailed supervisory expectations in the area of information technology and ICT security.

## INSPECTION ACTIVITIES AND PROCEEDINGS RELATING TO SUPERVISORY VALIDATION OF INTERNAL APPROACHES TO CALCULATING CAPITAL REQUIREMENTS AND APPLICATIONS FOR PERMISSION TO CALCULATE DELTA USING INTERNAL APPROACHES TO OPTION VALUATION

In 2017, actions in the field of supervisory validation of internal approaches focused on cooperation with banks and with the European Central Bank (hereinafter: 'ECB'), both in 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’<sup>9</sup>) or the Advanced Measurement Approach (hereinafter: the AMA Approach<sup>10</sup>), 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:

- 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 27.6.2013, p. 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 (IRB – 4 banks, AMA – 2 banks).
- ongoing cooperation with the banks and the ECB to the extent relating to the implementation and use of internal approaches.

As a result of its activities, the KNF:

- issued 3 permissions concerning the AMA Approach, including 1 permission to use this approach, 1 permission to introduce a material change and 1 permission to extend the scope of the AMA Approach,
- submitted 5 opinions on the post-application phase in the area of the IRB Approach to the ECB,
- participated in the process of issuing decisions/presenting the position by the ECB in cases arising from the post-application phase, based on the opinions/positions of the KNF sent in 2016 and 2017, including the submission of findings in that regard to domestic banks.

In 2017, the KNF issued 5 permissions for the use of internal option valuation models for calculating delta equivalent.

## 4.2. CREDIT UNIONS (PL: SKOK)

In 2017, 4 inspections relating to the quality of assets and off-balance sheet commitments and credit risk management were carried out in credit unions.

**Table 40. Material irregularities identified during inspection activities at credit unions in 2017 in the area of credit risk management**

Credit risk management	
1.	<p>The assessment of creditworthiness which does not ensure reliable credit risk identification and is contrary to Article 36(2) of the <i>Act on credit unions</i> (Journal of Laws of 2017, item 2065, as amended; hereinafter: ‘Act on credit unions’) in conjunction with Article 70(2) of the Banking Act, in particular due to the following reasons:</p> <ul style="list-style-type: none"> <li>– failure to take into account all financial obligations of the client,</li> <li>– failure to assess creditworthiness when deciding to change the credit terms,</li> <li>– taking into account the household maintenance costs below the subsistence level,</li> <li>– failure to link household maintenance costs with the number of people in the household and financially dependent on the applicant, and failure to take into account costs of the persons running the household together with the borrower/debtor,</li> <li>– insufficient buffer for the impact of interest rate risk on the amount of capital and interest instalments,</li> </ul>

<sup>9</sup> Internal Ratings Based Approach (credit risk).

<sup>10</sup> Advanced Measurement Approach (operational risk).

	<ul style="list-style-type: none"> <li>– lack of analysis of borrowers' financial standing in case of a momentary loan renewal,</li> <li>– no obligation to assess the credibility or creditworthiness of the borrower's spouse when agreeing to take out a loan and at the same time acting as guarantor,</li> <li>– determining income on the basis of a statement,</li> <li>– DTI being too high for persons receiving income from pensions or other sources exceeding the average salary.</li> </ul>
2.	<p>Incorrect rules for creating revaluation write-offs due to:</p> <ul style="list-style-type: none"> <li>– wrong definition of 'new agreements' changing the terms of repayment of original credit/loan agreements,</li> <li>– lack of the principles of monitoring the economic and financial situation of a natural person not engaged in economic activity, and lack of a catalogue of symptoms suggesting financial problems of the debtor,</li> <li>– failure to determine the rules for classifying loans covered by settlements.</li> </ul>
	<p>Irregularities relating to the classification of receivables due to:</p> <ul style="list-style-type: none"> <li>– failure to classify loans and credits covered by the restructuring process into the category of overdue receivables,</li> <li>– taking into account the timeliness of the service counted since the last (instead of the first) change of the credit terms,</li> <li>– incorrect classification of receivables to a lower risk category according to the criterion of timeliness of repayment,</li> <li>– taking into account only the criterion of timeliness of debt repayment, i.e. without the qualitative criterion</li> </ul>
3.	<p>Incorrectly diminished basis for creating legal write-offs for loan repayment collaterals due to:</p> <ul style="list-style-type: none"> <li>– failure to assess and verify the value of real property resulting from the valuation report made by external evaluators,</li> <li>– lack of provisions in procedures concerning significant decrease in the value of real property as a result of market price decrease,</li> <li>– lack of rules for assessing the value of collateral on real property in terms of the amount obtainable during potential debt collection proceedings.</li> </ul>
4.	<p>Material irregularities relating to the process of debt restructuring, i.e.:</p> <ul style="list-style-type: none"> <li>– no definition of restructuring,</li> <li>– failure to assess the creditworthiness of persons subject to restructuring,</li> <li>– failure to assess creditworthiness of the borrower and the guarantor in the case of a change in the terms of loan repayment,</li> <li>– incorrect assessment of creditworthiness in the restructuring process,</li> <li>– possibility to change the credit conditions without the need for the guarantor's permission in the case of renegotiation of credit agreements,</li> <li>– unreasonable extension of time limits for loan repayment,</li> <li>– failure to review structured loans, including settlements, in terms of correctness of the classification of loans and their valuation.</li> </ul>
5.	<p>Reservations as to the risk management resulting from capital involvement in companies (that has a significant impact on the economic and financial situation of SKOKs), in particular with respect to anticipated projected flows and valuation parameters, i.e.:</p> <ul style="list-style-type: none"> <li>– the <math>\beta</math>-factor is too low,</li> <li>– over-optimistic forecasts of cash flows from operations, taking into account the growth of revenues in the subsequent years covered by the forecast, despite significant deviations in the implementation of the existing financial forecasts,</li> <li>– identified encumbrances on the residual value due to the risk of failure to execute flows and changes in valuation parameters, e.g. the discount rate.</li> </ul>

Source: KNF's own calculations

## OTHER SUPERVISORY ACTIVITIES RELATING TO THE SECTOR OF CREDIT UNIONS

On 30 August 2016, the KNF issued Recommendation D-SKOK concerning the management of information technology and ICT security areas (hereinafter: 'Recommendation D-SKOK'), addressed to the sector of credit unions.

The recommendation constitutes a set of good practices in the area of prudent and stable management of information technology and ICT security areas, in particular the risks relating to those areas. The need to issue the Recommendation resulted from a significant technological development and increased importance of information technology for the activities of credit unions, as well as from the emergence of new threats in that area.

Considering the deadline indicated in Recommendation D-SKOK, i.e. by 31 December 2018, the KNF asked SKOKs to provide the schedule and status of the activities relating to the implementation of Recommendation D-SKOK, taking into account the analysis of the gap between the current state of information technology and the security of the ICT environment, in particular entities, and the status resulting from the provisions of Recommendation D-SKOK. At the same time, its letter to the Management Board of the National Association of Credit Unions (PL: Krajowa Spółdzielcza Kasa Oszczędnościowo-Kredytowa), the KNF formulated the expectations regarding support for the process of implementation of the said recommendation in particular cash registers by the National Association of Credit Unions.

The above-mentioned materials, i.e. the schedules and progress of work relating to the implementation of Recommendation D-SKOK and the completed forms for gap analysis, have been submitted to the KNF and are the subject of an in-depth analysis to determine the progress of activities relating to the implementation of the Recommendation D-SKOK standards.

### 4.3. PAYMENT INSTITUTIONS AND PAYMENT SERVICE OFFICES

In 2017, 5 inspections were carried out in domestic payment institutions to test the quality of the governance system (including the risk management and internal control system). Among others, the following irregularities (which concerned individual entities to a varying extent) were identified in the controlled entities – divided into specific areas of inspection:

**Table 41. Material irregularities identified during inspection activities at domestic payment institutions in 2017 in the area of the governance system**

Governance	
1.	Irregularities concerning the organisation of the management process, reflected in the lack of separation of control, management and operational functions.
2.	Failure to regulate the strategic planning process, monitor implementation of the strategy and its reviews, and to specify persons/units responsible for the above-mentioned processes.
3.	Lack of a comprehensive regulation of the management information system, i.e. failure to specify all types of reports covering the entire area of operations along with an indication of the scope and frequency of submitting reports and their recipients.
4.	Lack of a formalised process of introducing and making amendments to the internal regulations and the mode of awarding the rank of internal documents .
5.	Lack of internal regulations for correcting reporting data in the case where errors are identified.
6.	Incorrect classification of payment transactions in the reports sent to the KNF.
7.	No identification of key employees and no preparation of a reserve personnel list.
8.	Failure to adjust internal regulations to the requirements of the <i>Act on handling complaints by financial market entities and on the Financial Ombudsman</i> (Journal of Laws of 2017, item 2270).

Source: KNF's own calculations

**Table 42. Material irregularities identified during inspection activities at domestic payment institutions in 2017 in the area of risk management system**

Risk management system	
1.	Failure to carry out periodic reviews of the risk management process.
2.	Lack of a risk map containing all identified risks and their levels, existing prevention measures and risk owners.
3.	Failure to regulate the process of determining and updating internal limits in the area of payment services provided, failure to establish limits for certain material risks.



4.	Failure to keep records of operational incidents and events, failure to define internal rules for reporting events relating to disruption of operating activities.
5.	Reservations as to the security policy regarding missing records specifying the principles of data recovery from back-up copies and the procedure to be followed in case of failure of IT systems processing personal data.
6.	Failure to perform business continuity plan and stress tests.
7.	Lack of a formalised process of introducing new products and project management.
8.	Failure to identify certain activities entrusted to external entities as crucial operating activities.

Source: KNF's own calculations

**Table 43. Material irregularities identified during inspection activities at domestic payment institutions in 2017 in the area of the internal control system**

Internal control system	
1.	Failure to adjust the internal control system to the scale and size of the operations conducted.
2.	Failure to set up an internal inspection unit within the organisational structure.
3.	No verification and periodic assessment of the functioning of the internal control system.
4.	Failure to apply internal control to the issues which are relevant to the operations of the entity, in particular concerning the functioning of the management information system, the fulfilment of capital requirements and the effectiveness of the risk identification and management methodology.
5.	Lack of rules for preparation of internal audit plans, rules for documenting the audit process and reporting related results to the management board and the supervisory board.
6.	Lack of internal audits with respect to: assessment of compliance of the business with the <i>Act on payment services</i> (Journal of Laws of 2016, item 1997, as amended), correctness of accounting books and of IT security.

Source: KNF's own calculations

## 4.4. INSURANCE SECTOR ENTITIES

### INSPECTION ACTIVITIES AT INSURANCE UNDERTAKINGS

In 2017, inspection activities were carried out at 23 insurance undertakings. As regards insurance undertakings, 14 inspections and 11 supervisory visits were carried out as part of the inspection activities: at one non-life insurance undertaking both inspection and supervisory visit were carried out, and in the other life insurance undertaking 2 supervisory visits were conducted. In total, inspection activities were carried out in 11 life insurance undertakings (5 inspections and 8 supervisory visits) and in 12 non-life insurance undertakings (9 inspections and 3 supervisory visits). All inspections were targeted and covered between 1 and 3 issues.

The inspection activities in 2017 were carried out in the following areas:

- the management of the insurance undertaking,
- claims settlement/payment of benefits,
- valuation of technical provisions for solvency purposes,
- valuation of assets and liabilities for solvency purposes,
- compliance with the management system requirements,
- 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,
- performance of insurance contracts by an insurance undertaking,
- acquisition costs.

In 2017, inspection activities relating to the verification of implementation of the Guidelines for the settlement of claims of motor vehicle insurance, which were adopted by the Polish Financial Supervision Authority on 16 December 2014, were continued.

**Table 44. The most common irregularities identified during inspection activities in the insurance sector entities in 2017**

1.	Irregularities in the functioning of the management system in terms of effective communication.
2.	Insufficient operational risk management under the management system, in particular the ICT environment security risk.
3.	Incorrect implementation of activities in the process of settlement of claims under contracts of motor third party liability insurance (late payment/refusal to pay compensation, violation of disclosure requirements).
4.	Violation of the interests of persons entitled under contracts of insurance against civil liability by failure to: provide the authorised persons with repair cost calculation, the value the vehicle prior to the damage, the salvage value, or the value of the vehicle after the event, to justify the correction used in the valuation of the vehicle and the amount of the correction, to justify the use and the amount of the credit correction in the repair cost calculation, to provide information on the quality of parts taken into account in the repair cost calculation, to provide an individualised justification for the decision to take into account the value of parts of a lower quality than O or Q in the repair cost calculation, or to justify corrections made in the pre-repair cost estimate.
5.	Violation of the interests of persons entitled under contracts of insurance against civil liability by failing to inform them about the rules for refunding the cost of renting a replacement vehicle.
6.	Violation of the interests of insured persons by failing to inform them about a change in the rules for calculating the surrender value and, consequently, unequal treatment of insured persons.
7.	Violation of the interests of persons entitled under contracts of insurance against civil liability by failing to provide an individualised justification for the decision to take into account the value of parts of a lower quality than O or Q in the repair cost estimates.
8.	Violation of the principle of full compensation and underestimation of claims due to the policyholder.
9.	Infringement of the interests of policyholders by conducting business in breach of unit-linked insurance contracts with respect to payment of the surrender value (payment of the surrender value after the date specified in the insurance contract, use for determining the surrender value of a unit price other than the one resulting from the insurance contract).
10.	Irregularities relating to the documentation of the process of determining technical provisions for solvency purposes as regards: the choice and application of valuation methods, the choice of assumptions used for valuation, and the collection and evaluation of the quality of data used for valuation.
11.	Irregularities in actuarial risk management through the use of inappropriate methods and assumptions in the valuation of technical provisions for solvency purposes.
12.	Errors in the implementation of the calculation formulas for the valuation of technical provisions for solvency purposes.
13.	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.
14.	Lack of fair value measurement of assets and liabilities for solvency purposes.
15.	Applying inappropriate methods and assumptions to the valuation of assets and liabilities for solvency purposes.
16.	Irregularities in the documentation describing the accounting policies adopted (incomplete, inconsistent documentation).

Source: KNF's own calculations

In 2017, 22 inspected insurance undertakings received a total of 88 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 or persons entitled under insurance contracts.

## INSPECTIONS AT INSURANCE UNDERTAKINGS IN THE AREA OF USING THE SERVICES OF INSURANCE AGENTS

13 inspections were carried out in insurance undertakings in 2017 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.

In 7 cases – as at 31 December 2017 – the finalisation of the inspection reports was ongoing.

## INSPECTION ACTIVITIES AT ENTITIES CONDUCTING BROKERAGE ACTIVITIES

In 2017, 14 inspections were carried out at the place of the brokerage business. Irregularities were identified in 10 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 is consistent with the law and the authorisation granted, in particular the inspection covered:

- 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 activity in breach of Article 22(1), Article 23(1), Article 24(1) point 1 in conjunction with Article 24(5) and Article 26(1) point 2 of the Act on insurance mediation,
- 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),
- non-compliance of the agreements on mutual settlement on account of conducting brokerage with the provisions of law,

## 4.5. PENSION SECTOR ENTITIES

In 2017, inspection activities were carried out at 7 entities of the pension sector, 6 inspections were carried out at general pension societies and pension funds managed by them, and one inspection took place at the depository bank regarding the safekeeping of pension funds' assets.

All inspections were focused on a specific issue.

The inspection activities focused on the following areas of activity of the general pension societies and the pension funds they manage:

- management and organisation,
- outsourcing of certain activities to third parties,
- the recovery of taxes or their income earned by pension funds abroad,
- updating the data of the members of the fund, updating the data of the beneficiaries of the fund,
- payments made by the fund to beneficiaries in the event of death of a member of the fund,
- the distribution of funds and payments on account of dissolution of marriage or a change in the property regime between a member of the fund and the spouse, and payments in respect of dissolution of marriage,
- managing the risk of professional secrecy disclosure,
- valuation and management of valuation risk (valuation using models),
- reporting the irregularities detected – prior to the inspection.

**Table 45. The most common irregularities identified during inspection activities at the pension sector entities in 2017**

The areas of irregularities notified to pension societies in 2017	
1.	Breach of professional secrecy.
2.	Breach of information obligations towards members of pension funds.
3.	Breach of information obligations towards the Polish Financial Supervision Authority.
4.	Infringement of the principles of documenting investment decisions.

Source: KNF's own calculations

#### 4.6. ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM (AML/CFT)

In 2017, inspection activities in the area of anti-money laundering and combating the financing of terrorism (hereinafter: 'AML/CFT') pursuant to the Act of 16 November 2000 *on anti-money laundering and combating the financing of terrorism* (consolidated text in: Journal of Laws of 2017, item 1049 hereinafter: 'the AML/CFT Act') were carried out in KNF-supervised entities, i.e. the entities from the following sectors: banking, capital, insurance (life insurance) and cooperative savings and credit unions, domestic payment institutions and branches of credit institutions. Compliance with the provisions of the AML/CFT Act was checked as part of comprehensive studies (assessment according to all provisions of the AML/CFT Act) and targeted studies (implementation of KNF recommendations, clarification of doubts arising from banks' responses to the annual questionnaire regarding the risk assessment of money laundering and terrorist financing or clarification of issues raised in a written request by the General Inspector of Financial Information (hereinafter: 'GIFI') to conduct inspections at selected banks, which indicated that transfers received from abroad were incorrectly registered).

**Table 46. Inspection activities carried out by the KNF Office in the supervised entities in 2017 in the area of anti-money laundering and combating the financing of terrorism**

Inspection activities at individual entities	Number
Commercial banks	9
Cooperative banks	23
Brokerage houses /firms	3
Investment fund management companies	3

Life insurance undertakings	2
SKOK	5
Domestic payment institutions	1
Branches of credit unions	4
<b>Total</b>	<b>50</b>

Source: KNF's own calculations

Almost all the inspections revealed irregularities and weaknesses in the institutions' processes relating to the AML/CFT. Most irregularities were found in the area of risk assessment of money laundering and terrorist financing. Other areas where a relatively large number of irregularities were found were the transaction registration process and the organisation of the AML/CFT process.

The most common irregularities found in all sectors of the financial market are presented in Table 47.

**Table 47. The most common irregularities and infringements identified during the 2017 inspections in the area of AML/CFT**

<b>Anti-money laundering and combating the financing of terrorism</b>	
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"> <li>– incorrect assessment of money laundering risk resulting in failure to apply enhanced client due diligence measures,</li> <li>– incorrect parameterisation of the risk assessment matrix resulting in incorrect assignment of clients to the relevant money laundering risk categories,</li> <li>– failure to identify or incorrect identification of the beneficial owner,</li> <li>– failure to update or delays in updating documents and information held and the verification of the customer's risk assessment,</li> <li>– failure to verify whether a customer is a politically exposed person (PEP status),</li> <li>– irregularities in customers' documentation,</li> <li>– informing the client about the fact that the GIFI has been notified of the suspicion of money laundering.</li> </ul>
2.	<p>Irregularities in the process of recording transactions:</p> <ul style="list-style-type: none"> <li>– failure to record transactions,</li> <li>– delays in recording transactions,</li> <li>– incomplete or incorrect recording of data in a transaction log,</li> <li>– incorrect methodology or practice to identify 'related' transactions (i.e. those carried out in more than one operation, whose circumstances indicate that the operations are related and split into activities of a lower value to avoid the obligation to register).</li> </ul>
3.	<p>Irregularities in the organisation of the anti-money laundering and terrorist financing process:</p> <ul style="list-style-type: none"> <li>– insufficient scope, quality and/or frequency of management information,</li> <li>– no replacement of persons responsible for AML/CFT,</li> <li>– infringement of the principle of separation of the operational and supervisory functions,</li> <li>– insufficient or under-utilised IT resources,</li> <li>– no formal assignment of tasks and responsibilities,</li> <li>– lack of information flow between individual organisational units.</li> </ul>
4.	<p>Irregularities in internal procedures, including:</p> <ul style="list-style-type: none"> <li>– failure to take into account the provisions (in force since 26 June 2017) of Regulation (EU) 2015/847 of the European Parliament and of the Council of 20 May 2015 on information accompanying transfers of funds and repealing Regulation (EC) No 1781/2006 (OJ L 141/1 of 5.6.2015),</li> <li>– failure to comply with the letter of the Chairman of the KNF of 22 September 2016 (Ref. No DIB/WPP/075/3/1/2016/PJa) containing remarks on cooperative banks' AML/CFT procedures,</li> <li>– failure to adjust the list of high-risk industries to the GIFI guidelines and market practice,</li> </ul>

	<ul style="list-style-type: none"> <li>– failure to adjust the list of high-risk countries to the communications of the Financial Action Task Force,</li> <li>– failure to comply with the GIFI Communication of 3 June 2015 on the beneficial owner,</li> <li>– failure to indicate the obligation to verify all customers after each change in the sanction lists,</li> <li>– lack of requirement to train staff after a material change in the provisions of law,</li> <li>– failure to adjust internal regulations to the practice applied,</li> <li>– failure to adjust regulations to the entity's activities and organisational capacity (adoption of group benchmark regulations without adjusting them).</li> </ul>
5.	<p>Irregularities in the analysis of transactions:</p> <ul style="list-style-type: none"> <li>– failure to perform an ongoing analysis of all transactions,</li> <li>– errors in the algorithms used in the transaction analysis process,</li> <li>– failure to perform analysis on time,</li> <li>– quantitative and qualitative irregularities in the process of performing and documenting transaction analyses.</li> </ul>
6.	<p>Irregularities in the submission of information to the GIFI:</p> <ul style="list-style-type: none"> <li>– late submission of information on registered transactions to the GIFI,</li> <li>– insufficient number of electronic certificates authorising the transfer of information on transactions to the GIFI,</li> <li>– failure to respond to GIFI inquiries in a timely manner,</li> <li>– insufficient documentation of the verification of the customer base in relation to GIFI inquiries,</li> <li>– lack of or incorrect legal bases for notification of suspicious transactions to the GIFI,</li> <li>– inconsistency of data on the number of notifications of suspicious transactions addressed to the GIFI with information submitted to the KNF Office on a quarterly basis.</li> </ul>
7.	<p>Irregularities in employee training:</p> <ul style="list-style-type: none"> <li>– failure to fulfil the training obligation,</li> <li>– training for newly recruited staff provided late, i.e. after the staff member has taken up his operational duties,</li> <li>– incorrect documentation of the fulfilment of the training obligation,</li> <li>– low effectiveness of the training system.</li> </ul>
8.	<p>Irregularities in the internal inspection system:</p> <ul style="list-style-type: none"> <li>– functional and institutional internal inspection performed ineffectively,</li> <li>– not all relevant areas covered by the scope of inspection,</li> <li>– the frequency of inspections is too low,</li> <li>– incorrect sampling,</li> <li>– failure to monitor the implementation of post-inspection recommendations,</li> <li>– insufficient documentation of inspection results.</li> </ul>
9.	<p>Irregularities in the storage and archiving of documents were connected with the storage of data in the register of transactions for a period exceeding the period specified in the AML/CFT Act (Article 8(4) of the Act), i.e. for a period exceeding 5 years starting from the first day of the year following the year in which the transactions were registered.</p>
10.	<p>Irregularities identified in the information accompanying money transfers:</p> <ul style="list-style-type: none"> <li>– failure to adjust the regulatory and organisational aspects to Regulation (EU) 2015/847 of the European Parliament and of the Council of 20 May 2015 on information accompanying transfers of funds and repealing Regulation (EC) No 1781/2006 (OJ L 141/1 of 5.6.2015),</li> <li>– failure to confirm, on the back of the transfer document, that correct verification of the customer has been carried out, which constituted a breach of the applicable internal regulation.</li> </ul>
11.	<p>Irregularities identified in the area of suspending transactions, blocking accounts and freezing assets:</p> <ul style="list-style-type: none"> <li>– excessively long suspension period (not in line with the ML/CFT Act),</li> <li>– incorrect compliance of customer base verification against sanction lists.</li> </ul>

Source: KNF's own calculations

In order to eliminate the irregularities, the KNF issued to the supervised institutions post-inspection recommendations in the areas in question. In addition, if material or numerous irregularities were identified, the KNF 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 inspection 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. During the inspection, the KNF employees also verified the manner in which the post-inspection recommendations had been implemented.

Furthermore, 3 inspections were carried out at the representative offices of foreign banks and credit institutions. The inspections in question were carried out with regard to compliance with the conditions set out in the KNF authorisation to operate as a representative office in the Republic of Poland. One of the inspected representative offices revealed a lack of separate accounting in Polish, which is inconsistent with Article 100(2) of the Act of 2 July 2004 on the freedom of economic activity (Journal of Laws of 2016, item 1829, as amended).

## 5. BANKING SUPERVISION

### 5.1. BANKS AND BRANCHES OF CREDIT INSTITUTIONS

#### PRUDENTIAL SUPERVISION OF DOMESTIC BANKS

The supervisory activities undertaken by the KNF in 2017 consisted in the ongoing monitoring and quarterly analysis of the economic and financial standing of banks (assessment for Q4 2016 and three quarters of 2017). On that basis, quarterly bank ratings were assigned in the KOBRA system. In 2017, all commercial banks were assessed. 132 quarterly analyses of commercial banks were prepared. In 2017, the process of cyclical review and supervisory assessment of cooperative and affiliating banks continued. 2 227 quarterly analyses of cooperative banks and 8 quarterly analyses of affiliating banks were prepared.

In addition to the quarterly assessment, banks are subject to analysis 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)'.

Moreover, 120 quarterly analyses of branches of credit institutions were prepared (assessment for Q4 2016 and three quarters of 2017).

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 the information was passed to the organisational units of the KNF Office 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 analysis 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,
- 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 2017, the following studies on the banking sector were presented at the KNF's meetings:

- Report on the standing of banks in 2016,
- Information on the standing of banks in the first quarter of 2017,
- Report on the standing of banks in the first half of 2017,
- Information on the standing of banks between January and September 2017,
- Information on the standing of cooperative and affiliating banks in 2016,
- Information on the standing of cooperative and affiliating banks in the first quarter of 2017,
- Information on the standing of cooperative and affiliating banks in the first half of 2017.

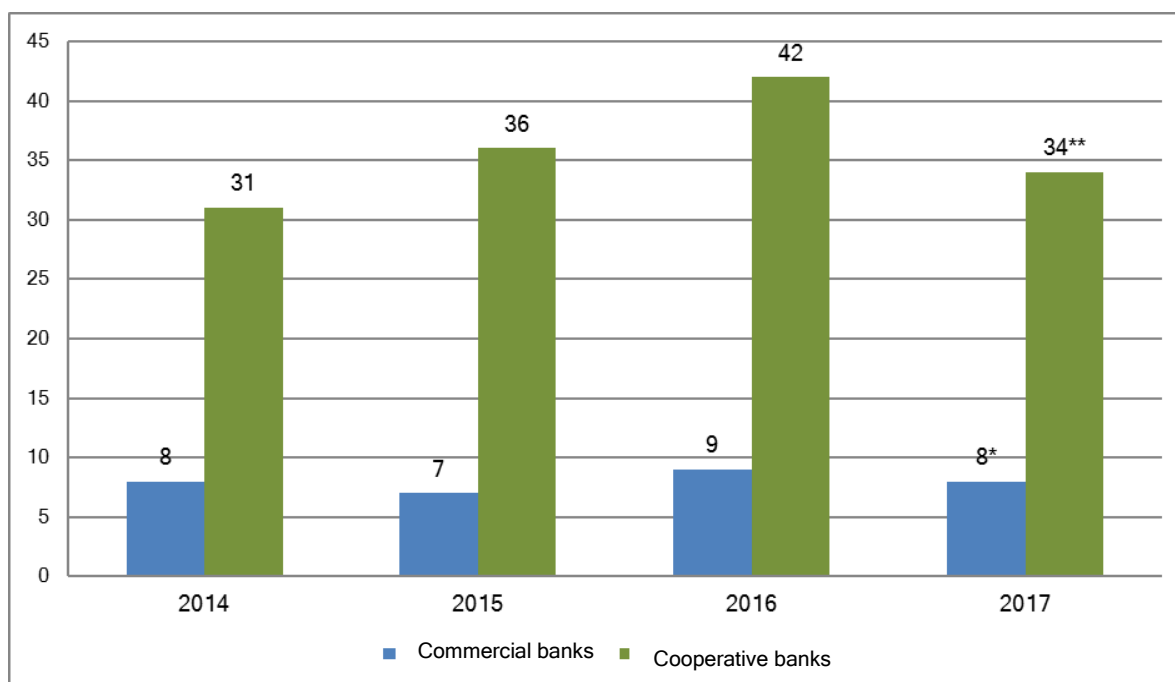
## SUPERVISION OF BANKS SUBJECT TO REHABILITATION PROCEEDINGS

In 2017, 7 commercial banks were subject to rehabilitation proceedings. At the beginning of 2017, 42 cooperative banks and one affiliating bank were subject to rehabilitation proceedings. However, at the end of 2017, 34 cooperative banks and one affiliating bank were subject to rehabilitation proceedings, and with respect to some of them the system of recovery plans was implemented.

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

**Diagram 17. The number of commercial and cooperative banks subject to rehabilitation proceedings in the years 2014-2017**



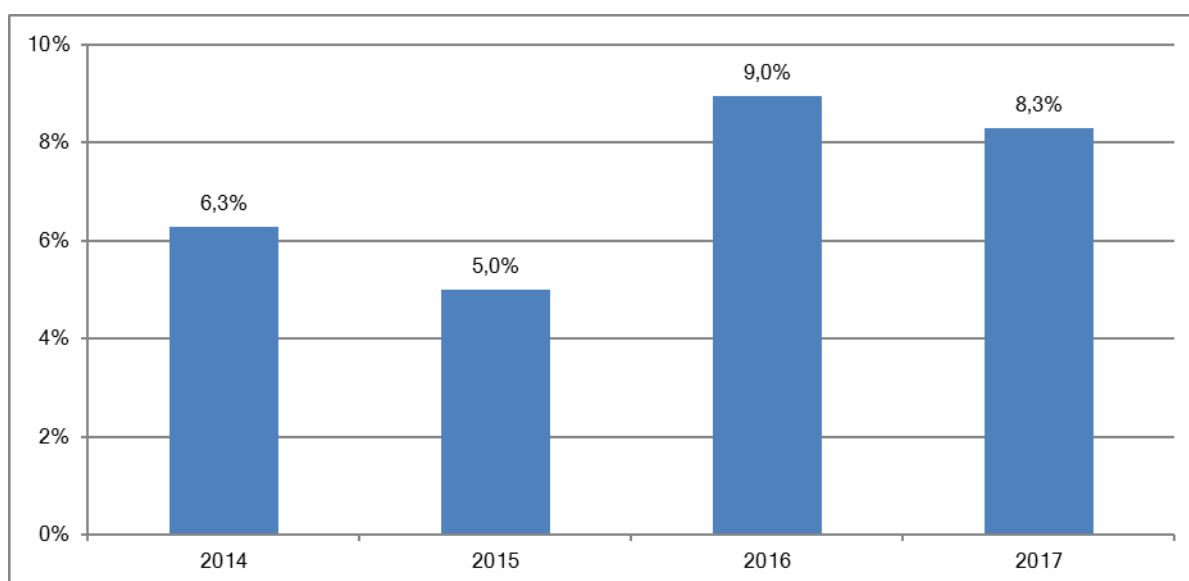


Source: KNF's own calculations

\*including one affiliating bank

\*\* some banks were subject to recovery plans

**Diagram 18. Share of assets of commercial and cooperative banks subject to rehabilitation proceedings in the banking sector assets (in %) in the years 2014-2017**



Source: KNF's own calculations

The share of assets of cooperative banks subject to a rehabilitation plan in the banking sector assets was 0.6% at the end of 2017.

## DECISIONS ON SUBORDINATED DEBT

In 2017, the KNF issued the following decisions in individual cases relating to:

- inclusion, in the additional funds, of cash from the issue of bonds and subordinated debt (20 decisions),
- early redemption of subordinated bonds (2 decisions),
- early repayment of subordinated debt (1 decision).

## DECISIONS ON OWN FUNDS

Decisions in individual cases were related to:

- inclusion, in the supplementary funds, of cash from the issue of bonds and subordinated debt (20 decisions),
- inclusion of bank's profit for a given period as Tier 1 capital (26 decisions),
- permission to classify liabilities arising from the financial instruments issued by the bank as Tier I capital (4 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 (12 decisions),
- permission to reduce own funds (466 decisions),
- permission to classify shares contributed after 28 June 2013 as Tier I capital (39 decisions).

## DECISIONS CONCERNING MERGER

The KNF authorised the merger of:

- Krakowski Bank Spółdzielczy (the acquiring bank) and Bank Spółdzielczy in Praszka and Bank Spółdzielczy in Mierzęcice (the banks being acquired),
- Gospodarczy Bank Spółdzielczy in Choszczno (the acquiring bank) and Bank Spółdzielczy Rzemiosła in Szczecin (the banks being acquired),
- Bank Spółdzielczy in Jarosław (the acquiring bank) and Bank Spółdzielczy in Roźwienica (the bank being acquired),
- Bank Spółdzielczy in Raciąż (the acquiring bank) and Bank Spółdzielczy in Gąsocin (the bank being acquired),
- Bank Spółdzielczy in Toruń (the acquiring bank) and Bank Spółdzielczy in Chełmno (the bank being acquired).

At the meeting held on 1 August 2017, the KNF gave its consent for Bank Spółdzielczy in Brodnica to conduct its activity outside the affiliation.

## INFORMATION ON THE INSTITUTIONAL PROTECTION SCHEMES (IPSSs)

On 11 April 2017, at the request of the SGB Cooperative Protection Scheme, the KNF agreed to amend the Agreement for the SGB Protection Scheme. The proposed amendments aimed primarily at adapting the provisions of the SGB Protection Scheme Agreement to changes in statutory law, i.e. in the Banking Act, and the Act on the Bank Guarantee Fund, the deposit guarantee scheme and forced restructuring. They also supplement the audit activities conducted by the scheme management unit with the audit of information technology and ICT security of the participants. Modifications have also been made to the scoring system to improve the evaluation of participants. The changes make it possible to improve the audit process and organisational solutions relating to the functioning of the scheme.

Moreover, at the same KNF's meeting, at the request of the Protection Scheme of the BPS Association, the KNF agreed to amend the Agreement for the Protection Scheme of the BPS Association. The proposed amendments cover primarily organisational issues and are aimed mainly at adapting the provisions of the Agreement for the Protection Scheme of the BPS Association to changes in statutory law, i.e. the Act on the Bank Guarantee Fund, the deposit guarantee scheme and forced restructuring, and the Act on the functioning of cooperative banks, their affiliations and affiliating banks. The changes allow for a more efficient functioning of the Protection Scheme of the BPS Association.

## INFORMATION ON THE KNF AUTHORISATION TO ESTABLISH A NEW AFFILIATING BANK

At the request of 56 cooperative banks, the KNF authorised the establishment of an affiliating bank under the business name: Polski Bank Apeksowy SA. At the same time, the KNF approved the draft articles of association submitted by the founders, and the first composition

of the bank's management board. The bank's activity is limited to providing services to affiliated cooperative banks in the form of, among others, financial services for the affiliation, ensuring conditions for maintaining liquidity in the affiliation by all its participants on their own, carrying out settlements, managing the surplus cash of cooperative banks, and legal services.

## STRESS TESTS

In 2017, for the eighth time, the KNF Office 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.

Having received the data, the KNF Office conducted preliminary verification of the data. The verification covered internal consistency of forecasts and their compliance with the methodology, as well as the reality of extrapolated trends. The projected impact of changes in accounting (IFRS 9) on equity and the amount of risk exposure was also verified in detail. In addition, models developed at the KNF Office 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, and good capitalisation and liquidity standing.

## SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

In April 2017, the KNF Office informed banks about the publication of the amended *Methodology of supervisory review and evaluation process of commercial, affiliating and cooperative banks* (hereinafter: '*SREP methodology*') on the KNF website.

As part of the amendment, the provisions of the Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring (hereinafter: '*Act on the BGF*'), which came into force on 9 October 2016, have been included in the supervisory review and evaluation process, e.g.:

- the SREP final rating scale has been extended to include a rating of F (fail), which indicates that a bank is deemed to be failing or likely to fail under Article 101(3) of the Act on the BGF,
- the range of supervisory activities has been enhanced to include early intervention measures that could be applied in the case of actual or potential breach, by the bank, of capital, liquidity and transparency requirements for the trading system as specified in Article 142 (1) of the Banking Act.

At the same time, *the SREP Methodology* has been amended to include provisions of the 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 (in force since 1 May 2017).

The changes in *the SREP Methodology* also include the implementation of requirements resulting from other laws and good supervisory practices, coming into force at the beginning of 2017, including in particular:

- regulatory technical standards concerning the clearing obligation and risk mitigation techniques supplementing the provisions 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,
- the EBA Guidelines on ICAAP and ILAAP information collected for the purposes of the Supervisory Review and Evaluation Process (SREP) of October 2016 (hereinafter: Guidelines on ICAAP/ILAAP information).

The amendment to the SREP Methodology also took into account the provisions of Resolution No 14/2017 of the Financial Stability Committee of 13 January 2017 on the recommendation on the restructuring of FX housing loans portfolio (hereinafter: Resolution No 14/2017 of the Financial Stability Committee), pursuant to which:

- a definition of risk of collective non-performance of obligations by borrowers has been introduced,
- an appendix to the SREP Methodology was drawn up, describing a framework for calculation of capital requirements under Pillar II for FX housing loans, taking into account recommendations 2 item 1 of the above-mentioned Resolution,
- the scope of risks taken into account during SREP so far has been expanded to include risks indicated in the above-mentioned Resolution No 14/2017 of the Financial Stability Committee (the risks are now included in Chapter II.3.3.2 'Foreign currency lending risk').

In 2017, commercial banks were given 30 SREP ratings, while cooperative banks were given 445 SREP ratings.

The SREP conducted by the KNF Office 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 rating 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.

## 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 bankruptcy of the bank 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.

2017 was the first year in which banks submitted their recovery plans for approval by the Polish Financial Supervision Authority by way of an administrative decision, in accordance with Article 141q of the Banking Act. In 2017, 11 recovery plans were approved.

## MONITORING OF BANKS' COMPLIANCE WITH APPLICABLE REGULATIONS

The KNF Office carries out regular off-site monitoring of the financial situation of banks, including the liquidity and capital situation. In 2017, 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.

## ANALYSES CARRIED OUT TO ADDRESS THE ISSUE OF INDEXED LOANS AND LOANS DENOMINATED IN FOREIGN CURRENCIES

The KNF Office carried out a number of expert analyses concerning the situation of banks holding portfolios of indexed loans and loans denominated in foreign currencies, especially in Swiss franc. At the request of the Committee on Public Finance of the Sejm of the Republic of Poland, the proposals for systemic solutions to the problem of such loans made in previous years were reviewed. The year 2017 also brought a new concept of support for the debtors in foreign currencies, consisting in the creation of a sub-fund with the Borrowers' Support Fund

functioning since 2016. The relevant draft law submitted by the Chancellery of the President of the Republic of Poland was also the subject of analyses and opinions of KNF Office. The analyses focused on the calculation of the financial effects of individual proposals of legislative changes, taking into account the impact of such regulations on the capital position, profits and solvency of individual banks and the entire banking sector.

## DIVIDEND POLICY AND ADDITIONAL CAPITAL REQUIREMENT

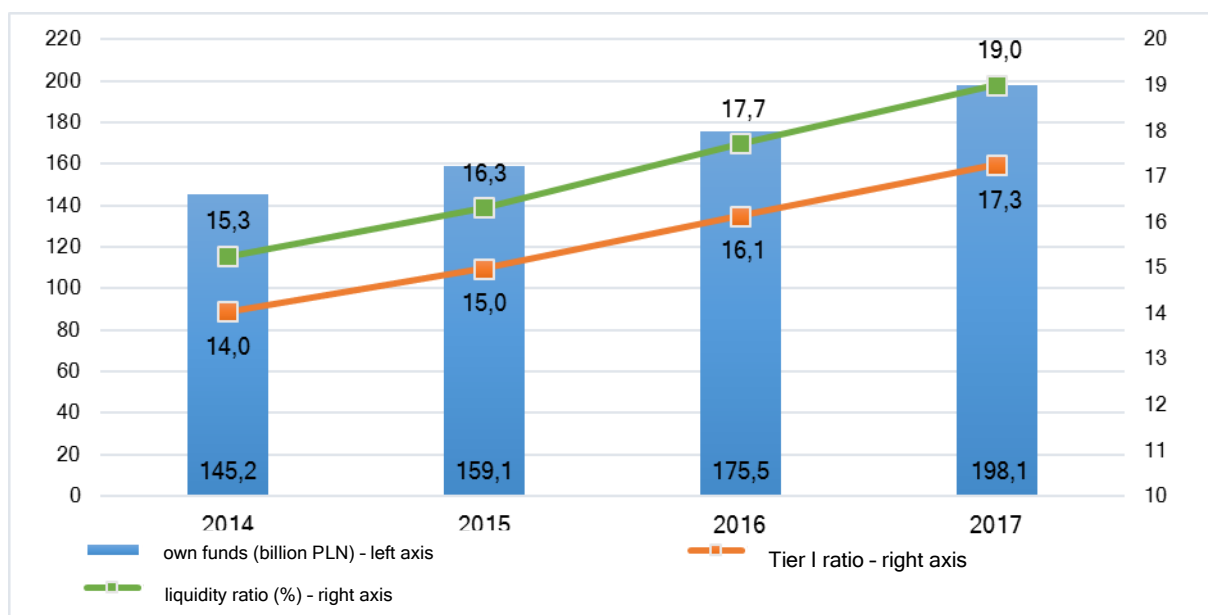
In order to maintain capital adequacy at a level deemed safe, once again the supervisory authority recommended that banks should limit the payment of dividends. The result of the current dividend policy of the KNF Office is a stable and high solvency ratio of the sector at 19.00% at the end of 2017 (17.72% at the end of 2016).

When determining the criteria of the dividend policy for 2018, the KNF was guided by the recommendations of the European Central Bank (ECB) of 13 December 2016 regarding the rules of dividend distribution and the dividend policy for 2017, which included additional criteria for banks with significant exposure to foreign currency loans. Three thresholds have been defined to determine the maximum value of dividend from the 2017 profit that may be distributed by banks, i.e.: 50%, 75%, and 100%. The amount of potential dividend depends on the bank's capital ratios, SREP rating, 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 this end, in 2017, the KNF issued recommendations setting additional capital requirements for 15 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. In accordance with the recommendations in the KNF Resolution No 14/2017, 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.

### **Diagram 19. Own funds and capital adequacy of the domestic banking sector in the years 2014-2017**



Source: KNF's own calculations

## IDENTIFICATION OF OTHER SYSTEMICALLY IMPORTANT INSTITUTIONS (O-SIIs)

Under the Act of 5 August 2015 on macro-prudential supervision,<sup>11</sup> the Polish Financial Supervision Authority 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 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.

After making the necessary calculations and the proper proceedings, by way of administrative decision adopted on 4 October 2016, the KNF identified 12 banks as other systemically important institutions and set the buffers of other systemically important institutions for them.

In 2017, under the said Act, the KNF reviewed the adequacy of the buffer rate of an OSII. Following the review and taking into account the opinion of the Financial Stability Committee, by its decisions of 19 December 2017 the KNF confirmed the identification of eleven banks as OSIIs and qualified one additional bank to that group. On that basis, the KNF also decided to set appropriate capital buffers.

## 5.2. CREDIT UNIONS (PL: SKOK)

As at end of 2017, 24 unions were subject to rehabilitation proceedings. In 2017, the KNF decided to on the take-over of two credit unions by banks pursuant to the Act of 5 November 2009 on cooperative savings and credit unions. Lubuska Spółdzielcza Kasa Oszczędnościowo-Kredytowa in Zielona Góra (Lubuska SKOK) was taken over by Bank Spółdzielczy in Wschowa. Whereas Bieszczadzka Spółdzielcza Kasa Oszczędnościowo-Kredytowa in Sanok (Bieszczadzka SKOK) was taken over by ING Bank Śląski S.A.

<sup>11</sup> 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).

The KNF established two receivers at credit unions:

- as of 28 June 2017, a receiver at Spółdzielcza Kasa Oszczędnościowo-Kredytowa Piast (SKOK Piast),
- as of 14 June 2017, a receiver at Spółdzielcza Kasa Oszczędnościowo-Kredytowa Rafineria w Gdańsku (SKOK Rafineria)

In addition to managing the day-to-day activities of the credit unions, the receivers held talks with the owners (members of the unions) and potential investors with a view to developing a restructuring model for these institutions that would be appropriate for the financial situation identified.

The Polish Financial Supervision Authority suspended the activities and filed for bankruptcy of the following unions:

- Wielkopolska SKOK,
- Twoja SKOK,
- SKOK Nike,
- SKOK Wybrzeże.

In 2017, the competent courts, having considered the KNF's applications, declared bankruptcy of three credit unions:

- On 21 November 2017, the District Court (PL: sąd rejonowy) for Gdańsk-Północ in Gdańsk, the 6th Commercial Division, issued a decision on declaring bankruptcy of the 'Wybrzeże' credit union. (SKOK Wybrzeże) – Case File No VI GU 596/17,
- On 3 July 2017, the District Court for the capital city of Warsaw in Warsaw, the 10th Commercial Division for Bankruptcy and Restructuring issued a decision on declaring bankruptcy of the 'Nike' credit union (SKOK Nike) – Case File No X GU 1010/17,
- On 19 June 2017, the District Court in Opole issued a decision on declaring bankruptcy of the credit union 'Twoja' in Kędzierzyn-Koźle (Twoja SKOK) – Case File No VGU 75/17.

In 2017, the Polish Financial Supervision Authority took cognisance of three periodic reports on the standing of the credit unions sector: Information on the standing of credit unions in 2016, in the first quarter of 2017, the first half of 2017. In 2017, the KNF also took cognisance of two semi-annual reports on the standing of the unions obliged to implement rehabilitation plans.

### 5.3. DOMESTIC PAYMENT INSTITUTIONS AND DOMESTIC ELECTRONIC MONEY INSTITUTIONS

The activities in the area of payment services carried out by domestic payment institutions (PL: KIP) and payment service offices (PL: BUP) is supervised by the KNF 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 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 of the payment service market (users of the money transfer service).

**Table 48. Breakdown of own funds of domestic payment institutions (KIPs) (in PLN thousand)**

Item	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
<b>Own funds, including:</b>	596.1	616.3	816.1	870.1	804.2
– initial capital	512.7	516.3	798.0	754.9	717.1
– revaluation capital	3.7	3.9	-67.5	0.0	6.3
– retained earnings	31.1	31.0	30.7	51.9	43.9
– profit during approval and net profit of the current reporting period	48.6	65.1	54.9	63.6	36.7
<b>Deductions of own funds:</b>	197.6	203.2	229.6	251.7	333.1
– own shares held by a payment institution, valued at the carrying amount, less any revaluation write-off	0.0	0.1	0.6	0.6	144.8
– all liabilities resulting from the issue of preference shares	0.0	0.0	0.0	0.0	0.00
– intangible assets valued at the carrying value	87.1	87.5	98.9	103.1	90.8
– loss from previous years	99.4	99.8	108.6	131.2	78.4
– loss during approval	0.0	6.4	14.4	24.9	0.00
– net loss of the current period	11.0	9.3	7.0	16.7	19.2
<b>Own funds (after deductions)</b>	398.5	413.1	586.5	618.5	471.2

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 2017, domestic payment institutions providing only money transfer services (Group C) executed 3.6% of all payment transactions (11.2 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, executed 2.4% (7.5 million transactions) in that period.

The vast majority of payment transactions, i.e. 94% (291.4 million transactions), were executed 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 49. The number of transactions (in million) executed by domestic payment institutions**

KIP	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
GROUP A	201.1	243.4	248.5	276.7	291.4
GROUP B	7.3	7.7	9.2	6.9	7.5
GROUP C	9.7	9.8	10.1	11.9	11.2

Source: KNF's own calculations

**Table 50. The value of transactions (in PLN million) executed by domestic payment institutions**



KIP	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
GROUP A	17 664.4	20 705.3	20 150.25	23 044.8	23 886.5
GROUP B	1 578.7	793.7	2 015.92	643.2	865.1
GROUP C	1 867.6	987.1	2 071.56	2 650 369.6	2 631.3

Source: KNF's own calculations

**Table 51. Fees and commissions (in PLN million) collected by domestic payment institutions**

KIP	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
GROUP A	153.9	172.8	164.5	177.97	180.1
GROUP B	11.7	10.5	13.3	5.9	7.3
GROUP C	22.3	22.9	23.9	28.5	27.6

Source: KNF's own calculations

The average value of a single payment transaction at KIPs in the third quarter of 2017 was PLN 88.3 (PLN 89.1 in the second quarter of 2017, PLN 90.5 in the first quarter of 2017, PLN 93.9 in the fourth quarter of 2016, and PLN 96.8 in the third quarter of 2016).

**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 Q1 2017, 1 184 payment service offices (89.7%) out of 1 320 entities subject to that obligation submitted reporting information to the KNF; for Q2 2017, 1 247 payment service offices (97.4%) out of 1 280 entities subject to that obligation submitted reporting information to the KNF; and for Q3 2017, 1 187 payment service offices (97.7%) out of 1 295 entities subject to that obligation submitted reporting information to the KNF.

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

- in Q1 2017: 10.4 million money transfers with a total value of PLN 1 559.5 million,
- in Q2 2017: 9.1 million money transfers with a total value of PLN 1 603.3 million,
- in Q4 2017: 8.7 million money transfers with a total value of PLN 1 520.1 million.

On the basis of reporting information for Q1-Q3 2017 received from payment service offices, one may conclude that the obligations towards the KNF are not fulfilled by:

- about 5% of offices as regards information about the number and value of money transfers made, and
- about 8% 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 the 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.

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 2017, 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's meetings:

- Information on the standing of KIPs and BUPs in the first quarter of 2017 as at 28 June 2017,
- Information on the standing of KIPs and BUPs in the second quarter of 2017 as at 8 November 2017,
- Information on the standing of KIPs and BUPs in the third quarter of 2017 as at 6 December 2017.

## THE NECESSARY REGULATORY CHANGES IN THE FUNCTIONING OF PAYMENT SERVICE OFFICES (BUP)

The analysis of supervisory activities performed by the KNF so far shows that the supervisory mechanisms provided for in the Act on payment services with respect to payment service offices are not adjusted to the scale and nature of the activities of payment service offices but generate significant financial burdens for these entities. In practice, the supervision of BUPs exercised by the KNF consists mainly in verifying the fulfilment of the obligation of payment service offices to provide the mandatory insurance contracts or bank or insurance guarantee contracts, analysing the disclosures on executed transfers of funds, and informing the offices of the obligation to comply with the statutory limits on transactions provided for that category of entities. Meanwhile, the currently binding regulations oblige the KNF to assess the financial standing of BUPs or to examine the quality of BUPs' management. Those are supervisory activities appropriate for entities with different structure, financial resources and scope of activity, and the sector of payment service offices is characterised by a vast majority of entities conducting business activity of a limited territorial scope, operating as economic operators being natural persons, whose scale of service provision and profitability of business is low. As a rule, those entities do not have any dependencies or links with other entities, and all activities within the framework of the conducted activity are usually performed by one or a maximum of several natural persons.

BUP's activity is an uncomplicated one, which consists in transferring funds paid by the user to the recipient's payment account kept by another provider. Those entities do not generate investment, credit or technical risks. Therefore, there are no reasonable grounds for the exercise of supervision by the KNF with respect to the assessment of the financial situation and the examination of the quality of management in BUPs, appropriate for large financial market entities, such as banks or entities from the insurance or capital sector.

In addition, taking into account the existing supervisory practice of domestic payment institutions (KIP), as well as the limited scope of reporting by such institutions to the KNF under the Act on payment services, the growing number and scale of activities of these entities, it is necessary to make a statutory change to the scope of data covered by the periodic (quarterly and annual) reporting obligations of domestic payment institutions, to assess the risk of their activities better. The current scope of the reported data is very limited and does not reflect the full picture of the economic situation of the entity, which makes it impossible to assess the risk occurring in its operations. It is essential to be able to identify as many risks as possible to which customers of domestic payment institutions are exposed, and the security of their funds.

At the turn of November and December 2017, a representative of the KNF's Team for Domestic Payment Institutions and Payment Service Offices participated in the work of the legal commission at the Government Legislation Centre dedicated to the amendment of the Act on payment services. The amendments to the Act on payment services pertain to the implementation of PSD2. At the same time, attempts are being made to amend the Act on payment services in relation to the above-mentioned issues, in particular, the rights and obligations of payment service offices.

## 6. Capital Market Supervision

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

#### INVESTMENT SERVICES AND ACTIVITIES

In 2017, the KNF issued 9 decisions on the extension of the brokerage licence for a brokerage house, 1 decision on granting permission for the purchase of two-day spot contracts at auctions organised by an auction platform, 1 decision on the expiry of the brokerage licence, 2 decisions on the withdrawal of the brokerage licence, 2 decisions on the partial revocation of the brokerage licence, and 1 decision on the refusal to revoke the brokerage licence. The KNF also issued 6 decisions to discontinue proceedings, including 1 decision on granting permission to conduct brokerage activities, 3 decisions on extending such permission, and 2 decisions on revoking permission to conduct brokerage activities.

As at 31 December 2017, 4 applications for brokerage licenses and 1 application for revoking brokerage licenses were pending.

In 2017, 9 notifications on the intention to acquire or take up shares in brokerage houses were considered. In 2 cases the KNF did not raise any objections and in 5 cases the proceedings were discontinued.

As at 31 December 2017, 2 sets of proceedings were pending regarding the notification of the intention to acquire or take up shares in a brokerage house.

#### NOTIFICATIONS OF INVESTMENT FIRMS

In the period covered by this report, the KNF received 140 notifications of the intention to pursue brokerage without a branch and 3 notifications of the intention to pursue brokerage through a branch in the Republic of Poland by foreign investment firms, as well as 198 notifications concerning the change of data covered by the original notification. 92 entities resigned from pursuing brokerage in the Republic of Poland without a branch, and 4 – from pursuing activities through a branch.

**Table 52. The number of notified foreign investment firms at the end of the years 2014-2017**

Type of entity	2014	2015	2016	2017
Foreign investment firms without a branch	1 778	1 816	1 919	1 975
Foreign investment firms – a branch	14	15	15	14
<b>Total</b>	<b>1 792</b>	<b>1 831</b>	<b>1 934</b>	<b>1 989</b>

Source: KNF's own calculations

In the period covered by this report, the Polish Financial Supervision Authority discontinued 1 set of proceedings in relation to notification of the intention to pursue brokerage by Polish investment firms without opening a branch in other Member States.

As at 31 December 2017, the KNF did not conduct any proceedings regarding notification of the intention to pursue brokerage by Polish investment firms in other Member States.

**Table 53. The number of Polish investment firms which notified their intention to conduct brokerage outside the territory of the Republic of Poland at the end of the years 2014-2017**

Type of entity	2014	2015	2016	2017
Brokerage houses (number of branches)	2 (8)	2 (8)	2 (8)	3 (8)
Brokerage houses without a branch	13	13	12	11

Source: KNF's own calculations

## ONGOING SUPERVISION OF INVESTMENT FIRMS

The KNF 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 CRR<sup>12</sup> and Commission Implementing Regulation (EU) No 680/2014 issued on the basis thereof<sup>13</sup>,
- 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 of 2016, item 1636, 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 2017, as part of the supervision over the activities of investment firms, the KNF's analysis covered monthly reports and current reports of 46 brokerage houses and 10 banks providing investment services, as well as annual financial statements for 2016, semi-annual financial statements for the first half of 2017 and reports on capital adequacy of brokerage houses. In 2017, the consolidated financial statements for 2016 and the reports on capital adequacy on a consolidated basis brokerage houses, submitted in accordance with the provisions in force, were also analysed. Out of 46 brokerage houses indicated above, 2 brokerage houses ceased brokerage in 2017.

As part of the supervision over the application, by brokerage houses, of legal regulations, including the provisions of CRR, 32 decisions and 3 orders were issued as a result of proceedings conducted at the request of brokerage houses, and 3 decisions and 1 order were issued as a result of *ex officio* proceedings.

<sup>12</sup> 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)

<sup>13</sup> 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 54. 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 2014-2017**

Detailed list	2014	2015	2016	2017
Average level of own funds	31.36	31.55	31.24	34.03
Average total risk exposure amount	120.84	102.93	107.79	138.52
Total capital ratio	25.95%	30.65%	28.98%	24.57%

Source: KNF's own calculations

Data comes from quarterly COREP reports for data as of 31 December 2014, 31 December 2015, 31 December 2016 and 31 December 2017.

The 'Report on the financial standing of brokerage houses in 2016' was presented at the KNF's meeting.

**Table 55. Basic data from the balance sheets of brokerage houses (in PLN million) for the years 2014-2017**

Balance sheet item	2014	2015	2016	2017
I. Cash and cash equivalents	5 161.71	5 210.80	3 957.23	4 389.89
II. Short-term receivables	1 973.86	1 559.61	1 550.30	1 609.40
III. Financial instruments held for trading	192.54	197.42	206.82	260.44
IV. Short term prepayments and accruals	19.46	20.31	16.92	14.91
V. Short-term loans			5.55	9.50
VI. Financial instruments held to maturity	85.80	88.21	88.87	93.21
VII. Financial instruments available for sale	244.02	245.01	244.35	224.62
VIII. Long-term receivables	6.67	6.43	5.08	6.59
IX. Long-term loans	7.69	6.97	5.84	8.09
X. Intangible assets	71.05	63.48	38.33	34.39
XI. Tangible fixed assets	89.09	83.27	69.40	66.57
XII. Long-term prepayments and accruals	75.43	76.16	60.87	62.13
XIII. Called-up share capital not paid			0.00	0.00
XIV. Own shares and stocks			0.23	2.35
<b>TOTAL ASSETS</b>	<b>7 927.32</b>	<b>7 557.66</b>	<b>6 249.79</b>	<b>6 782.09</b>
I. Short-term liabilities	5 567.02	5 152.94	4 390.64	4 883.22
II. Long-term liabilities	12.69	6.69	13.03	6.60
III. Accruals	99.42	88.75	51.11	56.67
IV. Provisions for liabilities	63.04	59.94	64.11	65.69
V. Subordinated debt	10.20	10.17	14.82	13.06
VI. Equity capital	2 174.95	2 239.17	1 716.08	1 756.85
<b>TOTAL LIABILITIES</b>	<b>7 927.32</b>	<b>7 557.66</b>	<b>6 249.79</b>	<b>6 782.09</b>

Source: KNF's own calculations

Data for the years 2014-2016 comes from the audited financial statements; data for 2017 is derived from monthly MRF reports as at 31 December 2017.

Data does not include data of one brokerage house whose financial year does not coincide with the calendar year.

**Table 56. Basic data from the profit and loss account of brokerage houses (in PLN million) for the years 2014-2017**

Item of the profit and loss account	2014	2015	2016	2017
I. Income from core activities, including:	969.53	985.47	725.06	777.17
1. Income from investment services and activities	969.53	985.47	709.71	725.81

2. Income from other core activities			15.35	51.36
II. Costs of investment services and activities	1 001.89	1 038.43	889.17	892.16
III. Profit (loss) on core activities (I-II)	-32.36	-52.95	-164.11	-114.99
IV. Income from financial instruments held for trading	355.80	402.53	355.98	479.20
V. Costs of financial instruments held for trading	63.26	39.56	13.75	105.39
VI. Profit (loss) on operations of financial instruments held for trading (IV-V)	292.54	362.97	342.23	373.81
VII. Income from financial instruments held to maturity	2.53	2.21	2.17	1.90
VIII. Costs of financial instruments held to maturity	0.00	0.00	0.15	0.48
IX. Profit (loss) on operations of financial instruments held to maturity (VII-VIII)	2.53	2.21	2.02	1.42
X. Income from financial instruments available for sale	133.20	144.26	27.34	35.35
XI. Costs of financial instruments available for sale	2.30	21.56	1.92	16.25
XII. Profit (loss) on operations of financial instruments available for sale (X-XI)	130.90	122.70	25.42	19.10
XIII. Other operating revenues	34.30	32.80	30.41	25.86
XIV. Other operating expenses	17.65	15.55	28.60	34.23
XV. Difference in provisions and revaluation write-off	-16.37	7.24		
XVI. Profit (loss) on operating activities (VIII+VI+IX+XII+XIII-XIV+XV)	393.89	459.43	207.37	270.97
XVII. Financial revenues	102.45	79.11	52.81	50.70
XVIII. Financial expenses	25.75	23.18	14.41	50.38
XIX. Gross profit (loss) (XVI+XVII-XVIII)	470.59	515.36	245.77	271.29
XX. Income tax	69.65	80.82	51.34	49.22
XXI. Other statutory reductions in profit (increases in loss)	-0.07	-0.26	0.00	0.00
XXII. Net profit (loss) (XIX-XX-XXI)	401.01	434.80	194.43	222.07

Source: KNF's own calculations

Data for the years 2014-2016 comes from the audited financial statements; data for 2017 is derived from monthly MRF reports as at 31 December 2017.

Data does not include data of one brokerage house whose financial year does not coincide with the calendar year.

## SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP) OF BROKERAGE HOUSES

In 2017, the seventh formal process of supervisory evaluation of brokerage houses was carried out. 43 brokerage houses were subject to the evaluation. For 33 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 2017, ratings were granted for two cut-off dates, i.e. 31 December 2016 and 30 June 2017.

The 'Report on the Supervisory Review and Evaluation Process (SREP) of Brokerage Houses in 2016' was presented at the KNF's meeting.

## TIED AGENTS OF INVESTMENT FIRMS

As of 31 December 2017, the register of tied agents of investment firms contained 223 entities, including 36 legal persons and organisational entities without legal personality and 187 natural persons.

In 2017, 45 natural persons and 13 legal persons and organisational entities without legal personality were entered in the register of tied agents of investment firms.

In the register of tied agents of investment firms with whom investment firms have concluded an agency agreement, the following actions were performed: 58 entries in the register, 14 deletions from the register, approx. 80 data changes.

The KNF issued 14 decisions on deletion from the register of tied agents of investment firms, including 7 decisions under Article 79(9)(2) of the Act on trading in financial instruments.

**Table 57. The state of the register of tied agents of investment firms at the end of the years 2014-2017**

Tied agents of investment firms	2014	2015	2016	2017
Natural persons	185	194	150	187
Legal persons	32	35	29	36
<b>Total</b>	<b>217</b>	<b>229</b>	<b>179</b>	<b>223</b>

Source: KNF's own calculations

## SECURITIES BROKERS

As at 31 December 2017, the number of licensed securities brokers was 3 008. In 2017, 37 persons were entered on the list of securities brokers. On the other hand, 3 persons have been deleted from the list of securities brokers.

**Table 58. The number of persons entered in the list of securities brokers and the total number of licensed securities brokers in the years 2014-2017**

Detailed list	2014	2015	2016	2017
The number of persons entered on the list of securities broker in a given year	82	116	67	37
Total number of licensed securities brokers	2 791	2 907	2 974	3 008

Source: KNF's own calculations

In 2017, two exams for securities broker were held. 263 persons took the exams and 46 persons passed them. So far, 3 195 persons have passed the examination for securities broker.

Moreover, in the period covered by this report, 1 supplementary exam for securities broker was held. 6 persons took the exam and 2 persons passed it. So far, 101 persons have passed the supplementary exam for securities brokers.

## INVESTMENT ADVISERS

As at 31 December 2017, the number of licensed investment advisers was 657. 87 persons were added to the list of investment advisers in 2017.

**Table 59. The number of persons entered on the list of investment advisers and the total number of licensed investment advisers in the years 2014-2017**

Detailed list	2014	2015	2016	2017
The number of persons entered on the list of investment advisers in a given year	27	34	33	87
Total number of licensed investment advisers	504	539	571	657

Source: KNF's own calculations

In 2017, 6 partial exams of the examination for investment adviser took place. 38 persons passed the entire examination cycle. In addition, two aptitude tests were held. 34 persons passed the exam.

## INSPECTION OF INVESTMENT FIRMS AND TIED AGENTS OF INVESTMENT FIRMS

In 2017, 16 inspections of entities pursuing a brokerage business or performing brokerage activities were conducted, including: brokerage houses together with organisational units (customer service points), banks pursuing a brokerage business, branches of foreign investment firms conducting activities in the territory of the Republic of Poland, tied agents of investment firms and economic operators to whom the investment firm entrusted the performance of activities in connection with the brokerage business pursuant to Article 81a(1) of the Act on trading in financial instruments. All inspections were dedicated to a specific problem and included selected issues in the field of the activities which are licensed and/or notified in the territory of the Republic of Poland.

The inspections were devoted in particular to the following areas of brokerage:

- organisational structure and technical conditions of the business, with particular emphasis on the issues relating to the organisation of the investment firms' supervision over their tied agents,
- organisational separation of the bank's brokerage business,
- functioning of the internal control system, the system of supervision over compliance of the business with the law and the internal audit system,
- performance of brokerage activities in connection with the provision of brokerage services,
- dealing with clients, including in respect of activities performed by branches of foreign investment firms and unlicensed firms cooperating with them (until 29 April 2017), as well as the activities of investment firms' tied agents.

The inspections of brokerage concerned both the organised trading system and the OTC transactions, with particular emphasis on offering securities and execution of orders of purchase or sale of financial instruments to the principal's account, including transactions on the OTC derivatives market (the so-called Forex). The substantial scope of the inspection also covered obligations under MAD, MAR, and EMIR. The subject matter of individual inspections depended on the scope and size of business, taking into account events and phenomena recorded in the capital market or reported by the clients of investment firms.

The inspection also covered a review of how and to what extent investment firms apply:

- Guidelines on certain aspects of the MiFID compliance function requirements – ESMA/2012/388,
- Guidelines on systems and controls in an automated trading environment for trading platforms, investment firms and competent authorities – ESMA/2012/122,
- Guidance on certain aspects of the MiFID suitability requirements – ESMA/2012/387,
- KNF Guidelines for providing brokerage services on the OTC derivative market,
- KNF guidelines on the management of information technology and ICT environment security at investment firms.

The inspection findings also included examination of the impact of the KNF's positions on the brokerage business.

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

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



- Regulation of the Minister of Finance of 24 September 2012 on the procedure and conditions for the conduct of investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks (Journal of Laws of 2015, item 878, as amended),
- Regulation of the Minister of 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 of 2017, item 855),
- 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 60. The most common irregularities identified during inspection activities in 2017 in the area of organisational structure, functioning and technical conditions for the operation of investment firms**

<b>Organisational structure, functioning and technical conditions for the operation of investment firms</b>	
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 ensure independence and autonomy for the compliance function or appropriate organisational conditions to carry out its obligations independently and effectively, in particular due to the insufficient number of employees of this function, and to guarantee appropriate IT tools to support the supervisory processes
4.	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.
5.	Failure to draw up action plans for the internal audit system.
6.	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 business.
7.	Failure to provide 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.
8.	Failure to perform internal controls in significant areas of the investment firm's brokerage business, 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.
9.	Failure of investment firms to ensure proper fulfilment of the obligation of management of the portfolio of financial instruments by investment advisers and allowing the situation in which unlicensed employees of investment firms were making investment decisions: within the so-called investment committee or alone, and then implemented them without the supervision of an investment adviser.
10.	Securities brokers do not perform activities in connection with the provision of brokerage services for which they have been hired.
11.	Entrusting brokerage activities to employees who do not have the necessary knowledge, skills and qualifications to perform such activities properly.
12.	Entrusting certain employees of an investment firm with brokerage activities in a manner which prevents proper, fair and reliable performance of such activities.
13.	Incorrect application of internal rules relating to the investment of affiliates of an investment firm, on own account, and failure of the investment firm to supervise such investment effectively.
14.	Lack of comprehensive control in the area of investments by affiliates on their own account, as well as lack of control over investments by affiliates in the annual control plans.

15.	Lack of proper implementation of the rules of protection of the flow of confidential information and information constituting professional secrecy.
16.	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 business.
17.	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.
18.	Failure to develop and implement decision-making procedures for the organisation and exercise of supervision of a tied agent of the investment firm.
19.	Insufficient performance of the obligation for the investment firm to supervise the activities of the investment firm's tied agent.
20.	No definition, within the internal regulations of investment firms, of rules for the circulation of business secrets and documents (in paper and electronic forms), from their creation to destruction.
21.	Lack of proper archiving of documents and other information carriers in electronic form so as to protect the content of such information against loss or modification.
22.	Failure to ensure business continuity or rules for business continuity of an investment firm in case of an emergency.
23.	Storing electronic data only on local computers, and failure to provide a system for archiving such data.
24.	Lack of systematic supervision and control over the technical solutions implemented at an investment firm in the area of antivirus protection and cyberattacks, including reporting on the occurrence of such events.
25.	Failure to store and archive, as required by law, messages in the employees' business e-mail, on a disk, and/or recorded telephone orders submitted by clients of the investment firm.
26.	No organisational separation of the bank's brokerage business as required by law.
27.	The electronic brokerage archive is not separated from the electronic banking archive.
28.	Failure to perform activities relating to the pursuit of the bank's brokerage business by employees of the brokerage firm and/or persons remaining with the brokerage firm under an order or any other legal relationship of a similar nature.
29.	Failure to develop and implement a procedure that ensures information security in connection with the adopted rules of protecting the flow of information, including confidential information and information constituting professional secrecy between a brokerage firm and a bank.
30.	Failure of an investment firm to conclude a contract for the entrustment of performance of activities relating to the brokerage business pursued by the investment firm, consisting in archiving external clients' orders submitted electronically by third parties.
31.	Failure to notify, in a relevant report, the commencement of the brokerage business in respect of brokerage services.

Source: KNF's own calculations

**Table 61. The most common irregularities identified during inspection activities in 2017 in the area of conduct of investment firms in relations with the client**

Conduct in relations with the client	
1.	Attracting clients by disseminating information which is unreliable or misleading as regards the investment risk of financial instruments and the nature of brokerage services.
2.	Provision of investment advisory services without authorisation.
3.	Provision of investment advisory services to retail clients without concluding an agreement.
4.	Failure to make a proper assessment which would make it possible to determine whether the financial instrument being the subject of the offered brokerage service or the brokerage service to be provided on the basis of the concluded agreement are appropriate for a given retail client, taking into account his individual situation.
5.	Failure to provide a basis for calculation of payment under the agreement on offering securities in connection with its percentage structure.
6.	Failure to include all information on customers' concerns in the register of complaints regarding the activities of an investment firm.
7.	Not accepting non-cash benefits arising from the distribution of shares/units in accordance with the provisions governing incentives.

8.	Failure to accept orders to buy or sell financial instruments which are in line with all the parameters required by law.
9.	Failure to include, in the documents submitted to the clients prior to signing the agreement, and in the regulations governing the provision of brokerage services, the key conditions for the execution of orders on the Forex market.
10.	Failure to send, in a timely manner, reports to clients in connection with the provision of brokerage services.
11.	The periodic reports submitted to clients in connection with the portfolio management service do not contain any information about the cash balance at the beginning of the reporting period.
12.	The use of ambiguous and misleading terms – which do not refer to legal definitions provided by the legislator – in agreements for the provision of brokerage services and regulations concerning the provision of brokerage services.
13.	No indication of the level of investment risk associated with a given brokerage service when determining the benefits which could be achieved by a client if the client decides to use the brokerage services provided by an investment firm.
14.	Conclusion of agreement for the provision of brokerage services with the clients without observing the requirement to notify the clients, in writing, of a conflict of interest and without receiving a clear declaration of the client's will to conclude the agreement despite the existence of such a conflict of interest.
15.	Provision of brokerage services without observing the client's best interest principle.

Source: KNF's own calculations

**Table 62. The most common irregularities identified during inspection activities in 2017 in the area of provision of brokerage services by investment firms**

Provision of brokerage services	
1.	In connection with the receipt of payments from the issuer and making withdrawals for the bondholders or shareholders who own securities purchased under a non-public offering, brokerage of keeping cash accounts without the required permission referred to in Article 69(4) point 1 in conjunction with Article 69(1) of the Act on trading in financial instruments.
2.	Lack of professionalism due to the fact that the offer to purchase financial instruments is addressed to entities which, by virtue of the law, may not purchase the offered securities.
3.	Conducting a public offering without the approval of the prospectus by the KNF.
4.	Failure to properly identify types of brokerage in connection with which there is or might be a conflict of interest related to a significant risk of violation of the client's interests, including, in particular, between making of the size of remuneration of employees getting clients for the investment firm dependent on the clients' payments and withdrawals and the best interests of the clients.
5.	Failure to keep a complete and up-to-date register of events 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.
6.	Failure to properly implement the order execution policy through incorrect definition of weights assigned to individual factors taken into account by the investment firm to obtain the best result for a retail client.
7.	Failure to conduct proper individual assessment of the client's financial situation before signing an agreement for the execution of orders without the full coverage of the value of the order.
8.	Failure to act professionally and in accordance with the principles of fair trading in connection with entering into agreements on offering securities with entities as to whom the investment firm does not have sufficient knowledge whether the service of offering financial instruments is appropriate for the issuer being a retail client.
9.	Failure to archive orders submitted electronically by the clients to whom the investment firm does not provide brokerage services referred to in Article 69(4) point 1 of the Act on trading in financial instruments, for at least 5 years.
10.	Failure to provide clients with transaction confirmation
11.	Failure to deposit clients' funds so as to guarantee the retention of clients' rights to their funds and prevents the use of the clients' funds by the investment firm on its own account.

12.	Provision, by a foreign investment firm through a branch, in the territory of the Republic of Poland, of brokerage services for which the entity does not have an authorisation granted by the home supervisory authority.
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Source: KNF's own calculations

As a result of inspections, post-inspection recommendations were issued to all supervised entities. Following the inspection of branches of foreign investment firms, the KNF Office also submitted information to the home state supervisors in order to eliminate illegal practices. Due to the findings of some inspections, information was submitted to other state administration bodies, including the General Inspector of Financial Information, for the purpose of possible examination, according to the remit of those authorities. Notifications of suspected criminal offence were submitted to the law enforcement authorities as a result of inspections at two entities. For some of the supervised entities, further analysis is carried out to initiate administrative proceedings to impose a fine or to submit a notification of suspected criminal offence in connection with the violations of law identified.

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

### LICENSING ACTIVITIES

In 2017, 5 permissions were granted to energy undertakings to keep accounts and registers of exchange commodities and 6 decisions were issued to revoke the permission to keep accounts and registers of exchange commodities. The KNF discontinued 2 sets of proceedings for granting permission to keep accounts and registers of exchange commodities and revoked the permission in question for 1 entity.

As at 31 December 2017, 2 applications for permission to keep accounts and registers of exchange commodities were under examination. 53 energy undertakings had permissions to keep accounts or registers of exchange commodities and 1 commodity brokerage house held an authorisation to pursue the brokerage business in respect of trade in exchange commodities.

## 6.3. ENTITIES OF THE INVESTMENT FUND MARKET

### LICENSING ACTIVITIES

In 2017, the supervisory authority issued 184 decisions and orders relating to the entities of the investment fund market.

The number and subject-matter of the resolutions adopted and decisions issued are presented in Table 1.1 and Table 1.2. in Appendix 1, respectively.

As at 31 December 2017, 62 investment fund management companies, managing a total of 905 investment funds, were authorised by the KNF, including: 44 open-end investment funds, 55 specialised open-end investment funds, and 806 closed-end investment funds.

**Table 63. The number of investment fund management companies and investment funds in the years 2014-2017 cumulatively**

Detailed list	2014	2015	2016	2017
Investment fund management companies	58	60	62	62

Investment funds	681	815	929	905
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Source: KNF's own calculations

In 2017, the Polish Financial Supervision Authority issued 3 permissions for an investment fund company to pursue its business activity together with the permission for the management of alternative investment funds:

- Baltic TFI S.A.,
- PGE TFI S.A.,
- Raiffeisen TFI S.A.

At the same time, as at the end of 2017, the number of investment fund management companies did not increase compared to the end of 2016 due to:

- merger between Open Finance TFI S.A. and Noble Funds TFI S.A.,
- expiry, by operation of law, of the permission held by Harenda TFI S.A.,
- withdrawal of the authorisation of FinCrea TFI S.A.

**Diagram 20. The number of permissions regarding the activity of investment fund management companies in the years 2014-2017**



Source: KNF's own calculations

In 2017, the Polish Financial Supervision Authority issued:

- 3 permissions to establish a specialised open-end investment fund,
- 1 permission to establish a public closed-end investment fund.

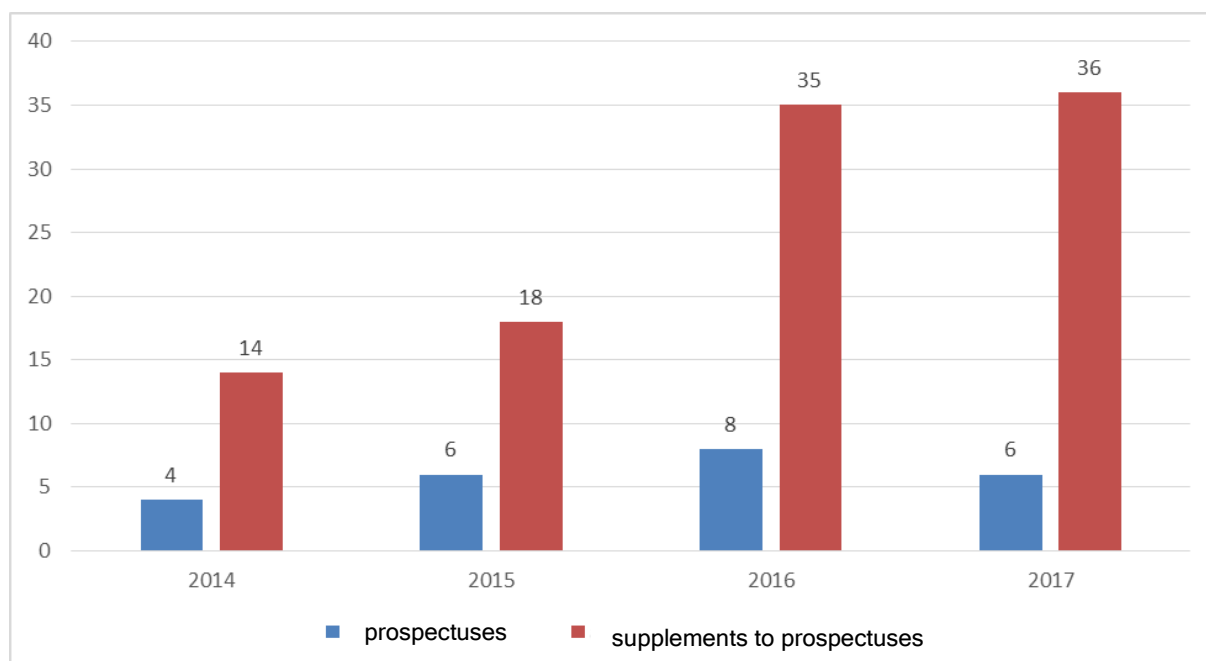
In 2017, 3 new funds with separate sub-funds began operating. As a result of their establishment and amendment to the fund's articles of association in respect of creation of a new sub-fund, the number of sub-funds separated within this type of funds increased to 574 sub-funds at the end of December 2017 compared to 545 sub-funds at the end of December 2016.

In 2017, 97 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 2017, the KNF issued 7 decisions on the approval of prospectuses and supplements in the investment fund sector, including:

- 6 decisions approving prospectuses of investment certificates issued by public closed-end investment funds,
- 36 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 2014-2017**



Source: KNF's own calculations

#### ACQUISITION OR TAKING UP OF SHARES AND/OR RIGHTS IN SHARES

In 2017, 12 notifications of the intention to acquire or take up shares of an investment fund management company were considered. In 9 cases, a 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, and in 2 cases the proceedings were discontinued. As at 31 December 2017, 1 set of proceedings regarding the intention to acquire or take up shares of an investment fund management company were pending.

#### CROSS-BORDER ACTIVITY

In 2017, the Polish Financial Supervision Authority received, by e-mail, 12 complete notifications of the intention to dispose of shares of foreign funds in the territory of the Republic of Poland which pertained to 2 new foreign funds and 23 sub-funds of foreign funds. For comparison, in 2016, 17 complete notifications concerning 7 new foreign funds and 70 sub-funds of foreign funds were received.

In 2017, similarly to 2016, the Polish Financial Supervision Authority received 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 establishing 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 Polish Financial Supervision

Authority received, in 2017, 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 2017, the Polish Financial Supervision Authority received notifications from 9 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.

In 2017, the Polish Financial Supervision Authority received for the first time a notification from an open-ended investment fund regarding its intention to dispose of participation units in an EU Member State other than the Republic of Poland. The notification pertained to the distribution of 5 sub-funds in Luxembourg.

Moreover, in 2017, the Polish Financial Supervision Authority received 4 notifications from investment fund companies of their intention to conduct business in the territory of an EU Member State other than the Republic of Poland. The notifications pertained to a total of 3 investment fund companies and two EU Member States (Luxembourg and Malta).

#### ALTERNATIVE INVESTMENT COMPANIES/PARTNERSHIPS (AICs) AND MANAGERS OF ALTERNATIVE INVESTMENT COMPANIES/PARTNERSHIPS

In 2017, the Polish Financial Supervision Authority entered 4 entities in the register of AIC managers:

- 3 external AIC managers managing a total of 5 alternative investment companies (AICs), and
- 1 internal AIC manager.

As at 31 December 2017, 4 AIC managers were disclosed in the register of AIC managers.

#### INTERMEDIARIES IN THE DISPOSAL AND/OR REPURCHASE OF PARTICIPATION UNITS 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 2017, the list of distributors of units authorised by the Polish Financial Supervision Authority included 86 entities. During the period covered by this report, the Polish Financial Supervision Authority issued 6 authorisations for mediation in the disposal and repurchase of units of investment funds and/or shares of foreign funds, and 1 refusal to grant permission to carry out the activity 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 64. The number of analysed current and periodic reports of investment funds and investment fund management companies and information from depositaries in the years 2014-2017**

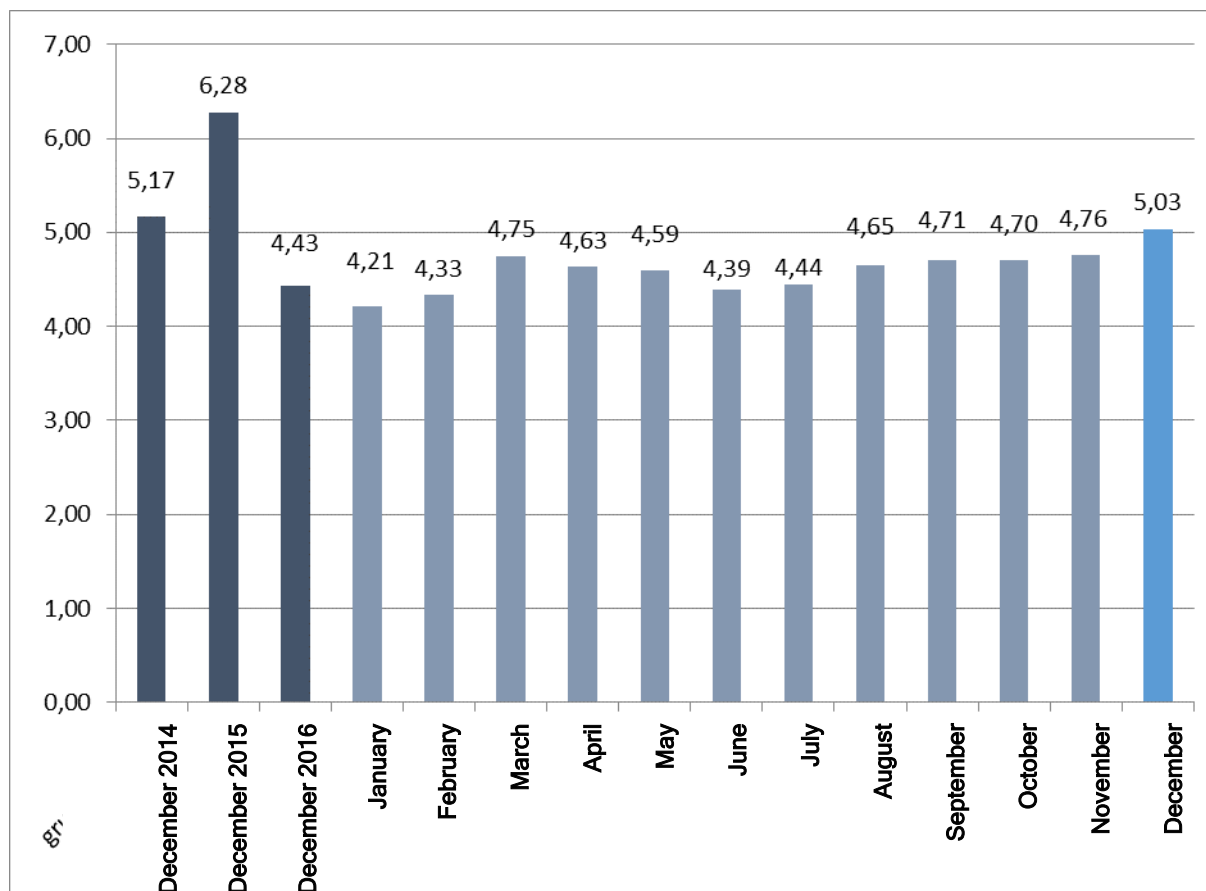
Type of report/information	2014	2015	2016	2017
Current and periodic reports of investment fund management companies	4 509	4 795	6 381	6 573
Current and periodic reports of investment funds	22 181	25 864	30 639	30 550
Information from depositaries	4 708	3 774	4 478	4 398
<b>Total</b>	<b>31 398</b>	<b>34 433</b>	<b>41 498</b>	<b>41 521</b>

Source: KNF's own calculations

As part of its supervision, the KNF also monitors compliance of investment fund management companies (PL: towarzystwo funduszy inwestycyjnych–TFI) with capital requirements.



**Diagram 22.** The average value of the capital requirement coverage ratio of investment fund management companies at the end of the years 2014-2016 and in 2017 (equity/minimum capital requirement)<sup>14</sup>



Source: KNF's own calculations

Over 2017, the average value of the minimum capital requirement coverage ratio for the entire sector of investment fund management companies ranged from 4.21 to 5.03. 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 2017 resulted, among other things, from the increase in the requirement determined in accordance with Article 50(1) of the Act on investment funds on the basis of the costs of investment fund companies incurred in 2016. On the other hand, the decrease in the average value of the capital requirement coverage ratio at the end of the first half of the year was caused by dividend payments made by investment fund companies from the profits for 2016.

### Supervisory Review and Evaluation Process (SREP) for investment fund management companies

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

<sup>14</sup> 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 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.

59 TFI were subject to evaluation under the SREP carried out in 2017. The ratings are assigned in the range from 1 (the best rating) to 4 (the worst rating). The average of the SREP ratings assigned to the companies in 2017 was 2.11 and it was slightly lower compared to the average rating in 2016, which was 2.28.

The following reports on the activities of investment fund market entities were presented at the KNF'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 2016,
- Report on the financial standing of investment fund management companies in 2016,
- Report on the SREP of investment fund management companies in 2016.

## INSPECTION OF THE INVESTMENT FUND MARKET ENTITIES

There were 15 inspections carried out during the period covered by this report, including 8 inspections of investment fund management companies and funds managed by them, 2 inspections at entities acting as intermediaries in disposing and repurchasing of participation units or shares, 2 inspections of depositaries, 1 inspection at the entity to which the investment fund company commissioned management of the investment portfolios of investment funds and 2 inspections of securitisation fund portfolio managers<sup>15</sup>.

**Table 65. Selected irregularities identified during inspection activities at investment fund management companies in 2017, 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**

<b>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</b>	
1.	Failure by an investment fund management company to act with special consideration for the best interests of a unit holder.
2.	Failure by investment fund management companies to act in the best interests of a unit holder.
3.	Failure to ensure, in the valuation of assets of investment funds, that their value is measured at a reliably estimated fair value
4.	Failure by the company to implement procedures, including methods which ensure accurate measurement of risk (to which the funds were exposed) taking into account reliable and credible data.
5.	Violation of investment restrictions specified in the Act on investment funds and management of alternative investment funds and in the fund's articles of association.
6.	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.
7.	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.
8.	Lack of technical and organisational solutions which normally ensure business continuity.
9.	Failure to exercise ongoing supervision of the entity entrusted by the company with the management of investment portfolios of investment funds.

<sup>15</sup> including 1 inspection commenced in 2016 and completed in 2017, and 2 inspections conducted at the turn of 2017 and 2018.

10.	Reducing the redemption of investment certificates contrary to the provisions of the investment funds' articles of association and contrary to the best interests of fund participants.
11.	Failure to perform an analysis regarding deposits held by an investment fund of whether these deposits meet all the criteria specified in the fund's articles of association for selecting the fund's deposits.
12.	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.
13.	Failure to verify the possibility of concluding a management agreement with respect to all the requirements specified in Article 45a(4) of the Act on investment funds and management of alternative investment funds.
14.	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.
15.	Insufficient substantiation of investment decisions and failure to archive documents indicating the grounds for investment decisions.
16.	Failure to prevent conflicts of interest.
17.	Creation and functioning in a structure that was conducive to reaping multiple benefits from receiving remuneration for fund management.
18.	Failure to provide the KNF immediately (no later than on the day following the deadline for removing the irregularities) with information on the manner of taking into account the post-inspection recommendations issued by the Chairman of the KNF and to indicate a detailed manner of removing the irregularities identified.

Source: KNF's own calculations

**Table 66. 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 2017.**

<b>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.</b>	
1.	Failure to notify the KNF 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 calculation of the net asset value and the value of fund units meets the requirements provided for by the law and the articles of association of the investment fund.
3.	Conclusion of an agreement on entrusting a third party with the performance of activities relating to the performance of the depositary functions to the extent exceeding the permissible scope of the depositary's duties, the performance of which may be entrusted by the depositary to an economic operator or a foreign economic operator, determined by the provisions of the Act on investment funds and management of alternative investment funds.
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 67. Selected irregularities identified during inspection activities in the entities managing securitised receivables of securitised funds in 2017.**

<b>Compliance of the business with agreements concluded with investment fund management companies and with the provisions of the procedure for managing securitised receivables.</b>	
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.	The managing entity's failure to take into account the risk of not receiving funds to carry out the assumed legal acts which are necessary to effect the projected repayment of debt portfolios when determining the projected cash flows from individual securitised debt portfolios, the management of which has been outsourced to the managing entity.
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Source: KNF's own calculations

**Table 68. Selected irregularities identified during inspection activities in entities managing investment portfolios of closed-end non-public assets in 2017.**

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 2017, post-inspection recommendations were issued for 9 supervised entities. The implementation of post-inspection recommendations for the 18 supervised entities was verified.

## 6.4. 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 Polish Financial Supervision Authority 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 69. The number of decisions issued in 2017**

Entity being a party to the decision	Number of decisions
Giełda Papierów Wartościowych w Warszawie S.A.	6
BondSpot S.A.	2
KDPW S.A.	4
KDPW_CCP S.A.	4
Towarowa Giełda Energii S.A.	2

Source: KNF's own calculations

The number and the subject-matter of the above-mentioned decisions are presented in Table 1.2. in Appendix 1.

Representatives of the Polish Financial Supervision Authority attended 60 meetings of supervisory boards and 13 general meetings of shareholders:

- 13 meetings of the Supervisory Board of GPW w Warszawie S.A.,
- 3 General Meetings of GPW w Warszawie S.A.,
- 7 meetings of the Supervisory Board of KDPW S.A.,
- 2 meetings of the General Meeting of KDPW S.A.,
- 4 meetings of the Supervisory Board of KDPW\_CCP S.A.,
- 1 meeting of the General Meeting of KDPW\_CCP S.A.,
- 9 meetings of the Supervisory Board of BondSpot S.A.,
- 2 General Meetings of BondSpot S.A.,
- 15 meetings of the Supervisory Board of TGE S.A.,
- 2 General Meetings of TGE S.A.,
- 12 meetings of the Supervisory Board of IRGiT S.A.,
- 3 General Meetings of IRGiT S.A..

## APPROVAL OF PROSPECTUSES OF FINANCIAL INSTRUMENTS OTHER THAN INVESTMENT CERTIFICATES

In 2017, the KNF issued 136 decisions on the approval of prospectuses, information memoranda and supplements updating their content, including:

- 37 decisions approving prospectuses of securities other than investment certificates (drawn up in the form of a single document or three documents),
- 3 decisions approving information memorandum,
- 96 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 2014-2017 are presented in Table 70.

**Table 70. The number of approved prospectuses and supplements to prospectuses in the years 2014-2017**

Detailed list	2014	2015	2016	2017
The number of approved prospectuses	45	51	40	37
The number of approved information memoranda/stating equivalence of an information memorandum with the requirements for a prospectus	1	2	3	3
The number of approved supplements to prospectuses	93	144	100	96

Source: KNF's own calculations

In the period covered by this report, the KNF received 47 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 2017, the KNF made nearly 4 600 comments on the submitted documents. In addition, the KNF issued 8 decisions to suspend administrative proceedings regarding the approval of the prospectus (information memorandum, supplement to the prospectus), 7 decisions to resume suspended proceedings and 10 decisions to discontinue administrative proceedings regarding the approval of the prospectus (information memorandum, supplement to the prospectus). In 2017, the KNF issued 20 opinions relating

to the public offerings carried out or the admission of securities to trading on a regulated market.

The list of issuers whose prospectuses were approved by the Polish Financial Supervision Authority in 2017 is presented in Table 2.1. in Appendix 2, while the current list of prospectuses approved by the KNF is available on the KNF website.

In 2017, the KNF also received 55 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 71. Number of decisions to authorise restoration 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).**

2014	2015	2016	2017
7	7	18	21

Source: KNF's own calculations

#### SUPERVISION OF ISSUERS OF SECURITIES OTHER THAN INVESTMENT FUNDS

The responsibilities of the Polish Financial Supervision Authority include supervision of the performance of disclosure requirements specified in the Act on public offering and the Act on trading in financial instruments by issuers whose securities are admitted to trading on a regulated market.

As of 3 July 2016, issuers and other participants of the capital market are required to apply the provisions of Regulation (EC) 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 EU L 173 of 12.6.2014, p. 1, as amended, hereinafter: 'MAR'). MAR is supplemented by delegated and implementing acts adopted by the European Commission.

On 6 May 2017, the Act of 10 February 2017 amending the Act on trading in financial instruments and certain other acts (Journal of Laws of 2017, item 724) entered into force and adjusted the national regulations to MAR and implemented Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse (market abuse directive) (OJ L 173, 12.6.2014, p. 179) into the Polish legal order (hereinafter: 'MAD II').

From the issuers' point of view, MAR regulates primarily the obligations relating to public disclosure of inside information and the procedure for delaying public disclosure of such information, and keeping lists of persons having access to inside information. Another important area of the regulation is notification of transactions by persons discharging managerial responsibilities and persons closely related to them, as well as prohibition of carrying out transactions by persons discharging managerial responsibilities during a closed period.

In 2017, the KNF verified legal compliance of more than 32 thousand current reports, periodic reports and inside information provided by public companies and over 2 240 notifications made by persons acquiring and disposing of a large number of shares in public companies

pursuant to Article 69 of the Act on public offering, as well as about 4 250 notifications made by the entities bound by Article 19 of MAR, which notifications pertained to transactions of persons discharging managerial responsibilities and of persons closely related to them.

In 2017, 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:

- 229 financial statements (including consolidated ones) of 103 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 prepared and published on the KNF website,
- 78 positions and opinions were elaborated and submitted, including 42 for external entities, concerning, among others: application of IFRS, correctness of performance, by issuer, of disclosure obligations with respect to periodic reports and historical financial information presented in prospectuses, requirements concerning statutory audits of financial statements of public interest entities,
- 46 recommendations were issued to stop breaches of disclosure obligations.

In the period covered by this report, the Polish Financial Supervision Authority issued:

- 27 decisions concerning demand for suspension of trading in shares of a public company by the Warsaw Stock Exchange pursuant to Article 20(2) of the Act of 29 July 2005 on trading in financial instruments, on account of failure to timely meet disclosure requirements,
- 1 decision concerning demand for suspension of trading in shares of a public company by the Warsaw Stock Exchange pursuant to Article 20(2) of the Act of 29 July 2005 on trading in financial instruments, in connection with a suspicion of material irregularities relating to the disclosure of the number of shares held in a public company,
- 2 decisions concerning demand for suspension of trading in shares of a public company by the Warsaw Stock Exchange pursuant to Article 20(2) of the Act of 29 July 2005 on trading in financial instruments, on account of the possibility of trading in shares of a public company in breach of the interests of investors,
- 1 decision concerning demand for suspension of trading in shares of a public company by the Warsaw Stock Exchange pursuant to Article 20(4c) of the Act of 29 July 2005 on trading in financial instruments, on account of the suspension of trading in financial instruments of a company on the Luxembourg market,
- 1 decision on the indefinite exclusion of securities of a public company with its registered office in Luxembourg from trading on a regulated market operated by the Warsaw Stock Exchange,
- 1 decision pursuant to Article 17(5-6) of MAR,
- 2 decisions pursuant to Article 71 of the Act of 29 July 2005 on public offering.

In 2017, the KNF adopted the following resolutions on public disclosure of information about:

- the occurrence of circumstances indicating manipulation in trading in shares of a public company with its registered office in an EU Member State other than the Republic of Poland,
- cases of infringement by a public company with its registered office in Luxembourg of the provisions of the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies in connection with the laws of Luxembourg and the legal measure taken to counteract the infringement in the form of an administrative decision to exclude the shares of a public company from trading on a regulated market for an indefinite period,
- submission of a notification of suspected criminal offence and of occurrence of circumstances indicating the manipulation in trading in shares of a public company,

- initiation by the KNF of administrative proceedings in respect of breach of Article 69 of the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies in connection with transactions in shares of a public company, and the occurrence of circumstances indicating the manipulation, as referred to in Article 12 of MAR, of shares of a public company.

In 2017, there were over 840 interventions in cases of suspicion of improper performance of disclosure obligations of public companies and their shareholders, including over 300 interventions in cases of improper performance of disclosure obligations of public companies, resulting in publication of current, periodic and confidential reports in accordance with applicable regulations.

The tasks of the Polish Financial Supervision Authority include supervision over formal and legal correctness of announcing and conducting take-over bids to subscribe for the sale or exchange of shares of public companies, in connection with exceeding particular thresholds in the total number of votes by shareholders. If the announced take-over bid does not meet statutory requirements, the Polish Financial Supervision Authority may demand that the necessary changes or additions to the content of the take-over bid be introduced or explanations of its content be provided.

In 2017, 40 formal and legal analyses of take-over bids to subscribe for the sale of shares of public companies were performed. 10 take-over bids to subscribe for the sale of shares were announced due to exceeded threshold of 33% in the total number of votes in public companies, while 25 takeover bids were announced for all other shares of those companies. In 2017, 4 bids were also announced in connection with the intention to withdraw from trading, on the 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 1 bid in connection with the intention to withdraw from trading, on the regulated market operated exclusively in the territory of the Republic of Poland, the shares of a foreign public company. In 2017, in the case of three take-over bids, the Polish Financial Supervision Authority made a request to introduce necessary changes to their content and in six cases submitted a request for explanations. The value of the shares mentioned in the take-over bids published in 2017 amounted to over PLN 11.7 billion. For comparison, the respective value of take-over bids amounted to over PLN 6.6 billion in 2016, PLN 4.7 billion in 2015, and nearly PLN 6.7 billion in 2014.

## 6.5. 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 Office 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 ongoing 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 Office 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 entered into 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 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 414 valuations provided by open pension funds (PL: OFE), voluntary pension funds (PL: DFE) and occupational pension funds (PL: PFE) In the case of the valuation methodology for four financial instruments, the supervisory authority demanded that the methodology applied by the relevant pension fund be changed.

**Table 72. Valuation methodologies submitted by pension funds to the KNF for approval in the years 2014-2017**

Type of funds	The number of methodologies submitted			
	2014	2015	2016	2017
OFE	329	340	291	344
PFE	21	6	12	16
DFE	24	36	44	54
<b>Total</b>	<b>374</b>	<b>382</b>	<b>347</b>	<b>414</b>

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 2014 and 31 March 2017, and between 30 September 2014 and 29 September 2017. The mandatory minimum rate of return of the OFE and the possible deficit have not been determined since 2014.

**Table 73. Statutory rates of return of open pension funds (OFE) calculated and published by the KNF in 2017 (in %)**

Name of the open pension fund	Rate of return for the period between 31/03/2014 and 31/03/2017	Name of the open pension fund	Rate of return for the period between 30/09/2014 and 29/09/2017
	MetLife OFE		17.377%
PKO BP Bankowy OFE	16.318%	OFE PZU "Złota Jesień"	21.772%
AXA OFE	14.574%	PKO BP Bankowy OFE	21.660%
Nordea OFE	13.849%	AXA OFE	19.660%
OFE PZU "Złota Jesień"	13.543%	Nordea OFE	19.012%
OFE Pocztylion	13.529%	OFE Pocztylion	19.001%
Allianz Polska OFE	12.567%	Allianz Polska OFE	18.400%
Aviva OFE Aviva BZ WBK	12.065%	Nationale-Nederlanden OFE	18.222%
Pekao OFE	11.338%	Aviva OFE Aviva BZ WBK	17.764%
Nationale-Nederlanden OFE	10.782%	Pekao OFE	17.320%
Aegon OFE	9.550%	Generali OFE	14.692%
Generali OFE	8.166%	Aegon OFE	13.590%
<b>Weighted average rate of return</b>	<b>12.921%</b>	<b>Weighted average rate of return</b>	<b>19.128%</b>

Source: KNF's own calculations

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

- ‘Financial situation of general pension societies in 2016’,
- ‘Individual retirement accounts and individual retirement protection accounts in 2016’,
- ‘Investment activity of pension funds in the period between 31 March 2014 and 31 March 2017’,
- ‘Investment activity of pension funds in the period between 30 September 2014 and 29 September 2017’,
- ‘Financial situation of general pension societies in the first half of 2017’,
- ‘Market of open pension funds in Q4 2016’,
- ‘Market of open pension funds in Q1 2017’,
- ‘Market of open pension funds in Q2 2017’,
- ‘Market of open pension funds in Q3 2017’,

Based on all information sent to the KNF Office in 2017, 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 Office 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,
- analysis of 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 74. Provisions of law on investment limits violated by pension funds in 2017**

Provision of law	Number of violations*	Including unintentional**
Article 141(1) of the Act on the organisation and operation of pension funds	650	649
Article 142(1) point 1 of the Act on the organisation and operation of pension funds	32	29
Article 142(1) point 4 of the Act on the organisation and operation of pension funds	833	833
§ 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	193	178
§ 4 of the Regulation of the Council of Ministers on additional restrictions on investment activities pursued by pension funds	4	4

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 Office 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 75. Reports, together with corrections, sent and verified as part of the disclosure requirements of pension funds and societies received in 2017**

Type of reports submitted	Correct reports	Incorrect reports
Financial statements of the OFE	44 499	345
Operational reports of the OFE	3 196	33
Financial statements of the DFE	2 630	90
Operational reports of the DFE	33	-
Financial statements of the PFE	29	2
Operational reports of the PFE	28	3
Reports of the PTE	556	23
Reports of the PFE	14	3
<b>Total</b>	<b>50 985</b>	<b>499</b>

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 2017, the SRP of general pension societies (PTE) for 2016 was carried out. The supervisory evaluation was made in relation to 12 PTE and its results were reported to the management boards of individual entities on 15 September 2017.

## 7. INSURANCE SUPERVISION

### SUPERVISORY REVIEW PROCESS (SRP) FOR INSURANCE UNDERTAKINGS

In 2017, the seventh edition of the Supervisory Review Process (SRP) for insurance undertakings was carried out. The SRP ratings for 2016 were assigned to 60 insurance/reinsurance undertakings, including 27 life insurance undertakings and 33 non-life insurance undertakings.

The SRP is a comprehensive process that uses all information available to the KNF Office regarding the insurance undertakings, including information obtained through licensing activities, off-site analysis and on-site inspections at the insurance undertaking as well as inquiries/surveys addressed to the insurance undertaking.

The SRP for insurance/reinsurance undertakings aims to assess the supervised entities in a structured manner and in accordance with defined criteria. It implements the requirements of Article 341 of the Act of 11 September 2015 on the business of insurance and reinsurance (i.e. Journal of Laws of 2017, item 1170, as amended) with regard to regular review and evaluation of activities of insurance/reinsurance undertakings, as well as EIOPA Guidelines on supervisory review process (EIOPA-BoS-14/179) with regard to Section III - 'Risk assessment framework'.

The main objectives of the SRP include:

- assessment of the quality requirements relating to the management system,
- assessment of the risks to which the insurance/reinsurance undertaking is or might be exposed,
- assessment of quality of the insurance/reinsurance undertaking's management of material risks, including assessment of the insurance/reinsurance undertaking's ability to assess those risks,
- assessment of compliance of the insurance/reinsurance undertaking with the law and prudential regulations,
- identification of irregularities in the business of the insurance/reinsurance undertaking,
- effective allocation of the KNF's resources to the areas and entities generating the highest risk,
- establishing the frequency of regular reporting to supervisors, as referred to in Article 312(2) of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (hereinafter: 'Delegated Regulation').

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

Due to the implementation of the Solvency II regime on 1 January 2016, the changing business environment, and bearing in mind the experience gained from the previous SRPs and the comments from insurance and reinsurance undertakings, including comments submitted by the Polish Insurance Association, the SRP methodology was changed. The main components of the SRP have not changed, i.e. each insurance/reinsurance undertaking undergoes risk assessment and materiality assessment, with the risk assessment being a product of the assessments for the following areas: aggregated risk, capital adequacy, and management.

However, the weights of the risk assessment areas have changed, namely :

- the weight of the aggregate risk assessment increased from 20% of the risk assessment to 35% of the risk assessment,
- the weight of capital adequacy increased from 30% of risk assessment to 35%,
- the weight of the management decreased from 50% of the risk assessment to 30% of the risk assessment.

Modifications of the weights resulted, among others, from changes in the manner of taking into account expert assessments concerning the quality of risk management or the quality of capital management. In the current methodology, unlike in previous versions, the assessment of each of the risks mentioned in the methodology (i.e. counterparty non-performance risk, market risk, actuarial risk, operational risk) and the assessment of capital adequacy take into account the quality of management. At the same time, Solvency II attaches great importance to proper management of risks, therefore it was necessary to increase the weight of the area relating to the aggregated risk.

Other important changes in the SRP methodology regarded:

- distinguishing operational risk within the aggregated risk, which includes, among others, exposures relating to IT systems, customer relations, legal risk,
- making the weight of each risk in the assessment of the aggregated risk dependent on the materiality of a given risk calculated on the basis of the values of the relevant modules of the Solvency Capital Requirement,
- alignment of the areas assessed in the management review with the provisions of Solvency II,
- separating the area of ‘business model’ taking into account both quantitative indicators and, among others, evaluation of the strategy, products and business,
- the inclusion of Solvency II based market share in the assessment of materiality, with business lines being affected by market partitioning,
- the inclusion of an adjustment to assess the materiality of a significant market share for any business line ( $\geq 25\%$ ).

## 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 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, and in particular the assessment of their solvency, is carried out mainly on the basis of the quarterly and annual financial and statistical reports of undertakings as well as data and information for supervisory purposes (QRT) and reports drawn up in accordance with Solvency II requirements and submitted by insurance/reinsurance undertakings.

Each of the additional financial and statistical reports submitted by insurance undertakings as well as the quantitative data and information is 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 undertakings was also monitored in 2017 on the basis of:

- analysis of additional annual financial and statistical accounts including Part B of financial statements, reports on intra-group transactions, co-insurance statistics and consolidated accounts (236 reports analysed),
- analysis of annual supervisory data and information (QRT) and solvency and financial condition reports (SFCR) for 2016 and regular surveillance reports (RSR) for 2016 (182 reports analysed),
- analysis of additional quarterly financial and statistical reports, including ‘Part B’ of financial statements (731 reports analysed),
- analysis of quarterly data and information for supervisory purposes (QRT) and quarterly data and information on the Solvency Capital Requirement (SCR) (486 reports analysed),
- analysis of the financial plans of insurance undertakings (a total of 62 financial plans were analysed),

- analysis of monthly reports on selected items of the financial statements prepared for accounting purposes (a total of 734 monthly pieces of information were analysed),
- analysis of monthly reports on the details of selected items of the financial statements prepared for accounting purposes and additional data on insurance guarantees (a total of 48 monthly pieces of information were analysed),
- analysis of monthly reports on intra-group transactions (24 monthly reports in total were analysed),
- analysis of additional weekly reports on insurance guarantees (a total of 24 weekly reports were analysed),
- analysis of reports on the IKE and IKZE (40 reports analysed),
- the analysis of 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/reinsurance undertakings in 2017, as in the previous years, was stable.

Among the activities carried out in 2017 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 2017 with the recommendation of the Chairman of the KNF, and of their impact on the results of insurance undertakings, 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 2018,
- 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),
- analysis of compliance by insurance undertakings with the Recommendations concerning the product management system,
- analysis of the outsourcing rules and procedures of the insurance undertakings with respect to their compliance with the conditions set out in the provisions of law and EIOPA Guidelines on system of governance,
- 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 the period between 2015 and Q2 2017 (in total 17 reports were analysed in that respect),
- 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.

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

- Report 'Results of the Supervisory Review Process (SRP) for insurance/reinsurance undertakings for 2016',
- Information on the implementation of recommendations concerning the product management system,
- Information on the implementation of product adequacy testing recommendations by insurance undertakings,
- Report on the condition of the insurance sector after Q3 2016,
- Activity of foreign insurance undertakings in Poland and domestic insurance undertakings abroad in 2015,
- Report on the condition of the insurance sector after Q4 2016,

- Financial plans of insurance/reinsurance undertakings for 2017,
- Report on the condition of the insurance sector after Q1 2017,
- Stress tests of insurance/reinsurance undertakings for the year 2016,
- Report on the activities of the Insurance Guarantee Fund in 2016,
- Reinsurance of domestic insurance undertakings in 2016,
- Report on the condition of the insurance sector after Q2 2017,
- Information on the activities of the supervisory authority and of insurance undertakings in respect of internal models of domestic insurance undertakings in 2017.

## SUPERVISION OF INSURANCE UNDERTAKINGS IN TERM OF COMPLIANCE WITH THE DISCLOSURE AND REPORTING OBLIGATIONS AND THE PROVISIONS OF LAW

Provisions governing the insurance business impose a number of disclosure requirements on insurance 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 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 undertakings.

Due to the fulfilment of the statutory disclosure requirements by the undertakings, in 2017 the analyses covered:

- annual reports (i.e. additional annual financial statements and statistical reports, Part B of the financial statements, data and information for supervisory purposes (QRT), data on co-insurance, information on intra-group transactions and consolidated accounts),
- individual and group reports on solvency and financial condition (in terms of compliance with the provisions of law and the EIOPA guidelines on disclosure),
- regular surveillance reporting (RSR),
- quarterly reporting by insurance undertakings (i.e. additional financial statements, 'Part B' statements, statistics, data and information for supervisory purposes (QRT)),
- information on unconfirmed transactions in derivatives,
- information on the implementation/change of outsourcing of functions within the management system and basic and/or important activities,
- information on a change of the person responsible for keeping the books of accounts,
- information on the selection of entities auditing the financial statements of insurance undertakings for 2017,
- 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 167 cases,
- publication of annual reports of unit-linked funds (PL: ubezpieczeniowy fundusz kapitałowy–UFK) as at 31 December 2016 on the insurance undertakings' websites (2 817 unit-linked funds operated by 23 insurance undertakings) and semi-annual reports of unit-linked funds as at 30 June 2017 (2 814 unit-linked funds operated by 23 insurance undertakings),
- information on individual retirement accounts (PL: IKE) and individual retirement protection accounts (PL: IKZE) as at 31 December 2016 (19 life insurance undertakings), and as at 30 June 2017 (21 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 2017, the implementation of the supervisory authority's post-inspection recommendations (33 cases) and recommendations to adapt the operations of undertakings to the provisions of law issued as part of ongoing supervision (1 case) was examined.

## EXAMINATION OF APPLICATIONS SUBMITTED BY INSURANCE UNDERTAKINGS AND REINSURANCE UNDERTAKINGS

In addition to the activities relating to the supervision of undertakings' operation, the Polish Financial Supervision Authority was also examining applications of the supervised entities for granting specific rights and/or for approval of certain activities subject to financial supervision.

In 2017, the KNF considered the following applications of insurance undertakings:

- for approval by the supervisory authority of the amount of supplementary own fund items (pursuant to Article 243(1) of the Act of 15 September 2015 on the business of insurance and reinsurance) – 1 set of proceedings concluded with a decision,
- to review a case in respect of approval by the supervisory authority of the amount of ancillary own-fund items – 1 set of proceedings concluded with a decision,
- to approve a short-term realistic financial plan (pursuant to Article 313(2) of the Act of 15 September 2015 on the business of insurance and reinsurance) – 1 set of proceedings concluded with a decision,
- to approve a realistic recovery plan (pursuant to Article 312(2) of the Act of 15 September 2015 on the business of insurance and reinsurance) – 1 set of proceedings concluded with a decision,
- to authorise the insurance undertaking to take the necessary measures to restore the level of eligible own funds to cover the Solvency Capital Requirement or to reduce the risk profile in order to ensure compliance with the Solvency Capital Requirement (under Article 491(1) of the Act on the business of insurance and reinsurance) – 1 set of proceedings concluded with a decision,
- exemption from the obligation to exchange collateral with respect to OTC derivative contracts within intra-group transactions (pursuant to Article 11(6) 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) - 1 procedure concluded with a decision,
- to authorise the extension of the maximum duration of the contract with the audit firm to 6 years – 2 proceedings concluded with a decision, 1 set of proceedings concluded with the return of the application.

In addition, 8 decisions were issued on the appointment of an entity within the capital group responsible for disclosing information on transactions within the capital group to the supervisory authority (the proceedings were initiated in 2016 and the deadline for resolving such cases had not expired by 31 December 2016).

In 2017, 8 decisions were issued to identify the types of intra-group transactions that insurance and reinsurance undertakings within a group would undertake and to set appropriate thresholds for the recognition of intra-group transactions as significant or particularly significant. For 1 insurance undertaking, a decision was taken to identify the risks that are subject to reporting and the relevant thresholds for considering risk concentrations to be significant.

In addition, the following proceedings were instituted in 2017 with the deadline for settling the case had not lapsed by 31 December 2017:

- proceedings for the granting by the supervisory authority of consent to the repayment of subordinated loans and loans classified as own funds (pursuant to Article 490(2) of the Act on the business of insurance and reinsurance),

- proceedings to identify the types of intra-group transactions that insurance and reinsurance undertakings within a group and to set appropriate thresholds for the recognition of intra-group transactions as significant or particularly significant.

## STRESS TESTS IN THE INSURANCE SECTOR

In 2017, 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.

Since early 2017, the KNF had verified the stress tests methodology in the insurance sector. Compared to the previous year, the methodology was fundamentally changed due to the fact that the provisions of the Act of 11 September 2015 on the business of insurance and reinsurance came into force on 1 January 2016. The stress tests for 2016 were carried out in accordance with the Solvency II valuation rules. The test scenarios were changed and the shocks were recalibrated. Some of the stress test scenarios, as compared to the previous year, were removed as they were determined within the framework of the calculation of the solvency capital requirement (SCR) based on the standard formula. In particular, that concerned the following risks: equity risk, expenses risk, mortality risk, longevity risk, lapse risk, catastrophe risk, credit risk - reinsurer bankruptcy, credit risk - concentration of assets, revision risk, currency risk. Instead, new scenarios were added, such as: an aggregate scenario for selected market risks, concentration and spread risks for government and municipal bonds, an aggregate scenario for catastrophe and reinsurer bankruptcy risks, and three scenarios regarding a change of the assumptions used for technical provision valuation for solvency purposes. In addition, life insurance undertakings performed additional stress tests regarding full reimbursement of surrender fees or equivalent charges over the duration of their insurance contracts (or the offsetting of their surrender value) for unit-linked insurance products classified in class 3 life insurance but IKE, IKZE and PPE. On 31 March 2017, the revised methodology of stress tests in insurance and reinsurance undertakings for 2016 was published on the Polish Financial Supervision Authority's website. On 3 April 2017, insurance and reinsurance undertakings were requested to carry out stress tests as at 31 December 2016 by 23 June 2017.

On the basis of the results and analyses, the KNF prepared a report, which included conclusions from the study and proposals of supervisory activities for individual insurance/reinsurance undertakings. The report was presented at the 367th meeting of the Polish Financial Supervision Authority on 29 August 2017. One of the outcomes of the study was the identification of insurance undertakings with higher risks, i.e. those that did not pass stress tests and their explanations were not sufficient. For those insurance undertakings, additional stress tests were requested as at 30 June 2017 with regard to the risks concerned.

## OUTWARD REINSURANCE OF INSURANCE UNDERTAKINGS

Due to the significant impact of catastrophe events on the activities of non-life insurance undertakings, the KNF Office assesses how such insurance undertakings mitigate the related risks. In order to perform the above-mentioned task, the KNF Office asked non-life insurance undertakings to provide additional information about the catastrophe reinsurance programmes for 2017 and a description of the reinsurance policy along with information on the risks not covered by the outward reinsurance contracts.

The analysis of responses of 34 insurance undertakings confirmed that when planning the reinsurance programme for catastrophe events insurance undertakings took into consideration a broader perspective despite of the results from individual years. Even though there were no major catastrophe events in Poland in 2016, most insurance undertakings did

not reduce their catastrophe reinsurance programme for 2017, and nearly half of them increased their reinsurance programme. In several insurance undertakings, an increased reinsurance programme was also associated with the intention to reduce the solvency capital requirement (SCR).

In 2017, a report on outward reinsurance of domestic insurance undertakings, including reinsurance of catastrophe events, was also prepared. The analysis of 32 questionnaires showed that the gross value of damages resulting from catastrophe events in 2016 was PLN 987.1 million, of which 73.8% were damages caused by natural catastrophe events. About 59.1% of gross damages from catastrophe events, i.e. PLN 583.4 million, were incurred by insurance undertakings, and 40.9%, i.e. PLN 403.7 million by reinsurers. In 2016, losses due to catastrophe events accounted for 5.4% of the gross amount of damages and benefits from direct insurance in non-life insurance undertakings<sup>16</sup>. The largest gross damages were incurred due to bad wintering of crops and spring frosts. Those gross damages amounted to PLN 438.2 million (44.4% of all gross damages from catastrophe events occurred in 2016), of which PLN 276.1 million were incurred by insurance undertakings (63.0% of gross damages on account of bad wintering of crops and spring frosts). It is worth mentioning that damages from bad wintering of crops and spring frosts, which took place in 2016, were shown only by three insurance undertakings, which signed agreements with the Ministry of Agriculture and Rural Development on the use in 2016 of subsidies from the state budget to agricultural insurance.

## PRE-APPLICATION PROCESSES FOR INTERNAL MODELS

The Solvency II regime gives insurance and reinsurance undertakings the opportunity to set up the solvency capital requirement in a manner 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 specified in the Act of 11 September 2015 on the business of insurance and reinsurance (Journal of Laws of 2017 item 1170, as amended) and other provisions of the 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, while the provisions of the Act on the business of insurance and reinsurance provide for a relatively short time to complete it (6 months). 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 actions carried out by the KNF in 2017 with regard to the internal models of domestic insurance undertakings were a continuation of the pre-application processes conducted since 2011.

As at 31 December 2017, 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 51.3% 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 second quarter of 2017). As at 31 December 2017, 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.

In 2017, the KNF Office continued its intensive and comprehensive activities for the assessment of internal models. The KNF Office presented the results of such activities to the undertakings as part of ongoing communication, which translated into further actions of the

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<sup>16</sup> Gross claims incurred increased by the gross change in the provision for outstanding claims.

undertakings leading to the elimination of critical errors and improvement of the models in terms of compliance with the provisions of Solvency II.

Moreover, in 2017, the representatives of the KNF Office participated in meetings at the international level, including colleges of supervisors and work of expert teams appointed by EIOPA. In addition, the KNF Office staff participated in the preparation of opinions on the draft reform of the European Supervisory Authorities, the European Systemic Risk Board and selected sectoral regulations and directives, as regards internal models, and were involved in the preparation of positions for the meetings of the Board of Supervisors of the EIOPA (BoS) on issues related to internal models.

Further work on the assessment of internal models (both national and international) will continue in 2018.

## OWN RISK AND SOLVENCY ASSESSMENT (ORSA)

In 2017, all the own risk and solvency assessment (ORSA) reports received by the KNF were fully compliant with the Solvency II system. The reports concerned either 2016 or 2017 but the total number of reports received in the calendar year is approaching the number of operating undertakings. This means that the timing of the assessment during the year and the reporting to the supervisory authority will stabilise (undertakings can choose themselves when the assessment is carried out, but this should be done on a regular basis). For the first time, a comprehensive assessment of the reports was included in SREP 2016 according to the criteria announced in the methodology. In the reports, the vast majority of undertakings estimate that they will meet the capital requirements within the business planning horizon. A systematic improvement in quality is observed by the supervisory authority in the assessment of the overall solvency needs, while the identification of significant deviations in the risk profile from the assumptions underlying the Solvency Capital Requirement requires further work for a number of undertakings. The identification of significant measurable risks has not changed fundamentally since last year, while as regards non-measurable risks, more undertakings highlighted cyber risks and compliance risks in relation to the introduction of new rules not linked to Solvency II.

At the end of 2017, the task force preparing the chapter regarding own risk and solvency assessment of the EIOPA Supervisory Review Process handbook completed its work (the KNF Office was actively involved in it), and formal approval is expected in the first quarter of 2018, which will enable the supervisor to apply the recommendations contained therein in the assessment of the reports from 2017.

## REVIEW OF THE SOLVENCY CAPITAL REQUIREMENT (SCR) STANDARD FORMULA

The European Insurance and Occupational Pensions Authority (EIOPA) launched, at the request of the European Commission, activities dedicated to the review of the Solvency Capital Requirement (SCR) standard formula. In its *Call for Advice*, the European Commission presented the issues which required re-analysis and, in some cases, recalibration of the parameters used in the SCR standard formula. Activities relating to the revision of the SCR standard formula are carried out by the EIOPA within the SCR Review Project Group (SCR PR).

At the time of activities in 2017, the main SCR PG's activity was to develop EIOPA's first set of advice to the European Commission (submitted to the European Commission in October 2017) and a draft of EIOPA's second set of advice, which will be finally submitted to the European Commission in February 2018. The documents developed by the SCR PG include 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 additional qualitative and quantitative information from insurance/reinsurance undertakings, national supervisory authorities and other stakeholders. In that regard, EIOPA has prepared the following studies:

- qualitative studies to collect input and comments from stakeholders during public consultations: a discussion paper (December 2016 - February 2017), a draft of the first set of advice (July - August 2017) and a draft of the second set of advice (November - December 2017),
- quantitative studies consisting in the development, validation and analysis of quantitative questionnaires for the purpose of collecting additional data, not included in the financial statements (statutory and under Solvency II) concerning: volume measure of premium and reserve risk (April 2017), strategic investments (September 2017), adjustment for the loss-absorbing capacity of deferred taxes (LAC DT) and interest rate risk (December 2017).

Representatives of the KNF Office are actively involved in the SCR PG's activities, 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 in works dedicated to the recalibration of the interest rate risk (providing substantive support) and to the considering of credit ratings in the setting of SCR,
- development of quantitative questionnaires for the purpose of collecting additional data not included in the statutory and Solvency II financial statements,
- coordination of EIOPA's study at the national level.

## 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 Polish Financial Supervision Authority 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 2017, covering the period between 1 January 2016 and 31 December 2016, showed that the PZU S.A. Capital Group still meets the criteria identifying it as a financial conglomerate. At the same time, the KNF is the body competent to act as the coordinator for the identified financial conglomerate. At the same time, the KNF upheld the administrative decision of 16 May 2017, according to which the PZU S.A. Capital Group is not subject to supplementary supervision specified in the Act on supplementary supervision over credit institutions, insurance undertakings, reinsurance undertakings and investment firms being part of a financial conglomerate.

## 8. ANALYTICAL ACTIVITIES

### 8.1. CREDIT INTERMEDIARIES, THEIR AGENTS AND NON-BANK LENDING INSTITUTIONS

Following the entry into force of the Act of 23 March 2017 on mortgage credit and the supervision over mortgage credit intermediaries and agents (Journal of Laws of 2017, item 819, hereinafter: 'the Mortgage Credit Act'), the KNF was obliged to license and supervise mortgage credit intermediaries and their agents, and to maintain the register of credit intermediaries in Divisions I and II and the register of non-bank lending institutions.

The KNF Office performs, among others, tasks related to:

- administrative proceedings for the authorisation of mortgage credit intermediaries,
- keeping registers of credit intermediaries in Divisions I and II,
- keeping a register of non-bank lending institutions.

Operating as a mortgage credit intermediary requires authorisation from the KNF. On the other hand, the activity of a credit intermediary in Division II, i.e. a consumer credit or a credit institution, is a regulated activity within the meaning of the Act on freedom of economic activity and does not require a permit from the KNF, but only an entry in the Register of Credit Intermediaries or the Register of Non-Bank Lending Institutions.

The scope of information contained in the registers and the deadlines for submitting an application for authorisation to conduct mortgage intermediation activity or an application for entry in the register of credit intermediaries or non-bank lending institutions are specified in the Act on mortgage credit and on supervision over mortgage credit intermediaries and agents, as well as in the Act of 12 May 2011 on consumer credit (Journal of Laws of 2016 item 1528). Pursuant to the provisions of the Mortgage Credit Act and the supervision over mortgage loan intermediaries and agents, entities which carried out credit intermediation activities before the date of entry into force of the Act, i.e. 22 July 2017, have 6 months from that date to apply to the KNF for authorisation to operate and for registration in the registers maintained by the KNF. Entities which intend to start operating as credit intermediaries or non-bank lending institutions should apply for authorisation or registration as credit intermediaries or non-bank lending institutions before starting commencing their operations in that field.

In 2017, the KNF received a total of 5 488 applications, including:

- 236 applications from mortgage credit intermediaries for authorisation to conduct the activity of mortgage credit intermediation and for an entry in the Register of Credit Intermediaries Division I,
- 5 099 applications from credit intermediaries for entry in the Register of Credit Intermediaries Division II,
- 153 applications from non-bank lending institutions to the Register of Non-Bank Lending Institutions.

It should be noted that mortgage credit intermediaries have submitted to the Register of Credit Intermediaries Division I approximately 2 500 cooperating agents.

In 2017, the following entries were made:

- 2 083 credit intermediaries to the Register of Credit Intermediaries Division II,
- 85 non-bank lending institutions to the Register of Non-Bank Lending Institutions.

49 decisions allowing to conduct credit intermediation activity as a mortgage credit intermediary were issued and an appropriate entry was made in the Register of Credit Intermediaries, Division I.

The entry in Division I of the Register of Credit Intermediaries (pursuant to Article 57 of the Mortgage Credit Act) encompassed also 90 credit intermediaries operating on behalf of one lender.

In addition, 127 written answers were given to enquiries about new legislation.

The Act on mortgage credit and on the supervision of mortgage credit intermediaries and agents allows for carrying out mortgage loan intermediation activities in the territory of the Republic of Poland, within the framework of cross-border activities or through a branch, by a mortgage credit intermediary and an agent having its registered office in another Member

State, but they must be allowed to carry out such activities and entered in the appropriate register in the home Member State.

The process of registration of credit intermediaries of Divisions I and II and non-bank lending institutions, under the Act of 23 March 2017 on mortgage credit and on supervision of mortgage credit intermediaries and agents (Journal of Laws of 2017, item 819), has been under way since 22 July 2017.

The Registers of Credit Intermediaries Divisions I and II are systematically supplemented and published on the Polish Financial Supervision Authority's website.

## 8.2. INTERNATIONAL COOPERATION

Involvement of the KNF in the 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 IV<sup>17</sup>, Solvency II<sup>18</sup> and MiFID II<sup>19</sup> CRR<sup>20</sup> and MiFIR<sup>21</sup>) 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.

### 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 2017, employees of the KNF Office participated in 39 meetings of 30 different colleges of supervisors.

With regard to cross-border banking groups, in 2017, the KNF Office participated in 20 meetings of 12 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

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<sup>17</sup> 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.

<sup>18</sup> 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.

<sup>19</sup> 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.

<sup>20</sup> 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.

<sup>21</sup> 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.

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.

According to the Bank Recovery and Resolution Directive (BRRD)<sup>22</sup> 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. 2017 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 Office took part in the 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 reporting period, the KNF representatives were involved in the work of 19 supervisory colleges for international insurance groups, participating in 15 meetings of colleges and 6 teleconferences. 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, the KNF introduced necessary amendments to the annexes to the Coordinating Agreement of the College of the PZU Group. The KNF, as the supervisor of the group, after consulting the members of the college and the group leader, issued the relevant administrative decisions. In addition, between 29 and 30 November 2017, the KNF organised a meeting of the College of Supervisors of the PZU Group.

Moreover, in 2017, the KNF representatives participated, as an observer, in two meetings of the EURIBOR and EONIA Supervisory College on rates.

Since April 2014, the KDPW\_CCP has been operating as the CCP pursuant to EMIR<sup>23</sup>. As a result, the KDPW\_CCP is under the supervision of the international college of supervisors, which includes representatives of the KNF. The 2017 meeting of the college was postponed until the first quarter of 2018.

### 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.

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<sup>22</sup> 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.

<sup>23</sup> 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.



Bilateral cooperation is facilitated by the memoranda of cooperation and exchange of information that the KNF signed with 58 foreign supervisory authorities (beside multilateral agreements within ESMA, IOSCO, and IAIS). In 2017, such agreements were signed with the Monetary Authority of Singapore, the Financial Supervisory Commission of Taiwan, and the China Banking Regulatory Commission.

## 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 2017 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.

One of the key topics that has emerged in this respect in 2017 is the reform of the European Supervisory Authorities (ESAs). The amendments proposed by the European Commission include, *inter alia*, a reshaping of the financing model of the ESAs, as well as an extension of their competences in various areas, including, in the context of ESMA, the extension of their supervisory powers. The reform will be further agreed by the EU Member States in 2018. The KNF participates in the process by supporting the Ministry of Finance in the preparation of positions and recommendations submitted later by the Polish representatives on EU forums.

A topic that has gained importance in the activity of the three European Supervisory Authorities is the issue of supervisory convergence, i.e. the convergence of supervisory practices in Member States. Given that the regulatory environment of the financial market in the European Union is largely based on European legislation (regulations, directives and delegated acts of the European Commission), 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 aim of work in the area of supervisory convergence is to identify and disseminate good practices as a model of conduct for national supervisory authorities. In 2017, the KNF Office 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 Analyses and International Cooperation Department 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 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.

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 schemes<sup>24</sup>,
- 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)

Due to the implementation of the Solvency II regime as of 1 January 2016, the structure of EIOPA and the scope of its activities have changed significantly. 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.

The KNF representatives participated in the activities of the EIOPA Board of Supervisors and 24 committees and working groups, dealing with issues such as insurance policy, financial stability, capital requirements for individual undertakings and groups, internal models, 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 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. In addition, the KNF was involved in consultations conducted by the European Commission regarding, among others, the revision

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<sup>24</sup> Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes.

of the automotive directive.<sup>25</sup> A great deal of work was put into the creation of subsequent chapters of the Supervisory Review Process 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, which in the first stage included the verification of the parameters of the standard formula.

## European Securities and Markets Authority (ESMA)

The KNF representatives participated in the activities of the ESMA Board of Supervisors, nine 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<sup>26</sup>, MiFIR<sup>27</sup>, EMIR<sup>28</sup>, SFTR<sup>29</sup>, BMR<sup>30</sup> as well as MiFID II.

Consultation papers have been prepared on, *inter alia*, the Prospectus Regulation<sup>31</sup>, the Money Market Funds Regulation<sup>32</sup>, SSR<sup>33</sup>, BMR, EMIR, MiFID II/MiFIR, CRAR<sup>34</sup>. A number of documents have also been developed to clarify the provisions of MAR, MiFID II/MiFIR, EMIR, UCITS<sup>35</sup>, AIFMD<sup>36</sup>, CSDR<sup>37</sup>, BMR and CRAR (so-called questions and answers). Guidelines to CSDR, guidelines under MiFID II/MiFIR on trading halts, guidelines on transaction reporting, order record keeping and clock synchronisation under MiFID II, guidelines on product governance and guidelines on the endorsement of credit ratings have been published.

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<sup>25</sup> 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 (Text with EEA relevance).

<sup>26</sup> Regulation (EC) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulations) 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.

<sup>27</sup> Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC.

<sup>28</sup> 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.

<sup>29</sup> 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.

<sup>30</sup> 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.

<sup>31</sup> 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.

<sup>32</sup> Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds.

<sup>33</sup> Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps.

<sup>34</sup> Regulation (EU) No 462/2013 of the European Parliament and of the Council of 21 May 2013 amending Regulation (EC) No 1060/2009 on credit rating agencies.

<sup>35</sup> Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions.

<sup>36</sup> Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010.

<sup>37</sup> 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 and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

In addition, several dozen opinions on compliance of pre-trade transparency waivers with MiFID II/MiFIR requirements and several opinions on position limits have been prepared and approved. A further 10 CCPs from third countries have been authorised to provide services in the EU in accordance with EMIR.

The debate focused on the impact of the UK's withdrawal from the EU and how to prepare supervisors from the EU27 for the challenges it poses. An opinion on general principles to support supervisory convergence and three sector-specific opinions to support supervisory convergence in the areas of investment firms, investment management and trading systems were adopted.

### European Systemic Risk Board (ESRB)

In 2017, 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 other European Supervisory Authorities in the stress testing process (developing scenarios) of selected financial market entities.

The General Board of the ESRB at its meeting in December 2017 decided to issue a recommendation on liquidity and leverage risks in collective investment undertakings across the European Union. The publication of the Recommendation in the Official Journal of the EU will take place after the finalisation of the procedures requiring the participation of the Council of the European Union.

In July 2017, the ESRB published its report on the implications of International Financial Reporting Standard No 9: Financial Instruments (IFRS 9).<sup>38</sup> A KNF representative was involved in drawing up the document. The report identifies key areas in which changes introduced by IFRS 9 will be significant and in which individual credit institutions or time periods may generate significant differences.

A comprehensive study on non-performing loans (NPLs) was also completed in 2017.<sup>39</sup> The recommendations contained in the report focus on limiting systemic risk related to the level of NPL in the banking sector in the Member States of the European Union. A KNF representative was also involved in the work of the team responsible for preparing the document. One of the important activities of the Council is also the development and publication in August 2017 of a report on the issues of resolution in the insurance sector – *Recovery and resolution for the EU insurance sector: a macroprudential perspective*.

## INVOLVEMENT IN REGULATORY REFORMS IN THE EUROPEAN UNION

The key subject in 2017 was the so-called 'banking package', that is proposals of amendments to basic banking regulations (CRD IV, CRR, BRRD, SRMR<sup>40</sup>) presented

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<sup>38</sup>

[http://www.esrb.europa.eu/pub/pdf/reports/20170717\\_fin\\_stab\\_imp\\_IFRS\\_9.en.pdf?acb236a065039240e5d620e51a76aa66](http://www.esrb.europa.eu/pub/pdf/reports/20170717_fin_stab_imp_IFRS_9.en.pdf?acb236a065039240e5d620e51a76aa66)

<sup>39</sup>

[http://www.esrb.europa.eu/pub/pdf/reports/20170711\\_resolving\\_npl\\_report.en.pdf?47123f10e203d6e84db8fca0e8522df5](http://www.esrb.europa.eu/pub/pdf/reports/20170711_resolving_npl_report.en.pdf?47123f10e203d6e84db8fca0e8522df5)

<sup>40</sup> 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.

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. Work on the revision of the banking package in 2017 continued to focus on finding compromise solutions within the EU Council. 2018 should be a crucial year for the finalisation of the proposal and should mark the end of the legislative process at EU level.

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.

### Banking Union

In November 2014, the Single Supervisory Mechanism (SSM) began operating as the first pillar of the so-called banking union. In 2016, the Single Mandatory Restructuring Council began implementing tasks of resolution, closing the next step in the realisation of the idea of the banking union. Due to the completion of work on the Force Restructuring Single Mechanism, which is the second pillar of the banking union, in accordance with the original project, what is left for the process to be completed is only the establishment and implementation of rules for the functioning of the third pillar of the union, i.e. the European Deposit Insurance Scheme (EDIS). The project presented in November 2015 assumed the creation of a joint fund, financed – similarly to the single resolution fund – from contributions made by the participating banks. Participation in the European Deposit Guarantee Scheme is to be mandatory for the euro area countries, with the possibility of joining by other Member States. Throughout 2017, work on the final form of the regulation, in which the KNF supported the Ministry of Finance in representing Poland's position on the issue, continued.

### Capital Markets Union

In June 2017, almost two years after the launch of the Action Plan on Building a Capital Markets Union, the European Commission issued a document updating and complementing the existing reform agenda. The new EU capital markets place a strong emphasis on sustainable and green financing. Bearing in mind that the financial sector is beginning to help investors who want to make sustainable investments in the selection of suitable projects and companies, the KNF's ambition is to take a leading role in the global effort to support such activities.

According to the mid-term review, significant progress has been made in the implementation of the 2015 Action Plan: two thirds of the 33 actions planned were implemented within 20 months. Among other things, agreement on two important legislative proposals was reached. The securitisation package will free up capacity on banks' balance sheets and create new financing opportunities for households and fast-growing businesses. The reform of venture capital funds will facilitate investment in innovative SMEs.

One of the new actions identified in the document is the creation of a Europe-wide product for individual pension provision, which will help citizens to finance their pensions. The Commission will also continue to work to improve Europe's financial supervision system, increase the proportionality of the rules for listed SMEs and investment firms, exploit the

potential of financial technology and promote sustainable investments. However, for the Capital Markets Union to succeed, the support of the European Parliament, the Member States and all market participants is essential.

## COOPERATION WITH INTERNATIONAL ORGANISATIONS

### International Association of Insurance Supervisors (IAIS)

In 2017, 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 Technical and Financial Stability Committee, and the Implementation Committee. In addition, the Authority was involved in work of 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 2017, representatives of the KNF became involved, among others, in work on the revision of the Insurance Core Principles (ICP), 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 Systematically Important Insurers (G-SII), and work on changes to the IAIS structure.

### International Organisation of Securities Commissions (IOSCO)

In 2017, representatives of the KNF took part in the work of nine permanent committees and working groups of the IOSCO.

In April 2017, the first Enhanced IOSCO Multilateral Memorandum of Understanding (EMMoU) applications were reviewed by the Screening Group, allowing supervisors to exchange information that goes well beyond the existing IOSCO Multilateral Memorandum of Understanding (MMoU). The report from one of the applications was prepared by an employee of the KNF Office.

Moreover, within the framework of the Committee 4 on Enforcement and Exchange of Information (C4), in view of the fact that in May 2018, 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) becomes operational, work was carried out to develop an administrative agreement enabling the exchange of information constituting personal data with third countries. The involvement of the representative of the KNF Office in the work on the agreement (both at IOSCO and ESMA levels) enabled the development of the content of the document containing the provisions essential from the point of view of the KNF Office.

### Cooperation within other international organisations

In 2017, 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. As part of the work of the Corporate Governance Committee, a representative of the KNF presented a proposal to include the subject of FinTech and regulatory challenges for capital market participants resulting from the dynamic development of innovative financial services in the work of the Committee. The proposal was supported by delegates from Asian countries (Malaysia, Korea, Indonesia) and, on the basis of the views expressed, the Committee secretariat was required to draw up a specific proposal in that regard. In 2017, in the framework of cooperation with the OECD,

representatives of the Polish Financial Supervision Authority (the KNF) met with an OECD expert mission implementing Poland's economic review.

The KNF is also a member of the [International Organisation of Pension Supervisors \(IOPS\)](#). In 2017, work of the Technical Committee of this organisation focused primarily on analysing the role of supervisors in the process of: preparing recommendations on the principles of pension supervision, supervision of investment management, including non-traditional, infrastructural and long-term investments, the role of supervisors in protecting consumer rights in pension schemes. Cooperation with the World Bank and the OECD, as part of projects and programmes implemented by them, takes place within the framework of the IOPS.

In 2017, the KNF representatives 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 KNF 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. As part of those contacts, representatives of the above-mentioned institutions held meetings with experts from the KNF Office several times in 2017, among others, to discuss the follow-up to the Financial Sector Assessment Programme (FSAP) planned for 2017-2018.

In 2017, 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 seminars for specialised groups of supervisory authority employees.

Two international seminars were held under the TIFS Initiative in 2017. The first one, devoted to the supervision of the insurance sector, entitled 'Capital adequacy, with special emphasis on meeting the requirements by insurers' gathered 24 participants from 15 countries. The other capital supervision programme, 'Market Abuse Regulation in Practice', brought together 23 representatives of supervisors from 16 countries.

### 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), experts of the KNF Office actively participated in training and advisory missions for Ukraine, and the society of the so-called Turkish Republic of Northern Cyprus.

### Development Cooperation Project for the National Bank of Ukraine

Within the framework of the Polish development cooperation programme of the Ministry of Foreign Affairs, in 2017, the KNF Office obtained funding for the implementation of the project 313/2017 ‘Strengthening institutional and operational capacities of the National Bank of Ukraine.’ The project was carried out for the benefit of the banking supervisory authority of the National Bank of Ukraine (NBU). The scope of the project included the preparation and successful completion by the KNF Office experts of 6 training and consulting missions in Kiev and 1 study visit of NBU representatives to the Polish supervisory authority which served to strengthen the competences of the supervisor of the Ukrainian banking sector and support the multi-dimensional institutional development of NBU.

#### Twining for non-banking supervision in Moldova

Between August 2015 and November 2017, the KNF Office successfully completed a twinning project for the benefit of the National Commission of Financial Markets of the Republic of Moldova (NCFM) within the framework of the European Neighbourhood Instrument (ENI). The project, with a budget of almost EUR 1.3 million, included the implementation of joint Polish and Moldovan supervisory activities under four components focused on strengthening NCFM supervisory functions and capacity to regulate non-bank markets in line with the EU acquis and best practices, developing a risk-based supervisory system for non-bank financial market participants to ensure the integrity of Moldova’s financial system, assisting in the establishment of effective supervisory mechanisms to protect investors and beneficiaries of non-bank financial services, and supporting the development of Moldova’s non-banking financial markets.

Within 2 years, the KNF Office experts (in cooperation with ad hoc experts from the NDS, TGE, BFG and UFG) carried out 62 specialist expert missions in Chisinau and 5 study visits of representatives of the Moldovan administration in Warsaw, including a review of regulations, analyses, training workshops, expert consultations, together with the preparation of over 100 documents to be used in Moldova’s supervisory activity, such as reports with recommendations, guidelines, manuals, workshop materials. With the expert support provided by the KNF Office, 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. The final report on the implementation of the project was submitted to the EU Delegation to Moldova for approval in November 2017.

## 8.3. 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 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 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 social 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,
- monitoring the advertising message concerning the supervised entities,
- supervisory activities in the field of market practices of the financial market entities,
- analytical activities related to standard contracts and product design,
- educational activities.

The KNF also provides financial market participants with the possibility of out-of-court settlement of disputes in the Arbitration Court functioning at the KNF.

## 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 Office 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 2017, the KNF Office received 5 586 signals regarding irregularities in the activities of the insurance, capital, banking, pension, payment service and credit unions (SKOK) sectors. Compared to 2016, in which 6 621 signals were received, a decrease in their number by almost 16% was recorded in the period covered by this report.

### Notifications concerning the banking sector entities

In the period covered by this report, the KNF Office received 2 540 letters concerning improper functioning of banking sector entities. Compared to 2016, the number of notifications regarding the banking sector decreased by almost 15%. The main issues were related to:

- maintaining bank accounts (notifications concerned primarily irregularities related to account blocking due to bailiff execution, the amount of the payment account fees, lack of execution or late execution of client orders, as well as issues related to incorrect settlement of operations on the account and lack of execution or late execution of the order to close the account),
- 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 (irregularities resulting from the handling of the agreement were signalled, as well as issues related to the amount of fees and commissions charged by banks and the amount of interest on loans were reported),
- the handling of payment instruments (the reports concerned mainly irregularities regarding the method and/or date of settlement of transactions made with cards).

**Table 76. Division of notifications received by the KNF Office and relating to the activities of the banking sector entities in the years 2016-2017**

Type of entity	2016	%	2017	%
Commercial banks	2 865	96.21%	2 407	94.76%
Cooperative banks	113	3.79%	124	4.88%
EU credit institution branches	0	0.00%	2	0.08%
EU cross-border credit institutions	0	0.00%	7	0.28%
<b>Total</b>	<b>2978</b>	<b>100.00%</b>	<b>2540</b>	<b>100.00%</b>

Source: KNF's own calculations

Division of notifications received by the KNF Office in the years 2016-2017 in terms of their subject, concerning activities of commercial and cooperative banks is presented in Tables 6.1. and 6.2. in Appendix 6.

#### Notifications concerning payment service sector entities, other than banking sector entities and credit unions

In 2017, 53 notifications concerning irregularities in the provision of payment services by entities other than banks and credit unions were received. The issues raised in those notifications were related primarily to improper or incompetent client service and subsequently the non-execution or untimely execution of the transaction. Compared to 2016, the number of notifications concerning payment services provided by entities other than banking sector entities and credit unions decreased by almost 34%.

#### Notifications concerning the entities of the credit unions sector

In the period covered by this report, 78 notifications related to credit unions were received. Compared to 2016, the number of notifications dropped by almost 45%.

The issues raised in those notifications concerned, among others:

- servicing of credits and loans (including, first of all, problems with debt collection and sale of debts),
- maintaining accounts (including issues related to fees charged for maintaining and servicing accounts, as well as SKOK activities after member's death).

Division of notifications received by the KNF Office in the years 2016-2017 in terms of their subject, concerning activities of credit unions is presented in Table 6.3. in Annex 6.

#### Notifications concerning the insurance sector entities

In the period covered by this report, a total of 2 295 notifications concerning activities of the insurance sector entities, including 233 notifications concerning insurance undertakings offering life insurance (10.15% of all signals reported in this sector), 1953 notifications concerning insurance undertakings offering non-life insurance (85.10% of all signals reported in this sector) and 55 notifications concerning insurance intermediaries (2 notification related to the activities of brokers and 53 notifications related to the activities of insurance agents), as well as 30 notifications concerning the activities of branches of insurance undertakings of EU Member States (including 5 notification regarding life insurance and 25 notifications

regarding non-life insurance) and 24 notification on the activities of notified insurance undertakings of EU Member States (1 related to life insurance and 23 related to non-life insurance) were received. The number of notifications concerning the activities of insurance sector entities, compared to their number in 2016, decreased by almost 14%, while in the case of insurance undertakings alone this decline was less than 13%.

**Table 77. Division of notifications received by the KNF Office related to activities of the insurance sector entities in the years 2016-2017**

Type of entity	Division	2016	%	2017	%
Insurance undertakings in Poland	I	390	14.62%	233	10.15%
Insurance undertakings in Poland	II	2 116	79.34%	1 953	85.10%
Branches of insurance undertakings of EU Member States	I	3	0.11%	5	0.22%
Branches of insurance undertakings of EU Member States	II	126	4.72%	25	1.09%
Notified insurance undertakings of EU Member States	I	0	0.00%	1	0.04%
Notified insurance undertakings of EU Member States	II	3	0.11%	23	1.00%
Insurance agents	-	25	0.94%	53	2.31%
Insurance brokers	-	4	0.15%	2	0.09%
<b>Total</b>	-	<b>2667</b>	<b>100.00%</b>	<b>2295</b>	<b>100.00%</b>

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, issues related to the valuation of units of unit-linked funds or the way an insurance undertaking invests, as well as issues related to the amount of policy redemption in the event of early termination of a contract, and reservations regarding the manner of performing the 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:

- 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,
- irregularities in the claim handling process.

Division of notifications received by the KNF Office in the years 2016-2017 in terms of their subject, concerning life insurance undertakings in Poland 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 Office in the period covered by this report.

#### Notifications concerning the pension sector entities

In 2017, 18 notifications on incorrect functioning of the pension sector entities were received, including 17 notifications concerning open pension funds (OFE) and 1 notifications related to a voluntary pension scheme. Compared to 2016, there was a nearly 38% decline in the number of notifications related to the issues of social security, while in the case of open pension funds alone, the number of notifications decreased by more than 29%.

Notifications concerning the activities of the OFE received by the KNF Office related mainly to the problems of obtaining payment of funds from the account of deceased members of the OFE by authorised persons.

Division of notifications in this area in terms of their subject is presented in Table 6.8 in Appendix 6.

#### Notifications concerning the capital market entities

In the period covered by this report, 620 notifications concerning the functioning of capital market entities were received. Compared to 2016, the number of notifications dropped by almost 18%.

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 investment policy pursued by these entities, and to a lesser extent the quality of services provided or the timeliness of the execution of orders.

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 78. Division of notifications received by the KNF Office relating to activities of the capital market entities in the years 2016-2017**

Type of entity	2016	%	2017	%
Public companies and other capital market participants	236	31.34%	318	51.29%
Investment Fund Management Company (TFI)	339	45.02%	170	27.42%
Investment firms	73	9.69%	65	10.48%
Foreign investment firms	67	8.90%	35	5.65%
Managers of securitisation fund assets	32	4.25%	24	3.87%
Companies operating the exchange/the exchange market	4	0.53%	7	1.13%
Distributors of units, entities other than conducting brokerage	1	0.13%	1	0.16%
Companies operating the commodity exchange	1	0.13%	0	0.00%
<b>Total</b>	<b>753</b>	<b>100.00%</b>	<b>620</b>	<b>100.00%</b>

Source: KNF's own calculations

Division of notifications received by the KNF Office in the years 2016-2017 in terms of their subject, concerning activities of the capital market entities by market segment, is 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

Monitoring of market practices adopted by entities subject to supervision of the KNF, directed at their clients, is a consequence of a comprehensive approach to the issues of protection of the interests of non-professional financial market participants.

Actions taken by the KNF in 2017 were aimed at identifying and eliminating market practices which generated significant legal risks for financial institutions, and in particular practices

which violated the law or the interests of non-professional financial market participants in a given area, by applying appropriate supervisory measures or inspiring market self-regulation. A number of actions undertaken by the KNF with regard to market practices of the supervised entities included, in particular, the following:

**Analysis of the content of selected standard insurance agreements, concerning the so called 'electronic equipment', in relation to the provisions defining the scope of liability of an insurance undertaking (including exclusions of liability), with particular emphasis on issues related to the definition of the so-called 'external event'.** In connection with the report of the Financial Ombudsman entitled 'Insurance of electronic equipment' published in November 2016 and in connection with the notifications from non-professional financial market participants received by the KNF Office, written requests were addressed to selected domestic insurance undertakings, branches of foreign insurance undertakings and foreign insurance undertakings to provide the General Insurance Terms and Conditions meeting the following conditions: the subject of the insurance indicated in the General Insurance Terms and Conditions was only consumer electronics or household equipment; the General Insurance Terms and Conditions applied to individual insurance agreements concluded on 20 June 2017 or to the Insured who on 20 June 2017 were covered by insurance under group insurance; entities performing insurance mediation when concluding individual insurance agreements or entities being policyholders under group insurance agreements were entrepreneurs conducting business activity related to retail sales of consumer electronics or household equipment (also via mail order outlets or Internet) or telecommunication business owners. In connection with the foregoing, the KNF Office analysed 75 general terms and conditions of insurance of so-called 'electronic equipment', which were provided by 7 domestic insurance undertakings, 4 branches of foreign insurance undertakings and 2 foreign insurance undertakings. The analysis of the provisions of General Insurance Terms and Conditions defining the scope of liability of insurance undertakings was carried out in terms of compliance of those provisions with the provisions of law – *inter alia*, with Article 15(3) of the Act of 11 September 2015 on the business of insurance and reinsurance (consolidated text in: Journal of Laws of 2017, item 1170, as amended) and with Articles 1<sup>1</sup>-385<sup>3</sup> of the Act of 23 April 1964 – The Civil Code (consolidated text in: Journal of Laws of 2017, item 459, as amended). The analysis showed that there was a possibility of irregularities consisting, among others, in formulating provisions of General Insurance Terms and Conditions in an ambiguous manner or using provisions which might constitute prohibited contractual terms. In 2018, the KNF Office will undertake follow-up measures based on the findings of its analysis.

**Analysis of 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 (Journal of Laws of 2017, item 1170, as amended), i.e. defining in a life insurance agreement linked to an insurance capital fund referred to in Division I in class 3 of the Annex to the said Act, details and amounts of fees deducted from insurance premiums, from assets of insurance capital funds or by redemption of participation units of insurance capital funds, as well as the performance of the obligation resulting from Article 24(1) point 7 of the said Act, i.e. the manner of defining in a life insurance agreement, in which the benefit is calculated on the basis of specified indices or other base values, referred to in Division I in class 3 of the Annex to the said Act, details and amounts of fees charged by the insurance undertaking.** The KNF Office analysed 785 model agreements (including General Insurance Terms and Conditions, Capital Fund Insurance Regulations, Table of Fees and Limits, Model Insurance Policies) on the basis of which on 20 June 2017 insurance undertakings concluded individual life insurance agreements related to an insurance capital fund, as well as individual life insurance agreements in which the amount of benefits is determined on the basis of specified indices or other base values, or accepted the insured for insurance in connection with group agreements of the aforementioned life insurance with an investment element. Model agreements were submitted by 20 insurance undertakings performing insurance activity referred to in Division I, class 3 of the Annex to the Act of 11 September 2015 on the business of insurance and reinsurance (Journal of Laws of 2017, item 1170, as amended). The model agreements submitted were analysed by examining whether the insurance

undertakings fulfil the obligations resulting from Article 23(1) point 5 and Article 24(1) point 7 of the said Act. The analysis revealed that it was possible to prepare several model agreements in breach of the provisions of the said Act. In 2018, the KNF Office plans to take further action based on the results of its analysis.

**Issuing recommendations to one of the insurance undertakings in connection with the determination of a practice consisting in infringement of the interests of policy holders, the insured and the beneficiaries under insurance contracts, understood as the right to obtain information and documents collected without delay in order to determine the liability of the insurance undertaking or the amount of compensation or benefit.** While performing its supervisory tasks over national insurance undertakings, the supervisory authority, on the basis of the analysis of the documentation and in the course of its investigations into the cases referred to it by the complainants, identified significant delays on the part of the insurance undertaking in making the information and documents collected affecting the determination of liability or the amount of compensation under the compulsory motor vehicle liability insurance contract and the civil liability insurance for land vehicles requested by the insurers by paper or electronic correspondence available to authorised persons.

When analysing the objections and explanations received by the supervisory authority from the insurance undertaking, numerous cases of tardiness in making the information available were found. Those recommendations have therefore been addressed to the insurance undertaking.

**Analysis of compliance by banks and credit unions with the obligations resulting from Article 92ba-92bd of the Banking Act and Articles 13d-13f of the Act on SKOK (providing applicants with collective information on accounts).** The analysis was carried out in connection with the obligations imposed on the Polish Financial Supervision Authority by Article 133(1) point 8 and Article 138(1) item 10 of the Banking Act and analogous solutions adopted in Article 67(8) and Article 71(1) point 6 of the Act on SKOK, as well as in connection with the complaint signals received. The purpose of the analysis was to verify compliance by banks (especially cooperative banks, which appeared most frequently in the lists of entities that did not reply to the Central Information) and the credit unions with the obligation to provide answers within the Central Information and to prepare aggregate information on accounts by these entities. It should be concluded from the findings that there is an inconsistent practice on the part of entities to transmit data to the Central Information in cases where they do not and did not keep an account for a given holder. In fact, there are cases where entities in such a situation do not send any information to the Central Information or send information that they do not maintain an account for a given holder. A non-uniform practice, together with the inclusion of information not required by the Banking Law or the Act on SKOK on entities that did not provide a reply to the Central Information in the summary form, misleads the recipients of the information.

The explanations provided by banks and credit unions show that the vast majority respond in a timely manner to enquiries made via the Central Information Service. Taking into account the circumstances mentioned above, further steps are being taken to harmonise the practice of banks and credit unions to transmit (or not to transmit) information to the Central Information in the event of failure to maintain an account for a given holder.

**Analysis of the practice of selected entities with regard to closing consumer bank accounts following the instruction to close a bank account.** In the light of the signals received from bank customers, which may point to inappropriate practices by banks in the execution of customer instructions to close a bank account, the practice of closing bank accounts in relation to consumer customers was analysed. The analysis covered a group of 10 banks, based on the scale of operations of the entity and the number of received complaint signals. On the basis of the information obtained from the banks, it was found that in each of the analysed entities the most frequent problem was delay in the execution of instructions to close accounts. The analysis shows that all the analysed entities face the problem of delays in the procedure of customer instructions concerning account closure. In the case of five of the banks surveyed, the problem is negligible, as it oscillates around 2% or below; in two of the banks, cases of delays in the execution of closing instructions were much more frequent and oscillated around 15% and 40%, respectively. However, in most cases the scale of irregularities is

marginal, as the estimation of the number of closed accounts and complaints related to this process to the number of delays is relatively low and oscillates at the level of a few per milles.

**Analysis of the status of preparedness of payment service providers to meet their obligations under the Act on payment services implementing the Payment Accounts Directive (PAD).**

The analysis was carried out in connection with an amendment to the Act on payment services (APS), which implemented the provisions of the Payment Accounts Directive (PAD), and supervision by the KNF of the payment account with basic features, provision of the switching service, and the fulfilment by payment service providers of information obligations related to the payment account. The analysis of the received materials indicates that all the surveyed entities undertook measures to fulfil their obligations resulting from the implementation of PAD, in particular with regard to adjusting internal regulations, preparing drafts of selected documents, as well as measures to adjust their IT systems to the requirements of the amended APS. The vast majority of entities indicated the date of 8 August 2018, i.e. the statutory deadline, as the date of completion of the activities and making the basic account and the payment account transfer service available. This means that neither the banks nor the credit unions – in the vast majority – intend to make the basic account available to consumers at an earlier date. Further monitoring of the readiness of entities to fulfil the obligations covered by the analysis will be carried out, including as regards informing consumers about proposed changes in contractual terms, in order to fulfil the obligations referred to in Article 20a, Article 20b, Article 32b-32d, Article 59ia-59ie, Article 59ig, Article 59ii-59iq of the APS.

**Analysis of banks' practice of application of Regulation (EC) No 924/2009.** The analysis was carried out in relation to signals from bank customers indicating possible non-compliance with the provisions of Regulation (EC) No 924/2009 as amended by Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009. The analysis shows that banks do not charge higher prices for cross-border transfers within the Single Euro Payments Area (SEPA) than for domestic transfers in the same currency and that the cases reported by customers were individual. The results of the analysis show that banks have complied with Regulation (EC) No 924/2009, as amended by Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009, and that most banks had their fees levelled out prior to the amendment to Article 3(1) of Regulation (EC) No 924/2009.

## OTHER ACTIONS OF AN INDIVIDUAL NATURE RELATING TO THE ELIMINATION OF MARKET PRACTICES WHICH ARE DETRIMENTAL TO THE INTERESTS OF CLIENTS OF FINANCIAL INSTITUTIONS

**Miscalculation of base rates being a variable accepted for interest on mortgage loans:** the bank incorrectly calculated base rates being the basis for determining the interest rate on mortgage loans. Between December 2011 and March 2015, one of the specialist branches experienced irregularities in the calculation of base rates, resulting in an overstatement (and sometimes understatement) of mortgage loan interest rates. The error concerned 3 462 loan agreements and the total amount of reimbursement due to the borrowers was CHF 822 363. The bank's resolution actions are aimed at all customers affected by the failure and are expected to be completed in April 2018 due to the scale of the problem.

**Irregularities in the conclusion of a bank product agreement via courier:** the courier of the company that cooperates with the bank misinterpreted the provisions of the checklist specifying particular activities when delivering shipments to customers applying for the bank product and demanded from the customers a photocopy of the identity card (which was not required by the bank). The courier company conducted additional training for all couriers in procedures similar to the required procedures for delivery of this type of parcels, and the bank corrected the entries on the applicable checklist, so as to eliminate any doubts in this respect. In order to raise customers' awareness, the Bank also supplemented the

'Information Guide', provided to customers before concluding an agreement for a banking product describing the rules of concluding agreements with the Bank, with information on the basic safety rules applicable during a courier visit.

**Lack of possibility to make tax transfers by means of e-banking systems:** the bank, since the introduction of the cut-off date for the Customs Chambers, has not ensured the possibility to make tax transfers from the level of online banking in respect of intra-Community acquisition of motor fuels (VAT14) and excise tax (AKC4). Having diagnosed the existing irregularities in the bank's main IT system and Internet banking application, the bank eliminated the irregularities.

**Failure to execute an FX transaction due to a technical failure while allowing the client to print an acceptance confirmation:** the problem was that the FX transaction was interrupted due to a technical failure at a stage where the client could print an acceptance confirmation, while the transaction itself had not been assigned the completed status. However, the client had the opportunity to download a document confirming the transaction, which erroneously indicated that it had been concluded with the bank. Although such transactions are monitored and verified by the bank through special reports sent to the clearing team, in order to correct them, the following transactions are not subject to the following conditions and completion – due to the failure of the database and the need to reboot the database management system, such a request for the transaction in question was not generated and the transaction was not settled on that day. In order to eliminate the risk of such cases, the bank launched an additional verification of the transaction statuses and communicating them to the team responsible for settling them.

**Processing of clients' data for marketing purposes:** the bank accepted a solution that the client's request for not processing his data for marketing purposes is fulfilled no later than within 14 business days from the date of receiving the request. As a result of the actions taken and after the position of the Inspector General for the Protection of Personal Data (GIODO) had been communicated, the bank changed its internal procedures and practice in that respect.

**Incorrect settlement of customer liabilities in the event of early repayment of a credit:** due to the introduction of a major technological change, the bank did not settle the fully repaid loan on the statutory maturity date. The bank manually verified the correctness of settlement by the IT system and undertook actions aimed at introducing amendments to the new system in order to correctly settle loans in the event of their full repayment. Post-implementation errors also concerned the area of credit cards (presentation of an incorrect minimum amount), insurance (delays in the completion of insurance resignations), presentation of erroneous data in schedules for the repayment of amended credit agreements (upon amendment of agreement terms and conditions).

**Providing the commune (PL: *gmina*) of the last place of residence with details of the holder's account in case of disclosure of the heirs:** Article 111c of the Banking Act (analogous provision in the Act on SKOK) obliges the banks, in case of termination or expiry of the bank account agreement for the reasons referred to in Article 59a(1-3), to inform the commune of the last place of residence of the account holder, among others, of the date when the bank was informed about the death of the bank account holder, the date of the last instruction, the amount of funds accumulated on the account, the possibility of inheritance acquisition by the commune. The above-mentioned regulations specify the obligation of the bank to provide the commune with information (and similarly a credit union) even if the account holder lives but did not use the account for a specified period of time and thus did not give instructions concerning the account, and also if the heirs come to the bank (or a credit union). Providing the commune with extremely detailed data covered by banking/professional secrecy when the account holder is alive or when it is unknown whether the commune will be the heir is not in line with the legislator's intention. The KNF Office asked the Ministry of Finance to consider legislative changes and to clarify the provisions of law in question.

**Unreasonable charging for field visits to customers:** one of the banks unjustifiably charged and collected from borrowers fees in the amount of PLN 150 for 'a visit at a client's – credit monitoring'. The bank charged its customers for field visits despite the fact that the bank's



employees did not meet such obligations. Fees were collected from 37 576 clients. The bank decided to accept all related complaints.

**Identity theft and credit fraud for the purpose of financing purchases on an online platform:** in the case of loans processed as part of an online purchase platform, the customer's identity was verified on the basis of a PLN 1 transfer from another bank; on the basis of the data contained in the transfer, the compliance of the customer's address with the address from the transfer and the customer's first and last name were verified. The NRB number from which the transfer was made had to be consistent with the number declared by the customer in the credit application. In order to eliminate the problem, the bank revised the procedure of automatic acceptance of applications for instalment loans, implemented a group of rules for a given channel aimed at tightening the process of financing the project: it undertook actions aimed at introducing an automatic verification of the customer's identity in the RDO/PESEL database at the stage of making a decision on granting a loan.

**Monitoring clients' compliance with the requirements necessary to use the free account offer:** the bank charged fees for maintaining the account, despite the clients' compliance with the conditions required to receive the offer. The bank made corrections of wrongly collected fees only after 2 days, which e.g. resulted in charging interest on the account overdrawn by a fee. The bank unreasonably charged a fee to 10 777 customers, but verified the charges and in 1 583 cases returned overdraft interest.

**Accepting an instruction to make a contribution in case of death on a joint account:** a bank, contrary to Article 57 of the Banking Act, accepted an instruction to make a contribution in case of death from one of the co-owners of the account to joint accounts. The bank undertook to change its practice so that instructions on death would only apply to individual accounts and would comply with legal provisions.

**Analysis of the reliability of the advertising message of the supervised entities.** In order to protect the interests of non-professional financial market participants from unreliable advertising information, the KNF monitored advertising messages by reviewing information and advertising materials published by, on behalf of or for entities supervised by the KNF. The monitoring covered advertising and commercials published and broadcast in selected press titles and television channels. The websites of the supervised entities, as well as those of popular portals where advertising messages are disseminated, were reviewed at random. A snapshot review of advertising leaflets and information forms of supervised entities was also carried out. In addition, information on irregularities sent by recipients of financial services was analysed, among others, by means of a form made available on the KNF's website, enabling the transmission of signals about suspicious advertising messages. The evaluation of the advertising message was aimed at determining whether the content examined did not infringe legal regulations or the interests of non-professional financial market participants, in particular whether it did not mislead the recipients of the advertisement at the pre-contractual stage.

## 8.4. ARBITRATION COURT AT THE POLISH FINANCIAL SUPERVISION AUTHORITY

### DEVELOPMENT OF THE COURT

The Arbitration Court at the Polish Financial Supervision Authority (hereinafter: 'Arbitration Court') was established in 2008. All proceedings before the Arbitration Court are voluntary. This means that the condition for initiating such 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.

The analysis of data concerning the activity of the Arbitration Court shows that the dynamic development of the Arbitration Court is mainly related to mediation proceedings. In 2017, the Arbitration Court received over 2 900 requests for mediation. This represents an increase of

65% in the number of applications submitted compared to the previous year. 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 (an increase of 66% compared to the previous year). This shows the ever-increasing popularity of this amicable form of dispute resolution among both consumers and financial institutions. Very high effectiveness of mediation conducted within the framework of the Arbitration Court should be emphasised. In more than 80% of these cases, the mediation resulted in a settlement agreement.

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,
- lack of complete information, including unreliable fulfilment of disclosure requirements,
- the execution of the credit or loan agreement.

## PROMOTION ACTIVITIES

In March 2017, the awards were presented for the third time to the Mediator-friendly Financial Institution, 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. The following financial institutions participating in mediation at the Mediation Centre of the Court of Arbitration received awards: PZU S.A., Vienna Life TU na Życie S.A. Vienna Insurance Group, Generali TU S.A., and Bank Pocztowy S.A.

In December 2017, the Award Committee of the Ambassador of Mediation in the Financial Market Award adopted a resolution to honour the company with an award ceremony planned for the second quarter of 2018. The purpose of the award 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 Court of Arbitration who through their conduct and involvement significantly contribute to the amicable settlement of disputes.

In Q4 2017, activities were undertaken with a view of developing a material promoting the amicable settlement of disputes within the framework of the Arbitration Court. The activities are expected to be completed in Q1 2018.

## AMENDMENT TO THE RULES OF PROCEDURE OF THE ARBITRATION COURT AT THE KNF AND THE NEW TERM OF OFFICE OF ARBITRATORS AND MEDIATORS

On 13 June 2017, the Polish Financial Supervision Authority adopted Resolution No 232/2017, which amended the Rules of the Arbitration Court at the KNF. The purpose of the resolution was, in particular, to adjust the operation of the Arbitration Court to the requirements set out in the Act of 23 September 2016 on out-of-court settlement of consumer disputes (Journal of Laws of 2016, item 1823).

In 2017, the current term of office of the arbitrators and mediators of the Court of Arbitration expired.

In view of the foregoing, the Chairman of the KNF appointed arbitrators and mediators for the next term of office in 2017-2021 by virtue of the orders of 2 October 2017, and on 23 October 2017 the first meeting of the General Assembly of the Arbitration Court of the new term of office was held. On the same day, the Chairman of the Polish Financial Supervision Authority appointed Prof. Aleksander Chłopecki, PhD to the position of President of the Arbitration Court.

### Table 79. Requests submitted to the Arbitration Court (AC) at the KNF in the years 2016-2017

Detailed list	Total		Arbitration		Mediation	
	2016	2017	2016	2017	2016	2017
Year						
Requests	1 806	2 964	31	23	1 775	2 941
Permissions	613	1 020	2	4	611	1 016
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)	80	43	0	0	80	43
Refusals	702	1 349	26	12	676	1 337
Others (withdrawal of, or failure to complete, an application by the applicant, no contact with a party)	7	13	1	1	6	12
Cases in progress (no response from the other party regarding permission to mediation/arbitration)	404	539	2	6	402	533

Data as of 31 December 2017

Source: own calculations by Arbitration Court at the KNF

**Table 80. Requests submitted to the Arbitration Court at the KNF in 2016 by sector of the financial market**

Financial market sectors	2016	2017
Insurance	1 666	2 458
Banking	126	497
Capital	5	3
Other	9	6

Data as of 31/12/2017

Source: own calculations by Arbitration Court at the KNF

## 9. REGULATORY AND PRUDENTIAL ACTIVITIES

The most important regulatory and prudential tasks completed in 2017 included development of new prudential resolutions and recommendations of the KNF.

### 9.1. RESOLUTIONS OF THE KNF

[KNF RESOLUTION NO 112/2017 OF 11 APRIL 2017 ON RECOMMENDATIONS FOR THE APPLICATION OF THE EBA GUIDELINES ON PRODUCT OVERSIGHT PRINCIPLES AND GOVERNANCE ARRANGEMENTS FOR RETAIL BANKING PRODUCTS](#)

On 11 April 2017, at its 350th meeting, the KNF unanimously adopted Resolution No 112/2017 of the KNF *on recommendations for the application of the EBA Guidelines on product supervision rules and management arrangements for retail banking products*.

In the Resolution, the KNF recommends to cooperative credit unions, national payment institutions and national electronic money institutions to apply the Guidelines to new or substantially altered products and to ensure compliance with the Guidelines by distributors of those products. Similarly, the KNF recommends that banks ensure that distributors of their products comply with the Guidelines.

In order to limit the risk of unequal treatment of entities operating in the Polish market and to limit the scope for regulatory arbitrage, the Authority, guided by the general good principle, expects branches of credit institutions in Poland to also apply the EBA Guidelines. The KNF expected the recommendations to be implemented by 31 December 2017 at the latest.

#### KNF RESOLUTION NO 319/2017 OF 1 AUGUST 2017 AMENDING THE RESOLUTION ON THE PROCEDURE FOR SUPERVISION OVER BANKING ACTIVITIES

On 1 August 2017, at its 365th meeting, the KNF unanimously adopted a resolution amending Resolution No 312/2012 of the Polish Financial Supervision Authority of 27 November 2012 regarding *the procedures of exercising supervision over banking activities*. The amendment to the resolution was aimed at adapting the manner in which the KNF and the KNF Office performed their supervision tasks over cooperative banks to the functioning of these entities – in accordance with the Act of 7 December 2000 *on the functioning of cooperative banks, their affiliation and affiliating banks* (Journal of Laws of 2016, item 1826, as amended) – in institutional security systems, outside security systems and on an independent basis - in institutional security systems, outside security systems and on an independent basis.

The amendment also took into account the provisions of Article 326(2) of the Act of 10 June 2016 *on the Bank Guarantee Fund, deposit guarantee scheme and compulsory restructuring* (Journal of Laws of 2016, item 996, as amended) by specifying that post-inspection recommendations – where the audited entity implements a resolution programme, a recovery plan or in the event of a threat of loss – are also communicated to the Bank Guarantee Fund.

## KNF RESOLUTION NO 493/2017 OF 21 NOVEMBER 2017 ON THE APPLICATION OF THE GUIDELINES OF THE EUROPEAN BANKING AUTHORITY ON REMUNERATION POLICIES AND PRACTICES FOR THE SALE AND DISTRIBUTION OF RETAIL BANKING PRODUCTS AND SERVICES

On 21 November 2017, at its 375th meeting, the KNF unanimously adopted a resolution *on the application of the European Banking Authority's Guidelines on remuneration policies and practices with respect to the sale of the following products and the distribution of retail banking products and services*.

The resolution contains the KNF's expectation that the cooperative savings and loan funds and mortgage loan intermediaries will take into account EBA guidelines in their activities no later than by 1 July 2018.

In order to limit the risk of unequal treatment of entities operating in the Polish market, the KNF, guided by the general good principle, expressed the expectation in the Resolution that also branches of credit institutions in Poland would, no later than 1 July 2018, take into account EBA guidelines in their activities.

## 9.2. RECOMMENDATIONS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

### RECOMMENDATION H CONCERNING THE INTERNAL CONTROL SYSTEM AT BANKS

The purpose of the new Recommendation H was to ensure consistency of the KNF's expectations in terms of good practices regarding the internal control system at banks with the amended legislation and applicable market standards.

In line with the reviewed approach, the internal control system together with the risk management system were placed within the framework of the so-called three lines of defence model. The first line of defence should be understood as operational risk management in the bank's business. The second line consists of independent audit units, including the compliance unit. Whereas the third line of defence consists of the activities of the Internal Audit Units. Such a model is aimed at creating a coherent, comprehensive internal control system with a clear division of responsibilities.

First of all, the control function should be clearly defined as one of the three components of the control system (in addition to compliance and internal audit), which is linked to a system of control mechanisms attributed appropriately to the different lines of defence.

The revised Recommendation H attributes appropriate importance to the compliance process, which is to be carried out by both the compliance function and the other units as part of the control function. This means that ensuring compliance is the responsibility of all bank employees, not just the unit responsible for compliance.

At the same time, the amended Recommendation H strengthened the position of the unit responsible for compliance, in particular by introducing standards aimed at ensuring, among others, the independence of this unit and its appropriate status and powers.

Similar standards have also been formulated for the Internal Audit Unit. In this context, it is crucial to ensure that the internal audit unit is adequately positioned and resourced, including human resources and resources for development and training. At the same time, the standards concerning, among others, the audit process and planning, as well as the rules of conducting advisory activity by that unit, were specified.

### RECOMMENDATION D-SKOK CONCERNING INFORMATION TECHNOLOGY AREA MANAGEMENT AND ICT SECURITY

On 30 August 2016, the KNF issued Recommendation D-SKOK *concerning the management of information technology and ICT security areas* (hereinafter: 'Recommendation D-SKOK'), addressed to the sector of credit unions.

The recommendation constitutes a set of good practices in the area of prudent and stable management of information technology and ICT security areas, in particular the risks relating to those areas. The need to issue the Recommendation resulted from a significant technological development and increased importance of information technology for the activities of credit unions, as well as from the emergence of new threats in that area.

Considering the deadline for implementation indicated in the Recommendation D-SKOK, i.e. by 31 December 2018 at the latest, the KNF requested SKOK to present the schedule and progress report on the implementation of the Recommendation, taking into account the analysis of the gap between the current state of information technology and the security of the ICT environment in particular entities, and the status resulting from the provisions of Recommendation D-SKOK. At the same time, its letter to the Management Board of the National Association of Credit Unions (PL: Krajowa Spółdzielcza Kasa Oszczędnościowo-Kredytowa), the KNF formulated the expectations regarding support for the process of implementation of the said recommendation in particular cash registers by the National Association of Credit Unions.

The above-mentioned materials, i.e. the schedules and statuses of activities relating to the implementation of Recommendation D-SKOK and the completed forms for gap analysis, have been submitted to the KNF and are the subject of an in-depth analysis to determine the progress of activities relating to the implementation of the Recommendation D-SKOK standards.

## RECOMMENDATION B (ASSUMPTIONS OF AMENDMENT)

In 2017, the KNF Office started to work on an amendment to Recommendation B *on limiting the risk of banks' financial investments*.

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*.

The changes resulting from updated Recommendation B will cover mainly:

- reorganisation of the terminology used in the recommendation,
- narrowing down the scope of application of Recommendation B by excluding provisions concerning derivatives, which are included in Recommendation A,
- deletion of provisions concerning outsourcing, which are regulated in the Banking Act,
- adjustment of the structure of the Recommendation to the rules currently applied, with respect to the Recommendations adopted by the KNF.

At its meeting on 21 November 2017, the KNF accepted the assumptions of the amendment to Recommendation B limiting the risk of banks' capital investments.

According to the adopted work schedule, the draft of amended Recommendation B will be submitted for public consultation in the first quarter of 2018.

## RECOMMENDATION S (AMENDMENT)

In 2016, the KNF Office started to work 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 related to these loans (including these products in the policy of managing mortgage-backed credit exposures and the risk management process and applying appropriate practices related to offering these products in the area of customer relations). The current recommendation includes a number of indications regarding variable interest rate loans but it does not apply to fixed-rate loans.

At its meeting of 1 June 2017, the KNF determined the wording of those assumptions. On 15 September 2017, the assumptions were assessed by the Financial Stability Committee (FSB) in respect of macro-prudential oversight.

As at 31 December 2017, the KNF Office was working to prepare the draft of the amended Recommendation S.

## DRAFT RECOMMENDATION Z

In 2017, work was carried out to develop Recommendation Z *on internal governance rules in banks*.

Draft Recommendation Z takes into account the way in which issues of this area are regulated in the implementation of the CRD IV to the Polish legal system in the *Act of 29 August 1997 – Banking Law and the 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*. Selected issues related to internal governance at banks are also the subject of documents issued by the Polish Financial Supervision Authority, such as: Recommendation H *on internal control system in banks* (of 2011) and *Corporate Governance Principles for the supervised institutions* (of 22 July 2014) or Recommendation M *on operational risk management in banks* (of 8 January 2013).

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 in 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 2017, the KNF Office worked on the final version of the draft.

## 9.3. POSITIONS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY (KNF) AND THE KNF OFFICE, AND POSITIONS IN THE FORM OF KNF NOTICES

### POSITION OF THE KNF OFFICE ON BANKS' COMPLIANCE WITH NEW PROVISIONS OF THE POLISH ACCOUNTING ACT

In its letter of 2 February 2017, the KNF Office reported that in connection with the Act of 15 December 2016 *amending the Accounting Act*, which came into force on 26 January 2017, Article 41(3), which required banks to disclose 'deferred income' in the balance sheet item until interest on at-risk receivables due to banks was received or written off, had been deleted. The amendment of that provision required amendments to the implementing provisions of the Accounting Act, which were not introduced concurrently. In its letter, the KNF Office explained that in view of the situation, pending the amendment of the regulations and the change in the IT systems, the following should be included in the opening balance sheet of 2017, i.e. 1 January 2017, should include the results of previous years' changes in accounting principles caused by the change in the Accounting Act, i.e. interest accrued as at 31 December 2016 on irregular receivables ('qualified interest') should be reclassified as at 1 January 2017 to the 'result from previous years' account.

In addition, the KNF Office informed that following the amendment of the implementing provisions to the Act, in particular to Regulation of the Minister of Finance of 16 December 2008 *on the principles of creating provisions for risk related to banking activity*, appropriate adjustments should be made to the opening balance (as at 1 January 2017) reflecting the changed principles of creating special-purpose provisions, bearing in mind the principle of recognising the effects of changes in accounting principles as a result of previous years. At the same time, appropriate adjustments should be made to the valuation of assets as at 31 January 2017. ( also for the following months, if necessary) and correct the reporting prepared as at the end of January 2017 (and for the following months, as appropriate) adjusting the valuation rules to all legal provisions in force since 1 January 2017 (the Accounting Act and its implementing provisions).

#### POSITION OF THE KNF OFFICE ON AMENDMENTS TO THE IMPLEMENTING PROVISIONS TO THE ACCOUNTING ACT

Following previous correspondence on this matter, on 6 November 2017, the KNF Office sent letters to banks summarising the amendments to the implementing provisions to the Accounting Act. The last of the required changes was the amendment made as of 12 October 2017 to the Regulation *on the rules of creating provisions for risk related to banking activity* (Journal of Laws of 2015, item 2066), which, apart from broadening the catalogue of definitions and collaterals, took into account the amendment to Article 41 of the Accounting Act, i.e. determining the basis for creating specific provisions and the rules of creating revaluation write-offs for interest receivables.

#### POSITION OF THE KNF OFFICE ON AMENDMENTS FOLLOWING INTRODUCTION OF IFRS 9

In connection with the entry into force on 1 January 2018 of International Financial Reporting Standard 9 (IFRS9), on 12 December 2017, the KNF Office sent letters to banks preparing their financial statements, in accordance with IAS/IFRS, indicating areas of particular interest to the supervisory authority. They resulted from the analysis of both the provisions of the new standards, data from surveys addressed to banks, inspections, as well as direct meetings with representatives of banks and consulting companies.

The KNF Office reminded that the banks' Management Boards are obliged to update their accounting policies in writing, indicating that such changes should be subject to detailed analysis by the members of the Bank's Audit Committee before they are implemented.

The KNF Office pointed to the need to standardise the approach to classification and valuation of financial instruments in the banking sector, which is crucial from the point of view of comparability of data presented by banks. The use of different valuation methods by banks, in particular in the area of consumer credit, may lead to distortions in the comparability of the reporting data.

The KNF pointed out the need to define precisely the concepts and notions resulting from the implementation of IFRS 9, including, but not limited to:

- materiality levels for the results of the 'benchmark test',
- quantitative and qualitative criteria to identify a significant increase in credit risk since the initial recognition,
- the definition of default,
- quantitative and qualitative criteria for determining the significance of modifications resulting in the exclusion of assets from the balance sheet and their reconsideration,
- using macroeconomic factors in the valuation process.

The banks were informed that supervisory recommendations regarding the components of the process of classification and valuation of financial instruments would be presented in the amended Recommendation R of the Polish Financial Supervision Authority and would result from the observation of the existing market practice.



## KNF'S POSITION ON THE DIVIDEND POLICY OF COOPERATIVE AND AFFILIATING BANKS

On 5 December 2017, the Polish Financial Supervision Authority (the KNF) adopted a position on the dividend policy of, among others, cooperative and affiliating banks. In addition to general criteria, the supervisory authority's position with regard to the possibility of dividend payment by cooperative banks also takes into account the principle of proportionality, which depends primarily on the legal and organisational specificity of these banks, as well as their relation to the functioning affiliations and institutional protection systems. In the opinion of the KNF, the payment of even a limited dividend by the vast majority of cooperative banks will help to limit the outflow of shareholders observed in recent years and will create the possibility of acquiring new members.

## POSITION ON SUB-PARTICIPATION

In connection with increased scale of sub-participation transactions concluded by banks using securitisation funds observed in the banking sector, taking into account their impact on the situation of individual participants of the banking sector and the entire financial system, the Polish Financial Supervision Authority submitted its position on 26 October 2017.

## POSITION REGARDING THE ACTIVITY OF THE BANK AS AN INTERMEDIARY OF A NON-BANK FINANCIAL INSTITUTION

Considering the fact that the issue is important from the point of view of the entire cooperative banks sector, as it concerns both the scope of cooperative banks' activity and the statutory competencies of affiliating banks related to ensuring safe operation of affiliated banks, the KNF presented its position of 27 October 2017 regarding the admissibility of the bank's activity as an intermediary of a non-bank financial institution.

## KNF'S POSITION ON THE RULES FOR INSURANCE UNDERTAKINGS TO PUBLISH GENERAL TERMS AND CONDITIONS OF INSURANCE AND OTHER MODEL CONTRACTS ON THEIR WEBSITES

By its letter of 4 April 2017, the KNF presented its position on the rules of publishing by insurance undertakings the general terms and conditions of insurance and other model agreements on their websites in connection with the content of Article 15(4) of the Act of 11 September 2015 on the business of insurance and reinsurance. The purpose of the position was to standardise the practice of insurance undertakings to publish general terms and conditions of insurance and other model contracts on their websites. The KNF indicated that general terms and conditions of insurance and other model agreements should be published on the website from the date of commencement of offering a given insurance product and should be permanently published on the website of the insurance undertaking. The KNF's position was presented to provide all interested parties with access to the contents of the General Insurance Terms and Conditions and other model contracts as well as to ensure proper transparency of the insurance offer of individual insurance undertakings and the possibility to compare selected offers.

## KNF'S POSITION ON THE DIVIDEND POLICY OF INSURANCE AND REINSURANCE UNDERTAKINGS

In its letter of 6 December 2017 addressed to insurance undertakings, following the model recommendations issued in previous years with respect to payment of dividend from the profit generated for a given year, the KNF submitted (in accordance with the KNF's position on the dividend policy of insurance undertakings, general pension societies (PTE), brokerage houses and TFI, dated 6 December 2016) its position on the dividend policy.

In the letter in question, the supervisory authority recommended that insurance/reinsurance undertakings should continue to pursue a conservative dividend policy and that the profits generated should be used to strengthen their capital position.

The KNF recommended that the dividend should only be paid by insurance/reinsurance undertakings which meet certain criteria. At the same time, the KNF recommended that insurance/reinsurance undertakings meeting the criteria referred to in the above-mentioned letter should limit the payment of dividend to 75% of the profit earned in 2017, with the proviso that the coverage of the capital requirement for the quarter in which the dividend was paid out should be at least 110%.

In the above-mentioned statement, the KNF indicated that it was permitted to pay dividend equal to the entire profit generated in 2017 (which means that it is not permitted to pay out from other elements of equity), provided that covering the capital requirement (after deduction of expected dividends from equity) at the end of 31 December 2017 and for the quarter in which the dividend was paid out is at the level of at least 175% for undertakings operating under Division I and at least 150% for undertakings operating under Division II.

The supervisory authority believes that the pursuit of prudential dividend policy by insurance/reinsurance undertakings has had positive effects, in particular by maintaining solvency ratios at a relatively high level, also under the new Solvency II regime, thereby establishing adequate capital buffers.

#### [NOTICE OF THE KNF OFFICE ON PERSONAL INJURY INSURANCE FOR CHILDREN, INCLUDING SCHOOLCHILDREN](#)

On 13 July 2017, the KNF published a notice on personal injury insurance for children, including schoolchildren, on its website. It draws attention to the fact that insurance is offered in a way that does not provide policyholders and their representatives with adequate knowledge of the conditions of insurance cover provided. It was expressed as the expectation of the supervisory authority that insurance undertakings would not use selling techniques that would create a misleading perception among policyholders and policyholders of the conditions under which insurance cover is provided. Reference was also made to the requirement for insurance undertakings to comply with the Guidelines concerning the distribution of insurance and Recommendations concerning the product management system. The communication also identified the problem of the school or parents' council choosing to offer insurance in return for financial or material compensation to the policyholder or to entities acting for or on behalf of the policyholder (in particular to the head of the school). In the opinion of the supervisory authority, such a practice constitutes a breach of Article 18 of the Act of 11 September 2015 on the business of insurance and reinsurance, and may also constitute a conflict of interest manifesting itself in putting the policyholder's own benefits before the interests of the insured persons. The communication also clarifies the role of the Preventive Fund in financing prevention activities rather than in channelling funds into marketing activities. Nor may the preventive fund act in such a way as to provide a cash or other consideration to the policyholder in a manner contrary to the statutory objectives of the fund.

#### [POSITION OF THE KNF OFFICE ON SPECIFIC ASPECTS REGARDING AUDIT COMMITTEES OF INVESTMENT FUND MANAGEMENT COMPANIES](#)

On 6 October 2017, the KNF published on its website its position in the form of the KNF Notice on specific aspects concerning audit committees in investment fund management companies. The position in question concerned the appointment of an investment fund audit committee, as well as issues related to the independence of members of the investment fund audit committee.

#### POSITION OF THE KNF OFFICE ON COMPLIANCE WITH THE CRITERION OF INDEPENDENCE OF A MEMBER OF THE AUDIT COMMITTEE OF A PUBLIC-INTEREST ENTITY

On 27 September 2017, the KNF published on its website its position in the form of the KNF Notice on the fulfilment of the independence criterion of a member of the audit committee of a public interest entity. The position in question addressed the doubts as to whether the members of the audit committee meet the independence requirements was fulfilled, and in particular clarified the issues of the notion of 'significant business relationship' defined in the Act on statutory auditors. At the same time, the above-mentioned position indicates that it is permissible for a member of the audit committee of a given public interest entity to perform a function also on supervisory boards (or possibly in other audit committees) of entities related to a given entity of public interest.

#### POSITION OF THE KNF OFFICE ON DISCLOSURE OBLIGATIONS TOWARDS THE KNF UNDER ARTICLE 133 OF THE ACT ON STATUTORY AUDITORS

On 13 September 2017, the KNF published on its website its position in the form of Notice of the KNF Office on disclosure obligations towards the KNF under Article 133 of the Act on statutory auditors. The position in question concerns doubts as to the manner in which JZP fulfils its obligation to notify the supervisory authority where the body authorised to select an audit firm is a body other than the one authorised to approve financial statements.

#### POSITION OF THE KNF OFFICE ON DISCLOSURE OBLIGATIONS TOWARDS THE KNF UNDER ARTICLE 66 SECTION 9 OF THE ACCOUNTING ACT

On 12 September 2017, the KNF published on its website its position in the form of the Notice of the KNF Office on the disclosure obligations towards the KNF under Article 66(9) of the Accounting Act. The position in question addressed the doubts as to the manner in which JZP and audit firms fulfil their obligation to notify the KNF of the termination of the agreement on the audit of financial statements. At the same time, the above-mentioned position indicates that the said notification should contain explanations concerning the reasons for termination of the agreement and indicates the regulations contained in Article 66(7) of the Accounting Act, which define the situations in which it is possible to terminate the agreement for audit.

#### POSITION OF THE KNF OFFICE ON THE ROTATION OF AUDIT FIRMS

On 11 September 2017, the KNF published, on its website, its position in the form of Notice of the KNF Office on the rotation of audit firms. The position in question addressed the doubts with regard to regulations that should be applied by JZP [public-interest entities] with regard to determining the period of audit of financial statements by audit firms, which should be followed by rotation of the audit firm. Additionally, in the above-mentioned position the issues concerning the method of rotation of audit firms carrying out the audit of financial statements of insurance undertakings and credit unions, in relation to which the previously binding regulations provided for a 5-year rotation period of the audit firm and the key auditor, were clarified.

#### POSITION OF THE KNF OFFICE ON NEW REGULATIONS FOR AUDIT COMMITTEES

On 11 September 2017, the KNF published on its website its position in the form of Notice of the KNF Office on new regulations concerning audit committees. In the communication, the

KNF drew the attention of entities covered by the definition of public-interest entities to the new regulations which introduced the obligation to appoint/maintain audit committees. At the same time, the content of the position indicates the requirements to be met by members of the audit committee and also indicates that on 21 October 2017 the deadline for appointing or adjusting the composition of the audit committee to the new regulations expired.

#### POSITION OF THE KNF OFFICE ON THE POSITION OF THE MINISTRY OF FINANCE REGARDING THE PROVISION OF AUDIT SERVICES BY AUDIT FIRMS IN RELATION TO THE AUDIT OF SOLVENCY AND FINANCIAL CONDITION REPORTS PREPARED BY INSURANCE AND REINSURANCE UNDERTAKINGS

On 11 September 2017, the KNF published on its website its position in the form of Notice of the KNF Office on the position of the Ministry of Finance regarding the provision of audit services by audit firms in the scope of examining the solvency and financial condition reports (SFCR) prepared by insurance and reinsurance undertakings. It resulted from the position of the Ministry of Finance that the SFCR audit service is an attestation service referred to in Article 2(5) of the Act on statutory auditors and is included in the catalogue of financial audit activities referred to in Article 2(7) of the Act on statutory auditors. Therefore, audit activities do not constitute prohibited services referred to in the second subparagraph of Article 5(1) of Regulation (EU) No 537/2014 (OJ L 158, 27.5.2014, p. 77 and OJ L 330, 11.6.2014, p. 66) and may be provided by an audit firm auditing the financial statements of the same entity.

#### KNF'S POSITION ON THE DIVIDEND POLICY OF GENERAL PENSION SOCIETIES IN 2018.

In its position of 8 December 2017 addressed to general pension societies, the Polish Financial Supervision Authority stated that it was a necessary and recommended condition that the PTEs which were to make a decision on dividend pay-out in 2018 should simultaneously meet all the criteria set out in the KNF position resulting from the supervisory assessment, legal regulations and in respect of capital adequacy.

Nonetheless, the Authority has indicated that the value of the dividend paid out from 2017 profits or from other elements of equity should not exceed 100% of the profits made in 2017 and that its payment should 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.

#### POSITION OF THE KNF OFFICE CONCERNING CERTAIN ASPECTS RELATING TO THE INSURANCE UNDERTAKINGS' IMPLEMENTATION OF THE REQUIREMENTS OF 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)

By letter of 22 November 2017 addressed to the Polish Insurance Association, the KNF Office presented its position on selected doubts and problems identified by the insurance market related to the implementation of the requirements of 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 (PRIIP). The position was taken to develop a uniform approach on issues which may give rise to different interpretations by insurance undertakings.

#### KNF'S POSITION ON DISCLOSURE OF CONFIDENTIAL INFORMATION

On 16 October 2017, the KNF recalled its supervisory position addressed to issuers on 26 February 2013, published on the KNF website. The position identifies examples of events that should be specifically analysed to assess whether they constitute confidential information. Examples of such events include the necessity to make write-downs or recognise an impairment loss on assets. It was emphasised that this position remained valid after the entry into force of MAR. It was also indicated that in case of breach by the issuer of obligations concerning publication of confidential information, the KNF may, pursuant to Article 96(6) of the Act on public offering, impose an administrative penalty on a person who was a member of the issuer's management board during that period. Therefore, the distribution of powers between the different members of the management board is without prejudice to the possibility of imposing an administrative penalty, but can only affect its amount.

### POSITION OF THE KNF OFFICE ON THE APPLICATION OF MIFID IN POLAND AS FROM 3 JANUARY 2018.

On 27 December 2017, the KNF published on its website a position outlining the rules of conduct of the KNF Office to be applied by the KNF Office after 3 January 2018 in the event of non-implementation of Directives 2014/65/EU and 2017/593. The implementation of the provisions of MiFID II and the Directive delegated to the national legal system was provided for in the draft Act amending the Act on trading in financial instruments of 29 July 2005 and certain other statutory acts (including, but not limited to, the Banking Act, the Act on investment funds).

### KNF'S NOTICE ON INITIAL TOKEN OFFERINGS (ITOS) OR INITIAL COIN OFFERINGS (ICOS)

On 22 November 2017, a Notice on Initial Token Offerings (ITOs) or Initial Coin Offerings (ICOs) was published. Having noted a sharp increase in the intensity of the phenomenon referred to as ICOs, which consists in raising funds to finance certain projects, the KNF considered it important to pay attention to it. The KNF announced that investing in tokens under the ICOs was highly risky and indicated to potential investors, as well as to entities interested in implementing such projects, the specific and significant risks associated with the ICOs. The KNF stressed that potential buyers should be particularly aware of the possibility of losing the entire invested capital and the possible lack of legal protection. It has been reported that ICOs activities might potentially be subject to a number of legal requirements, although such requirements need to be assessed on a case-by-case basis.

### KEY ACTIVITIES UNDERTAKEN IN THE AREA OF SUPERVISION OVER PROVISION OF BROKERAGE SERVICES ON THE OTC DERIVATIVES MARKET (THE SO-CALLED FOREX MARKET) IN THE YEARS 2011-2017

The KNF Office decided to summarise its activities undertaken in the years 2011-2017 to protect the interests of Polish investors investing in the OTC derivatives market (the so-called Forex market). In the Notice as of 25 April 2017, a structured schedule of the most important activities of the KNF Office was presented, showing a complete picture of supervision and indicating the areas of activity undertaken by investment firms on the Forex market, which remained under special supervision.

For many years, the KNF Office has been paying special attention to the supervision of the capital market segment related to investments in the OTC derivatives market. It should be stressed that since the popularity of the above-mentioned services and the related growing risks were spotted in the Polish market, the KNF Office has taken a number of actions,

fulfilling its statutory obligation to ensure proper functioning of the market, its stability, safety and transparency, as well as to ensure protection of the interests of market participants, also by providing reliable information on its functioning. In addition to preventive measures (education, transmission of the Authority's positions, risk warnings), supervisory measures, legislative initiatives as well as sanctioning measures are also taken on a continuous basis in accordance with the powers vested in the Authority. Many of the undertakings were innovative, unprecedented also in the international dimension, which resulted from the fact that the overriding objective of all the activities has always been to provide protection to Polish non-professional investors. In particular, the following should be noted:

- 16 July 2015: entry into force of the amendment to the Act on trading in financial instruments, where the deposit amount was set at 1% of the nominal value of a financial instrument. On the OTC derivatives market, it was no longer possible to offer retail customers a leverage higher than 1:100,
- 24 May 2016: adoption by the Polish Financial Supervision Authority of the 'Guidelines for the provision of brokerage services on the OTC derivatives market'. The purpose of the 16 guidelines was to present how the legislation should be implemented in relation to the most important aspects of the provision of brokerage services by investment firms to clients in the OTC derivatives market.

#### POSITION OF THE POLISH FINANCIAL SUPERVISION AUTHORITY ON THE IMPLEMENTATION OF MIFID II IN TERMS OF THE INTRODUCTION OF A MAXIMUM FIXED REMUNERATION FOR THE MANAGEMENT OF AN OPEN-END INVESTMENT FUND AND A SPECIALISED OPEN-END INVESTMENT FUND

In its position of 31 March 2017, the Polish Financial Supervision Authority, after consultation with representatives of investment fund management companies, suggested that the regulatory solutions implemented as part of the implementation of MiFID II should stipulate that the maximum amount of fixed remuneration for the management of an open-end investment fund and a specialised open-end investment fund would be determined by way of a regulation, after consultation with the Polish Financial Supervision Authority. The KNF Office proposed that the target maximum remuneration limit of 2% of the fund's net assets per annum should be reached gradually by 2022.

#### POSITION OF THE POLISH FINANCIAL SUPERVISION AUTHORITY ON THE RULES FOR APPLYING FOR ENTRY IN THE REGISTER OF AIC ADMINISTRATORS UNDER ARTICLE 70ZB *ET SEQ.* OF THE ACT OF 27 MAY 2004 ON INVESTMENT FUNDS AND MANAGEMENT OF ALTERNATIVE INVESTMENT FUNDS (JOURNAL OF LAWS OF 2016, ITEM 1896, AS AMENDED) AND ARTICLE 54 OF THE ACT OF 31 MARCH 2016 AMENDING THE ACT ON INVESTMENT FUNDS AND CERTAIN OTHER ACTS (JOURNAL OF LAWS OF 2016, ITEM 615)

In its position of 26 April 2017, the Polish Financial Supervision Authority included information on the basic principles of conducting business by the AIC and AIC managers, i.e. entities whose supervision was commenced by the Polish Financial Supervision Authority in connection with the entry into force on 4 June 2016 of the Act of 31 March 2016 amending the Act on investment funds and certain other acts (hereinafter: 'the amending Act'). The position presents the basic regulations of the amended act on investment funds and management of alternative investment funds concerning AICs and their managers, as well as information on the principles of conducting activities as the AIC manager by entities referred to in Article 54 of the amending Act. The position also outlines the principles of applying for entry in the register of AIC managers, taking into account the formal requirements of this application and the legal nature of entry in the register of AIC managers. It also indicates the statutory prerequisites for the Polish Financial Supervision Authority's refusal to make an entry in the register of AIC managers.

THE POSITION OF THE POLISH FINANCIAL SUPERVISION AUTHORITY ON THE IDENTIFICATION BY PUBLIC COMPANIES AND OTHER ENTITIES WHETHER THEIR ACTIVITIES REQUIRE REGISTRATION OR APPROVAL BY THE KNF ON THE BASIS OF THE ACT OF 27 MAY 2004 ON INVESTMENT FUNDS AND MANAGEMENT OF ALTERNATIVE INVESTMENT FUNDS (JOURNAL OF LAWS OF 2016, ITEM 1896, AS AMENDED) AND ARTICLE 54 OF THE ACT OF 31 MARCH 2016 AMENDING THE ACT ON INVESTMENT FUNDS AND CERTAIN OTHER ACTS (JOURNAL OF LAWS OF 2016, ITEM 615)

The position of the Polish Financial Supervision Authority of 18 May 2017 was presented in relation to the deadline of 4 June 2017 for adjusting one's activity to the provisions of the Act on investment funds and management of alternative investment funds (hereinafter: 'the Act') by entities conducting the activity of an alternative investment company, within the meaning of Article 8a of the Act, before 4 June 2016. The KNF Office announced that adapting the activity to the requirements of the Act and continuing the activity required the submission, by 4 June 2017, of either an application for authorisation to carry out the activity of the AIC manager, pursuant to Article 70a *et seq.* of the Act, or an application for entry in the register of managers of the AIC, kept by the KNF, pursuant to Article 70zb *et seq.* of the Act. In particular, the KNF Office has identified the need for public companies operating both on and off the regulated market in ASO (NewConnect) to auto-identify as AIC and AIC managers. The KNF Office also indicated that it was appropriate for entities that were investment entities within the meaning of § 27 of IFRS 10 *Consolidated Financial Statements* to perform an auto-identification process. The position of the KNF Office also provides information on criminal liability, under Articles 287 and 295 of the Act, of entities carrying out the activities of an AIC manager, without authorisation or without prior entry in the register of AIC managers.

#### A POSITION ON INVESTMENT LIMITS FOR INVESTMENT FUND COMPANIES

In its notice of 20 November 2017, the Polish Financial Supervision Authority drew attention to the prudential standards concerning the investment activity of companies laid down in Article 65 of the Act on investment funds and management of alternative investment funds, whose main objective is to ensure stable and safe management of investment funds, including, in particular, ensuring that the company holds liquid assets enabling it to satisfy potential claims of fund members in connection with liability for compensation under Article 64 of the Act. The KNF Office also stressed that the fact that companies had a stable financial, asset and capital situation and that they took measures to limit their exposure to risks of an investment nature in their business was a factor taken into account in the exercise of their supervision.

#### POSITION ON INVESTMENT LIMITS FOR INVESTMENT FUNDS

In its announcement of 29 November 2017, the Polish Financial Supervision Authority highlighted the issues related to the problem areas identified in the course of supervision over investment fund market institutions, relating to the structure of assets and liabilities maintained by investment funds and the compliance of this structure with the principles of limiting investment risk, arising in particular from the Act on investment funds and the management of alternative investment funds. The Polish Financial Supervision Authority has drawn attention to important aspects of the legal obligations imposed on investment funds and investment fund management companies in that respect, and has also stressed the particular significance of proper fulfilment of the obligations in the aforementioned area in the context of ensuring protection of the interests of investment fund participants, as well as the key nature of compliance with investment restrictions from the point of view of proper fulfilment by investment fund management companies of their obligations in the area of investment fund management.

## POSITION ON THE DIVIDEND POLICY OF INVESTMENT FUND MANAGEMENT COMPANIES

On 7 December 2017, the KNF sent a letter to investment fund management companies concerning the position adopted at the KNF meeting on 5 December 2017 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. In the letter, the investment fund management companies were notified that the KNF had taken the above-mentioned position on the dividend policy and that it had set out its assumptions recommending that, when distributing the 2017 and 2018 profit, the investment fund management companies should jointly take into account the following criteria:

- I. in 2017 and in the period from the beginning of 2018 to the date of adopting the resolution on profit distribution, there was no situation in which the statutory capital requirements would not be met;
- II. when deciding on the distribution of profit, the company should take into account additional capital needs within twelve months of the approval of the financial statements for 2017, so that the distribution of profit does not affect the ability to meet capital requirements in subsequent months;
- III. the decision on the manner of profit distribution should take into account whether, in the period from the date of the last resolution on profit distribution, there were any claims of participants of investment funds against the company due to improper management of investment funds;
- IV. the investment fund management companies meeting the conditions referred to in points I-III and which at the same time received the final SREP 1 or 2 score during the last Supervisory Review and Evaluation Process for investment fund management companies, may distribute the net profit in a manner other than by allocating it to create or increase supplementary and reserve capital or to cover losses from previous years:
  1. up to 75% of the profit generated in 2017, unless the distribution of profit results in a reduction of the capital requirement coverage ratio below 1.5;
  2. more than 75% but not more than 100% of the profit generated in 2017, unless the distribution of profit results in a reduction of the capital requirement coverage ratio below level 2- whereby the capital requirement coverage ratio is calculated as a quotient of the company's equity and the existing capital requirement;
- V. actions undertaken, including profit distribution, cannot also result in a decrease in the value of assets held by the company, characterised by the highest level of liquidity and security, determined as the sum of the value of cash, securities issued by the State Treasury or the National Bank of Poland, participation units of money market funds and investment funds, which invest at least 85% of their assets in securities issued, warranted or guaranteed by the State Treasury, the National Bank of Poland or local self-government units, reduced by the value of own shares held, below the level constituting 150% of the capital requirement binding on the company.

## STATEMENT OF THE KNF OFFICE ON THE IMPACT OF PROVISIONS AGAINST TAX AVOIDANCE ON THE FINANCIAL STATEMENTS OF ISSUERS OF SECURITIES

In its position of 10 July 2017, in connection with the entry into force of the provisions introducing the anti-avoidance clause (Article 119a *et seq.* of the Tax Ordinance), the KNF Office draws attention to the possible impact of the clause on issuers' disclosure obligations with respect to the preparation of consolidated financial statements and issuer's financial statements.

## STATEMENT OF THE KNF OFFICE ON THE APPLICATION OF IFRS 9 'FINANCIAL INSTRUMENTS' AND IFRS 15 'REVENUE FROM CONTRACTS WITH CUSTOMERS' AND THE NEED FOR ISSUERS TO ENSURE ADEQUATE RELATED DISCLOSURE



In its position of 13 October 2017, the Polish Financial Supervision Authority states that in 2016 the following were incorporated into the legal order of the Member States of the European Union: IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers', applicable from the first quarter of the financial year 2018. In view of the foregoing, the KNF Office expects issuers to appropriately disclose information necessary to assess the possible impact of the application of IFRS 9 and IFRS 15 in the interim financial statements for the reporting periods of the financial year 2017 and in the financial statements for the financial year 2017.

A detailed list of positions of the Polish Financial Supervision Authority (KNF) and the KNF Office as well as announcements of the KNF Office is presented in Table 9.2 in Annex 9.

## 10. OTHER ACTIVITIES

### 10.1. ACTIVITIES TO PREVENT FINANCIAL MARKET ABUSE

#### PRELIMINARY INVESTIGATION AND ADMINISTRATIVE PROCEEDINGS

In 2017, the KNF conducted 15 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: 4,
- non-performance or improper performance of disclosure obligations by an issuer: 1,
- manipulation of a financial instrument: 5,
- pursuing activity in the area of trading in financial instruments without authorisation: 2,
- pursuing banking activity without authorisation: 2,
- publicly offering to acquire securities without the approval of the prospectus required by law and/or without making it available to the public, or without approving the information memorandum, or without stating that the information in the information memorandum is equivalent to the information required in the prospectus, and/or making the information memorandum available to the public and/or to persons to whom the public offer is addressed: 1.

In 2017, the KNF conducted 422 administrative proceedings in relation to the following statutory laws:

- the Act on trading in financial instruments: 17;
- the Act on public offering: 73;
- the Act on investment funds: 7;
- the Act on insurance activities: 6;
- the Act on compulsory insurance, the Insurance Guarantee Fund and the Polish Bureau for Motor Insurance: 23;
- the Act on the organisation and operation of pension funds: 1;
- the Act on payment services: 273
- the Act on insurance mediation: 17;
- other acts: 5;.

The administrative proceedings were related to:

- manipulation of a financial instrument (Article 39 of the Act on trading in financial instruments): 6;

- preparation of recommendations concerning financial instruments (Article 42 of the act on trading in financial instruments): 1,
- carrying out transactions in the issuer's shares in a closed period (Article 159 of the Act on trading in financial instruments): 2;
- failure to notify or improper notification of transactions of persons belonging to the management or supervisory bodies of the issuer or being the issuer's proxies (Article 160 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): 12;
- violation of legal regulations in connection with public offering carried out by issuers of securities: 2,
- non-performance or improper performance of disclosure obligations by the issuer (Article 70 of the Act on public offering): 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): 18,
- failure to fulfil or improper fulfilment of the obligations relating to qualifying holdings (Article 69 of the Act on public offering): 17;
- failure to fulfil or improper fulfilment of the obligations relating to qualifying holdings (Article 69 in conjunction with Article 87 of the Act on public offering): 15;
- failure to fulfil or improper fulfilment of the obligations relating to qualifying holdings (Article 69, Article 69 in conjunction with Article 87, Article 69 in conjunction with Article 69a of the Act on public offering): 1;
- failure to fulfil or improper fulfilment of the obligations relating to qualifying holdings (Article 69, Article 72 or Article 73 in conjunction with Article 87 of the Act on public offering): 2;
- failure to fulfil or improper fulfilment of the obligations relating to qualifying holdings (Articles 69 and 74 of the Act on public offering): 2;
- failure to fulfil 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 (Article 73 and Article 88a of the Act on public offering): 1;
- failure to fulfil the obligations relating to qualifying holdings (Article 97(4) of the Act on public offering): 1;
- failure to fulfil or improper fulfilment of the obligations relating to qualifying holdings (Article 69, Article 69 in conjunction with Article 87, Article 73 in conjunction with Article 87, Article 74 in conjunction with Article 87 of the Act on public offering): 1;
- 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): 3;
- irregularities relating to the performance of activities by investment fund management companies and investment funds (exceeding investment limits, violation of articles of association of the investment fund, lack of required internal regulations, untimely or improper fulfilment of disclosure requirements, incorrect valuation of assets, failure to act in the interests of fund participants; failure of an open-end investment fund, with a separated sub-fund, to comply with the investment limits specified in the articles of association): 3;
- remaining the sole participant of the investment fund for a period exceeding 6 months and failure to undertake activities in the area of liquidation of the investment fund (Article 65(3a), Article 246(1) point 7 of the Act on investment funds): 1;
- failure to make a notification on the intention to directly acquire shares of the Warsaw Stock Exchange in a number resulting in reaching or exceeding 5% of the share capital of

- the Warsaw Stock Exchange S.A. (Article 24(1) of the Act on trading in financial instruments): 1;
- failure to make a timely notification of the intention to sell shares of a brokerage house (Article 107(1) point 1 of the Act on trading in financial instruments): 1;
  - failure to immediately pay out the amounts due to the participants following the buy-back of participation units (Article 89(3) of the Act on investment funds) and to conduct the fund's business without any particular consideration being given to the interests of the participants;
  - failure to notify about the intention to acquire or take up shares in an investment fund management company (Article 54(1) of the Act on investment funds): 1;
  - failure to perform the duties of an investment fund depository (Article 72(4) in conjunction with Article 72(1) points 2 and 4 of the Act on investment funds): 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 (casco 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: 6;
  - failure to meet the deadlines for settlement of claims (Article 14 of the Act on compulsory insurance): 23;
  - irregularities in the area of investment activities (Article 139 of the Act on the organisation and functioning of pension funds): 1;
  - 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: 273,
  - irregularities in the form of violation of laws in connection with the performance of brokerage activities concern Article 22(1) in conjunction with Article 28(3) point 1 (g) of the Act on insurance mediation: 17;
  - considering the application for annulment of a decision: 1;
  - activities conducted by a distributor of participation units in breach of the provisions of the Act on investment funds: 1;
  - relief from payment of liabilities: 4.

In 2017, the KNF conducted 102 administrative proceedings, following the submission of an application for review of a case, in relation to the following acts:

- the Act on public offering: 65;
- the Act on trading in financial instruments: 5;
- the Act on insurance activities: 6;
- the Act on compulsory insurance, the Insurance Guarantee Fund and the Polish Bureau for Motor Insurance: 7
- the Act on investment funds: 4;
- the Act on payment services: 8;
- the Act on the organisation and operation of pension funds: 1;
- other acts: 6.

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): 16;
- request for introduction of necessary changes to the content of the tender offer (Article 78 of the Act on public offering): 1;
- failure to fulfil or improper fulfilment 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): 19;

- 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): 29;
- 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): 1;
- violation, by a securities broker or an investment adviser, of regulations and other internal rules (Article 130(1) point 1 of the Act on trading in financial instruments): 2,
- violation, by the issuers, of the obligation to immediately disclose information received from insiders (Article 160(4) of the Act on trading in financial instruments): 2;
- failure by a payment service office to provide timely information on the total value and number of payments executed; failure to deliver or conclude an insurance contract, bank guarantee or insurance guarantee agreement in time: 8;
- failure to meet deadlines for the settlement of claims (Article 14 of the Act on compulsory insurance): 7;
- 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;
- violation, by an open-end investment fund, of investment limits and disclosure requirements (Article 104(1) of the Act on investment funds and § 9(1) point 7 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;
- 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;
- violation, by an open-end investment fund, of investment limitations resulting from the articles of association (Article 228(2) point 2 in conjunction with Article 228(1) of the Act on investment funds): 1;
- violation, by an investment fund management company, of the interests of a closed-end investment fund participant and violation, by the above-mentioned fund, of the provisions of articles of association (Article 228(1) and Article 228(2) in conjunction with Article 228(1) of the Act on investment funds): 1;
- pursuing investment activities by an insurance undertaking (Articles 30 and 153(1) of the Act on insurance activities): 1;
- 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): 3;
- acquisition of shares of a general pension society (PTE) into assets covering technical provisions when the share of the Insurance Undertaking in the PTE exceeds 10% of the PTE’s core capital (Article 155(1) point 3 of the Act on the business of insurance): 1;
- dividing the fine imposed into instalments: 1;
- resumption of administrative proceedings: 1;
- declaring the decision to be invalid: 1;
- discontinuation of proceedings in relation to making available the files of administrative proceedings: 3.

**Table 81. The number of preliminary investigations and administrative proceedings initiated and concluded (I instance) in the years 2014-2017**

Detailed list	2014		2015		2016		2017	
	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	11	6	10	7	10	18	10	10
Administrative	446	191	493	640	379	527	385	205
<b>Total</b>	<b>457</b>	<b>197</b>	<b>503</b>	<b>647</b>	<b>389</b>	<b>545</b>	<b>395</b>	<b>215</b>

Source: KNF's own calculations

In 2017, 207 administrative decisions were issued, including:

- 130 on the imposition of a fine,
- 1 on the imposition of a fine and the exclusion of an issuer from trading on the regulated market,
- 1 on the exclusion of an issuer from trading on the regulated market,
- 2 on the prohibition to continue the public offering of securities,
- 68 on discontinuation of administrative proceedings,
- 1 on removal of an investment adviser from the list of investment advisers,
- 1 on refusal to annul the administrative decision,
- 2 on refusal to grant a fine reduction,
- 1 on granting a fine reduction.

In 2017, 64 administrative decisions were issued following the examination of requests for review of a case, including:

- 37 on upholding a decision issued at first instance,
- 15 on reversing a decision appealed against and imposition of a smaller fine,
- 7 on reversing a decision appealed against, imposition of a smaller fine and partial discontinuation of proceedings,
- 4 on reversing a decision appealed against and discontinuation of proceedings.
- 1 on the discontinuation of the appeal proceedings.

The total amount of fines imposed in 2017 was PLN 19 380 650 (1st instance), including fines imposed on:

- the issuers: PLN 2 450 000,
- shareholders and other natural persons: PLN 6 945 000,
- members of management boards of public companies: PLN 1 650 000,
- investment firms: PLN 1 000 000,
- investment fund management companies: PLN 700 000,
- insurance undertakings: PLN 5 863 000,
- insurance brokers: PLN 5 000,
- payment service offices: PLN 127 650,
- a shareholder being an open-end pension fund: PLN 90 000,
- general pension societies: PLN 480 000,

- participation units distributor: PLN 70 000.

## NOTIFICATION OF A SUSPECTED CRIMINAL OFFENCE

In 2017, the KNF Office submitted 73 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:

- the Act on trading in financial instruments: 35,
- the Act on public offering: 4,
- the Act on capital market supervision: 1,
- the Banking Act: 13,
- the Penal Code: 13,
- the Act on the business of insurance:-1;
- the Act on insurance mediation: 1,
- the Accounting Act: 9,
- the Act on payment services: 1;
- the Act on investment funds: 2;
- the Act on anti-money laundering and combating the financing of terrorism: 1.

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 2017.

**Table 82. Notifications prepared in the years 2014-2017 by type of the violated provision of law**

Type of the violated provision of law	Number of notification of suspected criminal offence			
	2014	2015	2016	2017
Article 183 of the Act on trading in financial instruments (manipulation of a financial instrument)	9	10	9	14
Articles 180 and 181 of the Act on trading in financial instruments (unlawful disclosure of inside information and insider trading)	17	10	9	9
Article 100 of the Act on public offering (providing false data or holding back true data in the prospectus and reports)	3	2	0	2
Article 178 of the Act on trading in financial instruments (pursuing activities in the area of trading in financial instruments without permission)	10	12	6	12
Article 171(1) of the Banking Act (pursuing banking activities without authorisation)	5	2	3	9
Other*	21	27	27	27
<b>Total</b>	<b>65</b>	<b>63</b>	<b>54</b>	<b>73</b>

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 (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 430 of the Act on the business of insurance and reinsurance (conducting insurance activity without authorisation),

- Articles 47 and 48 of the Act on insurance mediation (unauthorised performance of activities in the area of insurance mediation),
- Article 150(1) of the Act on payment services (operating without authorisation in the area of provision of payment services),
- Articles 287 and 295 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 a permit, collected by way of a proposal to conclude an agreement on participation in this undertaking; violation of the ban on disposing of and acquiring participation units in investment funds),
- Article 35(1) points 1 and 2 of the Act on anti-money laundering and combating the financing of terrorism (failure by the obliged institution to register transactions, provide the General Inspector for Financial Information with documents concerning transactions; failure to observe financial security measures or store information obtained in connection with the application of security measures, contrary to the provisions of the Act),
- 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 276 of the Penal Code (destroying a document and rendering it useless),
- Article 296 of the Penal Code (abuse of trust),
- Articles 267 and 269 of the Penal Code (obtaining access to information that is not intended for use),
- Article 286 of the Penal Code (fraud),
- Article 270 of the Penal Code (material falsity),
- Article 311 of the Penal Code (dissemination of false information in the documentation related to trading in securities).

Out of the notifications submitted to Prosecutor's Offices in 2017, 62 preparatory proceedings were initiated (3 of them were subsequently discontinued, a complaint was lodged against 3 of them, one complaint was upheld by the court; in the other 2 cases the complaints have not yet been considered by the court), and the initiation of proceedings was refused in 2 cases (due to a complaint lodged by the KNF Office and upheld by the court, preparatory proceedings in 1 case were initiated, in the second case, the complaint has not yet been decided by the court) and 2 bills of indictment were drawn up. As at 31 December 2017, the remaining notifications awaited the prosecutor's decision as to further course of the proceedings.

## BILLS OF INDICTMENT

In 2017, the KNF Office received information that Prosecutor's Offices sent 17 bills of indictment to common courts following notifications of reasonable suspicion of criminal offence from the KNF Office.

**Table 83. Bills of indictments sent by Prosecutor's Offices to courts in 2017 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)	1
Article 183 of the Act on trading in financial instruments (manipulation of a financial instrument)	5
Article 181 of the Act on trading in financial instruments (insider trading)	1
Article 184 of the Act on trading in financial instruments (preventing or obstructing the performance of activities)	1
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)	1
Article 99 of the Act on public offering (violation of the terms and conditions of the public offering of securities)	2
Other*	5

<b>Total</b>	<b>17</b>
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Source: KNF's own calculations

\* Violated legal norms:

- Article 296 of the Penal Code (abuse of powers or failure to fulfil obligations),
- Article 258 of the Penal Code (organised crime group),
- Article 79 point 4 of the Accounting Act (failure to submit financial statements).

## JUDGMENTS OF CONVICTION AND CONDITIONAL DISCONTINUATION

In 2017, common courts issued 9 judgments of conviction and conditional discontinuation of criminal proceedings following notification of justified suspicion of a criminal offence submitted by the KNF Office and following the activities undertaken *ex officio* by the prosecutor's office in respect of the following statutory laws:

- the Act on trading in financial instruments: 5 judgments;
- the Banking Act: 2 judgments;
- the Act on payment services: 1 judgment;
- the Commercial Companies and Partnerships Code: 1 judgment.

The judgments issued in 2017:

- Judgment of the District Court for Warszawa Wola of 14 February 2017 in a case under Article 183(1) of the Act on trading in financial instruments. The judgment conditionally discontinued the criminal proceedings for a probationary period of 1 year and a monetary performance in the amount of PLN 500 for each of the defendants (final judgement). The notification was submitted on 26 July 2007;
- Judgment of the District Court for Lublin Wschód of 27 February 2017 in a case under Article 150(3) in conjunction with Article 150(1) of the Act on payment services. The judgment conditionally discontinued the criminal proceedings for a probationary period of 1 year (final judgement). The notification was submitted on 14 December 2015;
- Judgment of the Regional Court in Warsaw of 1 March 2017 in a case under Article 178 of the Act on trading in financial instruments and Article 286 of the Penal Code. The court sentenced the accused to 10 months' imprisonment conditionally suspended for a probationary period of 2 years and to a fine of PLN 20 000. Moreover, the court ordered the accused to pay compensation of PLN 12 340 to each of the two victims (final judgement). The notification was submitted on 6 September 2013;
- Judgment of the Regional Court in Katowice of 2 March 2017 in a case under Article 171(1) of the Banking Act. The court sentenced one of the defendants to 8 months' imprisonment conditionally suspended for a probationary period of 3 years, a probation officer supervision and a ban on conducting business activity relating to granting loans, credits and deposit activities for 3 years, and the other defendant to 2 years' imprisonment conditionally suspended for a probationary period of 5 years, a probation officer supervision and 25 000 PLN fine and a return of PLN 573 388.17 to the victim within 3 years (final judgement). The notification was submitted on 5 September 2012;
- Judgment of the Regional Court in Częstochowa of 17 May 2017 in the case under Article 586 of the Commercial Companies and Partnerships Code. The court sentenced the defendant to 3 months' imprisonment conditionally suspended for a probationary period of 1 year (a non-final judgement). The notification was submitted on 1 February 2013;
- Judgment of the District Court for Warszawa Śródmieście of 5 June 2017 in the case under Article 183 of the Act on trading in financial instruments. The court imposed a fine of PLN 5 000 on the defendant (final judgement). The notification was submitted on 2 December 2015;
- Judgment of the Regional Court in Gdańsk of 7 August 2017 in the case under Article 171(1) and (3) of the Banking Act. The court imposed on the accused a penalty of imprisonment for 5 years and 6 months, a fine of PLN 25 000 and an obligation to



compensate for the damage caused in the amount of PLN 835 600 (non-final judgement). The notification was submitted on 15 January 2013;

- Judgment of the District Court for Warszawa Mokotów of 22 September 2017 in the case under Article 181(1) of the Act on trading in financial instruments. The court imposed a fine of PLN 2 000 on the defendant. The case was initiated *ex officio* by the prosecutor's office. No information is available on the final and binding nature of the judgment;
- Judgment of the District Court in Toruń of 21 November 2017 in the case under Article 183(1) of the Act on trading in financial instruments. The court conditionally discontinued the criminal proceedings for a period of 2 years and imposed a fine of PLN 60 000 on each of the defendants to serve social purposes (non-final judgement). The notification was submitted on 28 May 2013.

Information about the final and binding nature of judgements or the lack thereof is given as at 31 December 2017.

**Table 84. Judgments of conviction and conditional discontinuation in 2017 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)	3
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)	2
Other*	3
<b>Total</b>	<b>9</b>

Source: KNF's own calculations

\* Grounds for conviction:

- Article 181(1) of the Act on trading in financial instruments (insider trading),
- Article 150 of the Act on payment services (unauthorised activity within the scope of providing payment services),
- Article 586 of the Commercial Companies and Partnerships Code.

## POWERS EXERCISED IN CRIMINAL PROCEEDINGS

As part of the powers exercised in criminal proceedings, the legal counsel authorised by the Chairman of the KNF act as agents of victims and agents of the subsidiary prosecutor.

**Table 85. Number of cases in 2017 in which legal counsel were authorised by the Chairman of the KNF in criminal proceedings**

Type of appearance	Number of cases
Appearances as agents of the victim.	150
Appearance as agents of the subsidiary prosecutor.	36
<b>Total</b>	<b>186</b>

Source: KNF's own calculations

In addition, legal counsel filed 21 complaints against the 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 Chairman of the KNF has the powers of a public prosecutor under, among others, Article 60 of Civil Procedure Code. Cases in which the Chairman of the KNF exercised his powers are listed below.

As regards the capital market, the Chairman of the KNF decided to use the prosecutor's powers in civil proceedings to declare Resolution No 3 of the Extraordinary General Meeting of Shareholders of Elektrim S.A. of 4 April 2017 invalid or revoked. As at 31 December 2017, no date of the hearing was set.

Using the powers of a prosecutor, the Chairman of the KNF also participates in the case brought by Bank Zachodni WBK S.A. against KBC ALFA Specjalistyczny Fundusz Inwestycyjny Otwarty. To date, three hearings have been held. As at 31 December 2017, further dates of hearings were set.

Moreover, in 2017, cases initiated in the previous period continued:

- participation in civil proceedings in the case brought by a natural person against Platynowe Inwestycje S.A. As at 31 December 2017, the case was pending,
- participation in civil proceedings in the case brought by a natural person against Platynowe Inwestycje S.A. for repealing Resolution No 6 of the Extraordinary General Meeting of Shareholders of 25 September 2015. As at 31 December 2017 the case was closed.

As regards the insurance and pension market, in 2017, the Chairman of the KNF, acting pursuant to Article 60 § 2 in conjunction with Article 1 of the Act on the Supreme Court, requested that the Supreme Court composed of seven judges or with another appropriate composition resolve discrepancies in the interpretation of law revealed in the case law of common courts in the following matter: 'In the event of a serious bodily injury or health disorder, may the injured party's closest relatives and partners be entitled, pursuant to Article 448 of the Civil Code, to a claim for monetary recompense for the infringement of their own personal interests?' Relatively, if the Supreme Court assumes that the answer to that question is a matter of applying the law and not its interpretation (in particular, due to the need to determine *ad causam* the nature of bodily injury or health disorder and the consequences of such circumstances for the relationship between the injured party and their closest relatives and partners), the Chairman of the KNF requested that the following issue be resolved: 'May the severance of the bond between the injured party, who suffered serious bodily injury or health disorder, and their closest relatives and partners, consisting in the inability to make contact between the injured party and their closest relatives and partners due to the injured party's remaining in a disabling condition or to a very significant extent limiting their independent existence (the so-called vegetative condition), constitute a breach – on the part of the injured party's closest relatives and partners – of their personal interests, including those which may be compensated under Article 448 of the Civil Code?.'

In 2017, the Chairman of the KNF exercised the prosecutor's powers in two civil proceedings to declare the resolutions of the general meetings of supervised entities invalid, or alternatively to revoke them, of which as at 31 December 2017 one set of proceedings was completed by awarding a claim in connection with the recognition of the claim by the supervised entity (in accordance with the position expressed also in the course of the process by the Chairman of the KNF). As at 31 December 2017, the latter case is still open.

The Chairman of the KNF also exercised the prosecutor's powers in proceedings before registry courts with regard to entering data concerning supervised entities in the National Court Register. In 2017, 3 applications were submitted to registry courts, on the basis of Article 6(1) of the Act on financial market supervision, concerning the deletion from the National Court Register of entries made without the KNF authorisation decisions required by law.

In addition, with regard to the banking sector, a decision of the referendary of the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, concerning the refusal to remove the data *ex officio* pursuant to Article 12(3)

of the Act of 20 August 1997 on the National Court Register (consolidated text in: Journal of Laws of 2017, item 700, as amended), with the participation of the Polish Financial Supervision Authority and one of the banking market entities, was appealed against, in connection with making an entry without compliance with the requirements set forth in the Act of 29 August 1997 – the Banking Law. Then, an appeal was lodged against the decision of the District Court in respect of stating the lack of grounds for deleting the data *ex officio*. The appeal was withdrawn due to the fact that the entity fulfilled the requirements specified in the relevant provisions of the Banking Act. Following the withdrawal of the appeal, the Regional Court in Warsaw discontinued the appeal proceedings. As at 31 December 2017, the case was closed.

## 10.2. PARTICIPATION IN LEGISLATIVE WORK

The KNF'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 Office cooperates primarily with the Ministry of Finance. In the legislative process carried out by bodies which initiate and conduct legislative work on the basis of the relevant regulations, the KNF Office acts as a consultative and advisory body. As part of such activities, the KNF Office cooperated with the Ministry of Digitization, the Ministry of Development, the Ministry of Agriculture and Rural Development, the 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 Office.

A list of regulations, draft regulations and public announcements which were the subject-matter of work or opinions of the KNF Office in 2016 is presented in Appendix 4.

### LAWS AND DRAFT LAWS

**Act of 26 January 2017 amending the Act on cooperative savings and credit unions and certain other acts (Journal of Laws, item 245).** The primary objective of the Act is to implement the judgment of the Constitutional Tribunal of 31 July 2015, Ref No K 41/12, according to which Article 60 of the Act of 5 November 2009 on cooperative savings and credit unions, in so far as it does not limit the measures of supervision by the Polish Financial Supervision Authority over the activities of small credit unions, is inconsistent with Article 22 in conjunction with Article 31(3) and Article 58(1) of the Constitution of the Republic of Poland. The Act introduces, *inter alia*, a definition of 'small credit union' to distinguish such entities from other credit unions and to ensure appropriate control and supervision over the entities which meet the definition.

**Act of 10 February 2017 amending the Act on trading in financial instruments and certain other acts (Journal of Laws, item 724).** The Act contains provisions adapting to 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. The Act also implements Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse (market abuse directive).

**Act of 23 March 2017 on mortgage credit and supervision of credit intermediaries and agents (Journal of Laws, item 819).** The Act implements the provisions of Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010 (OJ L 60, 28.2.2014, p. 34) and provides for comprehensive regulation of credits relating to real property. At the same time, the Act introduces amendments to the Act on consumer credit, clarifying some of its provisions.

**Act of 11 May 2017 on statutory auditors, audit firms and public oversight (Journal of Laws, item 1089).** The Act superseded Act of 7 May 2009 on statutory auditors and their self-government, entities entitled to audit financial statements and public oversight (Journal of Laws of 2016, item 1000), enabling new audit firms to enter the market of Public Interest Entity audits. New solutions are expected to strengthen the independence and objectivity of statutory auditors and audit firms, to improve the quality of statutory audit and to strengthen public oversight through independence from the certified auditors' community. Limiting the competitive advantage of large companies and opening up the possibility of entering the market to other entities is supposed to influence the deconcentration of the statutory audit market. The Audit Oversight Commission is required to directly inspect audit firms that audit public-interest entities, to impose penalties on audit firms for irregularities detected during audits and to investigate disciplinary offences of statutory auditors in relation to statutory audit. The Polish Financial Supervision Authority was entrusted with supervision over the activities of audit committees. The Act increases transparency and improves the quality of information on audits provided by audit firms to audited entities, supervisors and other stakeholders and increases accountability for infringements by introducing more severe penalties and by expanding the list of persons convicted.

**Act of 29 September 2017 amending the Act on financial market supervision and the Act on the business of insurance and reinsurance (Journal of Laws item 2102).** The Act represents fulfilment of the obligations imposed on the Republic of Poland by Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs) (OJ L 352, 9.12.2014, p. 1) as amended by Regulation (EU) No 2016/2340 of the European Parliament and of the Council of 14 December 2016 amending Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products as regards the date of its application (OJ L 354, 23.12.2016, p. 35), hereinafter: 'Regulation 1286/2014'. The implementation of those obligations consists in the designation of the Polish Financial Supervision Authority as the body responsible for supervision, compliance and enforcement of the provisions of Regulation 1286/2014 and for the imposition of administrative penalties for non-compliance with the provisions of that Regulation.

**Act of 27 October 2017 amending the Act on personal income tax, the Act on corporate income tax and the Act on lump-sum income tax on certain revenues generated by natural persons (Journal of Laws item 2175).** The Act aims to tighten up the corporate tax system so as to ensure that the amount of tax paid by large companies, in particular multinationals, is linked to the actual place where they earn their income and to eliminate negative actions called 'tax optimisation'.

**Act of 24 November 2017 on tourist events and related tourist services (Journal of Laws item 2361).** The Act pursues two fundamental objectives. The first (main) one is the transposition of Directive 2015/2302 into the Polish legal system, the second one is the improvement of the existing legal solutions, in particular as regards protection of travellers against the effects of insolvency of tour operators and business owners facilitating the purchase of tourist services.

**Act of 24 November 2017 amending certain acts to counteract the use of the financial sector for fiscal fraud (Journal of Laws No 2491).** The Act concerns the introduction of new regulations limiting the scale of tax fraud, including the 'gap' in VAT, by, among others, increasing the tasks and powers of the National Revenue Administration. The Act has been drafted due to the need to urgently and decisively counteract the use of the financial sector for fiscal fraud, in particular in the field of VAT, as well as other related criminal offences (e.g. by issuing dummy invoices). According to the diagnosis of project proponents, shared by the parliament, the state must prevent, detect and prosecute fiscal offences more effectively. This requires exchange of information and cooperation between public authorities and financial sector actors. The provisions of the Act have extended the catalogue of entities to which banks and credit unions are obliged to provide information constituting banking and professional secrets.

**Act of 14 December 2017 amending the Act on the business of insurance and reinsurance and certain other acts (Journal of Laws of 2018, item 8).** The need to amend the Act of 11

September 2015 on the business of insurance and reinsurance (Journal of Laws of 2017, items 1170, 1089, 1926 and 2102) resulted from the reasoned opinion of the European Commission sent on 17 May 2017 to the Republic of Poland pursuant to Article 258 of the Treaty on the Functioning of the European Union, in the absence of notification of measures transposing into national law Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) and Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directives 2003/71/EC and 2009/138/EC and Regulations (EC) No 1060/2009, (EU) No 1094/2010 and (EU) No 1095/2010 in respect of the powers of the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority) (Omnibus II). Article 2 of the Act amends the Act of 7 July 1994 on export insurance guaranteed by the State Treasury. The amendments concern the wording of Article 5 of the Act which defines the number of members of the management board of Export Credit Insurance Corporation (KUBE S.A.). Whereas Article 3 introduces an amendment to the Act of 15 January 2015 on bonds (Journal of Laws item 238 and of 2017 items 1089 and 1199), which consists in setting the minimum nominal value of a subordinated bond at PLN 400 thousand or the equivalent in another currency, determined using the average exchange rate of that currency as published by the National Bank of Poland on the date of the issuer's decision to issue the bond.

**Act of 15 December 2017 on insurance distribution (Journal of Laws item 2486).** The Act defines the rules of conducting business activity in the area of distribution of personal and property insurance and distribution of reinsurance. The act implements:

- 1) Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (OJ L 26, 2.2.2016, p. 19);
  - 2) 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, 12.6.2014, p. 349, OJ L 257, 28.8.2014, p. 1, OJ L 175, 30.6.2016, p. 8, OJ L 188, 13.7.2016, p. 28, OJ L 273, 8.10.2016, p. 35 and OJ L 64, 10.3.2017, p. 116).
- The entry into force of the Act on insurance distribution is connected with the expiry of the Act of 22 May 2003 on insurance mediation (Journal of Laws of 2016, item 2077, and of 2017, items 60 and 2486)

**Draft act amending the Act on investment funds and management of alternative investment funds.** The draft provides for changes concerning significant reduction of the depositary's duties, consisting, among others, in the introduction of changes in the fund's representation in the event of withdrawal or expiry of the authorisation of an investment fund management company (in such a situation, according to the draft, the performance of this function would be entrusted to an investment fund management company appointed by the Polish Financial Supervision Authority) and in the introduction of the principle that the liquidator of an investment fund is the company which manages that investment fund before the date of occurrence of the condition for dissolution of the fund. As at 31 December 2017, the Polish Financial Supervision Authority issued a negative opinion, which was then forwarded to the Ministry of Finance.

**Draft act amending the Act on trading in financial instruments and certain other acts**

The draft provides for amendments to:

- Act of 29 July 2005 on trading in financial instruments (Journal of Laws of 2017, item 1768, as amended),
- Act of 26 July 1991 on personal income tax (Journal of Laws of 2016, item 2032, as amended),
- Act of 15 February 1992 on corporate income tax (Journal of Laws of 2016, item 1888, as amended),
- Act of 10 April 1997 – The Energy Law (Journal of Laws of 2017, item 220, as amended),
- Act of 29 August 1997 – The Banking Law (Journal of Laws of 2016, item 1988, as amended),
- Act of 26 October 2000 on commodity exchanges (Journal of Laws of 2017, item 1127),

- Act of 28 February 2003 – The Bankruptcy Law (Journal of Laws of 2016, item 2171, as amended),
- Act of 27 May 2004 on investment funds and management of alternative investment funds (Journal of Laws of 2016, item 1896, as amended),
- Act of 29 July 2005 on capital market supervision (Journal of Laws of 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 of 2016, item 1639, as amended),
- Act of 21 July 2006 on financial market supervision (Journal of Laws of 2017, item 196, as amended),
- Act of 25 July 2014 on special hydrocarbon tax (Journal of Laws of 2016, item 979, as amended).

The aim of the draft 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, 12.6.2014, p. 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, 30.6.2016, p. 8)
- 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 173, 12.6.2014, p. 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, 30.6.2016, p. 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, 23.12.2015, 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, 29.6.2016, 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 draft 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. As at 31 December 2017, the draft was being revised in the Polish Sejm.

**Draft act amending the Commercial Companies and Partnerships Code and certain other acts.** The purpose of the draft act is to introduce the basis for the mandatory dematerialisation of bearer shares and registered 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, which is addressed to public companies, in connection with the introduction of shares to the organised trading system (regulated trading and the alternative trading system). The proposed regulation will create opportunities to reduce costs and increase the security of trading in shares of companies which are not listed on the regulated market. As at 31 December 2017, the draft was subject to consultation.

#### The 'Business Constitution' package includes:

- **Draft act on the rules of participation of foreign business owners and other foreign persons in economic transactions.** The draft concerns a comprehensive regulation of the rules of participation of foreign business owners and other foreign persons in economic transactions in the territory of the Republic of Poland by collecting such principles in a single draft act;
- **Draft act on the Central Register and Information on Business Activity and the Business Information Point in the Republic of Poland.** The draft concerns the introduction of regulations that will improve the functioning of the Central Register and Information on Business Activity (CEIDG) and the Single Contact Point, which will be replaced by the Business Information Point (PIP), which will facilitate starting and running a business, and will streamline and simplify the process of registration and change of data entered in the CEIDG;;
- **Draft act on the Ombudsman for Small and Medium-Sized Enterprises.** The draft concerns a comprehensive regulation of a new institution – the Ombudsman for Small and Medium-Sized Enterprises. The basic task of the Ombudsman for Small and Medium-Sized Enterprises will be to ensure proper implementation of the principles of the 'Business Constitution' in practice. The aim is to better protect the interests of micro, small and medium-sized enterprises, improve the legal environment in which they operate and ensure stronger partnership between business owners and public administration bodies;
- **Draft act – The Business Law.** The draft concerns the replacement of the Act of 2 July 2004 on freedom of economic activity for the reconstruction and reform of the legal and institutional environment for business owners and their business activities in connection with the implementation of the 'Plan for Responsible Development' and the 'Strategy for Responsible Development';
- **Draft act – Provisions implementing the Business Act and other acts concerning business activity.** The draft concerns the definition of rules for the introduction of amendments to a number of separate acts, resulting from the adoption of the Business Act and other acts from the 'Business Constitution' package.'

The aim of the 'Business Constitution' package is to implement the constitutional principle of freedom of economic activity and other constitutional principles important for business owners, as well as to introduce changes to the Polish economic reality. As at 31 December 2017, the package was subject to consultation in the Polish Sejm.

**Draft act amending the Act on compulsory insurance, the Insurance Guarantee Fund and the Polish Bureau for Motor Insurance.** The aim of the draft is to secure the payment of benefits for personal injury in relation to persons in respect of whom the guarantee amount stipulated in the motor vehicle holder's civil liability insurance agreement in the period before the entry into force of the Act of 22 May 2003 on compulsory insurance, the Insurance Guarantee Fund and the Polish Bureau for Motor Insurance has been exhausted. As at 31 December 2017, the draft was being revised in the Polish Sejm.

**Draft act amending the Act on payment services and 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, 23.12.2015, p. 35-127).

The new Directive of 2015 and the related draft 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), as well as modifies the scope of exemptions from the said act. As at 31 December 2017, the draft was being revised in the Council of Ministers.

**Draft act on the Central Accounts Database (CBR).** The main objective of the act is to facilitate the localisation of assets originating from crime. In addition, it is also intended to enable court bailiffs and enforcement authorities to promptly obtain full information about potential places where debtors may store their assets.

Information from the CBR will be used for the performance of statutory tasks of courts, prosecutor's offices, competent services such as the Police, Central Anti-Corruption Bureau, Internal Security Agency, Military Counterintelligence Service, Military Police, Border Guard, General Inspector of Financial Information, National Fiscal Information, tax inspection authorities, tax administration authorities, tax authorities, customs and treasury authorities, enforcement authorities conducting administrative enforcement of pecuniary claims, the KNF, and court bailiffs. As at 31 December 2017, the bill was being drafted by the government.

**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 2017, the draft was being revised in the Polish Sejm.

**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.** The draft act provides, among other things, for 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. As at 31 December 2017, the project was being revised in the Polish Sejm.

**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.** 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. As at 31 December 2017, the draft was being revised in the Polish Sejm.

**The draft act on the principles of repaying certain receivables resulting from credit and loan agreements, presented by the President of the Republic of Poland.** 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 2017, the draft was at the stage of parliamentary work in the Public Finance Committee.

**The draft 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.** 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 2017, the draft was at the stage of parliamentary work in the Public Finance Committee.

**Draft act amending the Act on financial market supervision and certain other acts.** The objective of the proposed regulation is to raise the level of security of financial market participants, including users of financial services provided via Internet platforms. The proposed provisions introduce solutions aimed at preventing financial market abuse committed via the Internet by entities not authorised to provide financial services. In that respect, the draft responds first of all to the threats identified in the FOREX market, i.e. fraud in the financial market committed via the Internet by entities not authorised to provide financial services, however the mechanisms introduced to protect non-professional financial market participants will cover all market sectors supervised by the Polish Financial Supervision Authority. An additional element of the proposed amendments is the possibility to exchange information between the KNF, the National Bank of Poland, the minister competent for financial institutions, the Bank Guarantee Fund and the Internal Security Agency to enable them to perform their statutory tasks.

An important part of the proposed amendments consists in solutions aimed at optimising the relationship between the supervisory authority and the supervised entities – solutions that increase legal certainty for financial market participants, support the development of innovativeness of the financial sector and improve the dialogue between the Polish Financial Supervision Authority and the supervised sectors. As at 31 December 2017, the draft was subject to external consultations conducted by the Minister of Development and Finance.

**Draft act on the national cybersecurity system.** The draft is a response to the rapid development of the ICT architecture, including operations on large data resources, and the growing number of transactions carried out by means of electronic communication and the development of key, digital and services provided by public administration. The opportunities offered by modern digital technologies are also used to commit criminal offences using the Internet or to carry out actions of a terrorist nature; the above-mentioned conditions required the development of the cybersecurity system of the Member States of the European Union; to

that end, Directive (EU) 2016/1148 of the European Parliament and of the Council concerning measures for a high common level of security of network and information systems across the Union was adopted on 6 July 2016 (OJ 2016 L 194, p. 1). The draft represents therefore implementation of Directive 2016/1148 into the Polish legal system. As at 31 December 2017, the draft was at the stage of the government's legislative process.

**Draft act Bill on transparency of public life.** The aim of the draft is to strengthen the transparency and effectiveness of the activities of the authorities of the Republic of Poland, including the management of its assets, social control over the functioning of public authorities and anti-corruption mechanisms in Poland. As at 31 December 2017, the draft was at the stage of the government's legislative process.

**Draft act amending certain acts to introduce simplifications for business owners in the tax and economic law.** The draft act provides for amendments to a number of acts, the main purpose of which is to simplify and facilitate business activity in Poland. The changes should create better conditions for business owners (taxpayers) to take initiatives to develop their core activities, relieving them from bureaucratic responsibilities. Therefore, the draft introduces regulations for reduction of administrative burdens imposed on business owners, extension of the existing powers to a wider category of entities, clarifies the revealed interpretation doubts related to the performance of business activity and introduces tax exemptions for business owners and tools to minimise the risk associated with the tax burden and business contacts with contractors who turned out to be unreliable. The KNF presented comments on the new wording of Article 74 of the Accounting Act of 29 September 1994 (Journal of Laws of 2016, item 1047, as amended), according to which the approved annual financial statements are to be kept for a period of 5 years. The Polish Financial Supervision Authority, taking into account the objectives and solutions of the project, also presented the legislative proposals developed within the framework of the work of the interdepartmental working group for the development of financial innovations (FinTech). As at 31 December 2017, the draft was at the stage of the government's legislative process.

**Draft act Bill on personal data protection and draft act** – Provisions implementing the act on personal data protection. The proposals are intended to ensure applicability 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 119, 4.5.2016, p. 1). As at 31 December 2017, the drafts were at the stage of the government's legislative process.

**Draft act on the successive management of a natural person's enterprise.** After the death of the business owner, the possibilities to carry out day-to-day activities within the enterprise, such as selling goods and providing services, and settling liabilities towards employees or contractors, are severely limited. This significantly reduces the possibility for the legal successor of the business owner to continue his/her business activity after the estate has been partitioned. A similar situation applies to conducting joint business activities in the form of civil-law partnerships. The death of a shareholder may often pose a threat to the existence of the enterprise. The basic objective of the draft is to provide business owners who are natural persons with conditions to maintain the continuity of the enterprise after their death, taking into account that the enterprise should be seen as a legal asset, having not only the property and economic value but also social value. The indirect objective of the regulation is to strengthen the protection of the rights of third parties in connection with running a business. As at 31 December 2017, the draft was at the stage of the government's legislative process.

**Draft act on the principles of criminal record check with respect to candidates for employment in the financial sector.** The draft regulates the principles for the verification of information concerning the absence of criminal records of a candidate seeking employment in the financial sector. Taking into account the scale of the risks involved in the activities of financial entities, it seems necessary for the stability of the financial system and the interests of a large group of market participants (including consumers) for employers in the financial sector to be able to check criminal records of the candidates seeking employment in financial entities, in particular in positions relating to the management of the employer's or third party's assets,

access to legally protected information or decisions entailing a high level of risk. Also in entities acting for the benefit of financial sector entities (such as outsourcers, agents), it is not possible to verify candidates for employment with respect to their criminal records, which makes these entities less competitive on the international market and may hinder the attraction of new clients. Therefore, according to the authors of the draft, this area should be regulated. As at 31 December 2017, the draft was at the stage of the government's legislative process.

### 10.3. ACTIONS SUPPORTING THE DEVELOPMENT OF FINANCIAL INNOVATION (FINTECH)

Recognising the importance of the influence of modern technologies on the development of the financial market in Poland, the Special Task Force for Financial Innovation (FinTech) was established at the initiative of the KNF, the Ministry of Finance and the Ministry of Development, to be coordinated by the KNF.

The objective of the task force was to identify legal, regulatory and supervisory barriers to the development of financial innovation in Poland and to prepare proposals for solutions and measures that could eliminate or reduce the identified barriers.

The task force consisted of representatives of 22 institutions, including a broad representation of public institutions (regulators, supervisors) and representatives of the market (both supervised and unsupervised). As part of the activities of the task force, over 100 barriers to the development of the FinTech sector identified by market participants were analysed.

The activities of the task force focused on the areas that affect the growth of innovation, while maintaining the security of services offered, so as not to undermine the confidence of customers in the financial market.

In the course of the activities of the task force, the KNF Office undertook a number of initiatives to support the development of financial innovations in Poland through supervision, in particular:

- a) a website dedicated to the area of FinTech has been launched on the KNF website, together with a reference to descriptions of the applicable licensing and registration processes,
- b) an organisational unit dedicated to the development of financial innovations has been established within the KNF's structure, responsible for coordination of cases handled by the KNF in the area of financial innovations and maintaining dialogue with market participants from the FinTech sector,
- c) on 17 November 2017, the KNF Office published the Report on the activities of the Special Task Force for Financial Innovation in Poland. The Report presents the identified barriers to the development of the FinTech sector in Poland, the actions taken by the task force to eliminate them, and proposes solutions and recommended further measures to be adopted by competent authorities and entities which will contribute to the creation in Poland of a friendly regulatory and supervisory environment for the development of the financial innovation sector. The report was presented during the conference 'Poland as a Regional Centre for Financial Innovation: Presentation of the Report on the activities of the Special Task Force for Financial Innovation in Poland' organised on the initiative of the Polish Financial Supervision Authority and held on 17 November 2017 as part of Congress 590 at the Exhibition and Congress Centre of Podkarpackie Voivodeship – G2A Arena in Jasionka near Rzeszów.
- d) The KNF decided to implement the Innovation Hub Programme, i.e. the information and training procedure under which the supervisory authority will undertake informational activities in the regulatory and legal areas for the entities of the FinTech sector.

### 10.4. 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 Office 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 2017, the Polish supervisor organised 84 seminars and training workshops, lectures and meetings addressed mostly to representatives of the 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. Nearly 6 600 participants took part in the meetings. A list of the events organised under the CEDUR project in 2017 is presented in Appendix 7.

In addition, representatives of the KNF participated as speakers in about 80 external events, i.e. panels, congresses and conferences.

The following educational brochures were published by the Polish Financial Supervision Authority in the period covered by this report: *Whistleblowing at banks, Activities of the Polish Financial Supervision Authority in the case law of administrative courts, part IV. - Capital Market Supervision, Profit versus Risk in the Forex Market and Electronic Banking in Theory and Practice. Educational materials for the school environment.*

As part of the activities addressed to the school environment, the KNF Office coordinated the international Global Money Week – ‘World Money Week’ for the third time, which in 2017 was held under the slogan ‘*Learn. Save. Earn.*’ The initiator and coordinator of the campaign is Child & Youth Finance International (CYFI), a non-profit organisation cooperating with the OECD.

In 2017, 87 primary, junior and senior high schools from all over Poland and one library took part in the action. About fifteen thousand children and young people, including pre-school children, were selected for the action.

Furthermore, the KNF Office, in cooperation with the Centre for the Development of Education, joined the pilot edition of the World Investor Week by organising workshops for teachers to broaden their knowledge about investment in the financial market. The workshop was held on 6 October 2017 at the Polish Financial Supervision Authority. World Investor Week (WIW) is a new 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.

The representatives of the KNF Office also participated in the activities of the *Working Group for Educational Activities in the area of Financial Market Functioning*, established at the Financial Market Development Council. As part of the activities of the Group, the KNF Office submitted to the Ministry of Finance a proposal of the main priority of financial education with detailed priorities, as well as detailed suggestions of issues related to the objectives of education and the content of teaching the new core curriculum of subjects of basic entrepreneurship and knowledge about society for secondary schools. Moreover, as part of public consultations, the KNF Office submitted comments to the Ministry of National Education on the draft regulation of the Minister of National Education on *the core curriculum of general education for a four-year general secondary school, a five-year technical secondary school and a second-level industry school on the subject of basic entrepreneurship.*

Another form of education activities addressed to the academic community was the organisation of the sixth edition of the Competition for the Award of the Chairman of the KNF for the best PhD dissertation in the field of financial market as well as the meeting of the Chairman of the KNF with students.

## WEBSITE

The main tool the KNF Office uses to conduct information activities is the website, which recorded over 6 million entries in 2017. Information presented on the website of the KNF as the financial market supervisor includes tasks and composition of the KNF, communications from the meetings, organisational structure of the KNF Office, tasks of departments, public procurement, job advertisements and public warnings of the Polish Financial Supervision Authority. The list of public warnings of the Polish Financial Supervision Authority as at 31 December 2017 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.

On 23 June 2017, a new website was launched at [www.knf.gov.pl](http://www.knf.gov.pl), based on the KNF's new visual identity. The intention of creating the new KNF website was to provide more transparent information and to facilitate the searching for supervised entities and information on entities included in the KNF's Public Warning List.

The new module on the KNF website is called 'projects'. The module is composed of tabs which contain full information on the KNF's key projects and/or activities concerning topics which are important from the point of view of the functioning of the financial market, e.g. 'FinTech', 'Forex', 'MAR' and 'AIC', as well as the KNF educational project called Education Centre for Market Participants (CEDUR).

The new version of the KNF website launched together with the mobile application 'the KNF Alert', which provides easy access to the KNF's Public Warnings List and the latest announcements. The key feature of the application is notification, which is displayed on a mobile device where a new entity is included in the KNF's list of public warnings or where the KNF provides important information to financial market participants.

In 2017, 59 546 pieces of media material included references to the Polish Financial Supervision Authority, of which: 52 763 on the Internet, 4 156 in the press, and 2 627 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 and KNF Office,
- 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 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 2017, the KNF Office received 601 requests for access to public information.

## SOCIAL CAMPAIGN 'ZANIM' ['BEFORE']

In January 2017, the KNF Office continued its social campaign called 'Before', in cooperation with public media: Telewizja Polska S.A. and Polskie Radio S.A. The purpose of the campaign was to draw clients' attention to safe and conscious saving up in the financial market and to increase clients' awareness about the legality of activities of financial market

entities. At the same time, the campaign identified sources of information such as the Polish Financial Supervision Authority, where clients can check whether the provider whose services they want to use has appropriate authorisation. As part of the campaign, 30-second spots were broadcast to indicate the need to check the entities which we intend to cooperate with. The social and information campaign in the public media is supported by the website: [https://www.knf.gov.pl/Kampania\\_informacyjna\\_Zanim](https://www.knf.gov.pl/Kampania_informacyjna_Zanim).

## 10.5 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.

Five meetings of the Financial Stability Committee (FSC) on macro-prudential supervision (FSC-M) were held in 2017. An important item on the agenda of the FSC-M meetings was the continuation of the issue of the risk of housing loans denominated in foreign currencies. The activities of the Working Group on Risk of Foreign Currency Mortgage Loans were extended until 10 August 2017 by decision of the FSC-M of 13 January 2017. At the January meeting, the Chairman of the Group presented a draft package of 9 recommendations of FSC-M regarding the restructuring of the portfolio of mortgage loans in foreign currencies, addressed to the Minister of Finance, the National Bank of Poland, the Polish Financial Supervision Authority, and the Bank Guarantee Fund.

The recommendations addressed to the Polish Financial Supervision Authority addressed:

- modification of the SREP methodology so as to allow for appropriate levels of capital charges to be assigned to previously unrecognised risk factors relating to a portfolio of foreign currency mortgage loans,
- supplementing the KNF's current Pillar II requirements with additional risk factors relating to foreign currency mortgage loans,
- issuing a supervisory recommendation on good practices in the restructuring of mortgage loan portfolios in foreign currencies.

Following the adoption of the recommendation, the FSC approved the extension of the scope of the Group's activities to include cooperation with the addressees of the recommendation. Following the expiry of the mandate, the implementation of the recommendation was taken over by the Standing Working Group.

At the meetings held on 24 March 2017 and 15 September 2017, the results of cyclical surveys entitled *Assessment of systemic risk by institutions of the financial safety network* were discussed. The survey results consistently showed that the portfolio of foreign currency loans remained the most important risk to the stability of the financial system. It was stressed that the FSC-M Recommendation on the restructuring of foreign currency loans created an opportunity and identified tools that may contribute to the reduction of risk.

The meetings of the FSC-M also focused on the possible effects of the implementation of MREs, i.e. minimum requirements for own funds and eligible liabilities to cover losses in the event of bank resolution.

At the request of the Polish Financial Supervision Authority, in December 2017 the Committee issued an opinion on the identification of other systemically important institutions (O-SIIs) and on the setting of an O-SII buffer.<sup>41</sup>

## COOPERATION WITH THE SUPERVISING AUDIT COMMITTEE (SAC), THE MINISTRY OF FINANCE (MF), AND THE COMMUNITY OF STATUTORY AUDITORS

The Chairman of the KNF appointed the Committee for Relations with Statutory Auditors. In 2017, the Committee for Relations with Statutory Auditors was taking the followings actions in cooperation with the competent departments of the KNF Office, in the area of:

- reviewing the draft act on statutory auditors and their self-government, entities authorised to audit financial statements and on public supervision, including participation of the Committee’s representatives in parliamentary activities for the above-mentioned draft act,
- establishing working cooperation with the Ministry of Finance/SAC Office with regard to the performance of new statutory tasks of the KNF in the area of public supervision over public interest entities, in particular supervision over the activity of Audit Committees established and operating in public-interest 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 the auditors of the financial statements of these entities,
- organisation of meetings between representatives of the KNF Office and statutory auditors who audit the financial statements of KNF-supervised entities.

### Public supervision exercised by the KNF 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) entered into force, hereinafter: the Act on statutory auditors, imposing new tasks on the KNF in the area of public supervision.

Under Article 89(1) of the Act on statutory auditors, the Polish Financial Supervision Authority 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,

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<sup>41</sup> For more details see: Chapter 5.1 of the Report... ‘Identification of other systemically important institutions (O-SIIs).’

- 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 of 2016, item 1988, as amended),
- c) insurance and reinsurance undertakings and major branches and branches of insurance and reinsurance undertakings as defined in the Act on the business of insurance and reinsurance,
- d) electronic money institutions and domestic payment institutions as defined in the Act of 19 August 2011 on payment services (Journal of Laws of 2016, 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 of 2017, item 870),
- 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 of 2016, item 1896, 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 of 2016, item 1636, as amended),
- i) cooperative savings and credit unions as defined in the Act of 5 November 2009 on cooperative savings and credit unions (Journal of Laws of 2016, item 1910, as amended) which meet the criteria of a large entity .

Pursuant to Article 89(2) of the said Act, for the purpose of performance of tasks in the area of public supervision, the Polish Financial Supervision Authority 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, 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, letter 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 completed in 2017 in connection with new tasks under the Act on statutory auditors

**Sending a self-assessment sheet to a PIE concerning the fulfilment of obligations concerning audit committees.** Pursuant to Article 297 of the Act on statutory auditors, the PIEs which are obliged to have an audit committee are required to appoint such a committee or adjust the composition of the currently functioning audit committee to the requirements specified in the Act within 4 months from the date of entry into force of the provisions of the above-mentioned Act, i.e. by 21 October 2017.

In view of the foregoing, following the actions taken by the KNF, a self-assessment questionnaire was drafted and sent to all the PIEs which are required to appoint audit committees. The purpose of the questionnaire was to obtain information on how to implement the above-mentioned obligation. The deadline for sending the answers was set at 30 November 2017; as at 31 December 2017, the answers provided were being verified.

**Creation of a special tab on the KNF website.** In connection with the new tasks of the KNF in the area of public supervision, a new tab 'Public supervision exercised by the KNF under *the Act on statutory auditors, audit firms and public supervision*' was specifically created on the KNF website under the tab 'For the Market'.

In view of many doubts raised by the PIEs with regard to the content of the Act, the Polish Financial Supervision Authority published the following Statements:

- 1) Statement of the KNF Office on specific aspects concerning audit committees at investment fund management companies,
- 2) Statement of the KNF Office on meeting the criterion of independence of a member of the audit committee of a public interest entity,
- 3) Statement of the KNF Office on disclosure obligations towards the Polish Financial Supervision Authority under Article 133 of the Act on statutory auditors,
- 4) Statement of the KNF Office on disclosure obligations towards the KNF under Article 66(9) of the Accounting Act,
- 5) Statement of the KNF Office on the rotation of audit firms,
- 6) Statement of the KNF Office on new regulations concerning audit committees.
- 7) Statement of the KNF Office on the position of the Ministry of Finance regarding the provision of audit services by audit firms with respect to the audit of solvency and financial condition reports drafted by insurance and reinsurance undertakings.

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 19 December 2017 the KNF published the Action plan of the Polish Financial Supervision Authority for 2018 in the area of public supervision under the Act on statutory auditors, audit firms and public supervision.

([https://www.knf.gov.pl/o\\_nas/komunikaty?articleId=60486&p\\_id=18](https://www.knf.gov.pl/o_nas/komunikaty?articleId=60486&p_id=18)).

## COOPERATION WITH THE NATIONAL BANK OF POLAND

The KNF Office 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 2017 in the area of:

- the banking sector and the SKOK sector, regarding, among others, stress tests, financial plans, obtaining extra-reporting data on consumer and housing loans, providing the SRE and tax on certain financial institutions, 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 Chairman of the KNF met with members of the Monetary Policy Council to discuss the most important developments in the banking sector and the SKOK 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 are submitted or made available to the NBP by the KNF Office on a monthly, quarterly and annual basis. In 2017, 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 Office following consultation with the President of the NBP. Therefore, the KNF Office sends resolutions to the President of the NBP with requests 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 Office in 2013 to exercise ongoing supervision of KDPW\_CCP S.A. in connection with the requirements of EMIR.

For requests for authorisation (or a change of authorisation) to provide domestic payment services, including the service referred to in Article 3(1)(5) of the Act on payment services (acquiring), it is obligatory to obtain the opinion of the President of the NBP, which includes the assessment of the request in terms of compliance with law and ensuring the security and efficiency of that payment service. Such opinion is not binding on the KNF, however, the KNF is obliged to consider the conclusions expressed in it. In 2017, the NBP received three requests in that regard and the President of the NBP issued 2 opinions.

Depending on the specific nature of each case, cooperation between the NBP and the KNF Office 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 Office 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 Office 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 of 2017, item 2270).

## COOPERATION WITH FINANCIAL MARKET PARTICIPANTS

Several meetings with market participants were held in 2017. They focused on the current issues regarding the banking sector, including potential changes in the Borrowers' Support Fund or the introduction of a new accounting reporting standard, IFRS 9.

## 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 Bank Guarantee Fund Act, 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 Polish Financial Supervision Authority and the BGF provided each other with information necessary for the performance of their statutory tasks.

With regard to banks, the KNF Office 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 for Financial Information, in particular in terms of exchange of information on plans and results of inspections in obligated institutions, signalling irregularities found in the course of analytical supervision in obligated institutions, providing information for the purposes of administrative proceedings conducted by the GIFI in matters concerning imposing penalties on obligated institutions, participation in working meetings, training courses and workshops;
- 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 Office was also involved in work on research programmes for 2017, 2018 and 2019;
- the Insurance Guarantee Fund (UFG): the rules of cooperation between the KNF and the UFG are defined by the agreement on cooperation and exchange of information between the KNF and the UFG. Pursuant to the agreement, the KNF and the UFG exchange information on the insurance sector. As part of this cooperation, in 2017 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 Insurance Association (PIU), also through the participation of the employees of the KNF Office as speakers and participants at conferences organised by the PIU and through correspondence concerning the interpretation of the provisions of law;
- the Polish Bank Association (ZBP): among others, with regard to the transmission of sector data, regulatory solutions planned, participation of the employees of the KNF Office as speakers and participants at conferences organised by the 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.

## 11. ORGANISATION OF THE KNF OFFICE

In 2017, the KNF Office was awarded new statutes defining its internal organisation. The new statutes were granted to the KNF Office of the Polish Financial Supervision Authority by way of Order No 111 of the President of the Council of Ministers of 5 October 2017, in performance of the power specified in Article 14 of the Act of 21 July 2006 on financial market supervision (Journal of Laws of 2017, item 196, as amended). Order No 111 of the President of the Council of Ministers entered into force on 26 October 2017.

The main objective of the changes in the organisational structure of the KNF Office was to introduce organisational solutions that would allow optimum adjustment of the structure of the KNF's auxiliary 'machinery' to the scope and nature of the KNF's statutory tasks, while ensuring an appropriately high level of efficiency of the relatively large organisation such as the KNF Office - created as a result of successive mergers of four previously separate bodies. The creation of a vertical structure, based essentially on functional separation, corresponding to the basic aspects of public supervision over the financial market in the current political model, allows for the unification 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.

The statutes introduced a significant innovation in the area of internal organisation of the KNF Office: the divisions, which are the areas of coordination of the tasks of the departments operating within them. The divisions comprise between 2 and 5 departments, which remain the basic organisational units of the KNF Office. The statutes provide for seven divisions. Five directly involved in supervisory functions: In addition to the Licensing, Inspection, Banking Supervision, Insurance and Capital Market Supervision Divisions, there are two additional ones: the Support and Analysis Divisions. Outside the structure of the divisions, there are the Legal Department, the Bureau of the KNF, Independent Team for the Protection of Classified Information, and Independent Team for Internal Control. The statutes stipulate that supervisory divisions are headed by managing directors, while the other two divisions are headed directly by the Chairman of the KNF.

The direct supervision over the Insurance Market Supervision Division and the Capital Market Supervision Division was entrusted to the Vice-Chairman of the KNF Marcin Pachucki, and the direct supervision over the Inspection Division and the Independent Team for Internal Control was entrusted to the Vice-Chairman of the KNF, Andrzej Diakonow. In all other respects, direct supervision is exercised by the Chairman of the KNF.

The statutes introduce a solution which allows the Chairman of the KNF to create independent departments and multi-person and single-person work posts as organisational units of the KNF Office. The solution ensures some flexibility in the management of such a large organisational structure as the KNF Office, in particular it allows for the identification of certain task areas, which, due to their nature, should not be combined with the tasks of departments, while their scope does not justify the creation of a separate department or office. Such solutions are present in the statutes of other authorities. The Chairman of the KNF also has the power to establish – by way of an order – committees, councils and teams, as subsidiary or advisory bodies, on a permanent or ad hoc basis.

The KNF Office is managed by the Chairman of the KNF, assisted by Vice-Chairmen and Directors of organisational units. The tasks of the organisational units of the KNF Office are defined in the organisational regulations of the KNF Office, adopted by the order of the Chairman of the KNF.

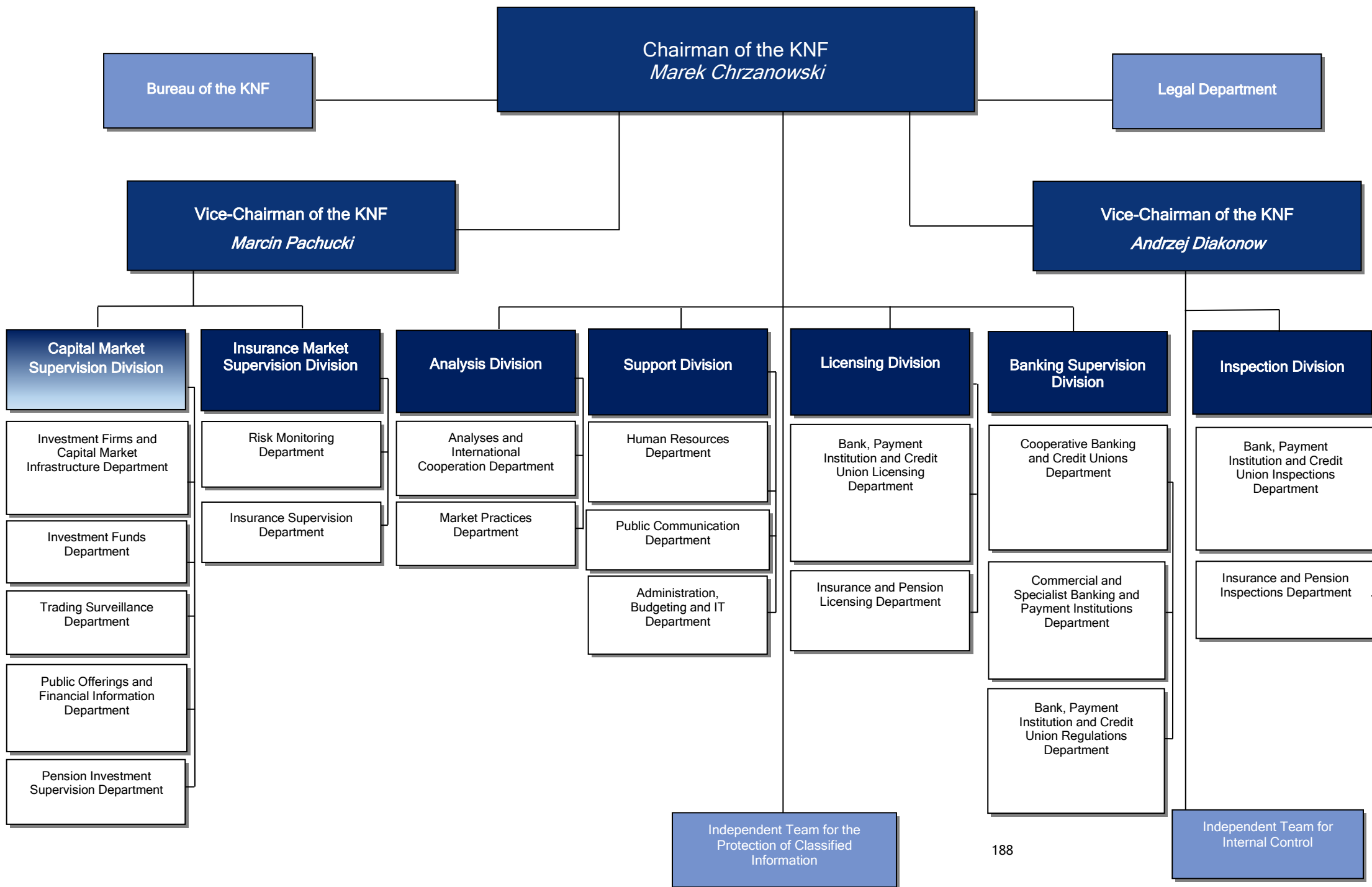
The KNF Office has a system of management control, defined as all actions taken to ensure lawful, effective, efficient and timely performance of objectives and tasks. The purpose of management control is to ensure, in particular: compliance with the legislation and internal procedures, efficiency and 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 Office. 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 Office, to identify the effects and weights of these risks, and to take adequate remedies to mitigate the identified risks.

2017 was another year the performance-based budget, operating at the KNF Office pursuant to the Act on public finance.

Diagram 1: Organisational structure of the KNF Office as of 31 December 2017



## BUDGET OF THE KNF OFFICE

The KNF Office is a budget entity. The expenditures of the KNF Office are covered directly from the state budget, and the revenues of the KNF Office are budgetary revenues disbursed to the state budget. As an entity of the public finance sector, the KNF Office 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 of 2016, item 1870), the Act of 29 January 2004—The Public Procurement Law (consolidated text in: Journal of Laws of 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 20 May 2016 on detailed manner, mode and dates of preparing materials for the draft Budget Act for 2017 and of the letter of the Minister of Finance on the preliminary expenditure limit for 2017, the KNF 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. That revenue may, in accordance with the Act on financial market supervision, be used only to cover expenditure relating to the operation of the KNF and the KNF Office.

The KNF Office also charges fees for official activities relating to examinations organised by the KNF Office. In addition, the KNF Office asserts and collects revenues from administrative fines imposed by the KNF 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.

The budgetary revenue of the KNF Office for 2017 was planned at PLN 244 792 thousand, and implemented on an accruals basis in the amount of PLN 217 191 thousand, and cash – PLN 198 660 thousand. Lower execution on an accruals basis to the plan resulted from a change in regulations related to the settlement of costs of supervision of the capital, banking and insurance markets, i.e. the application of a rolling mechanism.

Expenditure allocated in the budget for activities of the KNF Office in 2017 was planned in the amount of PLN 235 012 thousand, including:

- expenditure in section 758 'Different settlements' PLN 234 997 thousand,
- expenditure in section 752 'National Defence' PLN 15 thousand,

The plan after changes to the budget of the KNF Office concerning expenditure for 2017 was set at PLN 235 012 thousand. In relation to the budget after changes of 2016, it increased by PLN 6 810 thousand, i.e. by 2.98%, 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 86 and 87 show in a traditional layout the plan and implementation of budget revenue and expenditure in 2017 compared to 2016.

**Table 86. Implementation of the KNF plan of budget revenues in 2016 and 2017**

1	Budget revenue	2016 plan (in PLN thousand)	Implementation of the 2016 plan (on accrual basis)		2017 plan (in PLN thousand)	Implementation of the 2017 plan (on accrual basis)		Plan 2017 compared to 2016 (in %)	Implementation in 2017 compared to 2016 (in %)
			(in PLN thousand)	(in %)		(in PLN thousand)	(in %)		
	2	3	4	5	6	7	8	9	10
	Payments of insurance undertakings	35 778	31 907	89%	37 627	28 278	75%	105%	89%



Payment of the PTE	14 130	13 495	96%	14 323	14 624	102%	101%	108%
Payments of the capital market entities	49 223	39 453	80%	41 780	29 886	72%	85%	76%
Payments of the supervised banking market entities to cover supervision costs (commercial banks, cooperative banks, SKOK, BUP, KIP)	128 756	105 654	82%	141 067	121 178	86%	110%	115%
<b>Revenue representing payments to cover the cost of supervision</b>	<b>213 757</b>	<b>190 509</b>	<b>89%</b>	<b>234 797</b>	<b>193 966</b>	<b>83%</b>	<b>110%</b>	<b>102%</b>
Fees collected for activities related to exams and improving professional qualifications	350	671	192%	945	586	62%	270%	87%
Fines imposed on the supervised entities	9 000	6 651	74%	9 000	19 871	221%	100%	299%
Other	50	2 174	4 348%	50	2 768	5 535%	100%	127%
<b>Revenue not constituting payments to cover the cost of supervision</b>	<b>9 400</b>	<b>9 496</b>	<b>101%</b>	<b>9 995</b>	<b>23 225</b>	<b>232%</b>	<b>106%</b>	<b>245%</b>
<b>Total revenue</b>	<b>237 287</b>	<b>200 005</b>	<b>84%</b>	<b>244 792</b>	<b>217 191</b>	<b>89%</b>	<b>103%</b>	<b>109%</b>

Source: KNF's own calculations

**Table 87. Implementation of the KNF's spending plan in 2017**

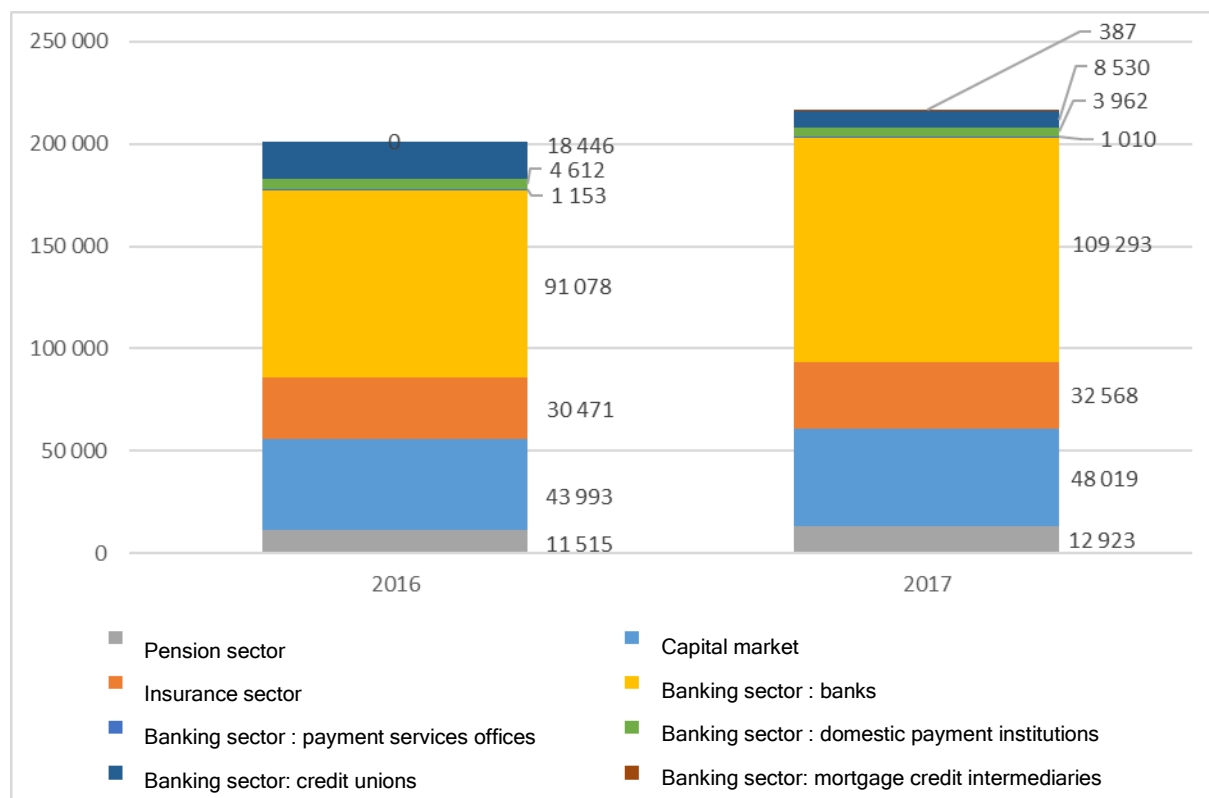
Budgetary expenses	206 plan (in PLN thousand) after changes	Implementation of the 2016 plan		2017 plan (in PLN thousand) after changes	Implementation of the 2017 plan		Plan of 2017 compared to 2016 (in %)	Implementation of 2017 compared to 2016 (in %)
		(in PLN thousand)	(in %)		(in PLN thousand)	(in %)		
1	2	3	4	5	6	7	8	9
Expenditure relating to remuneration, including charges and derivatives for remuneration	132 678	130 956	99%	139 837	137 727	98%	105%	105%
Non-wage spending	95 524	70 323	74%	95 175	78 977	83%	100%	112%
- current expenses	65 709	56 620	86%	77 160	65 581	85%	117%	116%
- defence expenses	15	11	73%	15	13	87%	100%	118%
- asset expenditures	29 800	13 692	46%	18 000	13 383	74%	60%	98%
<b>Total</b>	<b>228 202</b>	<b>201 279</b>	<b>88%</b>	<b>235 012</b>	<b>216 704</b>	<b>92%</b>	<b>103%</b>	<b>108%</b>

Source: KNF's own calculations

The main part of revenues from Table 86 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 23 225 thousand. 2017 was the second year when payments to the capital market were made by all capital market entities. Until 2015, payments were made only by the Warsaw Stock Exchange and the National Depository for Securities.

Diagram 23 shows costs of supervision of individual markets in 2017, and Table 88 shows the division of costs of supervision of individual markets into indirect and indirect costs.

**Diagram 23. Cost of supervision of individual markets in 2017 compared to 2016 (in PLN thousand)**



Source: KNF's own calculations

**Table 88. Division of supervision costs into direct and indirect costs in 2016-2017 (in PLN thousand) in comparative terms**

Name of the market	2016				2017			
	plan after changes	implementa tion	including:		plan after changes	implementa tion	including:	
			Direct supervision costs	Indirect supervisi on costs*			Direct supervision costs	Indirect supervisi on costs*
1	2	3	4	5	6	7	8	9
Capital market	49 523	43 993	26 110	17 883	50 951	48 019	27 091	20 928
Insurance market	35 778	30 471	18 089	12 382	36 863	32 568	18 627	13 941
Pension market	14 130	11 515	6 458	5 057	14 323	12 923	6 913	6 010
Banking market**	128 756	115 289	69 631	45 658	132 860	123 181	69 887	53 294
including:								
- banks		91 078	55 008	36 070		109 293	62 007	47 285
- BUP		1 153	696	457		1 010	573	437
- KIP		4 612	2 786	1 826		3 962	2 248	1 714
- SKOK		18 446	11 141	7 305		8 530	4 839	3 690

- mortgage credit intermediaries						387	220	167
<b>Total</b>	<b>228 187</b>	<b>201 268</b>	<b>120 288</b>	<b>80 980</b>	<b>234 997</b>	<b>216 691</b>	<b>122 517</b>	<b>94 173</b>

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 and the KNF Office operating costs incurred in 2017, 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 20 May 2016 on detailed manner, mode and dates for preparing materials for the draft Budget Act for 2017, the KNF Office 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 2017, in line with the 'Catalogue of functions, tasks, sub-tasks and activities for 2017', is PLN 234 997 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 Office is presented in Table 89.

**Table 89. Expenditures of the State budget in performance system for part 70: Komisja Nadzoru Finansowego in 2017 (in PLN thousand)**

Item	Name of the function/task/sub-task/action	Plan for 2017	Implementation of the plan as of 31 Dec 2017
<b>4.</b>	<b>Management of State finances</b>	<b>234 997</b>	<b>216 691</b>
4.3.	Supervision of the capital, insurance, pension and banking markets	234 997	216 691
4.3.2	Supervision of the capital, insurance, pension and banking markets	234 997	216 691
4.3.2.1.	Supervision of the capital market entities	50 951	48 019
4.3.2.2	Supervision of operations of insurance undertakings	36 863	32 568
4.3.2.3	Supervision of activities of the pension market	14 323	12 923
4.3.2.4	Banking supervision	132 860	123 181
<b>11.</b>	<b>External security and inviolability of borders</b>	<b>15</b>	<b>13</b>
11.4.2.4.W	Defence training for public administration and entrepreneurs	15	13

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 such 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 2017, and the values reached were 91% and 102%, respectively.

Positive deviation from the planned value of the measure results from the involvement and professionalism of the employees of the KNF Office, and the high efficiency and high quality of administrative proceedings and inspections carried out in the supervised entities.

Table 90 shows the planned and achieved values of measures at the level of activities (concerning individual markets) and sub-tasks.

**Table 90. Classification of the performance-based budget: implementation of measures of 2017**

Item	Name of the function/task/sub-task/action	Objective	Measure		
			Name	2017	
				Plan	Implementation of the measure 31 Dec 2017
<b>4.</b>	<b>Management of State finances</b>				
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%	91%
			The number of completed inspection proceedings in relation to the planned inspection proceedings	100%	102%
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%	91%
			The number of completed inspection proceedings in relation to the planned inspection proceedings	100%	102%
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%	80%
			The number of completed inspection proceedings in relation to the planned inspection proceedings	100%	104%

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%	105%
			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%	79%
			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%	100%
			The number of completed inspection proceedings in relation to the planned inspection proceedings	100%	101%

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. Public information on the results of inspections and follow-up statements are published on the website of the Public Information Bulletin of NIK (PL: Biuletyn Informacji Publicznej 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 Office 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 Office 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 Office are executed in accordance with the Public Procurement Plan, pursuant to the provisions of the PPL Act (Journal of Laws of 2017, item 1579, as amended) and in accordance with the KNF Office's internal regulations on public procurement. In 2017, the KNF Office signed 61 public procurement contracts under the procedures provided for by the Public Procurement Law, including: 10 delivery contracts, 51 service contracts.

### Table 91. The number of awarded public procurement contracts in 2017 by the mode

Mode	Number of public procurement contracts awarded
Open tender with a contract value exceeding the amounts specified in the regulations issued pursuant to Article 11(8) of the Public Procurement Act	13
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.	44
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.	3
<b>Total number of public procurement contracts awarded in the modes provided for by the Public Procurement Act in 2017</b>	<b>61</b>

Source: KNF's own calculations

## DEVELOPMENT OF INFORMATION TECHNOLOGIES

In the area of insurance market supervision the project works related to adaptation of IT systems of the KNF Office to the requirements of the EU directive – Solvency II reached their final stage. As part of the project, the IT system used in the supervision of the insurance sector of the SNU (Insurance Supervision System) was adapted to the requirements of the Directive. The most important products and benefits of the project are as follows:

- development of reporting forms in accordance with the Solvency II Directive in the SNU Reporting Application: a set of over 700 forms, 200 bilingual dictionaries and several thousand data correctness tests,
- enabling the entities (insurance undertakings and insurance holding companies) to report to the supervisory authority in XBRL format, in accordance with the taxonomy and validation rules developed by EIOPA. As at 31 December 2017, 10 domestic insurance undertakings used the option,
- compliance with the disclosure obligations towards EIOPA: adaptation of the SNU to prepare and submit to EIOPA data on the reports of the different entities, in XBRL format as defined by EIOPA in taxonomy. All reports were sent on time, accepted by EIOPA and marked as free from errors. The quality of data from the KNF Office is very well assessed by EIOPA,
- extending the collection of data on undertakings in SNU to include information needed for effective supervision,
- preparation of a mechanism enabling automatic processing and making available of qualitative information provided by plants and groups (so-called descriptive reports),
- extending the functionality of the SNU Reporting Application in accordance with internal and external comments, including significant improvements in performance. Feedback from insurance undertakings indicated a significant improvement in work comfort in the Reporting Application.

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 following:

- Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse: a data processing system with an analytical environment for the reception, calculation and transmission of data to ESMA has been set up.
- AIFMD: works have been completed with respect to the development of a register along with a reporting system for new types of entities – alternative investment fund managers

and funds managed by those entities. The system makes it possible to receive reporting data, verify its correctness and exchange data with ESMA. In 2017, the annual reports of all the entities were successfully processed.

In the area of banking supervision:

- the IT system supporting the process of audit and supervisory assessment was adapted to the current methodology, which enabled the assessment to be carried out in 2017,
- BO reports were developed to transform data from the NBP to EBA. As part of the above measure, the scope of automatic replication of data from NBP to the KNF Office was also extended, so that the above reports are always up to date, regardless of changes in the NBP taxonomy,
- in connection with the entry into force of the Regulation of the Minister of Development and Finance of 28 June 2017 on the reports of cooperative savings and credit unions and the National Cooperative Savings and Credit Bank, the adaptation of the SASSKOK system to the requirements arising from the aforementioned Regulation has been commenced,
- The KNF Office's IT solutions were adjusted to the EU regulations concerning CRD IV/CRR ensuring full IT support for all ITS reporting packages (XBRL format) required by EBA and compliant with DPM 2.5 and 2.6.

In 2017, a number of works were also carried out to improve the security, efficiency and availability of the entire IT environment of the KNF Office, including the creation of a high accessibility e-mail environment based on MS Exchange servers and the migration from Lotus Notes to MS Exchange (MS Outlook) of employee mailboxes and functional mailboxes. The new website of the KNF was also launched. In 2017, work on implementation of the new electronic document management system (EZD) in the KNF Office was also completed. The implementation of the EZD system is aimed at changing the system from a typical register system supporting the circulation of paper documents to a system fully supporting the electronic circulation, eliminating problems resulting from the handling of cases using paper printouts, e.g. determining the status of the case, communication via ePUAP, the necessity of collecting files in cases handled electronically, archiving, etc.

## MANAGEMENT OF HUMAN RESOURCES

Activities undertaken by the KNF Office in the area of human resources management in 2017, as in previous years, focused on ensuring appropriate resources for the performance of supervisory tasks. Those activities included the process of managing resources for staff remuneration and the process of planning, acquiring and allocating human resources within the organisational structure of the KNF Office, taking into account the various levels of management, while ensuring conditions for personal development and retention of the most qualified personnel.

The employment plan for 2017 was 1,017 jobs. The employment level as at 31 December 2017 amounted to 964,105 jobs (substitution agreements not included).

The fluctuation rate in 2017 was 10.99%. For comparison, in 2012-2016, it was: 8.24%, 7.25%, 8.86% and 9.77% and 9.93% respectively. These rates demonstrate a stable employment situation and maintenance of fluctuation at an acceptable level.

As part of the training and development activities, group trainings on 102 topics were organised during the year, 87 of them being specialist trainings, mainly in the field of banking, financial markets, reporting and accounting, insurance as well as broadly understood legal issues. The number of group training topics submitted to the plan in 2017 increased by 10 compared to 2016.

As a result of an ongoing analysis of the needs, group training processes were supported by individual trainings, in which 418 employees took part in 2017, of which 308 people participated in domestic training and 110 in foreign training.

The intensity of training conducted in 2017 is determined by the rate of 5.5 participant days, which represents 44 hours of training per employee. For comparison, in 2015-2016, the number of training hours per one employee was as follows: 33 and 48 hours, respectively.

## TASKS IMPLEMENTED IN THE FIELD OF SECURITY AND PROTECTION OF INFORMATION PROCESSED AT THE KNF OFFICE

In 2017, 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,
- fulfilment of obligations related to defence planning and non-military defence preparations,
- ensuring the security of the processing of information protected by law or on the basis of internal regulations of the KNF Office,
- 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 and information,
- supervision and monitoring of ICT security systems,
- supervision and monitoring of physical protection schemes
- supervision and monitoring of tasks in the area of crisis management, contingency liquidity planning and business continuity.

Within the scope of the above tasks, during the period covered by this report, among others:

- solutions enhancing ICT security have been implemented,
- information security audits were carried out, implementing the provisions of the Information Security Policy,
- theoretical and practical training on fire protection was provided for the employees designated for fire-fighting and evacuation operations in the facilities of the KNF Office,
- evacuation exercises were carried out from the KNF Office's work buildings in Warsaw, thus fulfilling the obligation to check the organisation and the conditions of evacuation in practice,
- basic and specialised training in first aid was provided for persons assigned to the aforementioned operations in the facilities of the KNF Office,
- tasks in the area of the Plan of checking compliance of personal data processing at the KNF Office with the provisions on personal data protection, in connection with the published changes in the law, were carried out,
- the implemented Business Continuity Plan of the KNF Office was tested and the Contingency Liquidity Plan of the KNF Office was updated,
- security audits of ICT systems (external tests and security analysis of shared interactive network applications) were performed;
- the access point within the framework of the Police Classified Data Transmission Network was modernised,
- a plan for the mandatory security of the facility was developed and agreed with the Internal Security Agency and the Warsaw Police Chief,
- the concept of a new structure and operation of 'permanent standby duty' at the KNF Office was developed as part of the defence tasks of the KNF Office,
- 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 Office was developed.

## INTERNAL CONTROLS AND COMPLAINTS ABOUT THE ACTIVITY OF THE KNF OFFICE AND THE CONDUCT OF EMPLOYEES OF THE KNF OFFICE



In 2017, the KNF Office carried out internal control tasks, which were aimed at, inter alia:

- ongoing check of the effectiveness of performing functional control at the KNF Office,
- 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 Office,
- examination of the functioning of the KNF Office of the Authority 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 2017 and 31 December 2017, the internal control unit of the KNF Office carried out 5 planned problem controls and initiated 1 ad hoc problem control.

In 2017, explanatory actions related to handling complaints and applications concerning work of the KNF Office and the conduct of employees of the KNF Office were also taken. 68 letters from 74 applicants were received in that regard.

## EXTERNAL CONTROLS

The Supreme Audit Office (NIK) positively assessed the implementation of the State budget in 2016 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 letter for 2016 addressed to the Chairman of the KNF requested that action be taken to ensure that the documents underlying the entry of receivables in the accounts were forwarded within the time limits for the correct and complete presentation of the entitlements in the budgetary accounts. In order to implement this request, the principles of transmitting the above mentioned documents have been developed. After the consultation stage, they will constitute an order of the Chairman of the KNF.

Moreover, in 2017 two other audits of the Supreme Audit Institution (NIK) were carried out at the KNF Office.. The first theme was 'Protection of consumers using loans subject to foreign exchange risk' and the second was 'Ensuring the stability of the banking sector'. The objective of the first one was to determine how the competent authorities (including the KNF Office, the OCCP and the Financial Ombudsman) exercise supervision over banks and how they protect borrowers. The second was to answer the question: have the members of the Financial Stability Committee reliably fulfilled their statutory duties with regard to macro-prudential supervision and crisis management, and micro-prudential supervision of banking institutions?

The KNF Office also conducted an audit coordinated by the Archive of New Files on 'Compliance with the Regulations on National Archive Resources and Archives'.

## 12. APPENDICES

### APPENDIX 1. INFORMATION ABOUT THE RESOLUTIONS AND ADMINISTRATIVE RULINGS ISSUED BY THE KNF IN 2017

**Table 1.1. Number of resolutions adopted by the KNF in 2017**

Subject-matter of resolution	Number of adopted resolutions
<b>Matters concerning the banking sector</b>	
Approval of appointment of a president of the management board of a bank	33
Dismissal from the position of president of the management board of the bank	1
Approval of appointment of a member of a bank's management board supervising significant risk management in the bank's operations	6
Approval of appointment of a member of the management board of the security system	1
Authorisation of bank mergers	7
Statement of no grounds for objecting to the planned acquisition of shares	1
Statement of no grounds for objecting to the bank's intention to become its parent undertaking	1
Approval of the bank's recovery plan	1
Refusal to approve the appointment of the president of the bank's management board	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
Introducing amendments to the bank's articles of association	1
Upholding a decision	3
Upholding in force the decision of the KNF of 6 December 2016, recognising the State Treasury of the Republic of Poland as the parent entity of Alior Bank S.A. within the meaning of Article 4(1)(8)(b) and (14) of the Banking Act	1
Discontinuation of proceedings	7
Authorisation to establish a bank	1
Repeal of the decision	9
Expressing consent for the bank to conduct its activity outside the group of affiliated banks	1
Approval of the bank's recovery plan	1
A decision on the identification of other systemically important institution	13
other	10
<b>Total:</b>	<b>102</b>
<b>Matters concerning the sector of credit unions (SKOK)</b>	
Appointment of a receiver	2
Approval of the president of the management board of a credit union	2
Repeal of the decision and discontinuation of the proceedings	2
Discontinuation of administrative proceedings	11
Upholding a final decision	7
Upholding an interim decision	11
Decision declaring the application to be inadmissible	1
Suspension of a union's activity	4
Take-over of a credit union by a bank	2
Approval of amendments to the articles of association of the National Association of Credit	1
other	4

<b>Total:</b>	<b>47</b>
<b>Matters concerning the payment service sector</b>	
Authorisation to provide payment services as a national payment institution	6
Imposition of fines on the BUP	47
Repeal of the decision	4
Upholding a final decision	8
Discontinuation of administrative proceedings	14
<b>Total:</b>	<b>79</b>
<b>Matters concerning the insurance sector</b>	
Approval of appointment of a member of the management board of an insurance undertaking responsible for risk management	19
Approval of appointment of a president of the management board of an insurance undertaking	12
Imposition of a fine on the insurance undertaking	17
Discontinuation of proceedings	2
Upholding a final decision	1
Repeal of the decision	4
Lack of grounds for filing the objection against the acquisition of shares of a domestic insurance undertaking	2
Lack of grounds for objecting to a merger between insurance undertakings	1
<b>Total:</b>	<b>58</b>
<b>Matters concerning the pension sector</b>	
Approval of an amendment to the articles of association of a general pension society	3
Approval of an amendment to the articles of association of an open pension fund	7
Authorisation to shorten the deadline for entry into force of amendments to the articles of	7
Approval of appointment of a member of the management board of a general pension society	11
Approval of an amendment to the articles of association of an occupational pension fund	1
Approval of an amendment to the articles of association of the voluntary pension fund	4
Authorisation to shorten the deadline for entry into force of amendments to the articles of association of a voluntary pension fund	3
Imposition of a financial penalty on a general pension society	2
Revocation of authorisation to establish a general pension society	1
Authorisation to take over the management of an open pension fund	1
Approval of acquisition of shares of a general pension society	1
Approval of acquisition of shares of an occupational pension company	6
<b>Total:</b>	<b>47</b>
<b>Matters concerning the capital and commodity markets</b>	
Authorisation to convert shares into certified form (dematerialisation of shares)	21
Authorisation to conduct brokerage activities	9
Revocation of authorisation to conduct brokerage activities	2
Suspension of brokerage activities	1
Authorising the TFI to pursue the activity of the TFI consisting in establishing and managing investment funds or foreign funds, including intermediation in selling and repurchasing participation units, representing them towards third parties and managing an aggregate portfolio of securities	3
Authorisation to conduct activities relating to the purchase of two-day spot contracts at auctions organised by an auction platform	1
Granting the TFI authorisation to set up an SFIO	1

Imposition of fines on TFI	3
Imposition of fines on entities	17
Imposition of fines on natural persons	31
Upholding a final decision	38
Upholding an interim decision	1
Repeal of the decision	27
Indefinite exclusion of the company's shares from trading on a regulated market	3
Refusal to repeal a decision	1
Refusal to enter a company in the register of AIC managers	6
Refusal to make an entry in the register of tied agents of investment firms	1
Deletion of an investment firm's tied agent	14
Removal from the list of securities brokers	3
Deletion of an investment adviser	1
Refusal to declare the KNF's decision invalid	1
Lack of grounds to object to the planned acquisition of shares in TFI	9
Resolution on making information available to the public	66
Consent to the payment of the fine in instalments	1
Approval of changes in the composition of the management board of the WSE	3
Authorisation to change the depository	3
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
Refusal to make payment of the fine in instalments	2
Granting authorisation	3
Request that the WSE suspend trading in shares	1
Suspension of enforcement of a decision	1
Extension of the deadline for acquisition of shares of TFI	3
Repealing the KNF's resolution	1
Other	2
<b>Total:</b>	<b>284</b>
<b>Cross-sectoral matters and matters concerning internal organisation of the KNF's work</b>	
Report on the activities of the polish financial supervision authority in 2016	1
Update of the Contingency Plan	1
Other	1
<b>Total:</b>	<b>3</b>
<b>TOTAL</b>	<b>620</b>

Source: KNF's own calculations

**Table 1.2. The number of final and interim decisions issued in 2016 on the basis of the authorisation granted by the KNF**

Subject-matter of final and interim decisions	The number of final and interim decisions issued
<b>Matters concerning the banking sector</b>	
Authorisation to include profit for a given period in the Tier I core capital	26
Authorisation to classify the issued shares to the Tier I core capital	15
Decision to authorise a reduction in own funds	466
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	32
Authorisation of early redemption of subordinated bonds included in Tier 2 capital.	3
Authorisation to classify shares contributed after 28 June 2013 to the Tier I capital	39
Authorisation to apply internal methods and other models and to introduce significant extensions/changes to internal methods	8
Decisions 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)	50
The KNF's approval of a (group) recovery plan	32
Authorising banks in the Security System to prepare a group recovery plan.	2
Discontinuation of proceedings concerning notification of acquisition of qualifying holding in a domestic bank	1
Discontinuation of proceedings	17
Refusal to initiate proceedings	2
Authorisation to exempt the bank from the requirement set out in Article 11(3) of EMIR to have risk management procedures in place that require timely, accurate and appropriately segregated exchange of collateral in relation to over-the-counter (OTC) derivative contracts	1
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	4
Authorisation to entrust performance, by business owners indicated in the decision, of activities other than those specified in Article 6a(1)(1)(a) of the Banking Act for and a bank	5
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	11
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	1
Limitation of the personal and/or material scope of the recovery plan	4
Obligation of a bank to prepare a recovery plan taking into account the designated entity/subsidiaries	4
Recommendation to a bank to maintain an additional own funds requirement in accordance with Article 138(1)(2a)	10
Order that typographical and other obvious errors be corrected	7

Discontinuation of proceedings in relation to authorisation to appoint a member of the management board of a bank supervising the management of material risk	4
Discontinuation of proceedings in relation to appointment of bank's president/member of the management board (withdrawal of request)	3
Authorisation to amend the articles of association of a bank	392
Approval of amendments to the articles of association of a bank(MiFID)	3
Approval of changes to decisions on amendments to the articles of association of a bank	4
Discontinuation of proceedings concerning amendments to the articles of association of a	1
Discontinuation of proceedings for reconsideration of the case concerning amendments to	1
Stating expiry of the authorisation to open a representative office of a foreign bank and a credit institution	1
Authorisation to open a representative office of a foreign bank and/or credit institution	1
Other final and interim decisions	47
<b>Total</b>	<b>1 200</b>
<b>Matters concerning the sector of credit unions (SKOK)</b>	
Refusal to consider a request to provide evidence	24
Refusal to consider a request for the inclusion of a document in the files of administrative	4
Refusal to consider a request for a hearing	8
Refusal to admit a person to participate with the rights of a party	16
Upholding an interim decision on the refusal to allow for participation of a social organisation in administrative proceedings	3
approval of an amendment to the articles of association of a credit union	12
Discontinuation of proceedings concerning appointment of a member of the management	1
Discontinuation of proceedings in relation to the approval/appointment of the president of the	1
Suspension of proceedings	2
Refusal to suspend proceedings	1
Correction of typographical errors and other obvious errors	1
Exclusion of a member of the KNF from administrative proceedings	3
Refusal to initiate proceedings	5
Other	7
<b>Total</b>	<b>88</b>
<b>Matters concerning the payment service sector</b>	
Interim decision on the refusal to initiate administrative proceedings related to the division of a payment into instalments	1
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
Discontinuation of proceedings concerning the expiry of authorisation to provide payment services as a national payment institution	1
Discontinuation of proceedings	37
Failure to comply with the time limit	250
<b>Total</b>	<b>291</b>
<b>Matters concerning the insurance sector</b>	
Repealing of a decision appealed against and discontinuation of proceedings	2
Suspension of proceedings	3
Setting a new date to deal with the case	83
Discontinuation of proceedings	21
Upholding a decision appealed against	1
Return of the request	1

Issuance of a decision pursuant to Article 243(1) of the Act on the business of insurance and reinsurance	1
Issuance of a decision pursuant to Article 313(2) of the Act on the business of insurance and reinsurance	1
Issuance of a decision pursuant to Article 402(4) and Article 401(4)(2) in conjunction with Article 401(5) of the Act on the business of insurance and reinsurance	6
Issuance of a decision pursuant to Article 402(4) and Article 401(4)(2) in conjunction with Article 402 of the Act on the business of insurance and reinsurance	1
Issuance of a decision pursuant to Article 401(4) of the Act on the business of insurance and reinsurance	1
Issuance of a decision on the full exemption of intra-group transactions from the exchange of collateral.	1
Issuance of a decision pursuant to Article 312(2) of the Act on the business of insurance and reinsurance	1
Request for reconsideration of the case concerning supplementary own funds	1
Issuance of a decision pursuant to Article 402(3) in conjunction with Article 419(2) of the Act on the business of insurance and reinsurance	8
Approval of amendments to the articles of association of an insurance undertaking	38
Entry in the register of actuaries	20
Authorisation to conduct brokerage in the area of insurance	76
Authorisation to conduct brokerage in the area of reinsurance	9
Imposition of a fine	12
Revocation of authorisation to conduct brokerage	29
Refusal to initiate proceedings	7
Recognition of qualifications for the profession of an actuary	1
Notice of initiation of administrative proceedings	19
Refusal to take into account requests to provide evidence	2
Issuance of a decision pursuant to Article 361(2) of the Act on the business of insurance and reinsurance	1
Other	3
<b>Total</b>	<b>349</b>
<b>Matters concerning the pension sector</b>	
Authorisation to appoint a member of the supervisory board of a general pension society	9
Authorisation to appoint a member of the supervisory board of an occupational pension	1
Approval of amendments to the agreement on the safekeeping of assets of a voluntary pension fund	2
Authorisation to amend the agreement on the safekeeping of assets of an occupational pension fund	3
Waiver of the requirements specified in the Act on OFE	1
Entry of an occupational pension scheme in the register	48
Inclusion of an employer in an inter-company scheme	27
Entry of changes to the occupational pension scheme in the register	91
Deletion 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 register	8
Resumption of suspended proceedings	9
Suspension of proceedings	10
Discontinuation of proceedings	15
Extension of the time for removal of formal defects/irregularities	7
Setting a new date to deal with the case	1
Conducting one set of proceedings concerning requests for review of a case	1

Refusal to take into account requests to provide evidence	1
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	21
Approval of the report on activities of KDPW S.A. in respect of management of the Guarantee Fund for 2016	1
Approval of the opening balance of the liquidation of an occupational pension fund	1
Approval of the liquidation scheme of an occupational pension fund	1
Approval of financial statements of an occupational pension fund in liquidation drawn up on the day of completion of liquidation	1
Authorisation to extend the period for adjusting investment activity of an open-ended pension fund to statutory requirements	3
Authorisation to extend the period for adjusting investment activity of the voluntary pension fund to statutory requirements	1
<b>Total</b>	<b>294</b>
<b>Matters concerning the capital and commodity markets</b>	
Approval of a prospectus	37
Approval of an information memorandum	3
Approval of an annex to the prospectus	91
Approval of an annex to an information memorandum	5
Suspension of administrative proceedings	44
Initiation of administrative proceedings	27
Discontinuation of administrative proceedings	69
Initiation of proceedings following a request for review	35
Correction of an obvious error	4
Refusal to take into account requests to provide evidence	29
Refusal to suspend the enforcement of a decision	24
Repeal of a decision refusing to consider requests to provide evidence	1
Refusal to initiate administrative proceedings	6
Initiation of proceedings on the request to change the letter of a take-over bid	3
Request to change the letter of a take-over bid	3
Demand to suspend trading in shares of a public company	31
Amendment to a decision	1
Repeal of a decision	9
Decision under Article 17(5) and (6) of MAR	1
Decision under Article 71 of the Act on public offering	2
Repeal of the decision refusing access to the file of the proceedings and discontinuation of the proceedings	3
Repeal of a decision refusing to consider requests to provide evidence	1
Refusal to issue a certified copy of a file of proceedings	1
Exclusion of a staff member from administrative proceedings	2
Granting or refusing to grant the costs of appearance of a witness or party	3
Asking the company operating the regulated market for an opinion in connection with the issuer's breach of disclosure obligations	2
Declaring the decision to be expired	10
Authorisation to extend the scope of activity of an investment fund management company to include investment advisory services	1
Authorisation to merge internally two sub-funds of an open-end investment fund or a specialised open-end investment fund	4



Authorisation to manage the securitised loans of the securitisation fund by an entity other than a company	5
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	43
Authorisation to establish a public closed-end investment fund, which corresponds to the approval of a prospectus for investment certificates	1
Authorisation to set up a specialised open-ended investment fund	2
Approval of a prospectus for closed-end investment fund certificates	5
Approval of an annex to the investment certificates prospectus of a closed-end investment fund	36
Authorisation to act as an agent in selling and redeeming participation units in investment funds or participation units in foreign funds	6
Refusal to grant authorisation to act as an intermediary in the sale and redemption of participation units in investment funds or participation units in foreign funds	1
Conversion of an open-end investment fund into a new sub-fund of an existing open-end investment fund with separate sub-funds	1
Taking over the management of a specialised investment fund opened by another company	1
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	4
Appointment of a liquidator	2
Raising an objection referred to in Article 61b(3) of the Act on investment funds and the management of alternative investment funds	2
Authorisation to keep registers or accounts of commodities	5
Repeal of authorisation to keep registers or accounts of commodities	6
Withdrawal of authorisation to keep registers or accounts of commodities	1
Inclusion in the list of investment advisers	87
Inclusion in the list of securities brokers	37
Inclusion in the register of investment firms' tied agents	58
Refusal to issue a certificate	1
Refusal to exclude an employee of the KNF Office	1
Refusal to consider a party's request for an administrative hearing and hearing of the parties' representative	1
Return of the request for a certificate	1
Approval of amendments to the Regulations of KDPW S.A.	4
Approval of the amendments to the Regulations for the settlement of KDPW_CCP S.A.	4
Approval of amendments to the Trading Rules for the exchange commodity market of the Polish Power Exchange	1
Approval of amendments to the Trading Rules for the regulated market of BondSpot	2
Approval of amendments to the articles of association of the Warsaw Stock Exchange	1
Decision on the refusal to suspend proceedings	1
Decision refusing to stay immediate enforcement of the decision of the first instance	1
Agreement to reduce the information required in the recovery plan drawn up by a brokerage house	8
Approval of the recovery plan of a brokerage house	10
Refusal to approve the recovery plan of a brokerage house	2

Authorisation under 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	10
Refusal to initiate proceedings under 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	1
Suspension of proceedings initiated under 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	1
Approval of an amendment to the Rules of the Warsaw Stock Exchange	2
Authorisation to extend cooperation with an audit firm	1
Prohibition of further public offering of securities	2
Declaration that the request for review is inadmissible	1
Refusal to grant relief in the enforcement of a fine in the form of deferment of the payment of a fine	1
Refusal to return the financial penalty	1
Other	12
<b>Total</b>	<b>824</b>
<b>Matters concerning mortgage loan intermediaries</b>	
Authorisation to carry on business as a mortgage credit intermediary	49
<b>Total</b>	<b>49</b>
<b>Matters concerning other areas</b>	
Decision under Article 49a (11) and (13) of the Geological and Mining Law	3
<b>Total</b>	<b>3</b>
<b>TOTAL</b>	<b>3 099</b>

Source: KNF's own calculations

## APPENDIX 2. ISSUERS WHOSE PROSPECTUSES WERE APPROVED BY THE KNF 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 IN 2017

**Table 2.1. Issuers whose prospectuses were approved by the KNF in 2017**

Item	Issuer	Date of approval of the prospectus
1.	Unimot SA	11 January 2017
2.	GetBack SA	9 March 2017
3.	Airway Medix SA	10 March 2017
4.	MO-BRUK SA	16 March 2017
5.	Dino Polska SA	17 March 2017
6.	Victoria Dom SA	23 March 2017
7.	Bank Ochrony Środowiska SA	25 April 2017
8.	PCC Rokita SA	15 May 2017
9.	Echo Investment SA	26 May 2017
10.	Trans Polonia Group SA	29 May 2017
11.	Maxcom SA	2 June 2017
12.	Morizon SA	9 June 2017
13.	GetBack SA	16 June 2017
14.	Uniserv-Piecbud SA	19 June 2017

15.	PBG SA	23 June 2017
16.	Raiffeisen Bank Polska SA	28 June 2017
17.	Radpol SA	30 June 2017
18.	Braster SA	4 July 2017
19.	Miraculum SA	7 July 2017
20.	PZ Cormay SA	20 July 2017
21.	PKN Orlen SA	20 July 2017
22.	PCC Exol SA	20 July 2017
23.	Intersport Polska SA	23 August 2017
24.	MCI Private Ventures FIZ	28 August 2017
25.	Venture Inc SA	25 September 2017
26.	Cognor Holding SA	5 October 2017
27.	NanoGroup SA	13 October 2017
28.	Alior Bank SA	13 October 2017
29.	Polimex-Mostostal SA	20 October 2017
30.	Best SA	25 October 2017
31.	Rafako SA	31 October 2017
32.	Rafako SA	3 November 2017
33.	Marvipol Development SA	7 November 2017
34.	Hollywood SA	8 November 2017
35.	Kredyt Inkaso SA	24 November 2017
36.	Tower Investments SA	27 November 2017
37.	R22 SA	30 November 2017

Source: KNF's own calculations

**Table 2.2. Issuers whose memoranda were approved by the KNF and whose equivalence to the prospectus was stated by the KNF in 2017**

Item	Issuer	Date
1.	EMG SA	13 June 2017
2.	Marvipol Development SA	8 November 2017
3.	Veolia Energia Poznań SA	24 November 2017

Source: KNF's own calculations

**Table 2.3. Closed-end public investment funds whose prospectuses were approved by the KNF in 2017**

Item	Name of the fund	Date of approval of the prospectus
1.	PKO Globalnego Dochodu FIZ	21 April 2017
2.	PKO Strategii Obligacyjnych FIZ	24 May 2017
3.	PKO Absolutnej Stopy Zwrotu Europa Wschód-Zachód FIZ	29 June 2017
4.	PKO Globalnej Strategii FIZ	30 August 2017
5.	QUERCUS Multistrategy FIZ	5 October 2017
6.	Ipopema Global Profit Absolute Return Plus FIZ	13 October 2017

Source: KNF's own calculations

### APPENDIX 3. LIST OF ITEMS OF THE OFFICIAL JOURNAL OF THE POLISH FINANCIAL SUPERVISION AUTHORITY ISSUED IN 2017

- 1) Communication of the Polish Financial Supervision Authority of 27 January 2017 on the amount of the maximum actuarial interest rate (OJ KNF item 1).
- 4) Polish Financial Supervision Authority Communication No 199 of the Examination Board for Investment Advisers of 10 February 2017 on the date, scoring rules and completing tasks of the third stage of the examination for an investment adviser (OJ KNF item 2).

- 3) Communication No 200 of the Examination Board for Investment Advisers of 28 March 2017 on the dates of the proficiency tests (OJ KNF item 3).
- 4) Communication No 201 of the Examination Board for Investment Advisers of 28 March 2017 on the content of the proficiency tests (OJ KNF item 4).
- 5) Communication of the Chairman of the Polish Financial Supervision Authority of 30 March 2017 on the amount of supervisory costs for payment service offices in 2016 and the maximum amount to be paid by all payment service offices for 2016 (OJ KNF item 5).
- 6) Resolution No 112/2017 of the Polish Financial Supervision Authority of 11 April 2017 on recommendations for the application of the EBA's product oversight guidelines and governance arrangements for retail banking products (OJ KNF item 6).
- 7) Resolution No 141/2017 of the Polish Financial Supervision Authority of 25 April 2017 regarding Recommendation H on the internal control system at banks (OJ KNF item 7).
- 8) Resolution No 232/2017 of the Polish Financial Supervision Authority of 13 June 2017 amending the resolution on the 'Rules of Procedure of the Arbitration Court of the Polish Financial Supervision Authority' (OJ KNF item 8).
- 9) Communication No 1/2017 of the Examination Board for Securities Brokers of 24 July 2017 on the date of the examination for the broker of securities and the supplementary examination (OJ KNF item 9).
- 10) Communication No 2/2017 of the Examination Board for Securities Brokers of 24 July 2017 on the scope of the exam for the broker of securities and the supplementary examination (OJ KNF item 10).
- 11) Communication No 203 of the Examination Board for Investment Advisers of 25 July 2017 concerning the date and the rules for the scoring and passing of the third stage of the examination for the appointment of investment advisers (OJ KNF item 11).
- 12) Communication No 204 of the Examination Board for Investment Advisers of 27 July 2017 on the date of the first stage of the examination for the investment adviser (OJ KNF item 12).
- 13) Communication No 205 of the Examination Board for Investment Advisers of 27 July 2017 on the scope of the examination for investment adviser (OJ KNF item 13).
- 14) Communication of the Chairman of the Polish Financial Supervision Authority of 31 July 2017 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 2016 (OJ KNF item 14).
- 15) Resolution No 319/2017 of the Polish Financial Supervision Authority of 1 August 2017 amending the resolution on the procedure for supervision of banking activities (OJ KNF item 15).
- 16) Communication of the Chairman of the Polish Financial Supervision Authority of 18 August 2017 on the cost of supervising payment institutions in 2016, the total fees paid by all domestic payment institutions in 2016 and the maximum amount payable by all domestic payment institutions for 2016 (OJ KNF item 16).
- 17) Communication of the Chairman of the Polish Financial Supervision Authority of 30 August 2017 on the amount of rates and the value of correction coefficients for groups referred to in § 22 of the 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 2017 (OJ KNF item 17).
- 18) Communication of the Chairman of the Polish Financial Supervision Authority of 29 September 2017 on the weighted average rate and the value of the correction coefficient to be used in calculating the financial contribution from banks towards the cost of supervision in 2017 (OJ KNF item 18).
- 19) Communication of the Chairman of the Polish Financial Supervision Authority of 29 September 2017 on the weighted average value and the value of the correction coefficient to be used for calculating the contribution from insurance and reinsurance undertakings to the cost of supervision in 2017 (OJ KNF item 19).
- 20) Announcement of the decision of the Polish Financial Supervision Authority concerning the imposition of fines on FinCrea Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Wrocław and the withdrawal of authorisation to conduct business activity (OJ KNF item 20).
- 21) Resolution No 493/2017 of the Polish Financial Supervision Authority of 21 November 2017 on the application of the European Banking Authority's Remuneration Policies and Practices Guidelines to the sale and distribution of retail banking products and services (OJ KNF item 21).
- 22) Communication of the Polish Financial Supervision Authority of 21 November 2017 concerning a change in the data covered by a subscription to the list of securities brokers and the list of investment advisers (OJ KNF item 22).

- 23) Communication of the Polish Financial Supervision Authority of 21 November 2017 on changing the details subject to registration in the list of securities brokers (OJ KNF item 23).
- 24) Communication of the Polish Financial Supervision Authority of 21 November 2017 on changing the details to be entered on the list of securities brokers (OJ KNF item 24).
- 25) Communication No 209 of the Examination Board for Investment Advisers of 29 November 2017 on the time limit, the content of problematic tasks, the rules of scoring and passing the tasks of the second stage of the examination for an investment advisor (OJ KNF item 25).
- 26) Communication No 3/2017 of the Examination Board for Securities Brokers of 20 December 2017 on the date of the examination for the broker of securities and the proficiency test (OJ KNF item 26).
- 27) Communication No 4/2017 of the Examination Board for Securities Brokers of 20 December 2017 on the scope of the examination for the broker of securities and the proficiency test (OJ KNF item 27).
- 28) Communication No 211/2017 of the Examination Board for Investment Advisers of 20 December 2017 on the date of the first stage of the examination for the investment adviser (OJ KNF item 28).
- 29) Communication No 212/2017 of the Examination Board for Investment Advisers of 20 December 2017 on the scope of the examination for investment adviser (OJ KNF item 29).

Source: KNF's own calculations

## APPENDIX 4. LIST OF REGULATIONS, DRAFT REGULATIONS AND ANNOUNCEMENTS BEING THE SUBJECT-MATTER OF WORK OR OPINIONS OF THE KNF OFFICE IN 2017

**Table 4.1. List of regulations being the subject-matter of work or opinions of the KNF Office in 2017**

Item	Regulations
1.	Regulation of the Minister of Development and Finance of 22 February 2017 on the detailed scope, procedure and dates of disclosing to the Bank Guarantee Fund information other than information submitted to the National Bank of Poland and to the Polish Financial Supervision Authority, necessary for the performance of the Bank Guarantee Fund's tasks (Journal of Laws of 2017, item 470).
2.	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 of 2017, item 855).
3.	Regulation of the Minister of Development and Finance of 25 April 2017 on internal capital, risk management system, supervisory evaluation programme, audit and supervisory evaluation, as well as remuneration policy in a brokerage house (Journal of Laws of 2017, item 856).
4.	Regulation of the Minister of Development and Finance of 25 April 2017 on the receipt, by the Polish Financial Supervision Authority, of reports of violations of Regulation 596/2014 (Journal of Laws of 2017, item 879).
5.	Regulation of the Minister of Development and Finance of 8 May 2017 on data and information provided by entities operating a securities depository, a system for registration of non-securities financial instruments and a settlement system (Journal of Laws of 2017, item 948).
6.	Regulation of the Minister of Development and Finance of 10 May 2017 on the functioning of the payment scheme (Journal of Laws of 2017, item 995).
7.	Regulation of the Minister of Development and Finance of 10 May 2017 on the list of documents attached by a bank to the application for authorisation to entrust a business owner (including a foreign business owner) with the provision of intermediation services in respect of certain activities (Journal of Laws of 2017, item 960).
8.	Regulation of the Minister of Development and Finance of 17 May 2017 on the functioning of the payment system (Journal of Laws of 2017, item 1060).
9.	Regulation of the Minister of Development and Finance of 25 May 2017 on the information necessary to draw up, update and assess the feasibility of compulsory restructuring plans and compulsory group restructuring plans (Journal of Laws of 2017, item 1080).
10.	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 of 2017, item 1068).

11.	Regulation of the Minister of Development and Finance of 23 June 2017 amending the Regulation on special rules for bank accounting (Journal of Laws of 2017, item 1271).
12.	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 (Journal of Laws of 2017, item 1285).
13.	Regulation of the Minister of Development and Finance of 28 June 2017 on the reports of cooperative savings and credit unions and the National Association of Credit Unions (Journal of Laws of 2017, item 1455).
14.	Regulation of the Minister of Development and Finance of 5 July 2017 on identifiers and settlement numbers assigned to certain payment service providers and unique identifiers assigned to payment accounts kept by such providers (Journal of Laws of 2017, item 1360).
15.	Regulation of the Minister of Development and Finance of 5 July 2017 amending the Regulation on the definition of a model chart of accounts for banks (Journal of Laws of 2017, item 1375).
16.	Regulation of the Minister of Development and Finance of 14 July 2017 on the list of representative services linked to a payment account (Journal of Laws of 2017, item 1437).
17.	Regulation of the Minister of Development and Finance of 20 July 2017 on the manner, procedure and conditions for conducting business activity by investment fund management companies (Journal of Laws of 2017, item 1444).
18.	Regulation of the Minister of Development and Finance of 20 July 2017 on the conclusion by a specialist investment fund of open agreements concerning derivatives, including non-standardised derivatives (Journal of Laws of 2017, item 1446).
19.	Regulation of the Minister of Development and Finance of 20 July 2017 on the maximum exposure limit for AIF (Journal of Laws of 2017, item 1443).
20.	Regulation of the Minister of Development and Finance of 20 July 2017 amending the Regulation on closed-end investment fund deposits with derivative instruments and certain property rights (Journal of Laws of 2017, item 1445).
21.	Regulation of the Minister of Development and Finance of 9 August 2017 on the examination for a mortgage loan intermediary (Journal of Laws of 2017, item 1536).
22.	Regulation of the Minister of Development and Finance of 1 September 2017 on a systemic risk buffer (Journal of Laws of 2017, item 1776).
23.	Regulation of the Minister of Development and Finance of 14 September 2017 on the templates of the calls to subscribe for the sale or exchange of shares of a public company, the detailed manner of their announcement and the conditions for the acquisition of shares as a result of such calls (Journal of Laws of 2017, item 1748).
24.	Regulation of the Minister of Development and Finance of 13 October 2017 amending the Regulation on the prospectus of an open-ended investment fund and an open-end specialist investment fund and the calculation of the profit-risk ratio of those funds (Journal of Laws of 2017, item 1961).
25.	Regulation of the Minister of Development and Finance of 27 October 2017 on the dates of payment, amount and method of calculation of fees for covering the costs of the Financial Ombudsman and his/her Office (Journal of Laws of 2017, item 2082).
26.	Regulation of the Minister of Development and Finance of 4 December 2017 on the audit of the report on the solvency and financial condition of an insurance and reinsurance undertaking by an audit firm (Journal of Laws of 2017, item 2284).

Source: KNF's own calculations

**Table 4.2. List of draft regulations and announcements being the subject-matter of work and/or opinions of the KNF Office in 2017**

Item	Draft regulation/announcement
1.	Draft Regulation of the Minister of Development and Finance on reports and information on the activities and financial situation of AIC managers provided by those entities to the Polish Financial Supervision Authority.
2.	Draft 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.
3.	Draft Regulation of the Minister of Sport and Tourism on the determination of the amount of

	the premium to be paid into the Tourist Guarantee Fund.
4.	Draft Regulation of the Minister of Sport and Tourism on the minimum functionality of the ICT system supporting the Central Register of Tour Operators and Entrepreneurs Facilitating the Purchase of Related Tourist Services.
5.	Draft Regulation of the Minister of Sport and Tourism on the Central Register of Tour Operators and Entrepreneurs Facilitating the Purchase of Related Tourist Services.
6.	Draft Announcement of the Minister of Finance on the list of guarantors authorised to issue bank or insurance guarantees to be submitted as security for excise tax.
7.	Draft Regulation of the Minister for Development and Finance on insurance of railway undertakings.
8.	Draft Regulation of the Minister of Development and Finance on compulsory third party liability insurance of mortgage loan intermediaries.
9.	Draft Regulation of the Minister of Agriculture and Rural Development on the maximum sums insured for individual agricultural crops and livestock for 2018.

Source: KNF's own calculations

## APPENDIX 5. PROTECTION OF MARKET PARTICIPANTS: ANALYTICAL WORK CARRIED OUT BY THE KNF OFFICE IN 2017

<b>Banking sector</b>	
	Analysis of the case of temporary failure to provide full functionality of an IT system in a bank.
	Analysis of a bank's practice with respect to improper verification of the fulfilment by customers of conditions resulting from the promotion of a free account
	Analysis of a bank's practice with regard to the requirement of consent for data processing for marketing purposes when the customer uses the contact form available on the bank's website.
	Analysis of the practice of distribution of leaflets/advertisements by one of the bank's branches, resulting in failure to meet the requirements for such type of transmission, as specified in Article 7 of the Consumer Credit Act of 12 May 2011.
	Analysis of malfunction of a bank's IT system with respect to calculation of penal interest on mortgage loan accounts.
	Analysis of a bank's practice with respect to observing the principles of Recommendation U.
	Analysis of a bank's practice with regard to the return of blank promissory notes used as collateral.
	Analysis of a bank's practice of monitoring accounts in the context of the Act on combating money laundering and terrorist financing.
	Analysis of a bank's practice with respect to the execution of instructions to stop documents in the system of Restricted Documents.
	Analysis of a bank's practice followed to effect withdrawals from a deceased customer's account to several heirs.
	Analysis of the problem of failure to execute an FX transaction due to a technical failure while allowing the customer to print out a confirmation of transaction acceptance.
	Analysis of the practice of two banks with respect to providing information to BIK S.A.
	Analysis of the practice of processing customer data for marketing purposes.
	Analysis of a bank's practice regarding incorrect posting of payments on payment accounts and lack of access to Internet banking at the turn of March and April 2017.
	Analysis of a bank's practice regarding seizure of funds not subject to seizure up to the amount specified in Article 54 (1) of the Banking Act.
	Analysis of a bank's practice of not providing a security clearance certificate after the car loan has been repaid.
	Analysis of cases of incorrect booking of card transactions by a bank as bank commissions.
	Analysis of the case of incorrect presentation by the bank of the interest rate of a promotional deposit.
	Analysis of the problem related to irregularities in the bank's execution of 'tax' transfers in e-banking.
	Analysis of erroneous postings caused by irregularities in the operation of the programme for bailiffs.
	Analysis of irregularities when concluding a contract for a banking product via courier.
	Analysis of a bank's practice with respect to incorrect presentation of data on bank statements.
	Analysis of a bank's practice with regard to granting loans through an online supply platform.
	Analysis of a bank's practice of not including information in the bank account agreement on the tariff package applicable to the agreement.

Analysis of a bank's practice with respect to charging fees for field visits to customers.
Analysis of a bank's practice with regard to incorrect opening of accounts via Internet.
Analysis of a bank's practice regarding irregularities in the settlement of an agreement in connection with early repayment of a loan.
Analysis of a bank's practice with respect to meeting disclosure requirements at the pre-contractual stage and testing creditworthiness.
Analysis of a bank's practice with respect to the promotion of fee waiver for operating a payment account.
Analysis of a bank's advertising message concerning an online savings account.
Analysis of a bank's practice with regard to establishing loan security in the form of low down-payment insurance.
Analysis of the case of non-execution of SEPA credit transfers by one of the banks.
Analysis of a bank's account blocking practice in relation to bailiff seizure.
Analysis of a bank's practice in relation to the making of instructions for a contribution upon death on a joint account.
Analysis of a bank's practice regarding incorrect calculation of base rates being variable rates of mortgage loans.
<b>Insurance sector</b>
Analysis of the case when one of the insurance undertakings reduces the amount of compensation granted under a third party motor vehicle liability insurance contract by the amount of the nursing allowance received.
Analysis of the case when one of the insurance undertakings reduces the amount of compensation granted under a third party liability insurance of motor vehicle holders by the amount of the margin which a business owner would have obtained if the goods produced by him/her had not been destroyed.
Analysis of cases of unjustified collection of debts by one of the insurance undertakings in respect of insurance premiums for third party liability insurance of motor vehicle holders.
Analysis of the case of unjustified collection of liabilities by one of the insurance undertakings under a recourse from a property insurance contract.
Analysis of an insurance undertaking's practice of providing information on the winding-up proceedings of the assignee under third party liability insurance of motor vehicle holders.
Analysis of the case when an insurance undertaking incorrectly determined the value of a vehicle when concluding an autocasco insurance contract.
Analysis of a case concerning an incorrect transmission of information by an insurance undertaking to the Information Centre of Insurance Guarantee Fund.
Analysis of the case when an insurance undertaking refuses to consider the termination of the third party liability insurance of motor vehicle holders as effective in connection with the sale of a vehicle.
Analysis of the practice of an insurance undertaking of refusing to pay the benefit under supplementary group insurance contracts for surgical operations in connection with carrying out laser vision defect correction treatments as a result of classifying such treatments by the insurance undertaking as plastic or cosmetic operations (excluded from the scope of the insurance undertaking's liability), if the definition of plastic or cosmetic operation is not included in the general terms and conditions of insurance.
Analysis of a case concerning the possibility that an insurance undertaking violates Article 6 of the Act of 5 August 2015 the complaint handling procedure by financial service providers and Financial Ombudsman
Analysis of a case concerning non-compliance by an insurance undertaking with Guideline No 14 of 16 December 2014 included in the Financial Supervision Authority's Guidelines on claims settlement from motor insurance
Analysis of an insurance undertaking's practice of handling claims for benefits under unit-linked life insurance made by the insured who are not policyholders.
Analysis of the case when an insurance undertaking questions the possibility of withdrawal from the contract of third party liability insurance of motor vehicle holders concluded remotely by the policyholder who disposed of the vehicle before the beginning of the coverage period and then submitted a statement of withdrawal from the insurance contract.
Analysis of the case when an insurance undertaking refused to make the complete damage file available.
Analysis of the case when an insurance undertaking failed to provide information to the Information Centre of the Insurance Guarantee Fund after effective recourse of the amount of damages paid.



Analysis of the case of improperly conducted recovery of insurance premium by an insurance undertaking due to the fact that an employee of the insurance undertaking did not register the document containing the statement on termination of the insurance contract.
Analysis of an insurance undertaking's practice consisting in an infringement by an insurance undertaking of Article 28(1b) of the Act of 22 May 2003 on compulsory insurance, the Insurance Guarantee Fund and the Polish Bureau for Motor Insurance by failing to send policyholders information about the insurance for the next insurance period.
Analysis of the case when an insurance undertaking sent a motor vehicle holder two confirmations of conclusion of another third party liability insurance contract for motor vehicle holders for the next 12 months pursuant to Article 28(1) of the Act of 22 May 2003 on compulsory insurance, the Insurance Guarantee Fund and the Polish Bureau for Motor Insurance, despite the fact that the motor vehicle holder submitted an effective notice of termination of the existing contract.
Analysis of the case when an insurance undertaking refused to pay damages under third party liability insurance of a road carrier in connection with an ambiguous provision in the General Terms and Conditions of Insurance.
Analysis of the practice regarding recognition by one insurer of the timely payment of regular premiums for unit-linked life insurance contracts with a payment period of either a public holiday or Saturday.
Analysis of a case concerning collection, by an insurance undertaking, of insurance premiums under third party liability insurance of motor vehicle holders in a situation where two third party liability insurance contracts of motor vehicle holders were concluded for the same motor vehicle, with identical insurance period with one insurance undertaking, where one of the third party liability insurance contracts of motor vehicle holders was concluded directly with an insurance undertaking and the other third party liability insurance contract of motor vehicle holders was concluded with an insurance undertaking through an insurance intermediary.
Analysis of the conduct of liquidation proceedings by the entity to which the insurance undertaking outsourced the liquidation of claims covered by the insurance, the so-called 'electronic equipment'.
Analysis of the case of establishing telephone contact with a non-professional financial market participant by a person claiming to be a representative of one of the insurance agents, including the analysis of information provided to a non-professional financial market participant by that person.
Analysis of an insurance undertaking's practice of recalculating the value of a vehicle after the occurrence of a loss despite the fact that the policyholder concluded an autocasco insurance contract with an option of a fixed value of the vehicle during the whole period of insurance.
Analysis of the case when an insurance undertaking considers that the next third party liability insurance agreement of motor vehicle holders has been concluded for the next 12 months despite the policyholder's declaration of termination of the third party liability insurance agreement of motor vehicle holders.
Analysis of an insurance undertaking's practice concerning the rules of verifying the declarations on no claim history entitling to receive discounts under a third party liability insurance of motor vehicle holders.
Analysis of an insurance undertaking's practice of making damage files available to an assignee who had acquired claims entitling him/her to claim compensation from the insurance undertaking.
Analysis of the case when an insurance undertaking confirmed the conclusion of a property insurance contract with a defective insurance policy.
Analysis of the case when an insurance undertaking refused to recognise a claim due to renting a replacement vehicle due to a concluded agreement, the subject-matter of which was a claim for reimbursement of vehicle repair costs.
Analysis of the case when an insurance undertaking sent information about the third party liability insurance of motor vehicle holders for the next insurance period, in which the amount of insurance premium was set at the level of several times higher than in the previous insurance period.
Analysis of the case when an insurance agent failed to transfer the insurance premium paid under the third party liability insurance of motor vehicle holders.
Analysis of an insurance undertaking's practice of applying different amounts of insurance premium under the third party liability insurance of motor vehicle holders according to distribution channel.
Analysis of the case of an insurance undertaking's refusal to conclude a contract of third party liability insurance of motor vehicle holders for the next insurance period.
Analysis of the case when an insurance undertaking refuses to pay the benefit due to the death of a parent to the insured person who is a person covered under a group contract of accident insurance.
Analysis of an insurance undertaking's practice of its representatives making a settlement proposal in the context of the motor vehicle claims settlement process.

Analysis of the activity of a person performing agency activities, cooperating with several insurance agents, in respect of irregularities concerning the agency activities performed by that person.
Analysis of an insurance undertaking's practice of not recognising the effectiveness of termination made by purchasers of vehicles acquired at used car dealerships of third party liability insurance contracts concluded with the owners of used car dealerships.
Analysis of performance by one of insurance undertakings of the obligation to indicate, in the general terms and conditions of insurance, which provisions contain information referred to in Article 17(1) of the Act of 11 September 2015 on the business of insurance and reinsurance.
<b>Capital market</b>
Analysis of the case when one investment fund management company made payments of the deceased member of an investment fund to only one of its heirs while ignoring the other heir.
Analysis of the solutions adopted by one investment fund management company which solutions consists in the company determining, in the table of fees, the handling fee for the sale of participation units at the level of 0.00% and exempting the fund participants from the handling fee for the purchase of participation units, in a situation where the company may increase the handling fee rates without the need to maintain the rigour associated with the change in the articles of association in terms of handling fees.
Analysis of the practice of the entity managing securitised receivables of the securitised fund with respect to the rules of conducting debt collection activities.
Analysis of advertising messages and promotional activities concerning an online platform where a foreign investment firm provides services consisting in enabling clients to conclude transactions for derivatives on the OTC market.
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 the possibility of breaching the law in connection with the activities conducted by those entities.
<b>Pension market</b>
Analysis of the rules for the payment of funds by an open pension fund in the event of death of a member of an open pension fund where a matrimonial property regime ceases before the date of death of the member of the open pension fund.

Source: KNF's own calculations

## APPENDIX 6. NOTIFICATIONS SUBMITTED TO THE KNF (BY SUBJECT-MATTER)

**Table 6.1. Notifications received by the KNF Office and relating to the activities of commercial banks in the years 2016-2017 (by subject-matter)**

Subject-matter of notification	2016	%	2017	%
Maintenance of accounts	664	23.18%	899	37.35%
Loans and consumer credits	644	22.48%	547	22.73%
Quality of service	902	31.48%	414	17.20%
Mortgages	380	13.26%	292	12.13%
Payment instruments	161	5.62%	114	4.74%
Other activities/services of the bank	42	1.47%	91	3.78%
Other	63	2.20%	50	2.08%
Merger	9	0.31%	0	0.00%
<b>Total</b>	<b>2865</b>	<b>100.00%</b>	<b>2407</b>	<b>100.00%</b>

Source: KNF's own calculations

**Table 6.2. Notifications received by the KNF Office and relating to the activities of cooperative banks in the years 2016-2017 (by subject-matter)**

Subject-matter of notification	2016	%	2017	%
Quality of service	30	26.55%	10	8.06%
Maintenance of accounts	24	21.24%	45	36.29%
Other	23	20.35%	21	16.94%
Credits and loans	23	20.35%	24	19.35%
Mortgages	6	5.31%	16	12.90%
Other activities/services of the bank	6	5.31%	5	4.03%
Debit cards	1	0.88%	3	2.42%

<b>Total</b>	<b>113</b>	<b>100.00%</b>	<b>124</b>	<b>100.00%</b>
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Source: KNF's own calculations

**Table 6.3. Notifications received by the KNF Office and relating to the activities of credit unions (SKOK) in the years 2016-2017 (by subject-matter)**

<b>Subject-matter of notification</b>	<b>2016</b>	<b>%</b>	<b>2017</b>	<b>%</b>
Credits and loans	63	44.68%	45	57.69%
Maintenance of accounts	34	24.11%	17	21.79%
Other	17	12.06%	12	15.38%
Quality of service	25	17.73%	3	3.85%
Payment instruments	2	1.42%	1	1.28%
<b>Total</b>	<b>141</b>	<b>100.00%</b>	<b>78</b>	<b>100.00%</b>

Source: KNF's own calculations

**Table 6.4. Notifications received by the KNF Office and relating to the activities of life insurance undertakings with their registered office in Poland (in the years 2016-2017, by subject-matter)**

<b>Subject-matter of notification</b>	<b>2016</b>	<b>%</b>	<b>2017</b>	<b>%</b>
Refusal of payment	63	16.15%	56	24.03%
Valuation of units of a unit-linked insurance product or IMC investment method	49	12.56%	34	14.59%
Contract performance	36	9.23%	26	11.16%
Redemption value	42	10.77%	26	11.16%
The amount of compensation	23	5.90%	21	9.01%
Unreliability of an agent	71	18.21%	14	6.01%
Tardiness	24	6.15%	12	5.15%
Return of premium	17	4.36%	11	4.72%
Information policy of insurance undertakings	12	3.08%	7	3.00%
Problems with making damage files available	9	2.31%	6	2.58%
Problems with termination of contract	16	4.10%	3	1.29%
Problems with conclusion of contract	1	0.26%	3	1.29%
Objections to the claims settlement process	0	0.00%	3	1.29%
Change of contractual terms and conditions	3	0.77%	3	1.29%
Indexation of the premium	3	0.77%	2	0.86%
Unauthorised debt collection	0	0.00%	2	0.86%
Interpretation of General Terms and Conditions of Insurance	4	1.03%	1	0.43%
Breach of insurance secrecy	0	0.00%	1	0.43%
Protection of personal data	3	0.77%	1	0.43%
IKE transfer	0	0.00%	1	0.43%
Refusal to accept for insurance	2	0.51%	0	0.00%
Withdrawal from a contract	3	0.77%	0	0.00%
Premium rate	5	1.28%	0	0.00%
Sum insured	1	0.26%	0	0.00%
Challenging a power of attorney by an insurance undertaking	3	0.77%	0	0.00%
<b>Total</b>	<b>390</b>	<b>100.00%</b>	<b>233</b>	<b>100.00%</b>

Source: KNF's own calculations

**Table 6.5. Notifications received by the KNF Office in the years 2016-2017 and relating to the activities of non-life insurance undertakings with their registered office in Poland (by subject-matter)**

<b>Subject-matter of notification</b>	<b>2016</b>	<b>%</b>	<b>2017</b>	<b>%</b>
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Tardiness	641	30.29%	581	29.75%
The amount of compensation	731	34.55%	517	26.47%
Refusal of payment	285	13.47%	277	14.18%
Problems with making damage files available	112	5.29%	171	8.76%
Objections to the claims settlement process	0	0.00%	118	6.04%
Contract performance	107	5.06%	64	3.28%
Unauthorised debt collection	67	3.17%	61	3.12%
Problems with termination of contract	38	1.80%	49	2.51%
Premium rate	31	1.47%	35	1.79%
Information policy of the undertaking	37	1.75%	21	1.08%
Return of premium	13	0.61%	16	0.82%
Unreliability of an agent	5	0.24%	10	0.51%
Breach of insurance secrecy	1	0.05%	5	0.26%
Problems with conclusion of contract	4	0.19%	5	0.26%
Interpretation of General Terms and Conditions of Insurance	6	0.28%	4	0.20%
Protection of personal data	3	0.14%	4	0.20%
Withdrawal from a contract	8	0.38%	4	0.20%
Refusal to accept for insurance	4	0.19%	3	0.15%
Sum insured	1	0.05%	3	0.15%
Change of contractual terms and conditions	1	0.05%	3	0.15%
Challenging a power of attorney by an insurance undertaking	14	0.66%	2	0.10%
Complaint of an agent about an undertaking	5	0.24%	0	0.00%
Indexation of the premium	2	0.09%	0	0.00%
<b>Total</b>	<b>2116</b>	<b>100.00%</b>	<b>1953</b>	<b>100.00%</b>

Source: KNF's own calculations

**Table 6.6. Notifications received by the KNF Office and relating to the activities of branches of insurance undertakings of EU Member States in the years 2016-2017 (by subject-matter)**

Subject-matter of notification	2016	%	2017	%
The amount of compensation	35	27.13%	9	30.00%
Refusal of payment	16	12.40%	8	26.67%
Tardiness	49	37.98%	4	13.33%
Contract performance	8	6.20%	3	10.00%
Unreliability of an agent	0	0.00%	2	6.67%
Withdrawal from a contract	0	0.00%	1	3.33%
Problems with termination of contract	6	4.65%	1	3.33%
Complaint of an agent about an undertaking	0	0.00%	1	3.33%
Premium rate	2	1.55%	1	3.33%
Challenging a power of attorney by an insurance undertaking	2	1.55%	0	0.00%
Unauthorised debt collection	3	2.33%	0	0.00%
Protection of personal data	1	0.78%	0	0.00%
Refusal to accept for insurance	1	0.78%	0	0.00%
Problems with making damage files available	5	3.88%	0	0.00%
Return of premium	1	0.78%	0	0.00%
<b>Total</b>	<b>129</b>	<b>100.00%</b>	<b>30</b>	<b>100.00%</b>

Source: KNF's own calculations

**Table 6.7. Notifications received by the KNF Office and relating to the activities of notified insurance undertakings in EU Member States in the years 2016-2017 (by subject-matter)**

Subject-matter of notification	2016	%	2017	%
Tardiness	2	66.67%	15	62.50%
Refusal of payment	1	33.33%	6	25.00%
Unreliability of services provided	0	0.00%	1	4.17%
Contract performance	0	0.00%	1	4.17%
Problems with termination of contract	0	0.00%	1	4.17%
<b>Total</b>	<b>3</b>	<b>100.00%</b>	<b>24</b>	<b>100.00%</b>

Source: KNF's own calculations

**Table 6.8. Notifications received by the KNF Office and relating to the activities of Open Pension Funds (OFE) in the years 2016-2017 (by subject-matter)**

Subject-matter of notification	2016	%	2017	%
Irregularities in the division and payment of funds collected in the account	19	79.17%	10	58.82%
Fund's information activity	4	16.67%	4	23.53%
Complaints about data in the register of OFE members and their changes	1	4.17%	1	5.88%
Irregularities relating to the funds deposited in the OFE account	0	0.00%	1	5.88%
Transfers to other OFE	0	0.00%	1	5.88%
<b>Total</b>	<b>24</b>	<b>100.00%</b>	<b>17</b>	<b>100.00%</b>

Source: KNF's own calculations

**Table 6.9. Notifications received by the KNF Office and relating to public companies and other financial market participants in the years 2016-2017 (by subject-matter)**

Subject-matter of notification	2016	%	2017	%
Financial instrument quotation rate	100	42.37%	153	48.11%
Corporate rights of shareholders	31	13.14%	66	20.75%
Private issue of financial instruments	5	2.12%	31	9.75%
Disclosure requirements of companies listed on the regulated market	35	14.83%	24	7.55%
Disclosure requirements of NewConnect listed companies	24	10.17%	15	4.72%
Management of a public company	14	5.93%	13	4.09%
Other	21	8.90%	8	2.52%
Companies withdrawn from official trading	6	2.54%	8	2.52%
<b>Total</b>	<b>236</b>	<b>100.00%</b>	<b>318</b>	<b>100.00%</b>

Source: KNF's own calculations

**Table 6.10. Notifications received by the KNF Office and relating to the activities of investment firms in the years 2016-2017 (by subject-matter)**

Subject-matter of notification	2016	%	2017	%
Quality of services	30	40.54%	28	43.08%
Execution of orders	7	9.46%	15	23.08%
Other	6	8.11%	8	12.31%
The amount of fees and commissions	3	4.05%	5	7.69%
Distribution of investment certificates	1	1.35%	2	3.08%
Provision of on-line services	11	14.86%	2	3.08%
Management result	4	5.41%	2	3.08%
Service of public issue	1	1.35%	1	1.54%
Collection of a capital gains tax	2	2.70%	1	1.54%
Recommendations	8	10.81%	1	1.54%
Maintaining the individual retirement account (IKE)	1	1.35%	0	0.00%

<b>Total</b>	<b>74</b>	<b>100.00%</b>	<b>65</b>	<b>100.00%</b>
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Source: KNF's own calculations

**Table 6.11. Notifications received by the KNF Office and relating to the activities of foreign investment firms in the years 2016-2017 (by subject-matter)**

<b>Subject-matter of notification</b>	<b>2016</b>	<b>%</b>	<b>2017</b>	<b>%</b>
Quality of services	45	69.23%	24	68.57%
Provision of on-line services	4	6.15%	5	14.29%
Execution of orders	5	7.69%	3	8.57%
Other	4	6.15%	2	5.71%
Recommendations	1	1.54%	1	2.86%
The amount of fees and commissions	1	1.54%	0	0.00%
Management result	5	7.69%	0	0.00%
<b>Total</b>	<b>65</b>	<b>100.00%</b>	<b>35</b>	<b>100.00%</b>

Source: KNF's own calculations

**Table 6.12. Notifications received by the KNF Office and relating to the activities of investment fund management companies in the years 2016-2017 (by subject-matter)**

<b>Subject-matter of notification</b>	<b>2016</b>	<b>%</b>	<b>2017</b>	<b>%</b>
Application of an investment policy	270	79.65%	79	46.47%
Quality of service provision	11	3.24%	23	13.53%
Deadline for the execution of orders (regarding investment certificates)	12	3.54%	22	12.94%
Liquidation of a fund	15	4.42%	11	6.47%
Deadline for the execution of orders (regarding participation units)	3	0.88%	9	5.29%
Other	4	1.18%	8	4.71%
Valuation of investment certificates	4	1.18%	7	4.12%
Transfer of receivables to the securitisation closed-end investment fund	1	0.29%	5	2.94%
Succession of participation units	0	0.00%	2	1.18%
Maintaining the individual retirement account (IKE)	3	0.88%	2	1.18%
The amount of fees and commissions	0	0.00%	2	1.18%
Maintaining the individual retirement protection account (IKZE)	1	0.29%	0	0.00%
Valuation of participation units	8	2.36%	0	0.00%
Informing a participant of a change in the articles of association	4	1.18%	0	0.00%
Collection of a capital gains tax	2	0.59%	0	0.00%
Provision of on-line services	1	0.29%	0	0.00%
<b>Total</b>	<b>339</b>	<b>100.00%</b>	<b>170</b>	<b>100.00%</b>

Source: KNF's own calculations

## APPENDIX 7. LIST OF SEMINARS AND WORKSHOPS, MEETINGS AND TRAINING LECTURES ORGANISED BY THE KNF OFFICE AS PART OF THE CEDUR PROJECT IN 2017

**Table 7.1. Training seminars addressed to the representatives of entities supervised by the KNF (by sector)**

<b>Item</b>	<b>Subject</b>	<b>Date</b>
<b>Banking sector</b>		
1.	Consumer insolvency: potential effects on banks	22/03/2017

2.	Amendment to the KNF's Recommendation H: amendments taking into account public consultations and the final version of the Regulation of the Minister of Development and Finance on the risk management system and internal control system, remuneration policy and the detailed method for estimation of internal capital	21/04/2017
3.	Amendments to the Act on payment services: basic payment account, transfer of accounts	29/06/2017
4.	KNF's Recommendation H: implementation in the sector of cooperative banks	03/10/2017
5.	Legal basis for the functioning of the supervisory board at a cooperative bank, and legal and financial liability of its members. Tasks and responsibilities of members of supervisory boards of cooperative banks	11/10/2017
6.	Qualification requirements for members of management boards and supervisory boards and their evaluation. Supervisory recommendations. Role of the supervisory authority	18/10/2017
7.	Implementation of IFRS9 and the resulting reporting requirements	14/11/2017
8.	Combating money laundering and terrorist financing at commercial banks. Results of inspections in that respect. Amendments to the AML Act due to the IV Directive	15/11/2017
9.	Combating money laundering and terrorist financing at cooperative banks. Results of inspections in that respect. Amendments to the AML Act due to the IV Directive	29/11/2017
10.	Unauthorised contractual clauses in contracts with banks, in particular mortgage contracts	06/12/2017
11.	Recommendation W: experience and comments following the implementation of the recommendation	08/12/2017
12.	Changes in the organisation and functioning of cooperative banks due to the obligation to comply with the requirements of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision	13/13/2017
<b>Sector of credit unions (SKOK)</b>		
1.	Credit risk assessment of the credit exposure. Credit risk management instruments. The role of an analyst in the credit granting process	06/04/2017
2.	Identification of risks at SKOK and identification of warning signals	18/05/2017
3.	Credit monitoring. Monitoring of loans and credits for business activity/Monitoring of economic and financial situation of the borrower and surety provider	01/06/2017
4.	Unauthorised contractual clauses in SKOK contracts, in particular in mortgage loan contracts	05/09/2017
5.	Verification of the value of security. Collateral, including in particular tangible collateral/Monitoring of collateral value (e.g. in the context of LtV)	05/10/2017
6.	Accounting policy at SKOK	14/11/2017
7.	Combating money laundering and terrorist financing at SKOK. Results of inspections in that respect. Amendments to the AML Act due to the IV Directive	22/11/2017
8.	Principles of corporate governance at SKOK	27/11/2017
9.	Restructuring law	01/12/2017
10.	Inventory audit at SKOK	05/12/2017
<b>Capital market</b>		
1.	First-time application of IFRS (IFRS 1)	23/01/2017
2.	Scope and methods of inspections conducted by the KNF in supervised entities of the capital market /Methods of inspection and tasks of the KNF's inspectors	10/04/2017
3.	Internal audit at investment fund management companies	24/04/2017
4.	Supervisory review and evaluation process at brokerage houses	17/05/2017
5.	MAR Regulation after the entry into force of the Act adapting the Polish legal system to the new regulation	18/05/2017

6.	Information Security Management (Information Security Management System–ISMS)	28/06/2017
7.	Processes and process management at investment fund management companies	19/09/2017
8.	Combating money laundering and terrorist financing at investment firms. Results of inspections in that respect. Amendments to the AML Act due to the IV Directive	06/11/2017
9.	Obligations of power distribution companies keeping accounts and registers of commodities	28/11/2017
10.	Practical aspects of risk management at investment fund management companies: new legal requirements, detailed supervisory requirements, control process in practice	30/11/2017
11.	Tied agents of investment firms: rules for the performance of agency activities and supervision of an investment firm	07/12/2017
12.	Issuers' periodical reporting: compliance with the financial framework, in particular IAS/IFRS	14/12/2017
<b>Insurance sector</b>		
1.	Insurance for third parties under the new Act on the business of insurance and reinsurance: issues relating to the conclusion and performance of an insurance contract	11/05/2017
2.	Oversight exercised by a supervisory authority: description of the methodology for mutual understanding	22/06/2017
3.	Product management recommendations	29/06/2017
4.	Subordinated loans: classification as own funds	28/09/2017
5.	Reporting of insurance and reinsurance undertakings according to Solvency II: the supervisory authority's observations and conclusions on the analysis of the RSR, SFCR and the annual QRT	25/10/2017
6.	Replacement car: description of the phenomenon	30/10/2017
7.	Selected aspects of the supervision exercised by the KNF over the activity of domestic insurance undertakings	06/12/2017
8.	Outsourcing requirements: observations and conclusions of the supervisory authority from the analysis of the outsourcing rules and the method of fulfilment of disclosure obligations	12/12/2017
<b>Cross-sectoral</b>		
1.	Supervised entities as parties to administrative proceedings before the KNF (lecture and case studies)	07/04/2017
2.	A major amendment to the Administrative Procedure Code and its impact on how the Polish Financial Supervision Authority issues administrative decisions	04/10/2017
3.	Selected obligations of financial counterparties arising from EMIR: the obligation to clear OTC derivatives and the obligation to use risk mitigation techniques for bilaterally cleared transactions	08/11/2017
4.	The Polish Financial Supervision Authority and the bodies of selected specialised joint stock companies being supervised entities: legal forms and rules on public oversight	20/11/2017

Source: KNF's own calculations

**Table 7.2. Seminars and lectures addressed to representatives of the judiciary and law enforcement agencies**

Item	Subject	Date
1.	Forms, methods and scope of capital market supervision*	29/03/2017
2.	Supervision of payment institutions and payment service offices, crimes in the payment services market (lecture with case studies)*	11/04/2017
3.	Principles of operation and functioning of cooperative savings and credit unions after statutory changes: the system and public supervision over their activity*.	26/04/2017
4.	Performance of brokerage activities without KNF authorisation : case	11/05/2017



	studies*	
5.	Forex market in Poland. Characteristics and risks*	02/06/2017
6.	Activity of investment funds. Rules of operation of closed-end investment funds*	14/09/2017
7.	Practical aspects of the activities of brokerage houses*	27/09/2017
8.	Principles of operation and functioning of banks: selected legal issues part I**	28/09/2017
9.	Principles of operation and functioning of banks: selected legal issues part II**	29/09/2017
10.	Provision of services by entities based outside the territory of the Republic of Poland: uniform European passport, legal conditions*	23/10/2017
11.	Cooperation and exchange of information with foreign supervisory authorities in terms of the capital market*	23/10/2017
12.	Practical aspects of detecting criminal offences on the capital market by the Office of the Polish Financial Supervision Authority, part II*.	24/10/2017
13.	Practical aspects of detecting criminal offences on the capital market by the Office of the Polish Financial Supervision Authority, part II*.	25/10/2017
14.	System of combating money laundering and terrorist financing at financial institutions, experience of financial supervision. Discussion of the KNF's anti-money laundering and anti-terrorist financing inspection activities and possible use of audit results for the purposes of cases conducted by members of the judiciary and law enforcement agencies*.	10/11/2017
15.	An offence of conducting unauthorised business defined in financial market regulations, conducting unauthorised credit activity, counteracting the provision of financial services by unauthorised entities*	24/11/2017
16.	Assessment of the risk of insolvency of entities in terms of accounting*	07/12/2017

Source: KNF's own calculations

\* seminars organised in cooperation with the National Prosecutor's Office, 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 addressed to judges organised in cooperation with the KSSiP

**Table 7.3. Seminars addressed to court bailiffs and judges**

Item	Subject	Date
1.	Judicial execution against investment certificates and participation units in an investment fund (in cooperation with the KSSiP)	08/06/2017

Source: KNF's own calculations

**Table 7.4. Seminars addressed to the representatives of consumer protection institutions (organised in cooperation with the Office of Competition and Consumer Protection)**

Item	Subject	Date
1.	Accounting of insurance undertakings in the context of the economic specificity of the functioning of the sector, with particular emphasis on products with unit-linked insurance and motor third party insurance	10/05/2017
2.	Supervisory powers of the KNF with regard to financial institutions: the role and function of financial supervision and consumer protection of financial institutions	24/05/2017
3.	FOREX market	19/06/2017
4.	Banks' obligations under the amendment to the Banking Act of 1 July 2016 (disposition in the event of death, i.e. the issue of 'dead accounts')	13/09/2017
5.	Liability of payment service providers for unauthorised payment transactions	02/10/2017
6.	Accounting of investment funds in the context of the economic specificity of the functioning of the sector	09/10/2017
7.	Accounting fundamentals (including differences in standards for different groups of entities)	17/10/2017

8.	The basic payment account agreement and verification of its provisions	25/10/2017
9.	Analysis of financial statements (profit and loss account, balance sheet, cash flows, other indicators), inter alia, in the context of division of penalties into instalments, assessment of the financial standing of enterprises, diagnosis of the risk of insolvency, assessment of the market value of the company and its particular branches, including in the scope of transformations of the entity	28/11/2017
10.	Bank accounting in the context of the economic specificity of the sector, including the accounting aspects of foreign currency loans	14/12/2017

Source: KNF's own calculations

**Table 7.5. Seminars addressed to statutory auditors**

Item	Subject	Date
1.	Prudential requirements of SKOK: addressed to statutory auditors who audit financial statements of SKOK	25/04/2017
2.	Application of the accrual and proportionality method for auditors of SKOK reports	09/11/2017

Source: KNF's own calculations

**Table 7.6. Seminars addressed to the employees of the Central Statistical Office of Poland (currently: Statistics Poland, Polish: GUS)**

Item	Subject	Date
1.	Macro-prudential policy. Poland in the context of the EU	05/12/2017

Source: KNF's own calculations

**Table 7.7. Seminars, workshops, lectures and conferences addressed to schools and academic community**

Item	Subject	Date
1.	Forms of activity in the payment services market: characteristics of the payment services market (who, when and how may open e.g. a payment service office). The differences between the offer of payment service providers and the offer of banks	22/02/2017
2.	Investment funds, ETFs, options, forward contracts	29/05/2017
3.	Investing in the financial market: how does it work? *	06/10/2017
4.	Variety of life insurance forms. Life insurance under the new Act on the business of insurance and reinsurance*	23/10/2017
5.	Differences in the rules of operation of banks and credit unions. Assessment of reliability of credit unions*	23/10/2017
6.	Consumer insolvency after changes*	24/10/2017
7.	Selected banking products: practical examples. Good and bad sides of using banking services: risks for the average consumer	27/10/2017
8.	Motor insurance in the life of the average consumer of financial services: what a good driver needs, why we insure a car, a wise Pole before damage**	01/12/2017

\* seminars organised in cooperation with the Centre for the Development of Education

\*\* seminars organised in cooperation with the Wrocław Centre for Teacher Training

Source: KNF's own calculations

**Table 7.8. Seminars addressed to other target groups**

Item	Subject	Date
1.	Seminar on, inter alia, financial conglomerates	12/12/2017
2.	Impact of the implementation of IFRS 9 on banks' reporting packages	19/12/2017

Source: KNF's own calculations



## APPENDIX 8. CONTENT OF THE LIST OF PUBLIC WARNINGS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY AS AT 31 DECEMBER 2017.

Under Article 6b(1) of the Act of 21 July 2006 on financial market supervision (the Polish Journal of Laws (Dziennik Ustaw) of 2016, item 174, as amended), the KNF informs the public whenever it submits a notification of suspected criminal offence 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 Act, 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 (prior to 1 January 2016: Article 225 of the Act on insurance activity), Articles 47 and 48 of the Act of 22 May 2003 on insurance mediation, Article 50(1-2) of the Act of 20 April 2004 on occupational pension schemes, Article 40 of the Act of 20 April 2004 on individual pension accounts and individual retirement savings 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 and 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 also reports on criminal proceedings ex officio or following notification by an entity other than the KNF where the Chair of the KNF exercised his right as a victim in criminal proceedings.

**Notification of suspected criminal offence punishable under Article 171(1-3) of the Banking Act (engaging in banking activities, in particular accepting cash contributions to expose them to risk, without the KNF's consent)**

No	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
1.	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.
2.	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.

3.	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.
4.	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.
5.	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.
6.	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.
7.	BANK-SYSTEM Agnieszka Nowicka with its registered office in Duszniki	NIP 7881440150	District Prosecutor's Office in Szamotuły		Notification under Article 171(2) of the Banking Law. Notification made by the KNF.
8.	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 Prosecutor of 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.
9.	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 171(1) of the Banking Law. Notification made by the KNF.
10.	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).				

11.	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.
12.	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.
13.	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.
14.	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.
15.	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 Office in Budapest.	Notification under Article 171(3) in conjunction with Article 171(1) of the Banking Law. Notification made by the KNF.
16.	CO.NET	The entity is not registered in Poland.	District Prosecutor's Office for Warszawa-Śródmieście 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.
17.	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.

18.	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 Chairman of the KNF joined the proceedings initiated by another entity.
19.	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 Chairman of the KNF joined the proceedings initiated by another entity.
20.	DOBRALOKATA 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.
21.	Dom Inwestycyjny "Taurus" SA 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 made by the KNF.
22.	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 Prosecutor of 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 Chairman of the KNF joined the proceedings initiated by another entity.
23.	EMG Finance Michał Grabowski	NIP 8181549632	Regional Prosecutor's Office in Warsaw	The decision to discontinue the investigation issued by the Prosecutor of 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 Chairman of the KNF joined the proceedings initiated by another entity.
24.	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.

25.	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.
26.	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(1) of the Banking Law. Notification made by the KNF.
27.	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.
28.	Firma Handlowo-Uslugowa 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 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).	Notification under Article 171(1) of the Banking Law. Notification made by the KNF.
29.	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.
30.	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.
31.	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.



32.	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.
33.	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) > (the proceedings were transferred to the Provincial Prosecutor's Office in Białystok)		Notification under Article 171(1) of the Banking Law. Notification made by the KNF.
34.	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.
35.	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.
36.	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.
37.	<a href="http://lokaty-inwestycje.com.pl/">http://lokaty-inwestycje.com.pl/</a>	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.

38.	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(1) of the Banking Law. Notification made by the KNF.
39.	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 Article 171(1) of the Banking Law. Notification made by the KNF.
40.	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.
41.	Jarosław K. (a natural person not included in the Central Register of Business Activity)	No data available	Regional Prosecutor's Office in Krakow		Proceedings in respect of an act punishable under Article 171(1) of the Banking Law. The Chairman of the KNF joined the proceedings initiated by another entity.
42.	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 Chairman of the KNF joined the proceedings initiated by another entity.
43.	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 Chairman of the KNF joined the proceedings initiated by another entity.
44.	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.

45.	Lago sp. z o.o. with its registered office in Zielona Góra	KRS 328581	District Prosecutor's Office in Zielona Góra (case transferred to the Regional Prosecutor's Office in Zielona Góra)		Notification under Article 171(1) of the Banking Law. Notification made by the KNF.
46.	Makler Company Sebastian Toczek	NIP 7732373968	Regional Prosecutor's Office in Warsaw		Notification under Article 171(1) of the Banking Law. Notification made by the KNF.
47.	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.
48.	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(1) of the Banking Law. Notification made by the KNF.
49.	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.
50.	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 Chairman of the KNF joined the proceedings initiated by another entity.
51.	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.
52.	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.

53.	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.
54.	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.
55.	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.
56.	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.
57.	Pozabankowe Centrum Finansowe sp. z o.o.	KRS 293707	Regional Prosecutor's Office in Warsaw		Notification under Article 171(1) of the Banking Law. Notification made by the KNF.
58.	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.
59.	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 Prosecutor of 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.
60.	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.

61.	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.
62.	Questa 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.
63.	Questa 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.
64.	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.
65.	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.
66.	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.
67.	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 Chairman of the KNF joined the proceedings initiated by another entity.
68.	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.
69.	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.
70.	Travaled Enterprises Limited z with its registered office in Nicosia, Republic of Cyprus	The entity is not registered in Poland.	District Prosecutor's Office for Warszawa Śródmieście-Północ (case transferred to the Regional Prosecutor's Office in Gdańsk)	By its decision of 9 May 2014, the Regional Prosecutor's Office in Gdańsk discontinued the investigation.	Notification under Article 171(1) of the Banking Law. Notification made by the KNF.

71.	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 Chairman of the KNF 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.
72.	Universum Business Consulting sp. z o.o. with its registered office in Krakow	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.
73.	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 Chairman of the KNF joined the proceedings initiated by another entity.
74.	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(1) of the Banking Law. Notification made by the KNF.
75.	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 (Case File No VI K 620/16/6)	Notification under Article 171(1) of the Banking Law. Notification made by the KNF.

**Notification of suspected criminal offence punishable under Article 178 of the Act on trading in financial instruments (engaging in brokerage activities without the KNF's consent)**

No	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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1.	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 Chairman of the KNF joined the proceedings initiated by another entity.
2.	Aforti Securities SA	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.
3.	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 Chairman of the KNF joined the proceedings initiated by another entity.
4.	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 Chairman of the KNF joined the proceedings initiated by another entity.
5.	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.
6.	Biuro Maklerskie Alior Bank SA – a separate organisational unit of Alior Bank SA	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 Chairman of the KNF joined the proceedings initiated by another entity.

7.	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 instruments. The Chairman of the KNF joined the proceedings initiated by another entity.
8.	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.
9.	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.
10.	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.
11.	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 Chairman of the KNF joined the proceedings initiated by another entity.
12.	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. Notification made by the KNF.
13.	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 Chairman of the KNF joined the proceedings initiated by another entity.
14.	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.



15.	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.
16.	DanexZ Limited Liability Company with its registered office in the USA –Registration 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.
17.	Dom Maklerski Pekao – a separate organisational unit of Bank Polska Kasa Opieki S.A	KRS 14843	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 – (only with respect to performing investment advisory activities without the KNF's consent at least between January 2012 and April 2012). Notification from made by the KNF.
18.	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 Chairman of the KNF joined the proceedings initiated by another entity.
19.	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.
20.	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.
21.	Fund Distribution sp. z o.o.	KRS 558641	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.

22.	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 Chairman of the KNF joined the proceedings initiated by another entity.
23.	Gawel K.	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 Chairman of the KNF joined the proceedings initiated by another entity.
24.	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.
25.	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.
26.	Helena Knapczyk-Trzmielewska CFO 24, Psychoterapia ku zyciu with its registered office in Krakow	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.
27.	<a href="http://www.binarino.com/">http://www.binarino.com/</a>	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.
28.	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 Chairman of the KNF joined the proceedings initiated by another entity.

29.	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.
30.	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.
31.	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 Chairman of the KNF joined the proceedings initiated by another entity.
32.	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 Metropolitan Police issued the decision to discontinue the investigation.	Notification under Article 178 in conjunction with Article 69(2) points 1, 4, 5 and 6 of the Act on trading in financial instruments. Notification made by the KNF.
33.	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.
34.	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 Chairman of the KNF joined the proceedings initiated by another entity.
35.	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 Chairman of the KNF joined the proceedings initiated by another entity.
36.	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.

37.	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.
38.	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.
39.	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 Chairman of the KNF joined the proceedings initiated by another entity.
40.	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.
41.	Makler Company Sebastian Toczek	NIP 7732373968	Regional Prosecutor's Office in Warsaw		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.
42.	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.
43.	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 Chairman of the KNF joined the proceedings initiated by another entity.

44.	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.
45.	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 Chairman of the KNF joined the proceedings initiated by another entity.
46.	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 Chairman of the KNF joined the proceedings initiated by another entity.
47.	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 Chairman of the KNF joined the proceedings initiated by another entity.
48.	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.
49.	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 Chairman of the KNF joined the proceedings initiated by another entity.
50.	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.
51.	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.

52.	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.
53.	Nova Gięda Inwestycje sp. z o.o. with its registered office in Płock /general partner of Nova Gięda Inwestycje Limited Partnership with its registered office in Larnaca, entered in the Commercial Register of the Republic of Cyprus under the number HE 12535/	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.
54.	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.
55.	Nuntius Chrimatistiriaki Anonimos Eteria Parochis Ependitikon Ipiresion SA Oddział 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.
56.	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.
57.	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.

58.	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.
59.	Paulina B. (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 of the Act on trading in financial instruments. Notification made by the KNF.
60.	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.
61.	Piotr G. (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 of the Act on trading in financial instruments. Notification made by the KNF.
62.	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.
63.	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.
64.	Quantum Consulting with its registered office in Poznań (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 10 October 2016, the Regional Prosecutor's Office in Warsaw approved the decision to discontinue the investigation.	Notification under Article 178 of the Act on trading in financial instruments. Notification made by the KNF.

65.	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 Chairman of the KNF joined the proceedings initiated by another entity.
66.	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 Chairman of the KNF joined the proceedings initiated by another entity.
67.	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 Łódź 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.
68.	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 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 Chairman of the KNF joined the proceedings initiated by another entity.
69.	Spot Capital Markets Ltd (activities carried out through the website <a href="https://nobleoption.com/pl">https://nobleoption.com/pl</a> )	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 Chairman of the KNF joined the proceedings initiated by another entity.
70.	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.



71.	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		Proceedings in respect of an act punishable under Article 178 of the Act on trading in financial instruments. The Chairman of the KNF joined the proceedings initiated by another entity.
72.	Total Investments sp. z o.o. z with its registered office in Gdańsk	KRS 418015	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 Chairman of the KNF joined the proceedings initiated by another entity.
73.	Trademarkar 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 Chairman of the KNF joined the proceedings initiated by another entity.
74.	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 Chairman of the KNF joined the proceedings initiated by another entity.
75.	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.
76.	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 instruments. The Chairman of the KNF joined the proceedings initiated by another entity.
77.	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.

78.	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.
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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)**

No	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
1.	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.
2.	Regium Commodity Trading Advisor sp. z o.o. with its registered office in Łódź (since 1 April 2011, under the name Regium Financial Consulting Services sp. z o.o.)	KRS 312968	Regional Prosecutor's Office in Warsaw	The decision refusing to initiate investigation issued on 18 December 2013 by the Regional Prosecutor's Office in Warsaw became final and binding on 11 April 2014.	Notification under Article 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**

No	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
1.	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.

2.	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.
3.	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.
4.	First International Traders Dom Maklerski SA with its registered office in Warsaw	KRS 245555	Regional Prosecutor's Office in Warsaw		Notification under Article 287 of the Act on investment funds. Notification made by the KNF.
5.	Inwestycje Alternatywne Profit SA with its registered office in Warsaw	KRS 306830	Regional Prosecutor's Office in Warsaw		Notification under Article 295 of the Act on investment funds. The notification covered the company's activities consisting in providing services under the initiative called 'Systematic Gold Collection Programme' (PL: Program Systematycznego Gromadzenia Złota–PSGZ). Notification made by the KNF.
6.	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.
7.	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.
8.	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 Prosecutor of 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 and/or issuing bonds without observing statutory requirements)**

No	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
1.	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 and conditions governing the introduction of financial instruments to organised trading, and public companies. Notification made by the KNF.
2.	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 Chairman of the KNF joined the proceedings initiated by another entity.
3.	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.
4.	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.

5.	Dom Inwestycyjny "Taurus" SA with its registered office in Częstochowa	KRS 425814	Regional Prosecutor's Office in Warsaw (case transferred to the Regional Prosecutor's Office in Częstochowa)		Notice under Article 99(2a) 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.
6.	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 8 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.
7.	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 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 KNF.
8.	Nomos Wealth Management sp. z o.o. Spółka komandytowa with its registered office in Warsaw	KRS 373509	Regional Prosecutor's Office in Warsaw	On 09 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.
9.	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.

10.	Nova Gięda Inwestycje sp. z o.o. with its registered office in Płock /general partner of Nova Gięda 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 giędain.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.
11.	Opulentia SA 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 trading, and public companies. Notification made by the KNF.
12.	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.
13.	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 29 May 2015 became final and binding on 10 June 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.
14.	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 2015 became final and binding on 22 May 2015.	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)**

No	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
1.	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)**

No	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
1.	'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 Chairman of the KNF joined the proceedings initiated by another entity.
2.	Centrum Turystyczne Cadet s.c. with its registered office in Gorzów Wielkopolski	NIP 8851512075 NIP 5991070150	District Prosecutor's Office in Gorzów Wielkopolski	On 13 February 2015, the District Prosecutor's Office in Gorzów Wielkopolski issued the decision to discontinue the investigation.	Notifications 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). Notification made by the KNF.

3.	mySafety sp. z o.o. with its registered office in Warsaw	KRS 175315	District Prosecutor's Office for Warszawa-Ochota (the case was transferred to the District Prosecutor's Office for Warszawa-Wola)		Notifications under Article 430 of the Act on the business of insurance and reinsurance. Notification made by the KNF.
4.	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 Chairman of the KNF 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)**

No	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
1.	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.
2.	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.
3.	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)**

No	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
1.	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, the 3rd Criminal Division conditionally discontinued the criminal proceedings.	Notification under Article 150(1) of the Act on payment services. Notification made by the KNF.
2.	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.
3.	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.
4.	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.
5.	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 proceedings.	Notification under Article 150(3) in conjunction with Article 150(1) of the Act on payment services. Notification made by the KNF.
6.	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 Chairman of the KNF joined the proceedings initiated by another entity.

7.	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.
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**Comments**

\* 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 Chairman of the KNF joined as a victim 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 POSITIONS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY AND THE OFFICE OF THE POLISH FINANCIAL SUPERVISION AUTHORITY IN 2017

**Table 9.1. Recommendations of the Polish Financial Supervision Authority issued in 2017**

Item	Subject-matter of the recommendation	Date
<b>Banking sector</b>		
1.	The KNF's Recommendation H concerning the system of internal control in banks.	25/04/2017

Source: KNF's own data

**Table 9.2. Positions of the Polish Financial Supervision Authority and the Office of the Polish Financial Supervision Authority and circular letters presented in 2017**

Item	Subject-matter of the position/circular letter	Date
<b>Banking sector and the sector of credit unions (SKOK)</b>		
1.	Position of the KNF Office on banks' compliance with the new provisions of the Accounting Act.	02/02/2017
2.	Letter to presidents of management boards of commercial and cooperative banks, directors of branches of credit unions and cooperative protection systems regarding offering binary options, CFDs (contract for difference) and rolling-spot forex contracts.	10/03/2017
3.	Letter to the presidents of management boards of commercial and cooperative banks, SKOK, National Association of Credit Unions, directors of branches of credit unions and cooperative protection systems against Business e-mail compromise fraud (substituting the bank account number on forged invoices and thus redirecting payments from the injured parties to the perpetrator of fraud).	15/03/2017
4.	Letter to the presidents of management boards of commercial and cooperative banks, SKOK, National Association of Credit Unions, directors of branches of credit institutions and cooperative protection systems concerning the possibility of terminating agreements pursuant to Article 8b(5) of the Act of 16 November 2000 on counteracting money laundering and terrorist financing (Journal of Laws of 2017, item 1049) and other legal grounds.	20/04/2017
5.	Position on Recommendation W on risk management of models in banks, providing comments on selected issues to be taken into account in the process of shaping the approach to risk management of models in banks.	27/07/2017
6.	Position of the KNF Office on the use of cloud computing services by the supervised entities.	23/10/2017
7.	Position of the KNF Office on the authorisation of banks to use their own option pricing models to calculate delta ratios for back-to-back hedged options.	14/11/2017
8.	Communication of the KNF and NBP regarding virtual currencies.	07/07/2017
9.	Position regarding the Bank's activity as an intermediary of a non-bank financial institution.	26/09/2017
10.	Position on subparticipation.	26/10/2017
11.	Position of the KNF Office on amendments to the implementing provisions to the Accounting Act.	06/11/2017
12.	Position of the KNF on the dividend policy of cooperative and associating banks.	05/12/2017
13.	Position of the KNF Office on amendments resulting from the introduction of IFRS 9.	12/12/2017
<b>Insurance sector</b>		
1.	Position of the KNF on the principles of publishing the general terms and conditions of insurance and other model agreements by insurance undertakings on their websites.	04/04/2017

2.	Position of the KNF on the participation of insurance undertakings in the Insurance Database created by the Insurance Guarantee Fund (UGF).	08/05/2017
3.	Position of the KNF Office on personal accident insurance for school children and young people, 13 July 2017.	13/07/2017
4.	KNF Statement on the rotation of audit firms,	11/09/2017
5.	KNF Statement on new regulations concerning audit committees.	11/09/2017
6.	KNF Statement on the position of the Ministry of Finance regarding the provision of audit services by audit firms with respect to the audit of solvency and financial condition reports drafted by insurance and reinsurance undertakings.	11/09/2017
7.	Statement of the KNF Office on disclosure obligations to the KNF under Article 66(9) of the Accounting Act.	12/09/2017
8.	Statement of the KNF Office on disclosure obligations to the KNF under Article 133 of the Act on statutory auditors.	13/09/2017
9.	Statement of the KNF Office on compliance with the criterion of independence of a member of the audit committee of a public entity.	27/09/2017
10.	Statement of the KNF Office on certain aspects related to the implementation by insurance undertakings of the requirements of the Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for retail collective investment products and insurance investment products (PRIIP).	22/11/2017
11.	KNF Statement on the dividend policy of insurance and reinsurance undertakings.	06/12/2017
<b>Pension market</b>		
1.	KNF Statement on the dividend policy of general pension societies in 2018.	08/12/2017
<b>Capital market</b>		
1.	Statement of the KNF Office regarding the implementation of MiFID II in terms of the introduction of a maximum amount of fixed remuneration for the management of an open-end investment fund and a specialised open-end investment fund.	31/03/2017
2.	Statement of the KNF Office on the most important activities undertaken in the scope of supervision over the provision of brokerage services on the OTC derivatives market (the so-called Forex market) in the years 2011-2017.	25/04/2017
3.	Statement of the KNF Office on the principles of applying for entry into the register of AIC managers, pursuant to Article 70zb et seq. of the Act of 27 May 2004 on investment funds and alternative investment fund management (Journal of Laws of 2016, item 1896, as amended) and Article 54 of the Act of 31 March 2016 amending the Act on investment funds and certain other acts (Journal of Laws of 2016, item 615).	26/04/2017
4.	Statement of the KNF Office on identification by public companies and other entities whether their activities require registration or approval by the KNF pursuant to the Act of 27 May 2004 on investment funds and management of alternative investment funds (Journal of Laws of 2016, item 1896, as amended) and Article 54 of the Act of 31 March 2016 amending the Act on investment funds and certain other acts (Journal of Laws of 2016, item 615).	18/05/2017
5.	Statement of the KNF Office on the impact of anti-avoidance provisions on the financial statements of issuers of securities.	10/07/2017
6.	Statement of the KNF Office on specific aspects concerning audit committees of investment fund management companies.	06/10/2017
7.	Statement of the KNF Office on the application of IFRS 9 'Financial Instruments' and IFRS 15 'Revenues from Contracts with Customers' and the need for issuers to ensure appropriate disclosures in this respect.	13/10/2017
8.	Reminder of the contents of the supervisory position on the publication of inside information addressed to issuers of securities on 26 February 2013.	16/10/2017

9.	Statement on new requirements for the identification of certain capital market participants.	31/10/2017
10.	Statement on investment limits for investment fund companies.	20/11/2017
11.	KNF Statement on Initial Token Offerings (ITOs) and/or Initial Coin Offerings (ICOs)	22/11/2017
12.	Statement on investment limits for investment funds.	29/11/2017
13.	Statement on dividend policy of investment fund management companies.	05/12/2017
14.	Position on the rules of application of MiFID in Poland as of 3 January 2018	27/12/2017

Source: KNF's own data

**APPENDIX 10. LIST OF COSTS OF THE ACTIVITIES OF THE KNF AND THE KNF OFFICE PAID IN 2017, 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
banking supervision	109 293, including administrative expenses*: 47 285	Resolutions adopted by the Polish Financial Supervision Authority, including in particular:	Total: 102
		approval of the appointment of the president of the management board of a commercial bank	8
		approval of the appointment of the president of the management board of a cooperative bank	25
		approval of the appointment of a member of a bank's management board supervising significant risk management in the bank's operations	6
		refusal to approve the appointment of the president of the bank's management board	1
		statement of no grounds for objecting to the planned acquisition of shares	1
		statement of no grounds for objecting to the bank's intention to become its parent undertaking	2
		authorisation of bank mergers	7
		identification of other systemically important institution	13
		Decisions and rulings issued on the basis of authorisation granted by the KNF, including in particular:	Total: 1 200
		granting permission to reduce own funds	466
		authorisation to amend the articles of association of a bank	392
		approval of changes to decisions on amendments to the articles of association of a bank	4
		granting permission to carry on business as a mortgage credit intermediary**	49
		Inspection/control	Total: 115***
		Other supervision activities, including in particular:	Total: approx. 42.1 thousand
		assigning a SREP score.	475

		analysis of reports of malfunctioning of the sector's entities	2 540
		registration of credit intermediaries in the Register of Credit Intermediaries of Division II**	2 083
		registration of loan institutions in the Register of Loan Institutions**	85
		analysis of financial reports and reporting information	approx. 36.9 thousand
		<b>TOTAL</b>	<b>approx. 43.5 thousand</b>
pension supervision	12 923, including administrative expenses*: 6 010	Resolutions adopted by the Polish Financial Supervision Authority,	Total: 47
		including in particular:	
		granting permission to amend the articles of association of a public insurance undertaking	3
		approval of an amendment to the articles of association of an open pension fund	7
		approval of an amendment to the articles of association of the voluntary pension fund	4
		Imposition of a financial penalty on a general pension society	2
		Decisions and rulings issued on the basis of authorisation granted by the KNF,	Total: 294
		including in particular:	
		Entry of an occupational pension scheme in the register	48
		Entry of changes to the occupational pension scheme in the register	91
		Deletion of the occupational pension scheme from the register	27
		Inspections	Total: 7
		Other supervision activities,	Total: approx. 52.9 thousand
		including in particular:	
		analysis of financial reports and reporting information	approx. 52.6 thousand
analysis of reports of malfunctioning of the sector's entities	18		
	<b>TOTAL</b>	<b>approx. 53.3 thousand</b>	
Insurance supervision	32 568, including administrative expenses*: 13 941	Resolutions adopted by the Polish Financial Supervision Authority,	Total: 58
		including in particular:	
		granting permission for the appointment of the chairman of the management board of an insurance undertaking	12
		Imposition of a fine on the insurance undertaking	17
		Decisions and rulings issued on the basis of authorisation granted by the KNF,	Total: 349
		including in particular:	
		Entry in the register of actuaries	20
		issuance of a decision revoking a permit to conduct brokerage activity	29
		issuing a permit to conduct brokerage activity in the field of insurance	76
		Controls and supervisory visits	Total: 54



		Other supervision activities,	Total: approx. 119.6 thousand
		including in particular:	
		changes made to the register of insurance agents	approx. 105 thousand
		analysis of reports of malfunctioning of the sector's entities	2295
		analysis of financial reports and reporting information	approx. 8.5 thousand
		<b>TOTAL</b>	<b>approx. 120 thousand</b>
capital market supervision	48 019, including administrative expenses*: 20 928	Resolutions adopted by the Polish Financial Supervision Authority,	Total: 284
		including in particular:	
		granting to the TFI a permit to conduct the activity and to establish and manage investment funds or foreign funds	3
		Authorisation to change the depositary	3
		Authorisation to conduct brokerage activities	9
		Imposition of fines on entities	17
		Imposition of fines on natural persons	31
		Decisions and rulings issued on the basis of authorisation granted by the KNF,	Total: 825
		including in particular:	
		Approval of a prospectus	37
		Approval of an annex to the prospectus	91
		Inclusion in the list of investment advisers	87
		Inclusion in the list of securities brokers	37
		Inclusion in the register of investment firms' tied agents	58
		Inspections	Total: 31
		Other supervision activities,	Total: approx. 88.6 thousand
		including in particular:	
analysis of financial reports and reporting information	approx. 75 thousand		
analysis of reports of malfunctioning of the sector's entities	620		
<b>TOTAL</b>	<b>approx. 90.3 thousand</b>		
supervision of payment institutions, payment service offices, electronic money institutions, branches of foreign electronic money institutions	4 971, including administrative expenses*: 2 151	Resolutions adopted by the Polish Financial Supervision Authority,	Total: 79
		including in particular:	
		Authorisation to provide payment services as a national payment institution	6
		Imposition of fines on the BUP	47
		Decisions and rulings issued on the basis of authorisation granted by the KNF,	Total: 291
		including in particular:	
		Discontinuation of the procedure for authorisation of provision of payment services as a national payment institution in its entirety	1
Discontinuation of proceedings concerning the expiry of authorisation to provide payment services as a	1		

		national payment institution	
		Failure to comply with the time limit	250
		Inspections	Total: 5
		Other supervision activities,	Total: 3.9 thousand
		including in particular:	
		analysis of financial reports and reporting information	approx. 3.8 thousand
		analysis of reports of malfunctioning of the sector's entities	35
		<b>TOTAL</b>	<b>approx. 4.2 thousand</b>
supervision over rating agencies	- ****	<del> </del>	
supplementary supervision	- ****	<del> </del>	
supervision over credit unions and the National Association of Credit Unions	8 530, including administrative expenses*: 3 690	Resolutions adopted by the Polish Financial Supervision Authority,	Total: 47
		including in particular:	
		Appointment of a receiver	2
		Approval of the president of the management board of a credit union	2
		Take-over of a credit union by a bank	2
		Decisions and rulings issued on the basis of authorisation granted by the KNF,	Total: 88
		including in particular:	
		approval of an amendment to the articles of association of a credit union	12
		Discontinuation of proceedings concerning appointment of a member of the management board of the National Association of Credit Unions	1
		Inspection/control	Total: 4
		Other supervision activities	Total: approx. 0.8 thousand
		including in particular:	
analysis of financial reports and reporting information	approx. 0.7 thousand		
analysis of reports of malfunctioning of the sector's entities	78		
<b>TOTAL</b>	<b>approx. 0.9 thousand</b>		
supervision of mortgage credit intermediaries and their agents	387, including administrative expenses*- 167	Decisions and rulings issued on the basis of authority granted by the KNF, including	Total: 49
		Authorisation to carry on business as a mortgage credit intermediary	49
		Other supervision activities, including:	Total: 90
		inclusion of credit intermediaries in the Register of Credit Intermediaries of Division I	90
		<b>TOTAL</b>	<b>139</b>

\*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 in the KNF Office, 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).

\*\*The cost of supervision over the credit intermediaries in Division II and the lending institutions is included in the

administrative costs.

\*\*\*Including 50 inspections carried out by the KNF in the entities supervised in the area of combating money laundering and terrorist financing. These activities concern all sectors supervised by the KNF.

\*\*\*\*Administrative costs shall be understood as so-called indirect costs, i.e. operating costs of the KNF and the KNF Office, which are not directly related to individual costs assigned separately. These costs are allocated proportionally to individual, separately settled sectors.

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